

## Accounting Standards Update 2016-14 for Private Colleges and Universities

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With the implementation of Accounting Standards Update (ASU) 2016-14 — *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* on the horizon, many private colleges and universities are assessing its impact on their financial statements as they go through their current year-end audit cycle.

Requirements of the new pronouncement include significant changes to both the face of the financial statements as well as enhanced footnote disclosures. Recent publications from the AICPA, NACUBO and various other industry groups illustrate the disclosure options available which should be considered in evaluating your institution's financial statement presentation.

### Presentation Considerations for Private Colleges and Universities

Significant areas for consideration include:

- **Net Assets** — net assets will now comprise two categories: those without donor restrictions and those with donor restrictions. Institutions must now consider the various presentation options on the face of the financial statements with more descriptive information in the footnotes to best highlight external restrictions and internal designations on those net assets. Consideration should be given to detailed descriptions of the composition of net assets in categories such as board-designated assets, endowments and designations related to capital acquisition, construction and maintenance of net investment in plant.
- **Endowments** — it has been recommended that institutions consider the presentation of net assets with perpetual restrictions on the face of the financial statements including the nature of those restrictions such as time or purpose restrictions, returns appropriated for future use and disclosure of underwater endowments. Additional footnote disclosure as to the future use of those assets should provide descriptive information as to how these assets will support the mission of the institution.
- **Expense Reporting** — reporting of expenses by natural and functional category will be required to be presented either in the footnotes or in a separate schedule or statement. The methodology for allocating these expenses will also be a required disclosure. While not required to be shown on a comparative basis in the year of implementation, analyzing those allocations and expenses during the current year-end audit cycle will give many institutions a valuable head start in addressing these required disclosures for the next reporting cycle. This is a good time to evaluate your existing methodology for allocations and what makes most sense for your institution.
- **Liquidity Analysis** – Private colleges and universities will now be required to provide both qualitative and quantitative analysis of resources available to meet the institution's general expenditure needs for one year from the balance sheet date. Qualitative analysis will include

descriptions as to how the institution is managing its available resources. Quantitative analysis will provide valuable information as to the institution's available assets at the balance sheet date which will be used to meet the expenditure needs for the next operating cycle.

## Implementation Considerations

While the requirements of the ASU are straight forward in their application, institutions will have a variety of options to consider in presenting both qualitative and quantitative information in their financial statements. As those charged with governance review the institution's current year financial results with an eye toward next year's implementation, they should consider the message the institution wants to convey and evaluate the various disclosure options.

## Effective Date

The ASU is effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early application of the amendments in this ASU is permitted.

## Contact Us

If you have any questions on the new standard or the presentation issues and considerations for private colleges and universities, please contact your PKF O'Connor Davies engagement partner or Joseph N. Russell, CPA, Partner, Higher Education Practice at [jrussell@pkfod.com](mailto:jrussell@pkfod.com) or 551-249-1155.

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