

New FASB Nonprofit Accounting Guidelines: On Restricted Contributions, Functional Expenses, and “Eye-Opening” Disclosures

A conversation with:
Hilda Polanco, FMA and
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Today's Presenters



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Accounting Standards Update (ASU)



ASU 2016-14:

Issued in August 2016

First major revision
since 1993

Effective Date: Calendar
2018 or Fiscal Year 2019

ASU 2016-14

Focus:

How others can better **read**, **understand**, and **make decisions** using nonprofit financial statements

Key Stakeholders:

Board of Directors

Donors & Funders

Financial Institutions

What Does the ASU Impact?

Accounting

NO

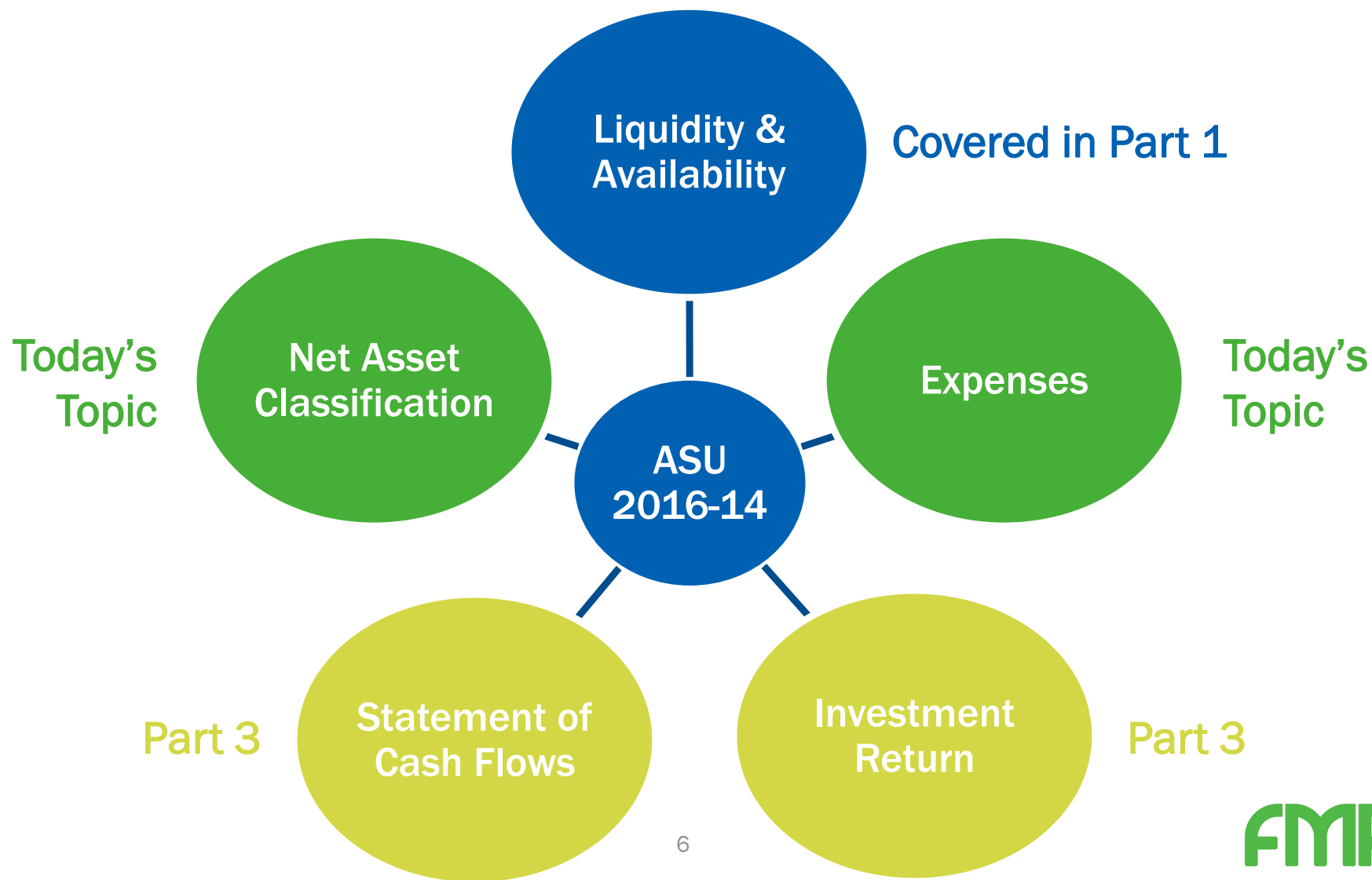
Financial Statement Presentation

YES

Disclosures

YES

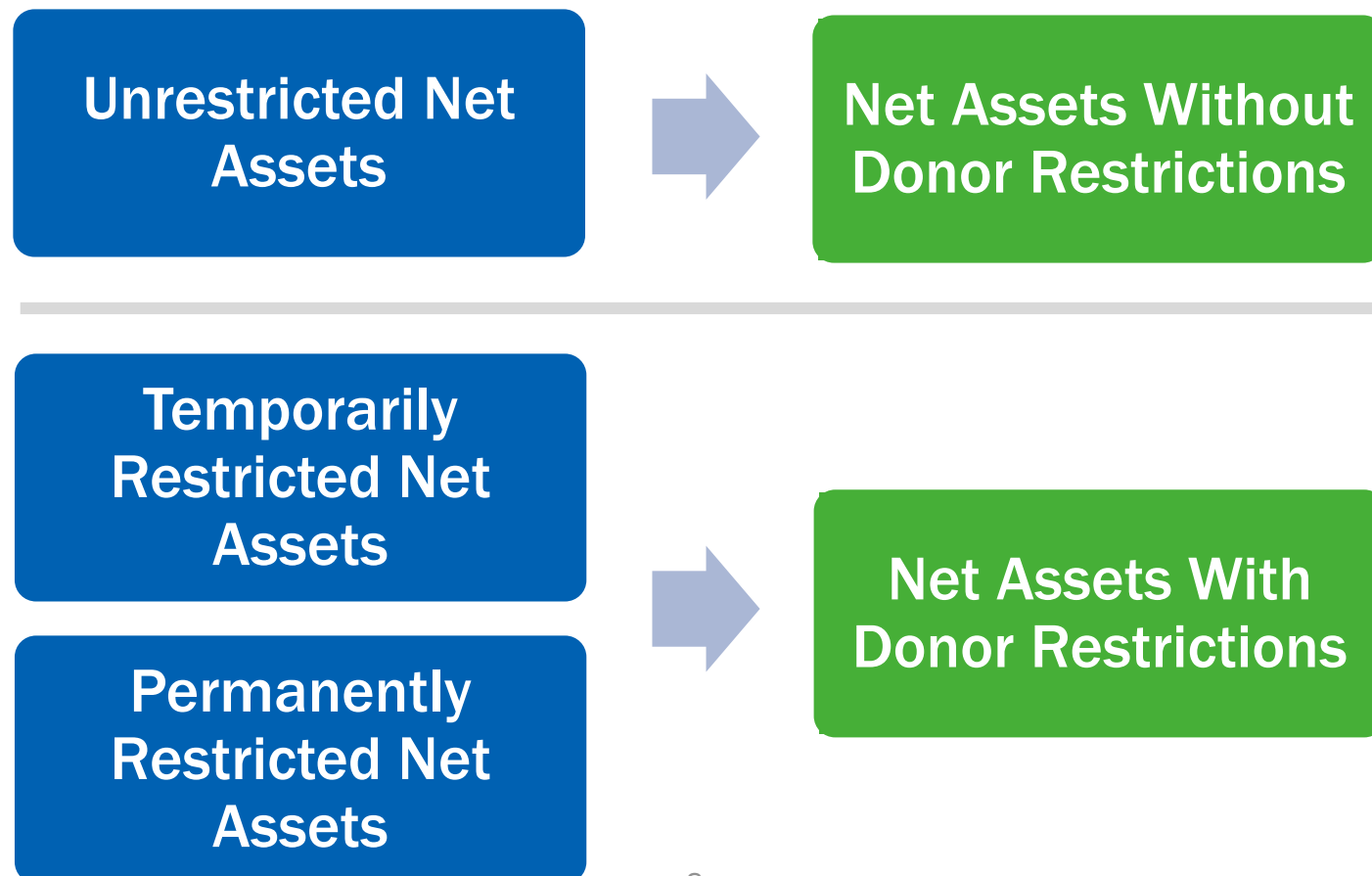
Key Provisions



Net Asset Classification

Net Asset “Classification”

Consolidating Three Existing Classes of Net Assets Into Two



Net Asset “Classification”

Goal of Consolidating Net Asset Classes

- Reduce complexity
- Increase understandability
- Enable greater use of comparative financial statements that allow the reader to identify and assess key trends

Statement of Activities: Before

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other support:				
Contributions	13,246	12,829	2,000	28,075
Program Fees	8,045	-	-	8,045
Investment return, net	167	(3,092)	(1,126)	(4,051)
