

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

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

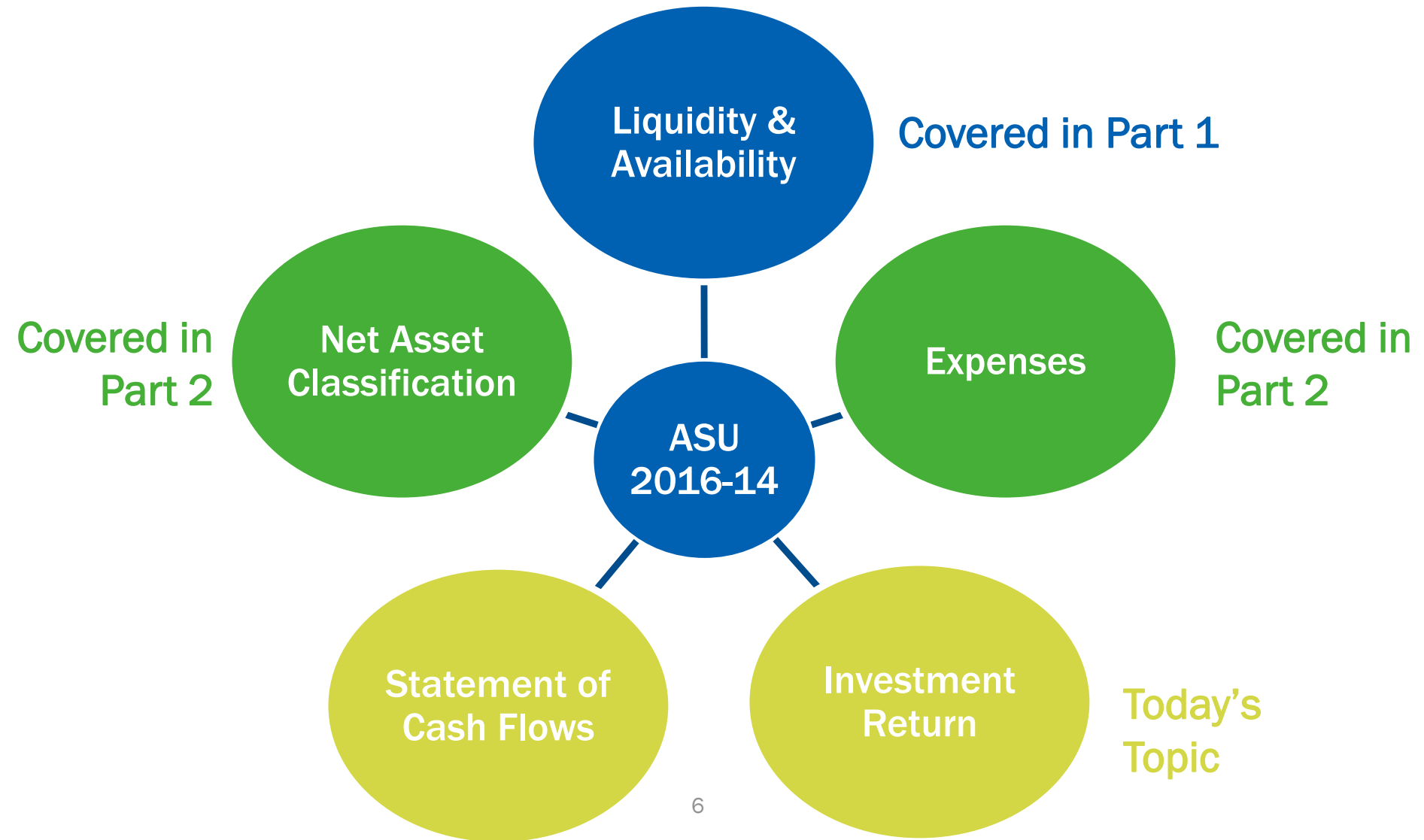
Financial Statement Presentation

YES

Disclosures

YES

Key Provisions



Recap & Updates

Liquidity & Availability of Resources

RECAP

Disclose -How a nonprofit manages its available liquid resources and

Qualitative

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

Quantitative

Information from the Field

- “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)

