

The FASB Changes (ASU 2016-14): How Is Your Nonprofit Doing?

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April 29, 2020

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Today's Presenter



Gina McDonald
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RECAP – Timeline for Changes



ASU 2016-14:

Issued in August 2016

First major revision
since 1993

Effective Date: Calendar
2018 or Fiscal Year 2019

RECAP: What Changed?

Accounting

NO

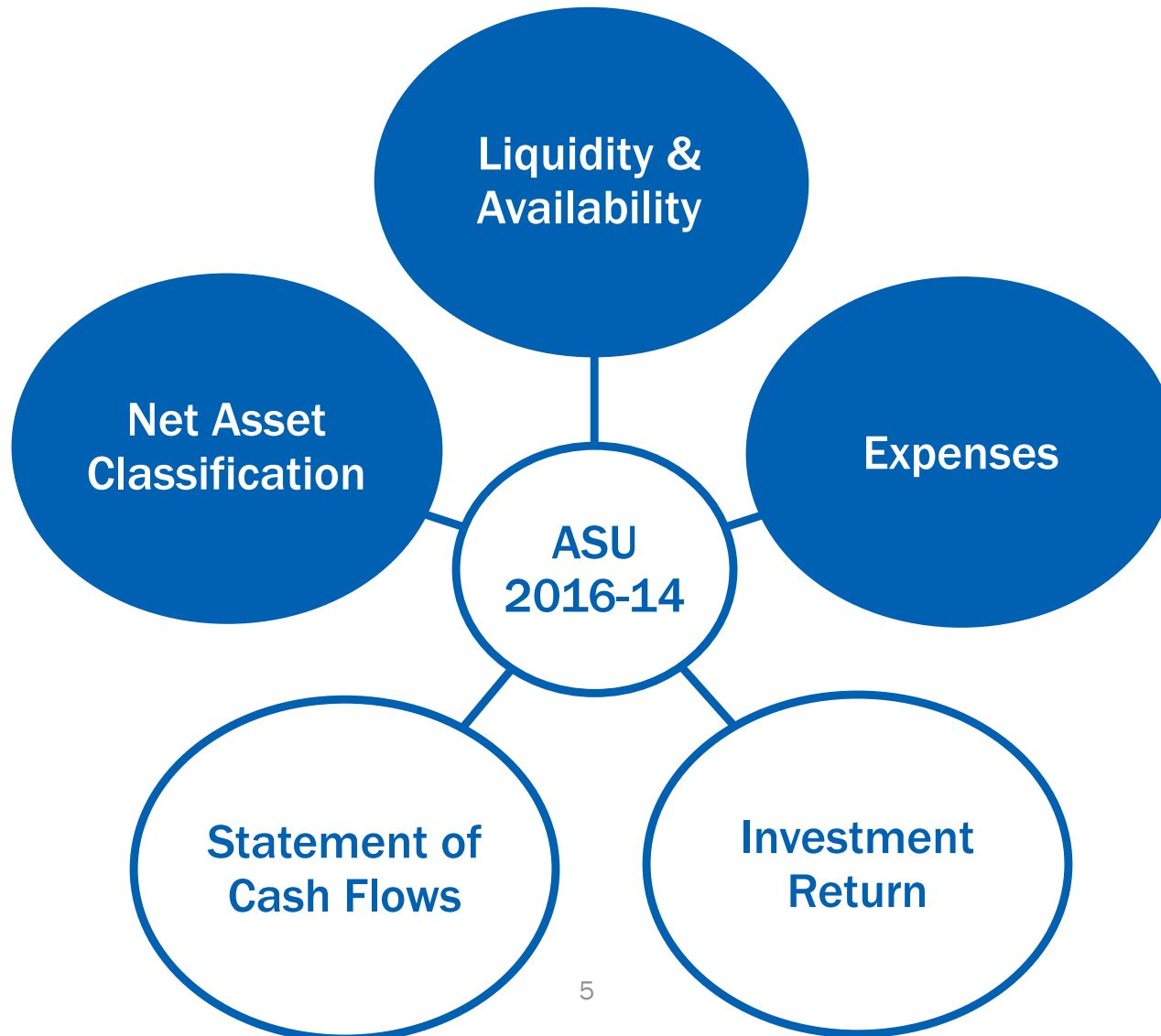
Financial Statement Presentation

YES

Disclosures

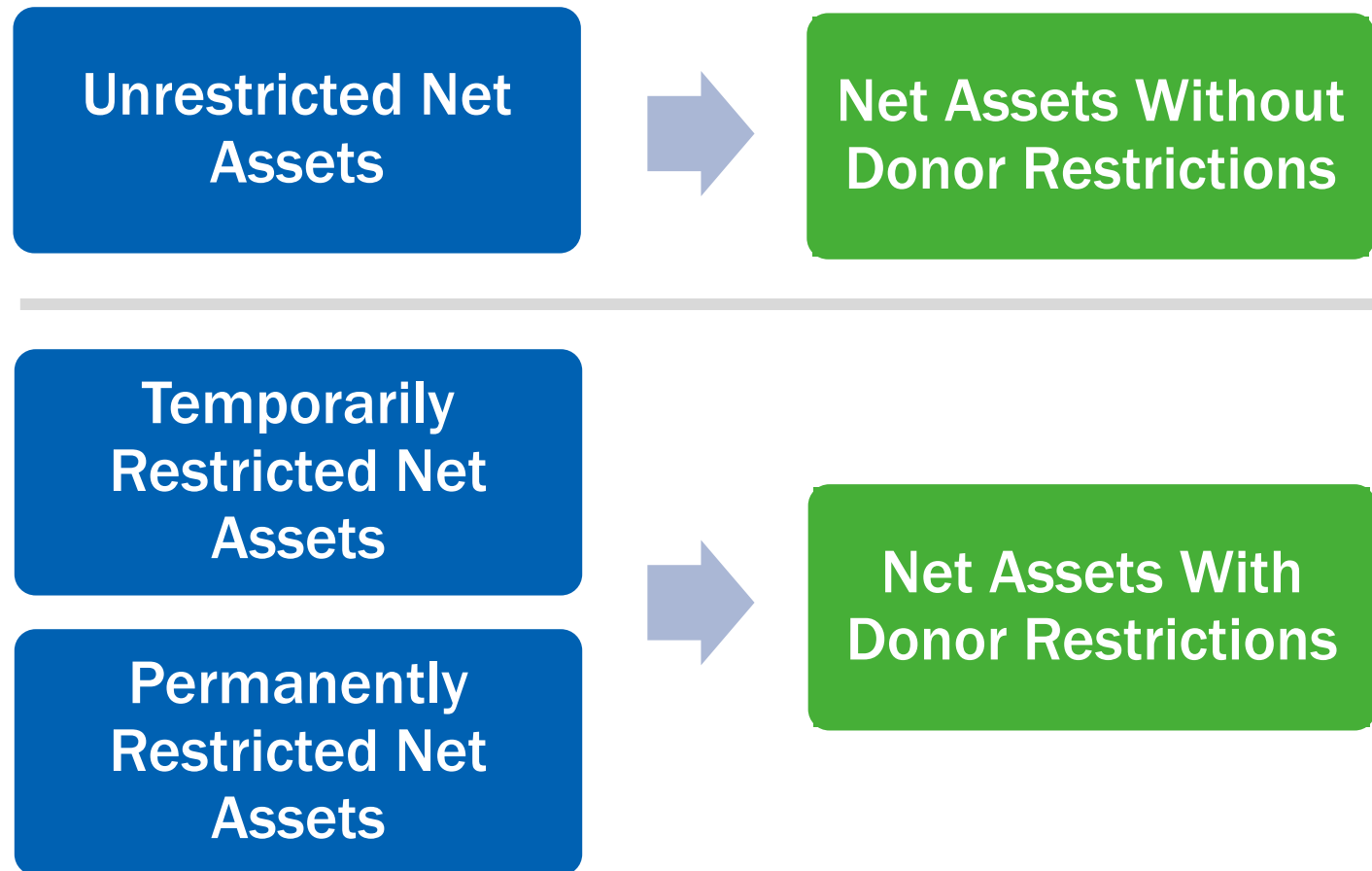
YES

RECAP: Key Provisions



Net Asset Classification

Net Asset “Classification”



Net Asset Classification: In Practice

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: In Practice

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

Can choose additional detail:



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	<u><u>168,300</u></u>

Net Asset Classification: In Practice

	Without Donor Restrictions	With Donor Restrictions			Total
		Program Restrictions	Endowment	Total	
Revenue and other support:	\$ 100,000	\$ 50,000	\$ 2,000	\$ 50,000	\$ 150,000

	Without Donor Restrictions			With Donor Restrictions	Total
	Undesignated	Operating Reserve	Total		
Investment income:	\$ 4,500	\$ 2,750	\$ 7,250	\$ 1,500	\$ 8,750

Net Asset Classification: TODAY

Any significant changes in presentation?

