

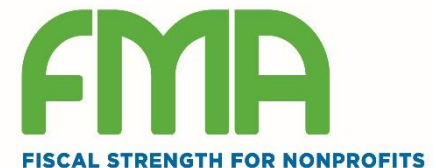
Get FASB Ready

FASB Updates Nonprofit Reporting and Clarifies Accounting for Contribution Revenue

Gina McDonald, CPA

November 6, 2018

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Agenda

- Background
 - FASB and its role
 - FASB ASU's
- New ASU affecting nonprofits – what is it and why now?
- Tools and Resources - preparing for the changes
- Questions

**What do you hope to gain
as a result of this session?**

What is FASB?


Financial Accounting Standards Board



Private, non-profit organization



Authoritative generally accepted accounting principles (US-GAAP)



FASB Statements—former guidance



FASB Codification (ASC)—current guidance

www.fasb.org

What is an ASU?

FASB Accounting Standards Codification (FASB Codification)

- Superseded all former FASB “statements” (SFAS)
- Accounting Standards Update (ASU) - Communicates changes to Codification
- Former SFAS116 and SFAS117 are now ASC958

*Why did the FASB decide to change US GAAP for nonprofits?
When will the changes be effective and how do we
transition?*

Accounting Standards Update (ASU)

ASU 2016-14 Presentation of Financial Statements



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?

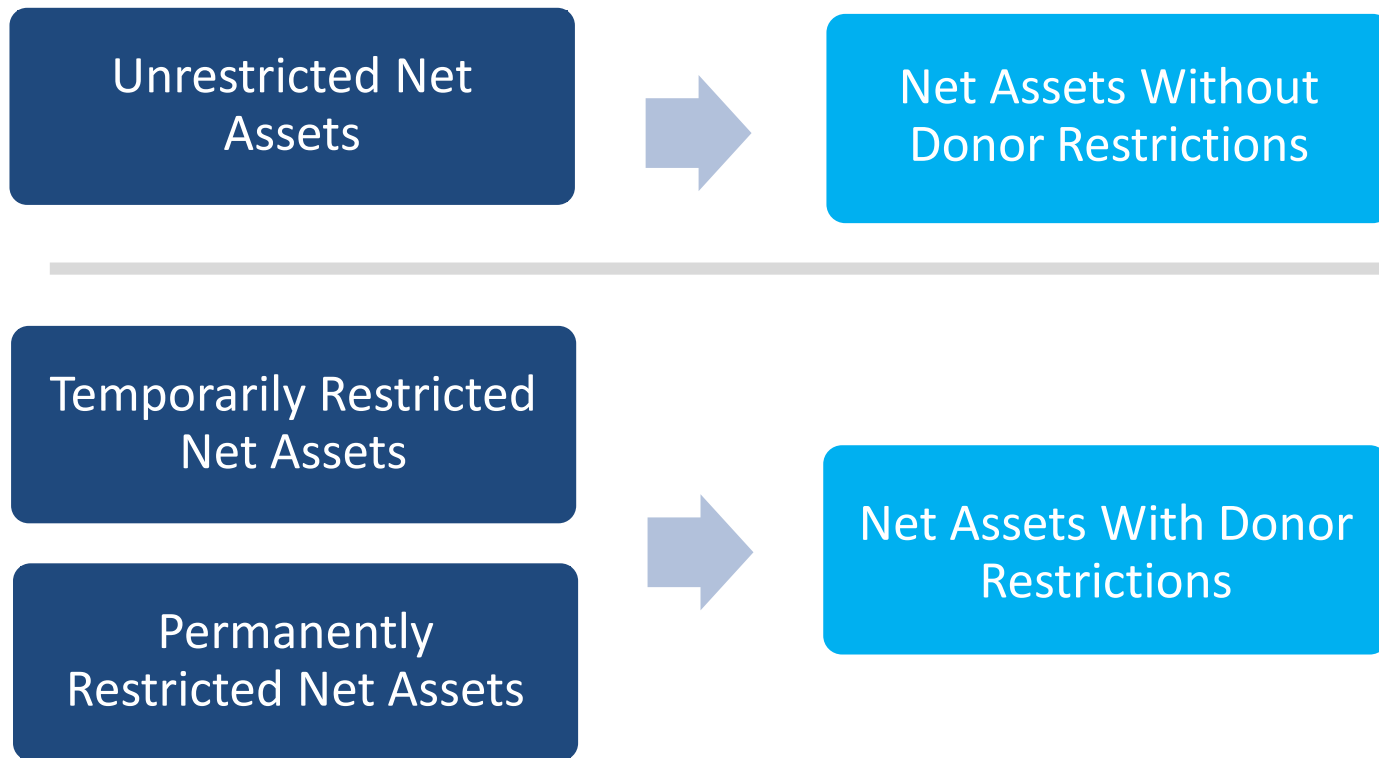


Key Provisions



Net Asset “Classification”