Net assets released from restriction	7,682	(7,376)	-	306
Total revenues and other support	29,140	2,361	874	32,375
Expenses:				
Program A	16,845			16,845
Program B	5,367			5,367
Management and general	4,794			4,794
Fundraising	1,567			1,567
Total expenses	28,573	-	-	28,573
Change in net assets	567	2,361	874	3,802
Net assets at beginning of year	138,943	182,970	286,249	608,162
Net assets at end of year	139,510	185,331	287,123	611,964

Statement of Activities: New Format

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support:			
Contributions	13,246	14,829	28,075
Program Fees	8,045		8,045
Investment return, net	167	(4,218)	(4,051)
Net assets released from restriction	7,682	(7,376)	306
Total revenues and other support	29,140	3,235	32,375
Expenses:			
Program A	16,845		16,845
Program B	5,367		5,367
Management and general	4,794		4,794
Fundraising	1,567		1,567
Total expenses	28,573	-	28,573
Change in net assets	567	3,235	3,802
Net assets at beginning of year	138,943	469,219	608,162
Net assets at end of year	139,510	472,454	611,964

Balance Sheet: Before

ASSETS

Cash	457,590
Accounts Receivable	182,482
Prepaid Expenses	21,200
Property and Equipment, Net	77,613
Total Assets	<u>\$ 738,885</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts Payable	104,434
Deferred Revenue	22,487
Total Liabilities	<u>\$ 126,921</u>

NET ASSETS

Unrestricted Net Assets	139,510
Temporarily Restricted Net Assets	185,331
