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FASB Amends the Consolidation Guidance for Not-for-Profit Entities

by Anastasia Zhukova and Shahid Shah, Deloitte & Touche LLP

Introduction

On January 12, 2017, the FASB issued ASU 2017-02,[1] which amends the consolidation guidance for not-for-profit entities (NFPs) in ASC 958-810[2] and clarifies when an NFP that is a general partner or a limited partner should consolidate a for-profit limited partnership or similar legal entity once the amendments in ASU 2015-02[3] become effective.

This *Heads Up* provides an overview of the changes to the consolidation guidance for NFPs as a result of the ASU.

Background

Until the effective date of ASU 2015-02, ASC 958-810 requires an NFP that is a general partner of a for-profit limited partnership (or a similar legal entity) to apply the consolidation guidance in ASC 810-20 unless that partnership interest is reported at fair value in accordance with certain other guidance. Under ASC 810-20, there is a presumption that a general partner controls a limited partnership, regardless of the extent of its ownership interest, unless the presumption can be overcome.

[1] FASB Accounting Standards Update No. 2017-02, *Clarifying When a Not-for-Profit Entity That Is a General Partner or a Limited Partner Should Consolidate a For-Profit Limited Partnership or Similar Entity*.

[2] For titles of *FASB Accounting Standards Codification* (ASC) references, see Deloitte's "Titles of Topics and Subtopics in the *FASB Accounting Standards Codification*."

[3] FASB Accounting Standards Update No. 2015-02, *Amendments to the Consolidation Analysis*. For entities other than public business entities, the guidance in ASU 2015-02 is effective for annual periods beginning after December 15, 2016, and interim periods beginning after December 15, 2017. See Deloitte's December 29, 2015, *Heads Up* for more information about ASU 2015-02.

ASU 2015-02 superseded ASC 810-20, thus eliminating the presumption of control by the general partner. ASU 2015-02 also adds new guidance to the "General" subsections of ASC 810-10 on when limited partners should consolidate a legal entity. However, to apply the guidance in that subsection, a reporting entity first would have had to navigate through the "Variable Interest Entities" (VIEs) subsections of ASC 810-10. Since NFPs are generally excluded from the scope of the VIEs subsections, and the guidance in the general subsection (as amended by ASU 2015-02) does not address when a general partner should consolidate a limited partnership, the FASB added a project to its agenda to address the application of the consolidation guidance to NFPs. The project culminated in the issuance of ASU 2017-02.

Key Provisions of the ASU

ASU 2017-02 incorporates into ASC 958-810 the superseded consolidation guidance in ASC 810-20. It also adds new guidance on when an NFP limited partner should consolidate a for-profit limited partnership and makes certain consequential amendments to ASC 958-810. Details of these provisions are discussed below.

General Partners

ASU 2017-02 retains the guidance in ASC 810-20 under which an NFP that is a general partner is presumed to control a for-profit limited partnership unless that presumption is overcome. Accordingly, it does not change current practice. The presumption is overcome if limited partners possess substantive kick-out rights or substantive participating rights. Kick-out rights are considered substantive if they can be exercised by a simple majority (or a lower threshold) vote of the limited partners. Limited partnership interests held by the general partners, parties under common control, and other parties acting on behalf of general partners are excluded from the evaluation.

Limited Partners

The ASU adds new guidance to ASC 958-810 on when an NFP limited partner should consolidate a for-profit limited partnership. Under the new guidance, a limited partner that owns, either directly or indirectly, more than 50 percent of the limited partnership kick-out rights is deemed to have a controlling financial interest and must consolidate the limited partnership. However, if noncontrolling limited partners have substantive participating rights, a limited partner with a majority of kick-out rights would not have a controlling financial interest.

Other Provisions

The ASU makes consequential amendments to ASC 958-810 to provide a framework for an NFP's application of U.S. GAAP in accounting for its interest in a for-profit entity. The appendix of this *Heads Up* contains a flowchart (reprinted from the ASU) that depicts that framework. (The ASU also contains a flowchart that shows the application of the framework once the guidance in ASU 2016-01[4] is effective.)

Effective Date and Transition

ASU 2017-02 is effective for all NFPs for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. If adopted in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period.