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”

Flexibility in Presentation:

- **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”

Continuation

ABC Nonprofit
Statement of Financial Position
6/30/2019

Assets

Cash and cash equivalents	\$ 70,000
Contributions receivable	105,000
Fixed assets, net	<u>62,450</u>
Total assets	<u>\$ 237,450</u>

Liabilities

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

Net assets	
Without donor restrictions	75,450
With donor restrictions	<u>92,850</u>
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	<u>50,000</u>
	<u>75,450</u>
With donor restrictions	
Time restricted for future periods	12,850
Program restricted	5,000
Endowment	<u>75,000</u>
	<u>92,850</u>
Total net assets	<u>168,300</u>



Total liabilities and net assets	<u>\$ 237,450</u>
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Net Asset “Classification”

Continuation

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

	Without Donor Restrictions	With Donor Restrictions		Total	Total
		Program Restrictions	Endowment		
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)	-
	<u>297,600</u>	<u>(27,550)</u>	<u>5,000</u>	<u>(22,550)</u>	<u>275,050</u>
Expenses:					
Program	157,500				157,500
Management and general	85,000				85,000
Fundraising	50,000				50,000
	<u>292,500</u>				<u>292,500</u>
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	<u>\$ 80,560</u>	<u>\$ (2,050)</u>	<u>\$ 880,000</u>	<u>\$ 877,950</u>	<u>\$ 958,510</u>