Permanently Restricted Net Assets	287,123

TOTAL NET ASSETS	<u>\$ 611,964</u>
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TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 738,885</u></u>
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Balance Sheet: New Format

Key Changes

ASSETS

Cash	457,590
Accounts Receivable	182,482
Prepaid Expenses	21,200
Property and Equipment, Net	77,613
Total Assets	<u>\$ 738,885</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts Payable	104,434
Deferred Revenue	22,487
Total Liabilities	<u>\$ 126,921</u>

NET ASSETS

Net Assets Without Donor Restrictions	
Board Designated Operating Reserve	50,000
Fixed Assets, Net	77,613
Undesignated	11,897
Total Net Assets Without Donor Restrictions	<u>139,510</u>
Net Assets With Donor Restrictions	
Purpose Restricted	110,331
Time Restricted	75,000
Perpetual in Nature	287,123
Total Net Assets With Donor Restrictions	<u>472,454</u>

TOTAL NET ASSETS	<u>\$ 611,964</u>
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TOTAL LIABILITIES AND NET ASSETS	<u>\$ 738,885</u>
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Net Asset “Classification”

Additional Changes to Net Asset Reporting

Enhanced disclosures on the composition of **net assets with donor restrictions** in the notes to financial statements will provide information on the:

- Nature,
- Amounts, and
- Effects of the various types of restrictions.

