Update on FASB Requirements: Disclosures, Endowments, and Cash Flows—Oh My!

A conversation with:
Hilda Polanco, FMA and
Gina McDonald, FMA

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Today’s Presenters

Hilda Polanco
Founder & CEO, FMA

Gina McDonald
Lead Consultant, FMA
Accounting Standards Update (ASU)

ASU 2016-14:

- Issued in August 2016
- First major revision since 1993
- Effective Date: Calendar 2018 or Fiscal Year 2019
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

Liquidity & Availability

Covered in Part 1

Net Asset Classification

Covered in Part 2

Expenses

Covered in Part 2

ASU 2016-14

Statement of Cash Flows

Today's Topic

Investment Return
Recap & Updates
Liquidity & Availability of Resources

**Qualitative**

Disclose - How a nonprofit manages its available liquid resources and

**Quantitative**

Availability of financial assets to meet cash needs for **general expenditures** within one year of balance sheet date.

RECAP
“Availability” can be affected by many factors, including the nature of the assets as well as internal (i.e. board designated) and external limitations (i.e. from donors).

“Available” financial assets can be a negative number (for instance, if you have expended cash restricted for a future period).
**Example:** negative “available” financial assets

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$25,500</td>
</tr>
<tr>
<td>Receivables (current &amp; long term)</td>
<td>40,000</td>
</tr>
<tr>
<td><strong>Total Financial Assets</strong></td>
<td><strong>65,500</strong></td>
</tr>
<tr>
<td>Receivables scheduled to be collected in more than one year</td>
<td>(25,000)</td>
</tr>
<tr>
<td>Donor contributions restricted for future periods in excess of one year</td>
<td>(55,000)</td>
</tr>
</tbody>
</table>

**Financial assets available to meet cash needs for general expenditures within one year**

<table>
<thead>
<tr>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>$(14,500)</td>
</tr>
</tbody>
</table>

* Need to disclose if organization has not maintained cash required to comply with donor restrictions. Interpretation of this MAY BE varied. More to come ....
Net Asset “Classification”

- Unrestricted Net Assets
- Temporarily Restricted Net Assets
- Permanently Restricted Net Assets

Net Assets Without Donor Restrictions

Net Assets With Donor Restrictions
Reminder: GAAP still allows flexibility in presentation. It’s okay to disaggregate net assets further and show the following:

**Without Donor Restrictions**
- Undesignated
- Reserves
- Board Designated

**With Donor Restrictions**
- Time Restricted
- Purpose Restricted
- Endowment
ABC Nonprofit
Statement of Financial Position
6/30/2019

Assets
- Cash and cash equivalents $70,000
- Contributions receivable 105,000
- Fixed assets, net 62,450
Total assets $237,450

Liabilities
- Accounts payable 54,550
- Note payable 14,600
Total liabilities 69,150

Net assets
- Without donor restrictions 75,450
- With donor restrictions 92,850
Total net assets 168,300

Can choose additional detail in net asset section:

Net assets
- Without donor restrictions
  - Undesignated 25,450
  - Board designated operating reserve 50,000
  Total 75,450
- With donor restrictions
  - Time restricted for future periods 12,850
  - Program restricted 5,000
  - Endowment 75,000
  Total 92,850
Total net assets 168,300

Total liabilities and net assets $237,450
# Net Asset “Classification”

## ABC Nonprofit

**Statement of Activities**

**Year Ended 6/30/2019**

<table>
<thead>
<tr>
<th>Without Donor Restrictions</th>
<th>With Donor Restrictions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Program Restrictions</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Endowment</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Revenue and other support:

- **Contributions**: $135,000
- **Tuition and Fees**: $85,750
- **Investment income, net**: $2,500
- **Net assets released from restrictions**: $74,350

### Expenses:

- **Program**: $157,500
- **Management and general**: $85,000
- **Fundraising**: $50,000