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

Continuation

How a nonprofit manages its available liquid resources

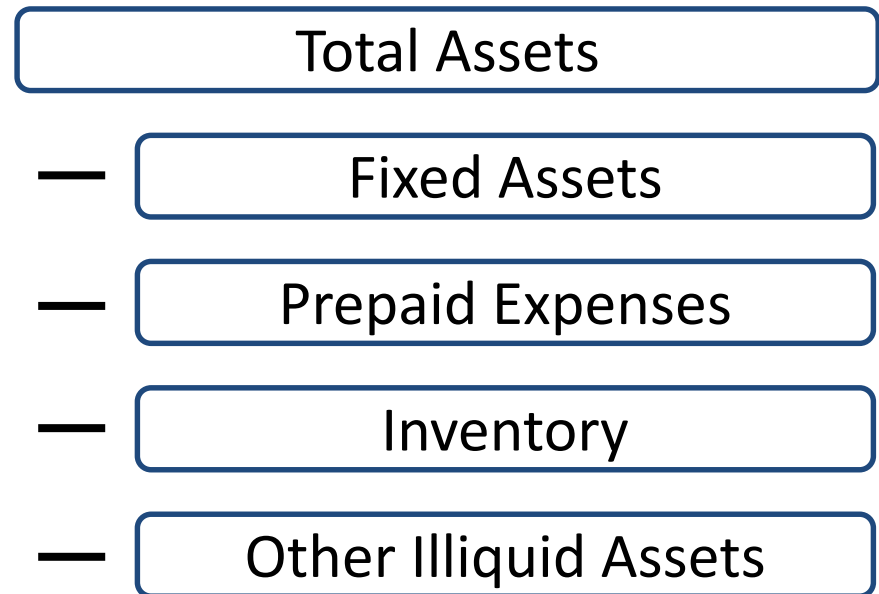
Qualitative

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

Quantitative

Financial Assets

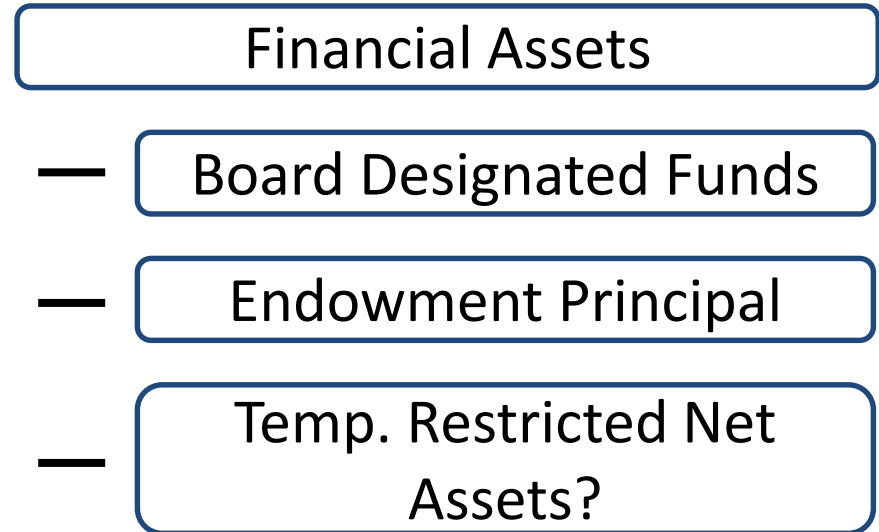
*“Available **financial assets** to meet cash needs for general expenditures within one year”*



Financial Assets

Available Financial Assets

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



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: Quantitative

Continuation

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	\$ (14,500)

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

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.

FASB Ready Tool

<https://fmaonline.net/fasbready/>



Accounting Standards Update (ASU)

ASU 2018-08 Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made



Issued in June 2018

Contribution

An unconditional, non-reciprocal transfer of an asset or cancellation of a liability to a not-for-profit organization

ASU 2018-08

Guidance for Contributions Received and Contributions Made

Focus:

Whether a transaction with a resource provider is an exchange transaction or a contribution; determining whether a contribution is conditional or unconditional.