Net Asset Classes

Additional Changes to Net Asset Reporting

Enhanced disclosures for **self-imposed limits** on the use of resources (i.e., board designated)

- This disclosure was previously optional but will now be mandatory
- Disclosure can be provided on the face of the financial statements or in the notes

Net Asset “Classification”

Enhanced Disclosures in the Notes: Example

	Without Donor Restrictions	With Donor Restrictions	Total
Current Unrestricted			
Board designated operating reserve	50,000		50,000
Fixed assets, net	77,613		77,613
Undesignated	11,897		11,897
Current Restricted			-
Program A activities		33,099	33,099
Program B activities		77,232	77,232
Time restricted for periods after June 30, 2017		75,000	75,000
Endowment funds		287,123	287,123
Total Net Assets	139,510	472,454	611,964

Expenses

Expenses

Analysis of expenses by functional and natural classification

- Currently, only voluntary health and welfare organizations are required to provide functional expense reporting
- Going forward, all nonprofits will be required to disclose this information, which can be presented
 - On the face of the Statement of Activities,
 - As a schedule in the notes to the financial statements, or
 - As a financial statement (the Statement of Functional Expenses).
- Additionally, disclosure of the methods used to allocate expenses to the functional categories will be required

Expenses

Natural and Functional Expenses

Natural Expenses

Expenses classified by the *nature* of the expense:

- Salaries
- Rent
- Utilities
- Supplies

Functional Expenses

Expenses classified by the *type of activity* for which the expense was incurred:

- Programs
- Management and general
- Fundraising

Expenses

Allocation Methodology

Definition

A method by which costs associated with more than one program or support area (administrative or fundraising) are distributed across functions

Purpose

To allocate expenses in order to determine the true costs of programs and cost per unit of services

