

Preparing for ONE BIG Change: FASB Updates Nonprofit Reporting

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The logo for FMA (Fiscal Management Association) features the letters 'FMA' in a bold, green, sans-serif font. The 'F' and 'M' are connected at the top, and the 'A' is also connected to the 'M'. The letters are set against a white background.

FISCAL STRENGTH FOR NONPROFITS

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

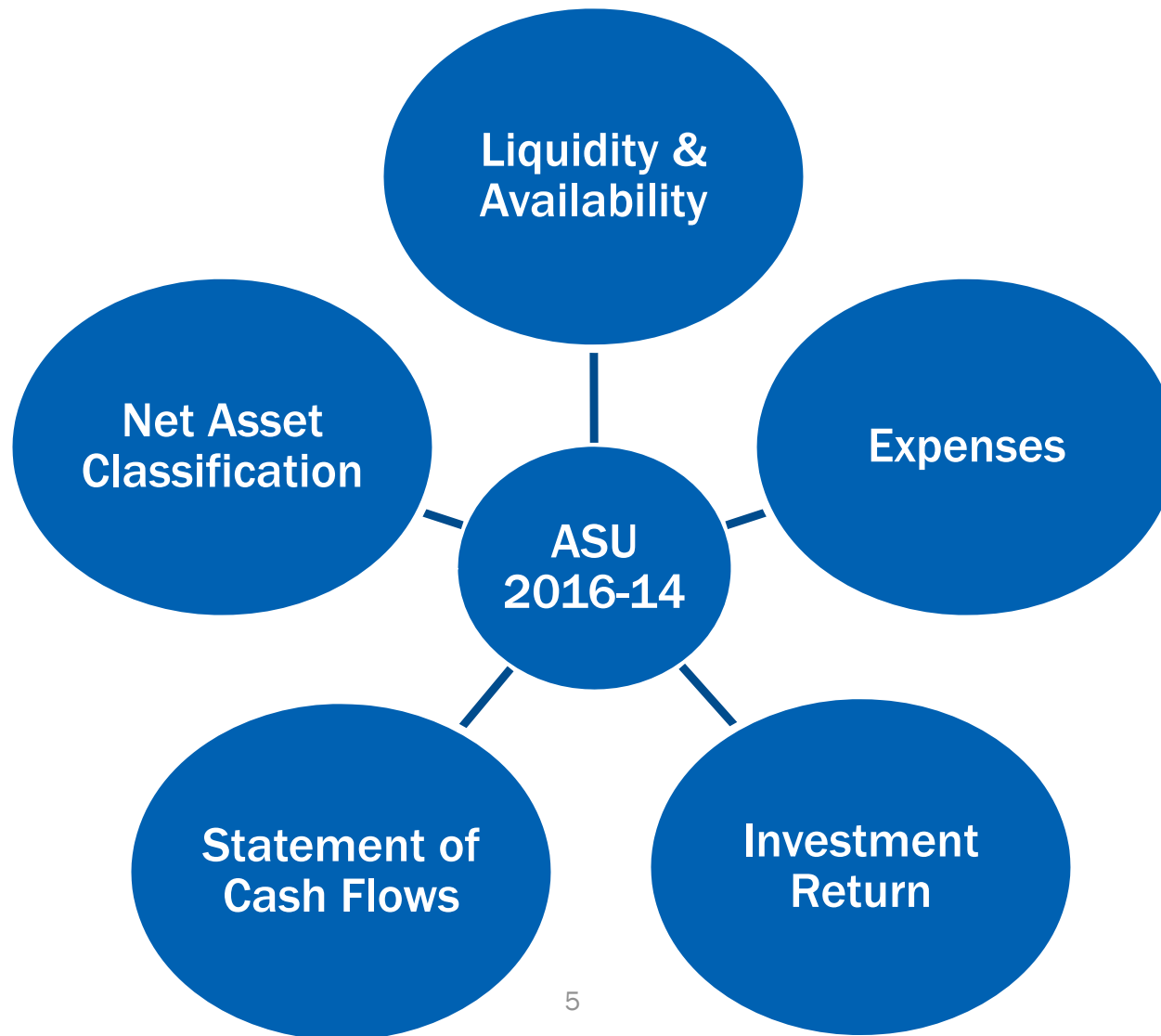
Financial Institutions

Key focus areas: liquidity, financial performance and cash flow

What Does the ASU Impact?