More details of restricted net assets in footnote disclosures?

Was there more or less clarity?

Expenses

Analysis of Expenses by Function

Current FASB Rules

- **All nonprofits** are 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 are also required

Analysis of Expenses by Function

	<u>Program A</u>	<u>Program B</u>	<u>Total Program</u>	<u>M&G</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 75,500	\$ 24,000	\$ 99,500	\$ 55,000	\$ 42,500	\$ 197,000

Natural Expenses

Functional Expenses

TOTAL	<u>\$ 165,000</u>	<u>\$ 79,850</u>	<u>\$ 244,850</u>	<u>\$ 68,775</u>	<u>\$ 52,300</u>	<u>\$ 365,925</u>
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Functional Expenses: TODAY

Are you allocating costs among functions throughout the year, or only at year end?

Who is creating your Statement of Functional Expenses? Your auditor?

Do board members and key staff understand your organization's allocation methodology?

Are you reporting “true cost”?

Liquidity & Availability

Liquidity & Availability of Resources

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

Liquidity Disclosure: Quantitative

	<u>2020</u>
Cash	\$ 778,497
Pledges Receivable	184,260
Investments	<u>2,055,230</u>
Total Financial Assets	3,017,987
Donor-imposed restrictions:	
Endowment fund	(2,055,230)
Other donor restrictions	(514,755)
Add back: amounts available within 12 months	264,755
Board Designated: Operating reserves	<u>(225,000)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 487,757</u>

Liquidity Disclosure: Qualitative

Note X – Liquidity and Availability of Financial Assets

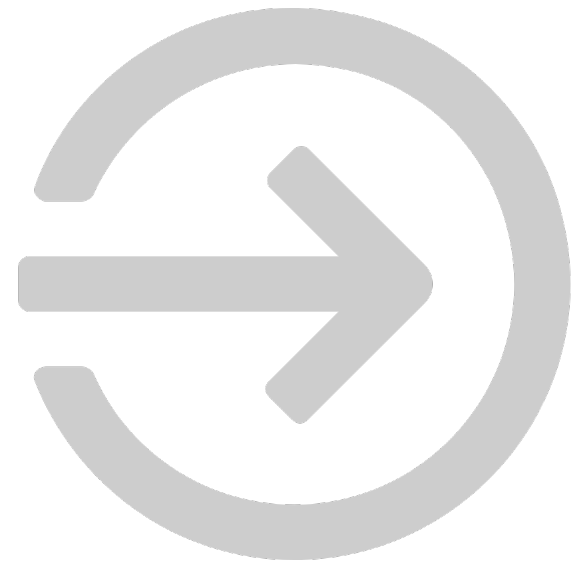
Organization ABC's working capital and cash flows have seasonal variations . . . To manage liquidity the Organization maintains a line of credit of \$100,000 . . .

The Organization has \$487,757 in financial assets as of the balance sheet date . . . amounts set aside for operating and other reserves could be drawn upon if the Board of Directors approves that action.

Liquidity Disclosure: TODAY

Unlike other information in an audit, the liquidity disclosure is forward focused

- Who is calculating and crafting the disclosure? Your auditor?
- Does the disclosure clearly articulate your organization's liquidity "story?"
- Do your board members and key leadership staff understand the story this disclosure is telling?