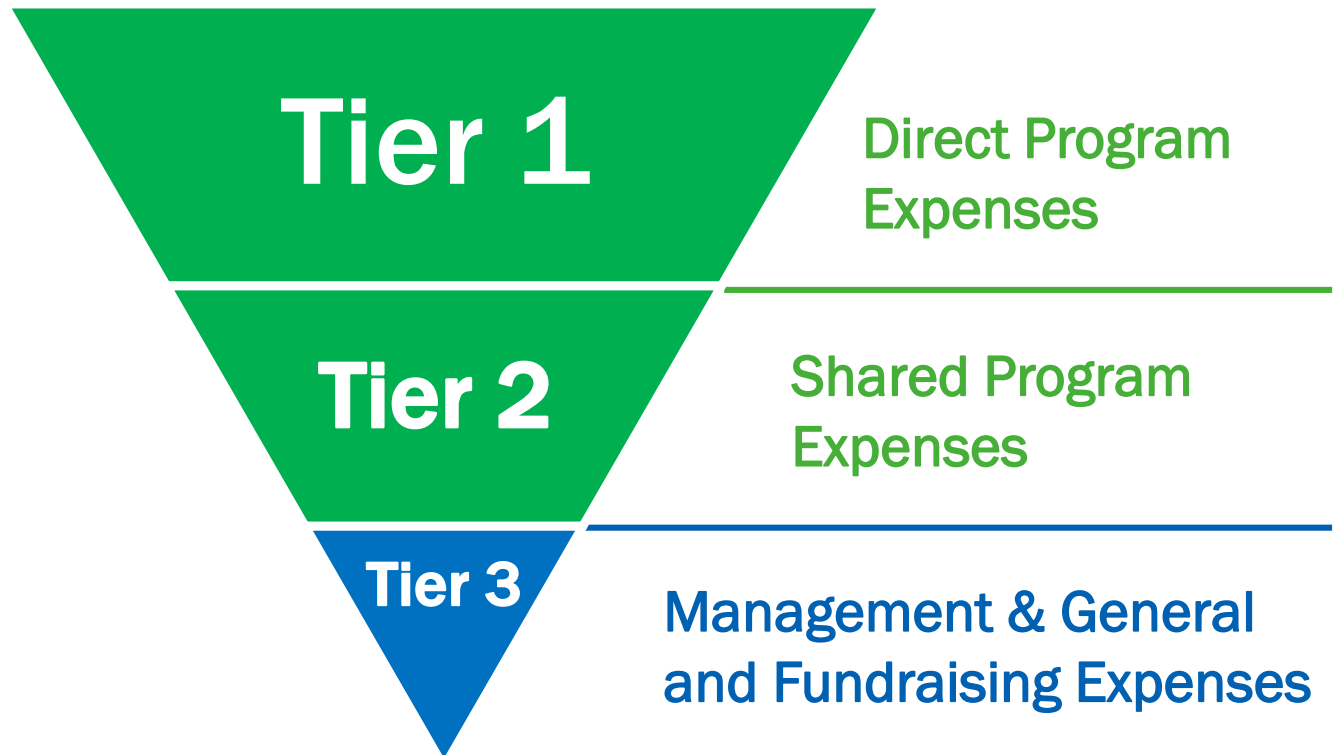
Expenses

Possible Methodologies to Support Resource Allocation

Types of costs	Can be allocated based on
<ul style="list-style-type: none">• Personnel	<ul style="list-style-type: none">• Staff level of effort
<ul style="list-style-type: none">• Occupancy (<i>rent, utilities, maintenance, etc.</i>)	<ul style="list-style-type: none">• Headcount (<i>F.T.E</i>)• Facilities use studies (%)• Square footage
<ul style="list-style-type: none">• Interest• Insurance• Depreciation	<ul style="list-style-type: none">• Asset use (<i>for debt to acquire property</i>)• Loan use (<i>for working capital loans</i>)• Asset use or staff level of effort

Expenses

Three “Tiers” of Costs



Statement of Functional Expenses

	Program Services					"Overhead"		
	Program A	Program B	Program C	Program D	Program Expenses	Supporting Services		
						Management and General	Fundraising	Total
Salaries	\$168,189	\$ 67,710	\$247,474	\$129,323	\$612,696	\$ 74,120	\$ 75,697	\$ 762,513
Payroll taxes and Employee benefits	34,037	13,703	49,962	26,120	123,822	15,228	15,263	154,313
Rent	97,288	8,215	24,436	13,271	143,210	7,162	6,530	156,902
Utilities	2,935	1,180	3,509	1,906	9,530	1,029	938	11,497
Office cleaning	1,797	723	2,149	1,167	5,836	630	574	7,040
Consultants	6,989	3,237	8,668	7,440	26,334	1,887	46,987	75,208
Accounting & Auditing Fees	-	-	-	-	-	19,000	-	19,000
Office expense	6,123	2,462	7,248	3,945	19,778	2,122	1,921	23,821
Supplies	7,907	2,500	3,355	2,514	16,276	-	-	16,276
Telephone	7,591	3,052	9,078	4,930	24,651	2,661	2,426	29,738
Postage and messengers	1,500	750	600	1,584	4,434	1,784	4,000	10,218
Photocopying	135	145	80	2,565	2,925	390	-	3,315
Equipment leasing	3,535	1,421	4,227	2,296	11,479	1,239	1,130	13,848
Insurance	2,848	1,145	3,406	1,849	9,248	998	910	11,156
Local transportation	667	268	798	434	2,167	234	213	2,614
Meals and entertainment	1,798	723	1,371	125	4,017	1,000	2,026	7,043
Seminars and training	500	250	750	2,500	4,000	3,698	1,000	8,698
Fees	560	3,247	1,003	-	4,810	219	-	5,029
Data processing	496	199	593	322	1,610	174	158	1,942
Dues and subscriptions	385	532	130	683	1,730	375	185	2,290
Advertising	5,017	3,838	3,245	5,979	18,079	432	393	18,904
Depreciation	2,284	918	2,731	1,483	7,416	800	730	8,946
Miscellaneous	522	210	625	16,275	17,632	176	4,328	22,136
Total expenses	<u>\$357,953</u>	<u>\$118,378</u>	<u>\$381,238</u>	<u>\$229,861</u>	<u>\$1,087,430</u>	<u>\$118,058</u>	<u>\$166,959</u>	<u>\$1,372,447</u>

Disclosure: Before

Expense Allocation: Sample Disclosure

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Disclosure: New

Expense Allocation: Sample Disclosure

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a **reasonable basis** that is **consistently applied**. The expenses that are allocated include depreciation, interest, and office and occupancy, which are allocated on a **square-footage basis**, as well as salaries and benefits, which are allocated on the basis of estimates of **time and effort**.