### Change in net assets:

- **Net assets, beginning of year**: $75,460
- **Change in net assets**: $5,100

### Net assets, end of year:

- **Net assets, end of year**: $80,560

---

**RECAP**
Net Asset “Classification”

<table>
<thead>
<tr>
<th></th>
<th>Without Donor Restrictions</th>
<th>With Donor Restrictions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Undesignated</td>
<td>Reserves/Board Desig.</td>
<td>Fixed Assets</td>
</tr>
<tr>
<td><strong>Revenue and other support:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions</td>
<td>$135,000</td>
<td>$25,000</td>
<td>$10,500</td>
</tr>
<tr>
<td>Tuition and Fees</td>
<td>85,750</td>
<td></td>
<td>85,750</td>
</tr>
<tr>
<td>Investment income, net</td>
<td>2,500</td>
<td>500</td>
<td>3,000</td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>64,350</td>
<td></td>
<td>10,000</td>
</tr>
<tr>
<td></td>
<td>287,600</td>
<td>25,500</td>
<td>20,500</td>
</tr>
<tr>
<td><strong>Expenses:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program</td>
<td>157,500</td>
<td>25,000</td>
<td>182,500</td>
</tr>
<tr>
<td>Management and general</td>
<td>85,000</td>
<td>2,500</td>
<td>87,500</td>
</tr>
<tr>
<td>Fundraising</td>
<td>50,000</td>
<td></td>
<td>50,000</td>
</tr>
<tr>
<td></td>
<td>292,500</td>
<td>27,500</td>
<td>320,000</td>
</tr>
<tr>
<td><strong>Change in net assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(4,900)</td>
<td>25,500</td>
<td>(7,000)</td>
</tr>
<tr>
<td><strong>Net assets, beginning of year</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>75,460</td>
<td>125,000</td>
<td>1,295,000</td>
</tr>
<tr>
<td><strong>Net assets, end of year</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$70,560</td>
<td>$150,500</td>
<td>$1,288,000</td>
</tr>
</tbody>
</table>
New FASB Rules

• **All nonprofits** will be required to disclose functional expenses, either:
  – On the face of the Statement of Activities,
  – As a schedule in the notes to the financial statements, or
  – In a separate Statement of Functional Expenses

• **Disclosure of the methods used to allocate expenses** to the functional categories will be required

Current

Only **Voluntary Health & Welfare Organizations** are required to report expenses in both national and functional categories
FASB ASC 958

Reporting expenses by nature and function is useful in associating expenses with service efforts and accomplishments of NFPs [and] ... to help donors, creditors, and others in assessing ... the costs of its services and how it uses resources
## Analysis of Expenses by Function