Why is it important to identify conditions?

Cannot record revenue until conditions have been satisfied.

- Receipt of cash does not affect determination.
- Conditions are “barriers”
- Cannot conduct a “probability assessment” related to ability to satisfy conditions

ASU 2018-08

Guidance for Contributions Received and Contributions Made

WHY is this important?

Diversity in current practice

- Donors & Funders
- Financial Institutions
- Other Users?

ASU 2018-08

Key Concepts

Who is a resource provider?

Exchange Transaction

- Reciprocal transfers in which each party receives and sacrifices approximately commensurate value
- Potential public benefits secondary to the benefits to the resource provider
- Resource provider (including government agencies) cannot be the general public

Contribution Transaction

- Voluntary, nonreciprocal and unconditional transfer of assets
- Resource provider often receives value indirectly by providing societal benefits

ASU 2018-08

Key Concepts

Donor-Imposed Condition

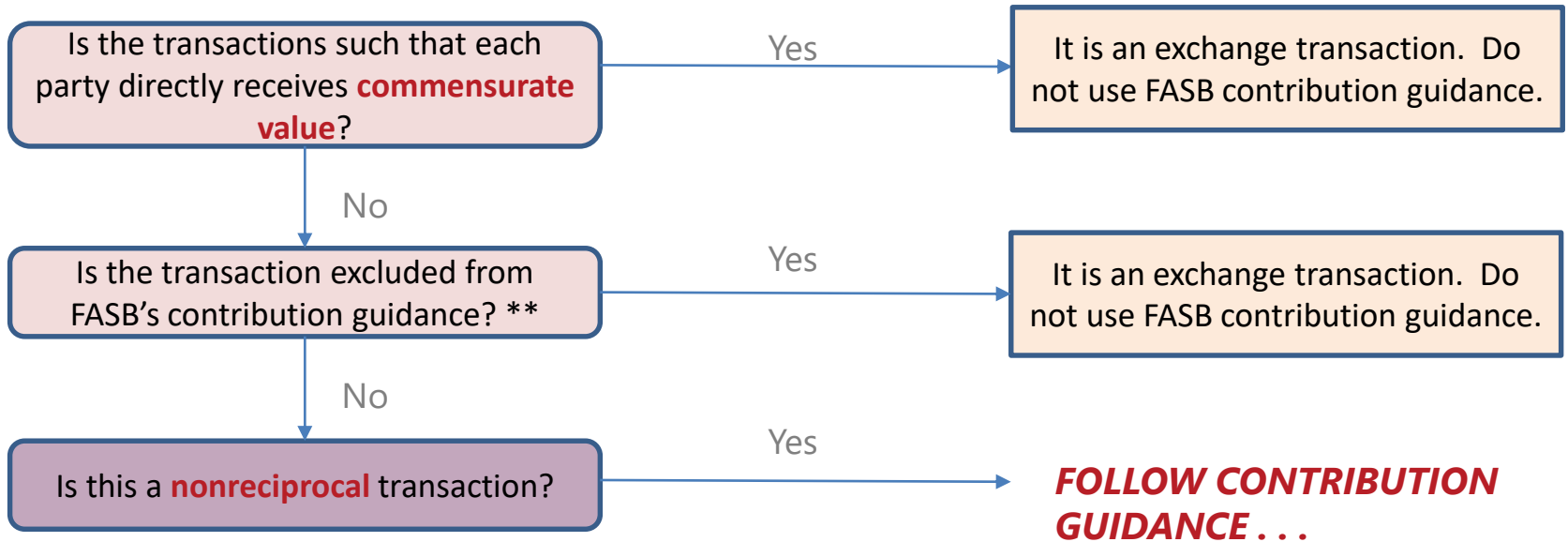
- A barrier that must be overcome before the recipient is entitled to assets transferred or promised
- Failure to overcome the barrier gives the promisor a right of return/right of release