Liquidity & Availability of Resources

UPDATE

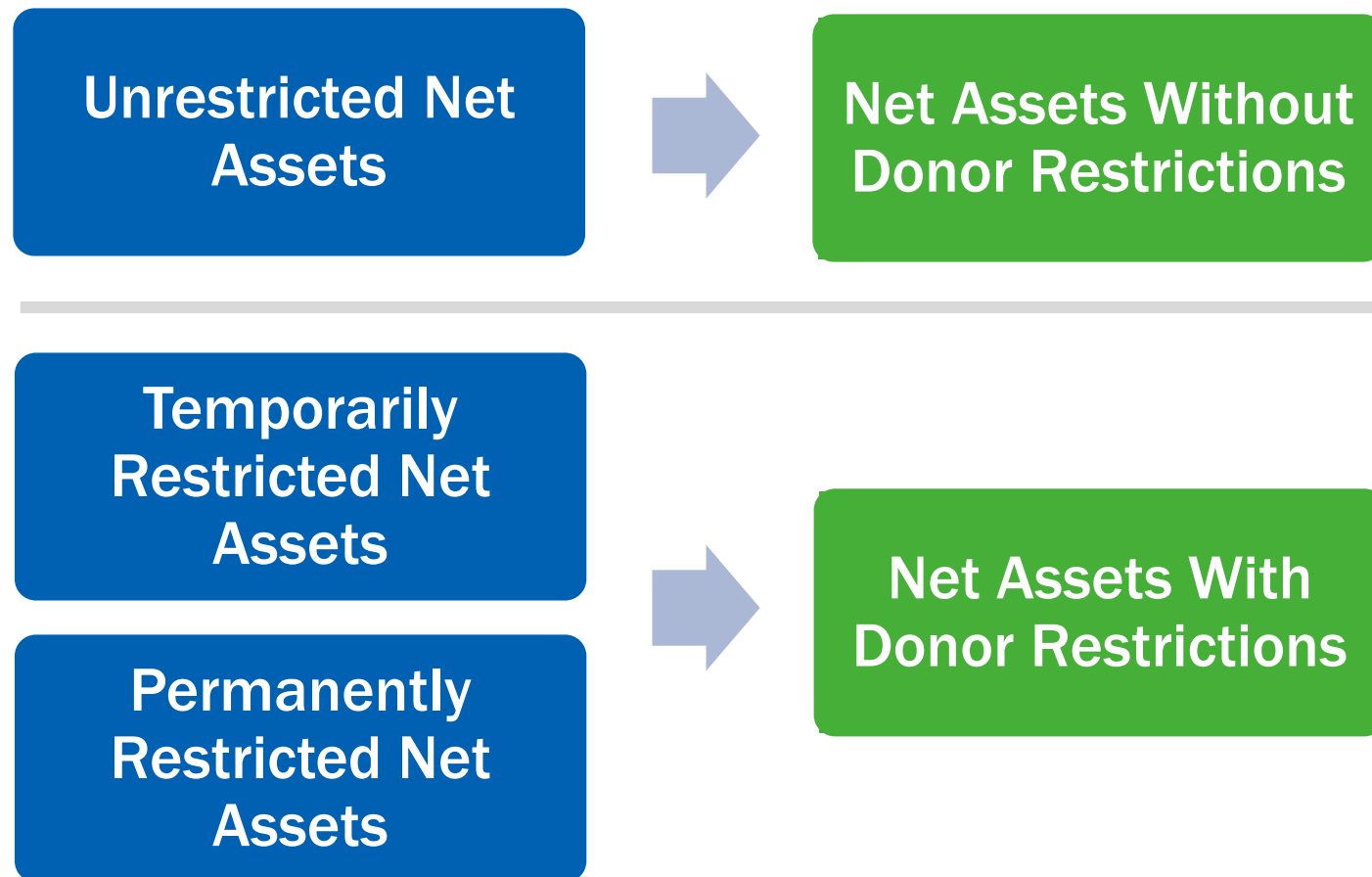
Example: negative “available” financial assets

Cash and cash equivalents	\$ 25,500
Receivables (current & long term)	40,000
Total Financial Assets	65,500
Receivables scheduled to be collected in more than one year	(25,000)
Donor contributions restricted for future periods in excess of one year	(55,000)
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ (14,500)</u></u>

* 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”

RECAP



Net Asset “Classification”

UPDATE

Information from the Field

- **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

Net Asset “Classification”

RECAP

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	<u>\$ 237,450</u>

Liabilities

Accounts payable	54,550
Note payable	14,600
Total liabilities	<u>69,150</u>

Net assets

Without donor restrictions	75,450
With donor restrictions	92,850
Total net assets	<u>168,300</u>

Can choose additional detail in net asset section:

Net assets

Without donor restrictions

Undesignated	25,450
Board designated operating reserve	50,000
	<u>75,450</u>

With donor restrictions

Time restricted for future periods	12,850
Program restricted	5,000
Endowment	75,000
	<u>92,850</u>

Total net assets 168,300

Total liabilities and net assets \$ 237,450

Net Asset “Classification”

RECAP

ABC Nonprofit
Statement of Activities
Year Ended 6/30/2019

	Without Donor Restrictions	With Donor Restrictions			Total
		Program Restrictions	Endowment	Total	
Revenue and other support:					
Contributions	\$ 135,000	\$ 45,300	\$ 5,000	\$ 50,300	\$ 185,300
Tuition and Fees	85,750			-	85,750
Investment income, net	2,500	1,500		1,500	4,000
Net assets released from restrictions	74,350	(74,350)		(74,350)	-
	297,600	(27,550)	5,000	(22,550)	275,050
Expenses:					
Program	157,500				157,500
Management and general	85,000				85,000
Fundraising	50,000				50,000
	292,500				292,500
Change in net assets	5,100	(27,550)	5,000	(22,550)	(17,450)
Net assets, beginning of year	75,460	25,500	875,000	900,500	975,960
Net assets, end of year	\$ 80,560	\$ (2,050)	\$ 880,000	\$ 877,950	\$ 958,510

