

FASB Changes and Local Councils

12/31/2017

As discussed in the *Local Council Guide to the 2017 Audit*, in 2016 the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which is effective for local council 2018 financial statements. To ensure compliance with the new FASB requirements, local council PeopleSoft “audit format” statements of financial position and statements of activities and changes in net assets have been upgraded. Note that existing statements of functional expenses and cash flows already meet the new FASB ASU.

Summary of Changes:

- Consolidate investment income, gains, and losses into one-line item, “investment return – net”.
- Present summary information on reclassifications of net assets on the statement of activities and changes in net assets showing three major categories (program, time, and appropriation) in line with FASB example statements.
- Collapse net asset classes and the changes therein to “net assets without donor restrictions” and “net assets with donor restrictions”.
- Correct capitalization of line descriptions in line with industry standards/FASB examples.

New Reports:

Four new “FASB update” reports have been created and published to the Defined Report Request list in PeopleSoft. These reports are additional reports which reflect the new reporting standards but generally are the same as our current reports (see samples attached).

- **FASB1** is the new Statement of Activities and Changes in Net Assets– Audit
- **FASB2** is the new Statement of Financial Position – Audit
- **FASB3** is a reformatted (to match) Standard Statement of Operations Unrestricted Fund 1
- **FASB4** is a reformatted (to match) Comparative Statement of Operations Unrestricted Fund 1

Consolidate Reporting of Investment Income:

A minor change has been made on the statement of activities and changes in net assets where we report investment income. The report now reflects only the net revenue (or release) and does not show the gross reporting.

Accounting Procedures:

Despite the simplification of net asset classes, accounting procedures will not change. You will continue to account for donor restrictions using the three net asset classes you have been using: unrestricted, temporarily restricted and permanently restricted. You will still need to track purpose and time restrictions on contributions, as well as gifts restricted in perpetuity (permanent restrictions). The General Ledger accounts you have been using will not change (except for the addition of a new “other direct” account discussed below).

New Reclassification Account Categories:

To bring PeopleSoft Financials in line with the new FASB reporting requirements, net asset reclassification accounts have been grouped in three categories:

- *satisfaction of program restrictions,*
- *satisfaction of time restrictions,*
- *appropriation from donor endowment and subsequent satisfaction of any related donor restrictions*

The word “program” is now used to describe “purpose” restrictions, and “appropriation from donor endowment...” describes investment returns from endowment that are being reclassified as a result of having been appropriated for expenditure by the board of directors and/or in satisfaction of donor stipulations.

The net asset reclassification GL accounts comprising each of the three new categories are as follows:

Net Assets Released from Restriction - Program

- 3610 – Capital
- 3615 – Special Events
- 3620 – Legacies & Bequests
- 3625 – Foundations & Trusts
- 3630 – Other direct
- 3655 – Govt Fees & Grants

Net Assets Released from Restriction - Time

- 3605 – FOS
- 3606 – Direct Mail
- 3607 – Project Sales
- 3635 – Associated Organizations
- 3640 – United Way Allocation
- 3641 – United Way Donor Designation
- 3645 – Unassociated Organizations
- 3650 – Other Indirect Contributions

Net Assets Released from Restriction - Appropriation from donor endowment and subsequent satisfaction of any related donor restrictions

- 3660 – Investment Income
- 3665 – Investment Gains or Loss

Addition of a new revenue account:

To assist with the reporting of restrictions, a new account has been added to your chart of accounts. To complement “4501: Contributions – Other Direct”, an account used by many councils to record restricted revenue, a new account was added, “4502: Contributions – Other Direct – Purpose”, this account will allow you to separate the temporarily restrictions, if needed between time and purpose.