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AN ALERT FROM THE BDO NATIONAL ASSURANCE PRACTICE

BDO **FLASH** REPORT
FASB

SUBJECT

FASB CLARIFIES CONSOLIDATION GUIDANCE FOR NOT-FOR-PROFIT ENTITIES

SUMMARY

The FASB recently issued ASU 2017-02[1] to clarify when a not-for-profit entity (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 Accounting Standards Update No. 2015-02, *Amendments to the Consolidation Analysis*, become effective. The ASU is available here, and becomes effective 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.

DETAILS

Background

Current generally accepted accounting principles (GAAP) require an NFP that is a general partner of a for-profit limited partnership or similar legal entity to apply the consolidation guidance in Subtopic 810-20,[2] unless that partnership interest is reported at fair value in accordance with certain other guidance.

In February 2015, the FASB issued ASU 2015-02, which amends the general consolidation guidance in Subtopic 810-10 and eliminates the guidance in Subtopic 810-20. Upon the effective date of ASU 2015-02,[3] NFPs would be required to follow the amended guidance, which presumes that an entity would first navigate through the variable interest entity (VIE) consolidation guidance before applying the general consolidation guidance.

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[1] 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] Consolidation—Control of Partnerships and Similar Entities
[3] ASU 2015-02 is effective for non-public entities for fiscal years beginning after December 15, 2016 and for interim periods within fiscal years beginning after December 15, 2017.

However, NFPs are generally not within the scope of the VIE consolidation guidance. As a result, many fewer for-profit limited partnerships would be consolidated by their NFP general partners.

ASU 2017-02 was issued to address this unintended outcome, and applies to an NFP that is a general partner or a limited partner of a for-profit limited partnership or a similar legal entity. A similar legal entity is an entity such as a limited liability company that has governing provisions that are the functional equivalent of a limited partnership. In those entities, a managing member is the functional equivalent of a general partner, and a nonmanaging member is the functional equivalent of a limited partner. Throughout ASU 2017-02, any reference to a limited partnership includes limited partnerships and similar legal entities.

Main Provisions

ASU 2017-02 retains the consolidation guidance that was in Subtopic 810-20 for NFPs by moving it to Subtopic 958-810.[4] Therefore, NFPs that are general partners would continue to be presumed to have control of a for-profit limited partnership, regardless of the extent of their ownership interest, unless that presumption is overcome. The presumption would be overcome if the limited partners have either substantive kick-out rights or substantive participating rights. To be substantive, the kick-out rights must be exercisable by a simple majority vote of the limited partners' voting interests or a lower threshold. For purposes of evaluating that threshold, the limited partners' voting interests should exclude voting interests held by the general partners, parties under common control with the general partners, and other parties acting on behalf of the general partners. ASU 2017-02 also adds to Subtopic 958-810 the general guidance in Subtopic 810-10 on when NFP limited partners should consolidate a limited partnership.

EFFECTIVE DATE AND TRANSITION

The amendments in ASU 2017-02 are effective for annual financial statements issued 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 an NFP early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period.

NFPs that have not yet adopted the amendments in ASU 2015-02 are required to adopt the amendments in this Update at the same time they adopt the amendments in ASU 2015-02 and should apply the same transition method elected for the application of ASU 2015-02.

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

[4] Not-for-Profit Entities—Consolidation