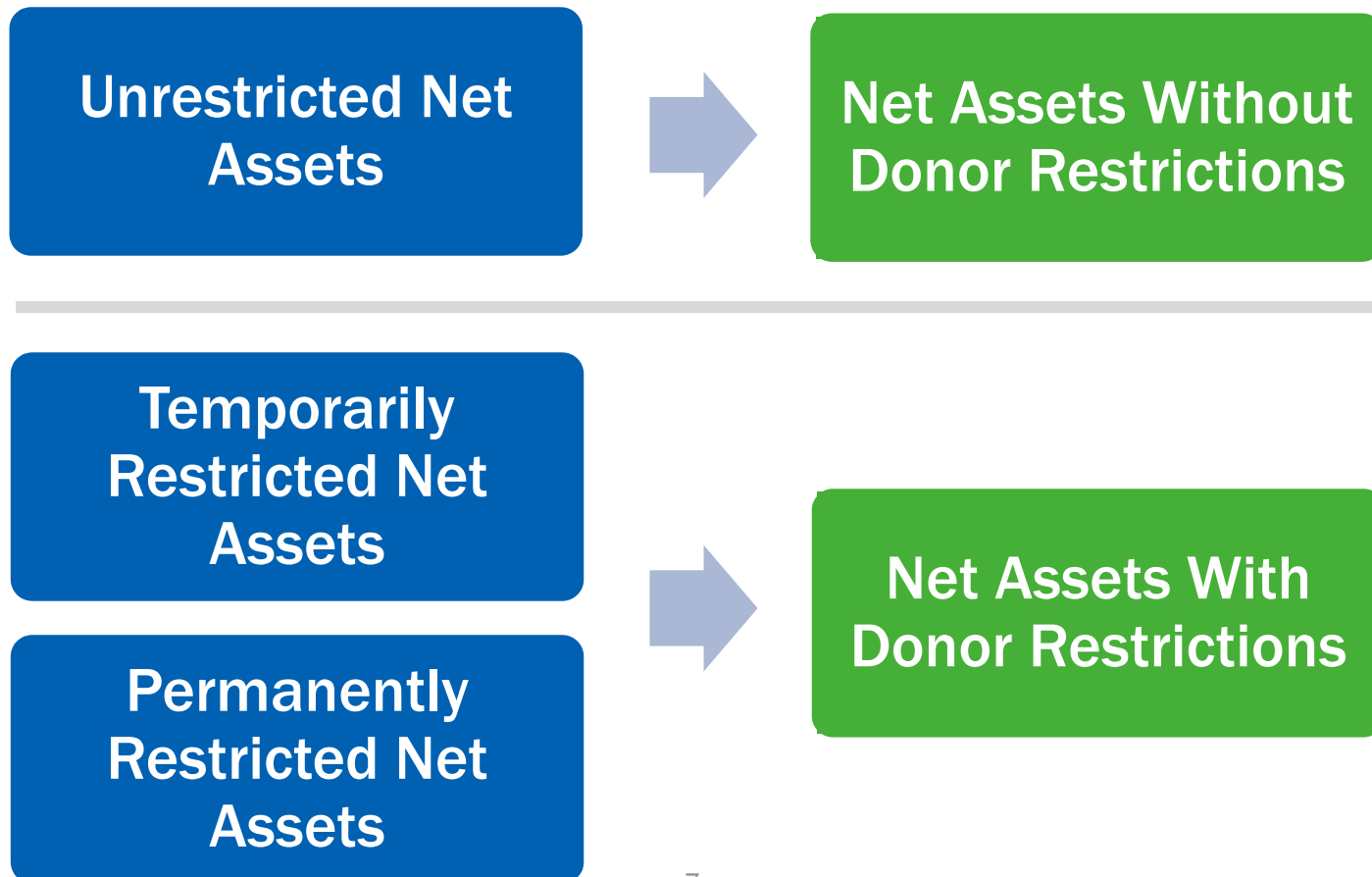
Key Provisions



Net Asset Classification

Net Asset “Classification”

