Statutory Accounting Principles (E) Working Group

**Maintenance Agenda Submission Form**

**Form A**

## **Issue:** *ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities*

**Check (applicable entity):**

 P/C Life Health

Modification of Existing SSAP [x]  [x]  [x]

New Issue or SSAP [ ]  [ ]  [ ]

Interpretation [ ]  [ ]  [ ]

Description of Issue: The FASB issued ASU 2016-14 to provide more useful information to donors, grantors, creditors, and other financial statements users of not-for-profit (NFP) entities. This update is to improve the current net asset classification requirements and the information presented in financial statements regarding liquidity, financial performance, and cash flows. While several changes were implemented within this ASU, the main provisions include:

* The presentation of two classes of net assets – *with donor restrictions* and *without donor restrictions*. Due to complexities regarding the appropriate use of the previous three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) that focused on the absence or presence of donor-imposed restrictions and whether those restrictions were temporary or permanent, this ASU designates presentation of two classes of net assets. Changes in these two classes of net assets are to be reported on the statement of activities.
* The presentation of operating cash flows may continue to use the direct or indirect method of reporting, but no longer require the presentation or disclosure of the indirect method (reconciliation) if using the direct method.

Additionally, numerous disclosures enhancements were included this update, several are highlighted below:

* The composition of net assets with donor restrictions and how the restrictions affect the use of such resources.
* For resources without donor-imposed restrictions, the applicable amounts and designated purposes, appropriations, and similar actions that result in self-imposed limits on the use of such resources.
* Information that communicates how the NFP manages liquid resources to meet its cash needs for general expenditures for one year following the balance sheet date.
* Regarding ‘underwater endowment funds’ (a fund in which its fair value is less than the original gift amount or the amount required to be maintained by donor restrictions); disclosures concerning the NFP’s policy, and any actions taken during the period concerning appropriation from underwater endowment funds and the fair value of such funds. Additionally, disclosures regarding the original gift amounts (or level required by donor or law) to be maintained and amount by which the funds are deficient.
* Use, in the absence of donor restrictions, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset, thus reclassifying amounts from “net assets with donor restrictions” to “net assets without donor restrictions” as long-lived assets that have been placed in service as of the beginning of the period of adoption (eliminating the previous option to release the donor-imposed restriction over the estimated useful life of the acquired asset).

Existing Authoritative Literature: While there is SAP guidance for the financial statement presentation of assets, the concept of separating assets based on imposed donor restrictions and the inclusion of other similar related disclosures is not a presentation format that is applicable for statutory accounting purposes.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): None

**Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:**

None

**Convergence with International Financial Reporting Standards (IFRS):** None - There are no specific NFP accounting and reporting standards in IFRS.

Staff Recommendation: NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive, and expose revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities* as not applicable to statutory accounting.

This item is proposed to be rejected as not applicable as statutory accounting guidance does not separately present assets based on donor restrictions. If assets are restricted, they must be identified as restricted in the investment schedules and captured in the restricted note disclosure. Furthermore, the concept of donor-restrictions for insurance reporting entities is not identified to be a prevalent concept.

Staff Review Completed by: Jim Pinegar – August 2019

**Status:**

On December 7, 2019, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities* as not applicable to statutory accounting.

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