



CLARK SCHAEFER HACKETT
CPAs & BUSINESS CONSULTANTS

Are You Prepared To Implement FASB Standards For NFPs?



Michael R. Borowitz, CPA
Shareholder



Robert R. Kitchen, CPA
Principal



Paula M. Bedford, CPA
Manager



Bobby Looney, CPA
Senior



Tamara A. Johnson, CPA
Manager

Introduction



Michael R. Borowitz, CPA
Shareholder





Background

- ASU 2016-14 issued August 2016
- Primary purpose:
 - Provide more useful information to donors, grantors, creditors and other users of financial statements.
- Effective date:
 - Annual financial statements issued for fiscal years beginning after December 15, 2017.

Topics & Presenters

- Liquidity – Rob Kitchen, CPA
- Investments / Cash Flows – Paula Bedford, CPA
- Functional Expenses – Bobby Looney, CPA
- Net Assets – Tamara Johnson, CPA



Phase 1 – Liquidity



Robert R. Kitchen, CPA
Principal





What Will Change?

- Qualitative information that communicates how a nonprofit manages its liquid available resources to meet cash needs for general expenditures within one year of the balance sheet date
- Quantitative information on the face of the statement of financial position or in the notes that communicates the nonprofit's financial assets that are available to meet cash needs for general expenditures

Why?

- Nonprofit stakeholders -- through comment letters, meetings and workshops directed by FASB back in 2011 -- raised a concern of how information regarding liquidity and availability of resources is presented and disclosed by nonprofits.





Impact

- The ASU will help clarify limitations of financial assets imposed by donors, grantors or board of directors.
- A forward looking disclosure about revenue, expenses and cash flows which goes beyond the scope of traditional financial statements.
- A unique footnote disclosure that will require management to capture and document additional information in order to comply with the required disclosure.

Benefit

- Nonprofit financial statements will provide additional information that will give the readers a better understanding of an organization's liquidity risks and the resources that are available to the nonprofit to help manage these risks.



Investment Returns and Operating Cash Flows



**Paula B. Bedford, CPA
Manager**



Presentation of Investment Returns

Major Changes

- Expenses to be netted with investment returns
- Elimination of required disclosure for the breakout of the investment returns



A semi-transparent image of a telescope on a tripod is overlaid on the right side of the slide. The telescope is pointing towards the right, and its reflection is visible on the tripod's base. The background of the slide is a blurred green forest under a blue sky with light clouds.

Presentation of Investment Returns

Benefits

- Provides consistency and comparability among all not-for-profits
- Costs saving to the not-for-profits
 - Elimination of resources to determined embedded fees
 - Elimination of the additional disclosures

Presentation of Cash Flows

Major Changes

- Can present a direct or indirect statement of cash flows
- For direct presentation, reconciliation of the changes in net assets to net operating cash is not needed

Presentation of Cash Flows

Benefits

- Flexibility to choose the method best for the not-for-profit and the users of the financial statements
- Elimination of added costs and time to do the indirect reconciliation

Functional Expenses by Natural Categories



Bobby Looney, CPA
Senior





What is Changing?

Part 1

Presentation of Expenses

- Before: Functional expense classification *only*
- After: Functional expense classification *disaggregated by natural categories*
- Different options: Statement of Activities, Statement of Functional Expenses, footnote disclosure

The Matrix Format “Function Junction”