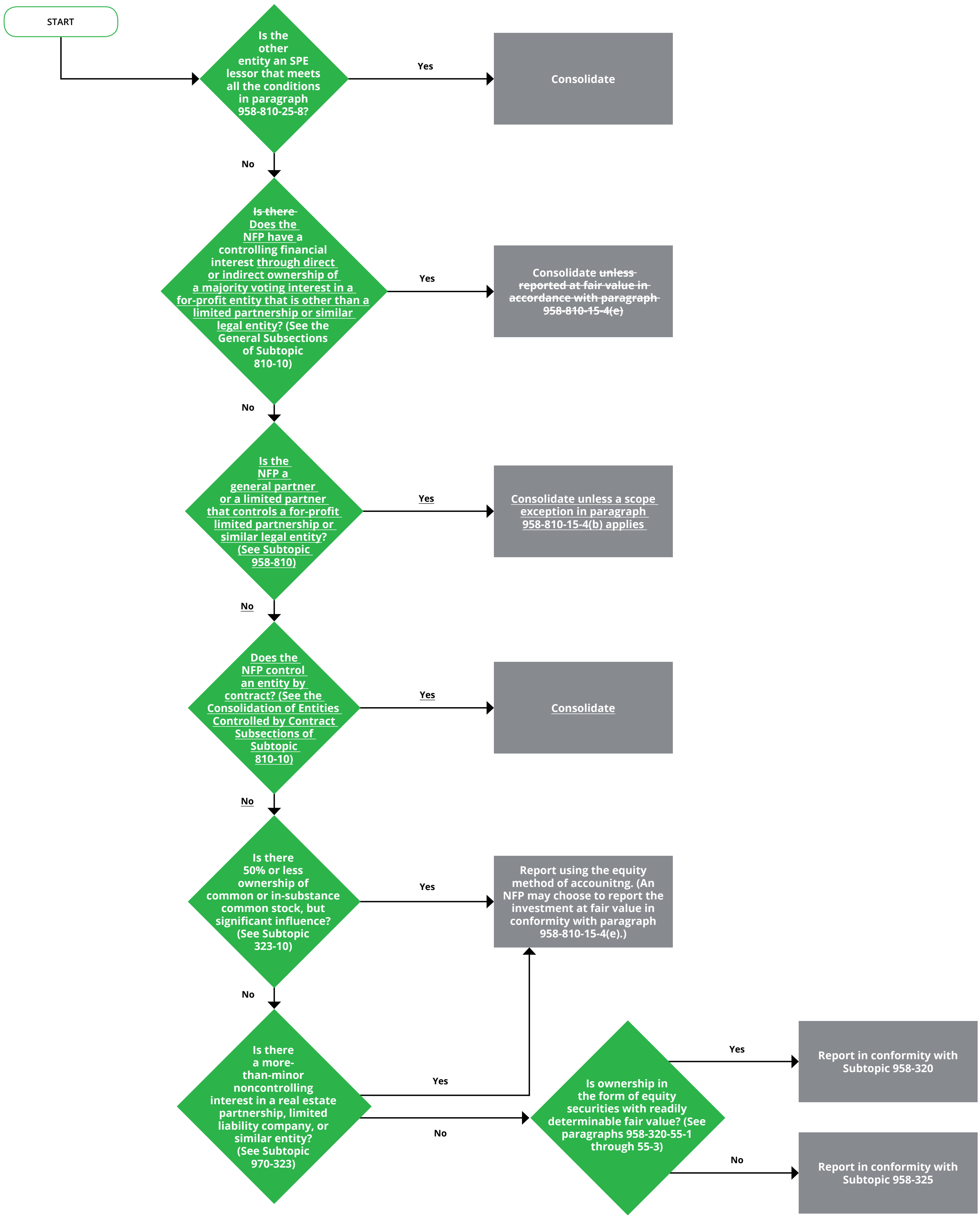
[4] FASB Accounting Standards Update No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. See Deloitte's January 12, 2016, *Heads Up* for information about ASU 2016-01.

Entities that have already adopted the amendments in ASU 2015-02 are required to apply the amendments in ASU 2017-02 retrospectively to all relevant prior periods beginning with the fiscal year in which the amendments in ASU 2015-02 were initially adopted.

Entities that have not yet adopted the amendments in ASU 2015-02 are required to adopt the amendments in ASU 2017-02 at the same time they adopt amendments in ASU 2015-02 and apply the same transition method they elected for ASU 2015-02.

Appendix — Flowchart: NFP's Accounting for Its Interest in a For-Profit Entity

The flowchart below, reprinted from ASU 2017-02 (footnote omitted), depicts the framework for an NFP's application of U.S. GAAP in accounting for its interest in a for-profit entity under the ASU.



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