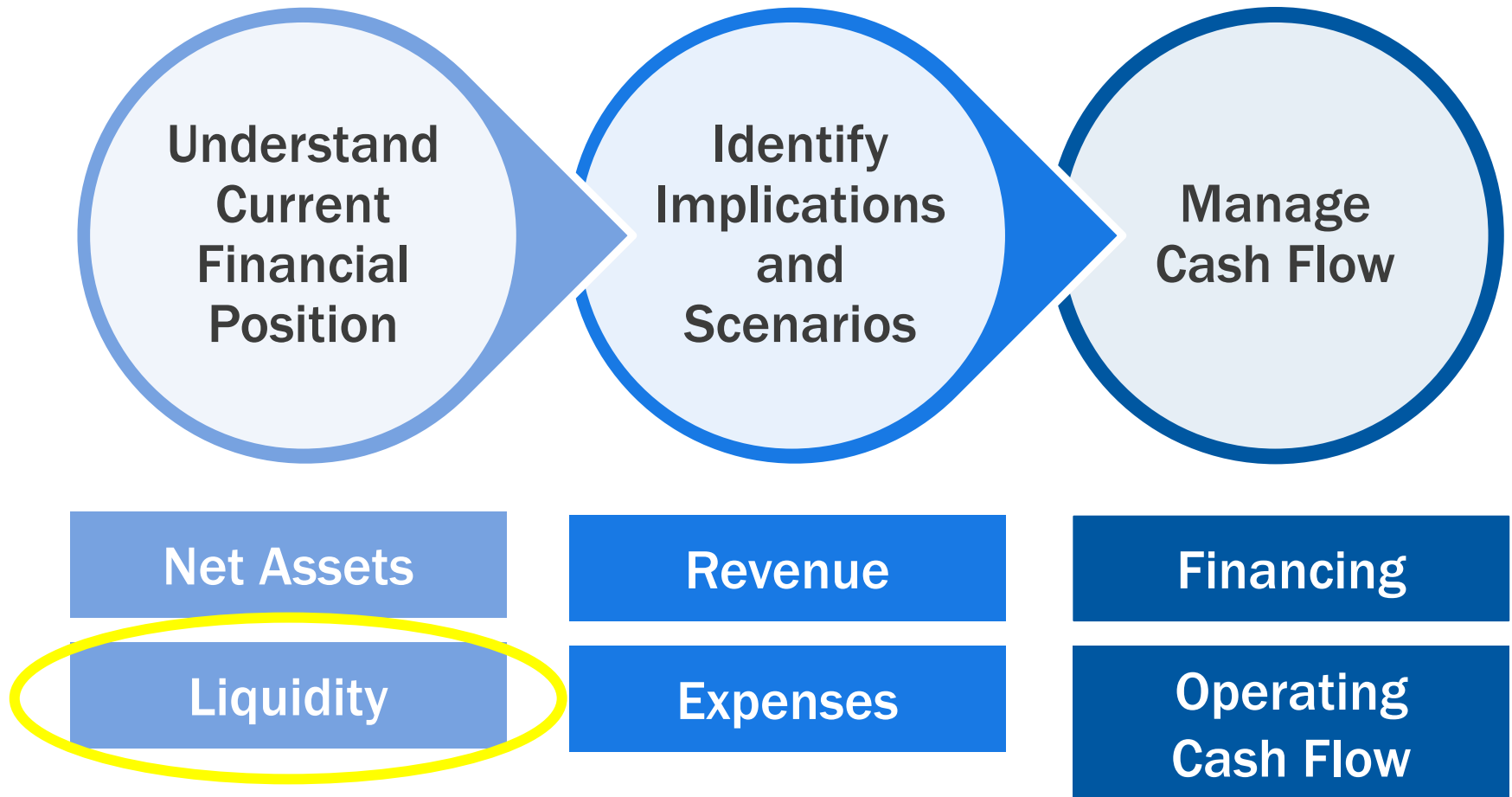


Liquidity Disclosure: TODAY

A tool for managing in the current environment

- Liquidity is a **business issue**—possibly an existential one—for a significant part of the nonprofit sector
- **Own this metric** and use it as an opportunity to analyze and understand your liquidity and cash management strategy
 - Consider calculating it quarterly
 - Identify and analyze the trends

Managing Finances During COVID-19



Questions?

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 interface for 'Resources for Nonprofit Financial Management'. At the top, a green navigation bar contains the text 'The Wallace Foundation / Knowledge Center / Resources for Nonprofit Financial Management' and links for 'Share', 'Print', and 'Email'. Below this, the main heading 'Resources for Nonprofit Financial Management' is shown in a large, purple font. A search bar with the placeholder text 'Search Financial Management Resources' and a 'GO' button is positioned to the left of a large background image showing a group of people in a meeting. Below the heading, a horizontal menu with green buttons lists 'Overview', 'Planning', 'Monitoring', 'Operations', 'Governance', and 'All Resources'. The 'Planning' button is currently selected. On the left side, 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 descriptive paragraph: '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 text is a link titled 'Strengthening the Budget Development Process'. In the bottom right corner, the FMA logo is displayed in green.

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

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Thanks for joining us! Share your thoughts using our hashtag, #FASBUpdate

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 date:

- **May 19, 2020 at 2pm – 3pm (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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