	Community Group Homes	Community- based Services	Psychiatric Residential Care	Assessment Services	Aftercare Program	Total Program	Management and General	Fund- raising	Total
Salaries	\$ 3,082,796	\$ 2,527,957	\$ 1,332,258	\$ 716,129	\$ 297,851	\$ 7,956,991	\$ 178,995	\$ 43,367	\$ 8,179,353
Payroll taxes and employee benefits	648,245	559,772	293,067	154,855	64,674	1,720,613	48,623	9,294	1,778,530
Supplies	399,908	280,144	80,476	177,465	61,177	999,770	32,484	10,505	1,042,759
Tuition	555,277	—	298,996	—	—	854,273	—	—	854,273
Professional fees	285,764	190,344	105,675	54,488	50,148	686,419	95,929	44,192	826,540
Depreciation and amortization	218,391	52,874	218,276	49,222	7,214	545,977	54,200	13,300	613,477
Rental and repairs	37,184	25,544	24,353	15,376	90,502	192,959	1,671	1,255	195,885
Occupancy	87,226	44,058	34,752	16,885	10,143	193,064	—	—	193,064
Telephone	64,810	43,886	19,503	14,582	19,245	162,026	6,108	8,056	176,190
Insurance	66,157	46,310	31,044	14,885	6,997	165,393	417	433	166,243
Travel	12,104	42,233	14,338	12,676	59,497	140,848	4,746	16,544	162,138
Interest	34,122	23,885	15,355	7,677	4,266	85,305	60	20	85,385
Miscellaneous	33,784	22,778	7,698	7,601	12,598	84,459	72	—	84,531
Advertising	23,093	33,193	15,892	7,446	3,109	82,733	—	—	82,733
Client services	30,483	17,792	9,878	4,789	602	63,544	—	—	63,544
Legal fees	14,236	992	13,160	3,288	3,913	35,589	17,515	—	53,104
Printing and publications	6,773	9,288	2,328	3,464	7,747	29,600	4,700	8,200	42,500
Dues and training	3,327	3,321	1,555	670	130	9,003	26,408	1,018	36,429
Postage	1,916	1,331	602	335	606	4,790	13,666	7,165	25,621



What is Changing?

Part 2

Disclosure of Allocation Methodology

- Required to disclose allocation methodology of program v. support function for each natural category

Why?

- Consistency across not-for-profit organizations
- Improve decision-making usefulness of financial statements





Impact

- Increased administrative and reporting burden
 - Allocation methodologies should be consistently applied across periods
 - May require increased efforts around documenting allocation methodologies to support newly required financial statement disclosure
- Increased consistency and usefulness of financial statements

Net Assets – Simplified!



**Tamara A. Johnson, CPA
Manager**



What Is Old?

Previously 3 Net asset classifications:

- Unrestricted
 - Includes net assets restricted by an organization's Board (a.k.a. Board designated funds)
- Temporarily restricted
 - Nets assets restricted by time or purpose by donors
- Permanently restricted
 - Net assets restricted in perpetuity by donors

What Is New?

Title Change

- “Unrestricted net assets” now “Net assets without donor restrictions”

Two Become One

- “Temporarily restricted” and “Permanently restricted” condensed into “Net assets with donor restrictions”

What Is New?

(cont.)

Board of Designated Net Assets

- Enhance disclosures now required, including amounts and purposes

Underwater Endowment Classification

- Previously included within unrestricted; now include in “net assets with donor restrictions”
- Expanded disclosures
 - Original amount, spend policy & if the organization followed that policy

A large, semi-transparent blue robot head is positioned on the right side of the slide, looking towards the left. The robot has a large eye and a friendly expression. The background is a blurred outdoor scene with greenery and a blue sky.

What Is New? (cont.)

Release of Restrictions on Long-Lived Assets

- Previously released ratably over the asset's life
- Now must release when placed in service

Why?

- To ease the administrative burden of preparing financial statements and certain related disclosures
- Better represents nature of net assets
- Make NFP financial statements easier to read

Impact on Financials

Statement of Activities

- Now will only have 2 columns vs. 3 previously
- “Pancake” approach still allowable
- Feeds into reduced line items on Statement of Financial position

Nature of Composition of Net Assets with Donor Restrictions

- Still should include all types of restrictions, including:
 - Purpose, time, perpetuity, endowments with donor restrictions and perpetually restricted portions



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Questions?



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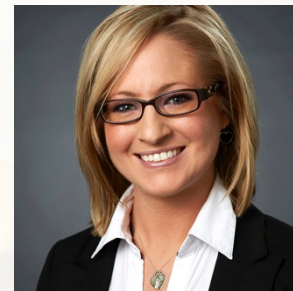
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