You'll Need to Comply With ASU 2016-14 Soon

ARTICLE 01.11.18   DEAN DORTON

During 2018 (December 31 year-ends) and 2019 (all other year-ends), nonprofit entities will need to comply with Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, and make substantial changes to their financial statements.

The key changes relate to:

Net asset classification and disclosure

Two classifications:

1. Net assets ***without*** donor restrictions
2. Net assets ***with*** donor restrictions

Endowment fund accounting disclosure

A donor-restricted endowment fund that is underwater will be recorded in the net assets ***with*** donor restrictions.

Expense reporting and disclosure

Analysis of expenses by natural classifications and functional expense as a separate statement or as a disclosure. Disclose methods used to allocate costs amongst programs and support functions.

Disclosure about liquidity and availability of financial assets

Two new disclosures that look out one year from the balance sheet date:

1. Qualitative information about how the entity manages its liquid resources to meet cash needs
2. Qualitative information about availability of financial assets to meet cash needs

Cash flow statement

You can complete the cash flow statement either the direct or indirect method. There is no need to reconcile operating cash flows between direct and indirect methods.

What's next?

Now is the time for your nonprofit organization to gather up the relevant information and discuss it with your board and external auditors. Boards may be very sensitive to the liquidity disclosures, so your proactive steps will aid in avoiding any board surprises.

Your organization may need to change its policies, processes, and controls in order to comply with this major accounting change. The American Institute of Certified Pubic Accountants (AICPA) has provided its members with example financial statements to help nonprofits comply with the new standard. Please contact your Dean Dorton advisor for help with this process and review the AICPA tools.