Consolidating Three Existing Classes of Net Assets Into Two



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	8,351		-	8,351
Investment return, net	167	(3,092)	(1,126)	(4,051)
Net assets released from restriction	7,376	(7,376)	-	-
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	8,351		8,351
Investment return, net	167	(4,218)	(4,051)
Net assets released from restriction	7,376	(7,376)	-
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

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

Liquidity & Availability

Liquidity & Availability of Resources

Future Focused



To Help Stakeholders Assess:

Availability of resources to meet cash needs

Liquidity and “financial flexibility”

Liquidity & Availability of Resources

How a nonprofit manages its available liquid resources

Qualitative

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

Quantitative

Financial Assets

*“Available
financial assets
to meet cash
needs for general
expenditures
within one year”*

Total Assets

— Fixed Assets

— Prepaid Expenses

— Inventory

— Other Illiquid Assets

Financial Assets

Available Financial Assets

“Available
financial assets
to meet cash
needs for general
expenditures
within one year”

Availability can be
based on either
internal or
external limits

Financial Assets

— Board Designated Funds

— Endowment Principal

— Temp. Restricted Net Assets?

Available Financial Assets

Financial Assets Available w/in 1 yr

“Available financial assets to meet cash needs for general expenditures within one year”

Available Financial Assets

— Time Restricted TRNA > 1 year

— Receivables > 1 year

Financial Assets Available w/in 1 yr

Liquidity Disclosure: Quantitative

	<u>2016</u>	<u>2015</u>
Cash	\$ 778,497	\$ 729,622
Accounts Receivable	87,559	22,819
Pledges Receivable	184,260	168,037
Investments	<u>2,055,230</u>	<u>2,040,563</u>
Total Financial Assets	3,105,546	2,961,041
Receivables scheduled to be collected in more than one year	(15,321)	(9,558)
Donor-imposed restrictions:		
Endowment fund	(2,055,230)	(2,040,563)
Add back: amounts available for expenditure in one year	102,762	102,028
Other donor restrictions	(514,755)	(243,885)
Add back: amounts available for expenditure in following year	264,755	243,885
Board designations:		
Operating reserves and other	<u>(225,000)</u>	<u>(225,000)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 662,757</u>	<u>\$ 787,948</u>

Liquidity Disclosure: Qualitative

Note X – Liquidity and Availability of Financial Assets

Organization ABC's working capital and cash flows have seasonal variations during the year attributable to the annual cash receipts for subscriptions and a concentration of contributions received near calendar year end. To manage liquidity the Organization maintains a line of credit of \$100,000 with a bank that is drawn upon as needed during the year to manage cash flow and is then repaid in full by the end of the fiscal year. See note Y for a description of this line.

The Organization has \$662,757 in financial assets as of the balance sheet date, reduced by amounts not available for general use within one year because of donor-imposed restrictions or internal designations. Amounts available include the Board-approved appropriation from the endowment fund for the following year as well as donor-restricted amounts that are available for general expenditure in the following year. Amounts not available include amounts set aside for operating and other reserves that could be drawn upon if the Board of Directors approves that action.

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

Statement of Functional Expenses

“Overhead”

	Program Services				Program Expenses	Supporting Services		Total
	Program A	Program B	Program C	Program D		Management and General	Fundraising	
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	\$357,953	\$118,378	\$381,238	\$229,861	\$1,087,430	\$118,058	\$166,959	\$1,372,447

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

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**.

Other Provisions

Other Provisions

Statement of Cash Flows

- If the direct cash flow method is presented, no longer required to reconcile to the indirect method

Underwater Endowment Funds

- Enhanced disclosures of policies, actions taken during the period, appropriations, and various information concerning fair value of such funds and amounts required by donor or law to be maintained

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?

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 Wallace Foundation / Knowledge Center / Resources for Nonprofit Financial Management

Share | Print | Email

Resources for Nonprofit Financial Management

Search Financial Management Resources

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](#)



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:

- January 23, 2018 at 2:00pm ET
- March 13, 2018 at 2:00pm ET

To register, or see upcoming webinar dates:

<http://fmaonline.net/strongnonprofits>

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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