Net Asset “Classification”

RECAP

ABC Nonprofit
Statement of Activities
Year Ended 6/30/2019

	Without Donor Restrictions				With Donor Restrictions	Total
	Undesignated	Reserves/ Board Desig.	Fixed Assets	Total		
Revenue and other support:						
Contributions	\$ 135,000	\$ 25,000	\$ 10,500	\$ 170,500	\$ 45,300	\$ 215,800
Tuition and Fees	85,750			85,750		85,750
Investment income, net	2,500	500		3,000	1,500	4,500
Net assets released from restrictions	64,350		10,000	74,350	(74,350)	-
	287,600	25,500	20,500	333,600	(27,550)	306,050
Expenses:						
Program	157,500		25,000	182,500		182,500
Management and general	85,000		2,500	87,500		87,500
Fundraising	50,000			50,000		50,000
	292,500		27,500	320,000		320,000
Change in net assets	(4,900)	25,500	(7,000)	13,600	(27,550)	(13,950)
Net assets, beginning of year	75,460	125,000	1,295,000	1,495,460	25,500	1,520,960
Net assets, end of year	\$ 70,560	\$ 150,500	\$ 1,288,000	\$ 1,509,060	\$ (2,050)	\$ 1,507,010

Analysis of Expenses by Function

RECAP

Current

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

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

Analysis of Expenses by Function

RECAP

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

UPDATE

	Program Services					Supporting Services		
	<u>Program A</u>	<u>Program B</u>	<u>Program C</u>	<u>Program D</u>	<u>Program Expenses</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
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>

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

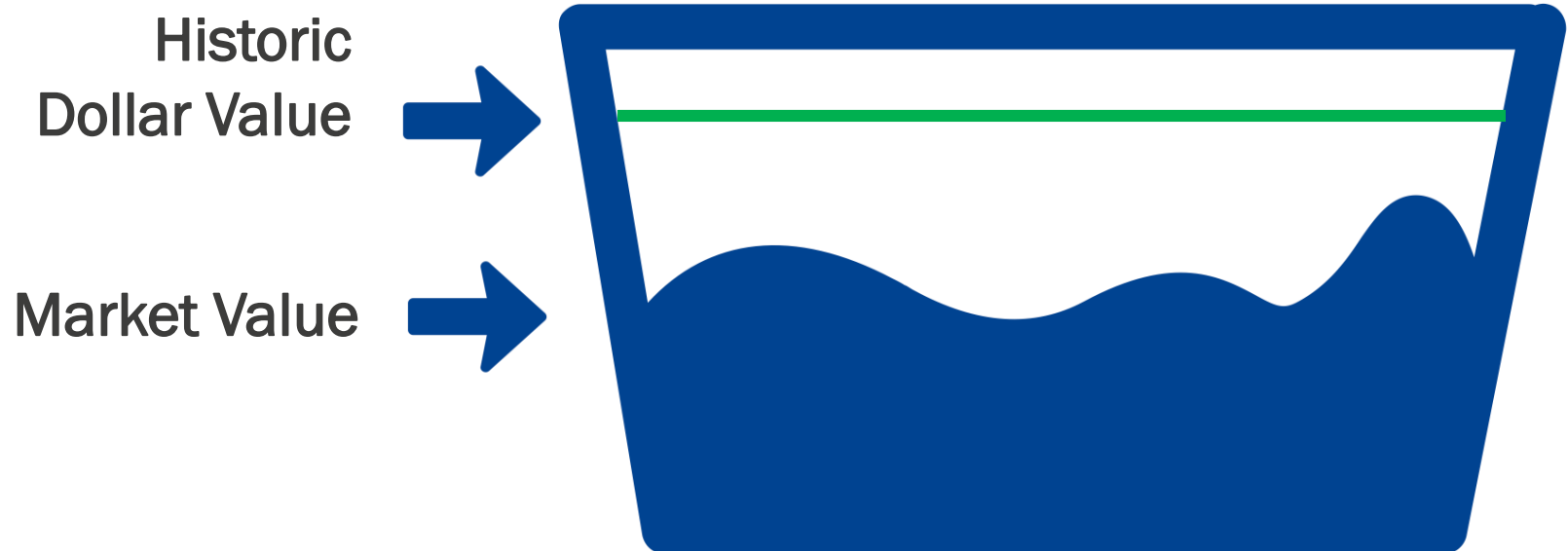
- Can now include **direct internal expenses** that “involve the direct conduct of direct supervision of the **strategic** and **tactical** activities involved in generating investment return”

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



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”

Current

Accumulated losses included in net assets without donor restrictions (unrestricted)

Disclose - Aggregate amounts by which funds are underwater

New


Classify accumulated loss (amount underwater) in net assets with donor restrictions

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

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**



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:

Part 1: <https://nonprofitquarterly.org/2017/06/28/preparing-one-big-fasb-change-nonprofit-financial-reporting-per-fasb/>

Part 2: <https://nonprofitquarterly.org/2017/11/09/ready-comply-new-fasb-guidelines/>

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 this 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

Share | Print | Email

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:

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

*Look for a refresh
in 2018*

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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