Effective Date

When will the new rules take effect?

Effective for annual financial statements issued for fiscal years beginning after **December 15, 2017**



Preparing for the Change

Educate members of the board and leadership on the new requirements

Clarify and document your board's intentions as they relate to available unrestricted resources

Seek professional advice

Use 2017 as a “dress rehearsal”

Questions?

Preparing for the Change

Upcoming FASB Webinars from FMA & NPQ:

- **Part 3 – February 13, 2018:**
 - Disclosures... and more disclosures, as well as updates for Statement of Cash Flows, Investments, and Endowments
- **Part 4 – May 22, 2018:**
 - What's next? Implementation strategies and tips for success, including a helpful implementation tool

If you missed Part 1 on FASB's new requirements for liquidity reporting, a recording of the webinar can be accessed online:

<https://nonprofitquarterly.org/2017/06/28/preparing-one-big-fasb-change-nonprofit-financial-reporting-per-fasb/>

Resources

StrongNonprofits.org

In collaboration with the Wallace Foundation, FMA has created a library of tools and resources to help organizations become “fiscally fit”

Four Topic Areas: [Planning](#) | [Monitoring](#) | [Operations](#) | [Governance](#)



The screenshot displays the website's header with the navigation path: "The Wallace Foundation / Knowledge Center / Resources for Nonprofit Financial Management". On the right, there are links for "Share", "Print", and "Email". The main heading is "Resources for Nonprofit Financial Management". Below this is a search bar with the placeholder text "Search Financial Management Resources" and a "GO" button. A horizontal menu contains tabs for "Overview", "Planning", "Monitoring", "Operations", "Governance", and "All Resources". The "Planning" tab is selected. On the left, under the heading "SHOW:", there are three checked checkboxes: "General Resources", "Tools and Templates", and "Case Studies". The main content area features the title "Planning Resources for Nonprofit Financial Management" followed by a description: "Good planning finds the most effective ways to deploy your organization's resources – and meet your overall objectives. Materials here include help with budgeting, cost calculations and cash projections." Below the description is a link titled "Strengthening the Budget Development Process". A photograph of a group of people in a meeting is visible in the background of the main content area. The FMA logo is located in the bottom right corner.

The Wallace Foundation / Knowledge Center / Resources for Nonprofit Financial Management

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Resources for Nonprofit Financial Management

Search Financial Management Resources **GO**

Overview | **Planning** | Monitoring | Operations | Governance | All Resources

SHOW:

- ☒ General Resources
- ☒ Tools and Templates
- ☒ Case Studies

Planning Resources for Nonprofit Financial Management

Good planning finds the most effective ways to deploy your organization's resources – and meet your overall objectives. Materials here include help with budgeting, cost calculations and cash projections.

[Strengthening the Budget Development Process](#)

FMA

Resources

Online Tutorials for StrongNonprofits.org

FMA offers complimentary orientation one-hour webinars that feature an overview of the website and drill down on several of its key resources

Upcoming webinar dates:

- November 14, 2017 at 2:00pm ET
- January 23, 2018 at 2:00pm ET

To register, or see upcoming webinar dates:

<http://fmaonline.net/events>

For a 15-minute, on-demand webinar tour of the site:

<http://fmaonline.net/SNPonDemand>



- Established in 1999 to serve not-for-profit organizations around the country
- Provides customized financial management, accounting, software, organizational development, and other consulting services
- Works directly with organizations or through funder-supported management and technical assistance programs

FMA exists to build a community of individuals with the confidence and skills to lead organizations that change the world

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