<table>
<thead>
<tr>
<th></th>
<th>Program Services</th>
<th>Supporting Services</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Program A</td>
<td>Program B</td>
<td>Program C</td>
</tr>
<tr>
<td>Salaries</td>
<td>$168,189</td>
<td>$67,710</td>
<td>$247,474</td>
</tr>
<tr>
<td>Payroll taxes and</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee benefits</td>
<td>34,037</td>
<td>13,703</td>
<td>49,962</td>
</tr>
<tr>
<td>Rent</td>
<td>97,288</td>
<td>8,215</td>
<td>24,436</td>
</tr>
<tr>
<td>Utilities</td>
<td>2,935</td>
<td>1,180</td>
<td>3,509</td>
</tr>
<tr>
<td>Office cleaning</td>
<td>1,797</td>
<td>723</td>
<td>2,149</td>
</tr>
<tr>
<td>Consultants</td>
<td>6,989</td>
<td>3,237</td>
<td>8,668</td>
</tr>
<tr>
<td>Accounting &amp; Auditing Fees</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Office expense</td>
<td>6,123</td>
<td>2,462</td>
<td>7,248</td>
</tr>
<tr>
<td>Supplies</td>
<td>7,907</td>
<td>2,500</td>
<td>3,355</td>
</tr>
<tr>
<td>Telephone</td>
<td>7,591</td>
<td>3,052</td>
<td>9,078</td>
</tr>
<tr>
<td>Postage and messengers</td>
<td>1,500</td>
<td>750</td>
<td>600</td>
</tr>
<tr>
<td>Photocopying</td>
<td>135</td>
<td>145</td>
<td>80</td>
</tr>
<tr>
<td>Equipment leasing</td>
<td>3,535</td>
<td>1,421</td>
<td>4,227</td>
</tr>
<tr>
<td>Insurance</td>
<td>2,848</td>
<td>1,145</td>
<td>3,406</td>
</tr>
<tr>
<td>Local transportation</td>
<td>667</td>
<td>268</td>
<td>798</td>
</tr>
<tr>
<td>Meals and entertainment</td>
<td>1,798</td>
<td>723</td>
<td>1,371</td>
</tr>
<tr>
<td>Seminars and training</td>
<td>500</td>
<td>250</td>
<td>750</td>
</tr>
<tr>
<td>Fees</td>
<td>560</td>
<td>3,247</td>
<td>1,003</td>
</tr>
<tr>
<td>Data processing</td>
<td>496</td>
<td>199</td>
<td>593</td>
</tr>
<tr>
<td>Dues and subscriptions</td>
<td>385</td>
<td>532</td>
<td>130</td>
</tr>
<tr>
<td>Advertising</td>
<td>5,017</td>
<td>3,838</td>
<td>3,245</td>
</tr>
<tr>
<td>Depreciation</td>
<td>2,284</td>
<td>918</td>
<td>2,731</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>522</td>
<td>210</td>
<td>625</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td><strong>$357,953</strong></td>
<td><strong>$118,378</strong></td>
<td><strong>$381,238</strong></td>
</tr>
</tbody>
</table>
Investment Returns
Reporting of Investment Returns

**Current** - Investment income is presented *net* of investment expenses on the face of the statement of activities.

**New** - Investment income continues to be presented *net* of investment expenses on the face of the statement of activities AND

- Can now include *direct internal expenses* that “involve the direct conduct of direct supervision of the strategic and tactical activities involved in generating investment return”

Speak to an expert to assist in determining which internal expenses qualify

- *No longer have to disclose components of investment return*
Underwater Endowments
Underwater Endowments

Historic Dollar Value

Market Value
Underwater Endowments*

* “A donor-restricted fund for which the fair value of the fund at the reporting date is less than either the original gift amount or the amount required to be maintained by the donor or by law”

<table>
<thead>
<tr>
<th>Current</th>
<th>Accumulated losses included in net assets without donor restrictions (unrestricted)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Disclose - Aggregate amounts by which funds are underwater</td>
</tr>
<tr>
<td>New</td>
<td>Classify accumulated loss (amount underwater) in net assets with donor restrictions</td>
</tr>
<tr>
<td></td>
<td>Disclosures now also include aggregate amounts of original gifts required to be maintained by law, endowment spending policies and discussion of any action taken as a result of the underwater status</td>
</tr>
</tbody>
</table>
Expiration of Capital Restrictions
Expiration of Capital Restrictions

Placed-In-Service approach will now be required, unless donor explicitly requires otherwise.

**Release “Over Time”**

- Allowed release of restricted net assets over time as related asset was depreciated

**Placed-In-Service**

- Release in full donations restricted for purchase of capital asset when related asset is placed in service
Effective Date

When will the new rules take effect?

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

Dec 31 year-end: Calendar 2018

Fiscal Year (i.e. June 30): Fiscal year beginning July 1, 2018
Preparing for the Change

- Educate members of the board and leadership on the new requirements
- Seek professional advice
- Use calendar 2017 or fiscal year 2018 as a “dress rehearsal”
- Join us for the implementation webinar May 22nd
Questions?
Preparing for the Change

Upcoming FASB Webinar from FMA & NPQ

• Part 4 – May 22, 2018:
  What’s next? Implementation strategies and tips for success, including a helpful implementation tool

If you missed Parts 1 and 2 on FASB’s new requirements for liquidity reporting, webinar recordings can be accessed online:


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

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
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:

- March 13, 2018 at 2:00pm ET
- May 15, 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

Look for a refresh in 2018
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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