Satisfying Conditions

- Certain contributions become unconditional in stages because they are dependent on milestones and are recognized in increments as each of the conditions is met.
- Example – when contributions are conditional based on incurring certain qualifying costs, portion of contribution is recognized as expenses are incurred

Revenue Decision Tree

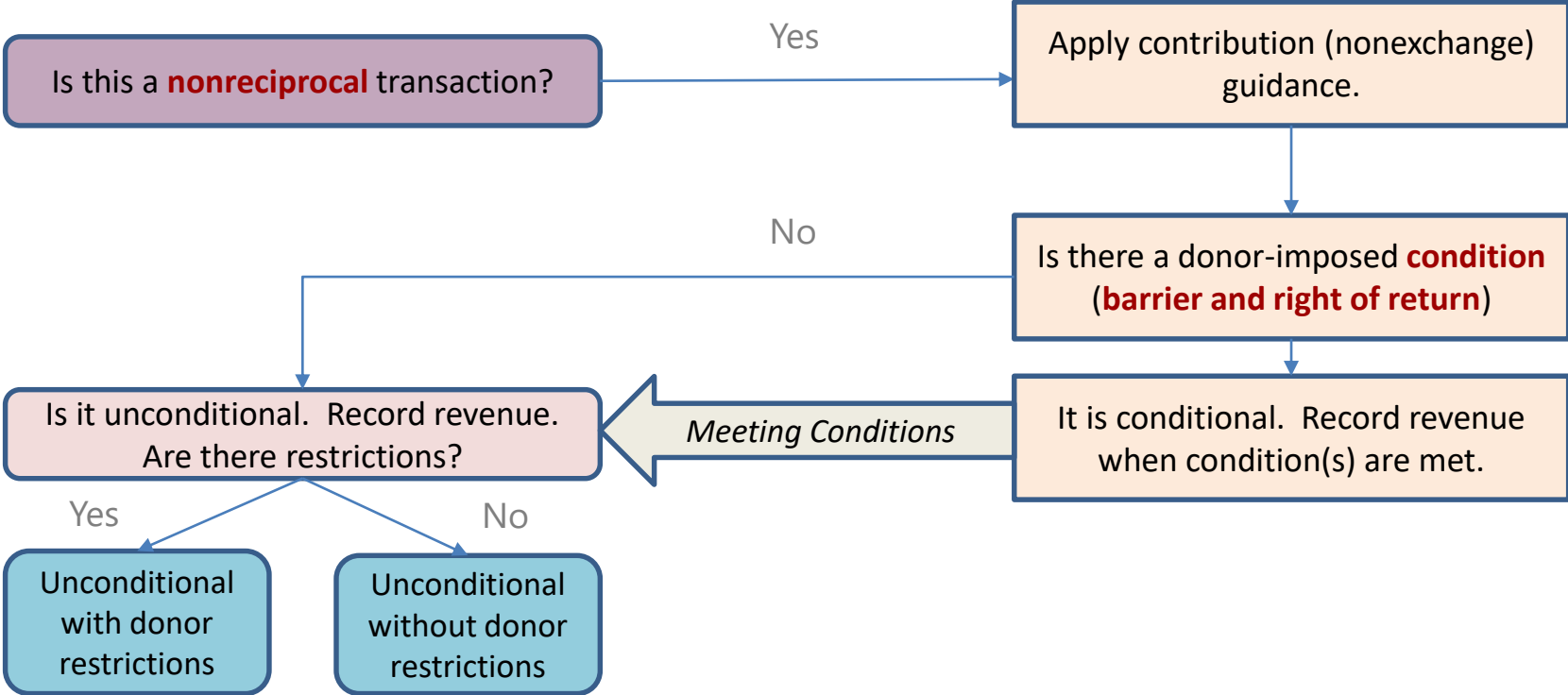
Evaluating revenue transactions



** Transactions excluded from contribution guidance: NFP acting as agent, trustee or intermediary; related to tax incentives or tax abatements; payments from the government to the NFP for a specific customer, such as Medicare and Medicaid payments, Pell Grants or similar government tuition assistance

Revenue Decision Tree (continued)

Evaluating revenue transactions



ASU 2018-08 - EXAMPLES

Contribution from a Private Foundation (958-605-55-70C & D)

NFP applies for and receives private foundation grant



\$400,000 for specific career training to disabled veterans



Requires training to at least 8,000 disabled veterans during the next fiscal year, with specific minimum targets to be met quarterly



\$100,000 payable quarterly if NFP demonstrates services have been provided to at least 2,000 disabled veterans during the quarter

ASU 2018-08 - EXAMPLES

Contribution from a Private Foundation (958-605-55-70C & D)

This grant is conditional



Agreement contains a right of release from obligation (resource provider will only transfer assets if training provided to at least 8,000 disabled veterans during the year / 2,000 per quarter)



Foundation requires NFP to achieve specific level of service, considered a measurable performance-related barrier (in the form of milestones by specifying 2,000 disabled veterans per quarter)



NFP records revenue as it overcomes the barrier of providing services to 2,000 disabled veterans during each quarter

ASU 2018-08 - EXAMPLES

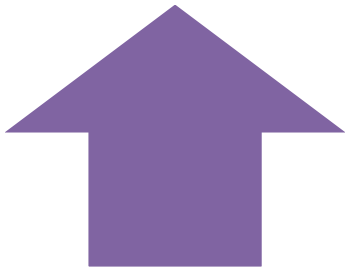
Contribution to a University (958-605-55-70M & N)

Facts:

- NFP is a university conducting a **capital campaign** to build a new building and also make capital improvements to existing buildings on campus, including a new heating system and an upgraded telephone and computer network.
- NFP receives an upfront **grant** in the amount of \$10,000 from a private foundation in **response to a proposal submitted as part of its capital campaign**.
- The agreement contains **right of return** requiring that the assets be reimbursed to the foundation if not used for the purposes outlined in the capital campaign solicitation materials, but no specifications about how the building should be constructed or on how other improvements should be made.

ASU 2018-08 - EXAMPLES

Contribution to a University (958-605-55-70M & N) (continued)



NFP determines that this grant is unconditional because it has broad discretion over how the transferred assets should be used (for example, the assets can be used toward the new building or toward other capital improvements such as the heating system and an upgraded telephone and computer network within existing buildings on campus).



The resource provider does not include any specifications about how the building should be constructed, and the agreement only indicates that NFP G use the grant for the purpose outlined in the capital campaign materials. NFP recognizes this grant as donor-restricted revenue because it must be used for capital purposes, which is narrower than NFP G's overall mission.

This Example illustrates a fact pattern in which a grant can include a right of return and would be deemed unconditional because the return clause is not coupled with a barrier to be overcome, as determined by NFP using judgment to assess the indicators of a barrier.

Revenue Case Studies

Revenue Case Study

Case #1

FACTS:

On July 1, 2018 NFP receives a Foundation grant in the amount of \$250,000 to provide housing support to low income families. The grant requires NFP to provide housing support to at least 50 families during the fiscal year ending June 30, 2019 (\$5,000 per family) with specific targets to be met each quarter. Foundation will pay \$62,500 each quarter if NFP demonstrates the

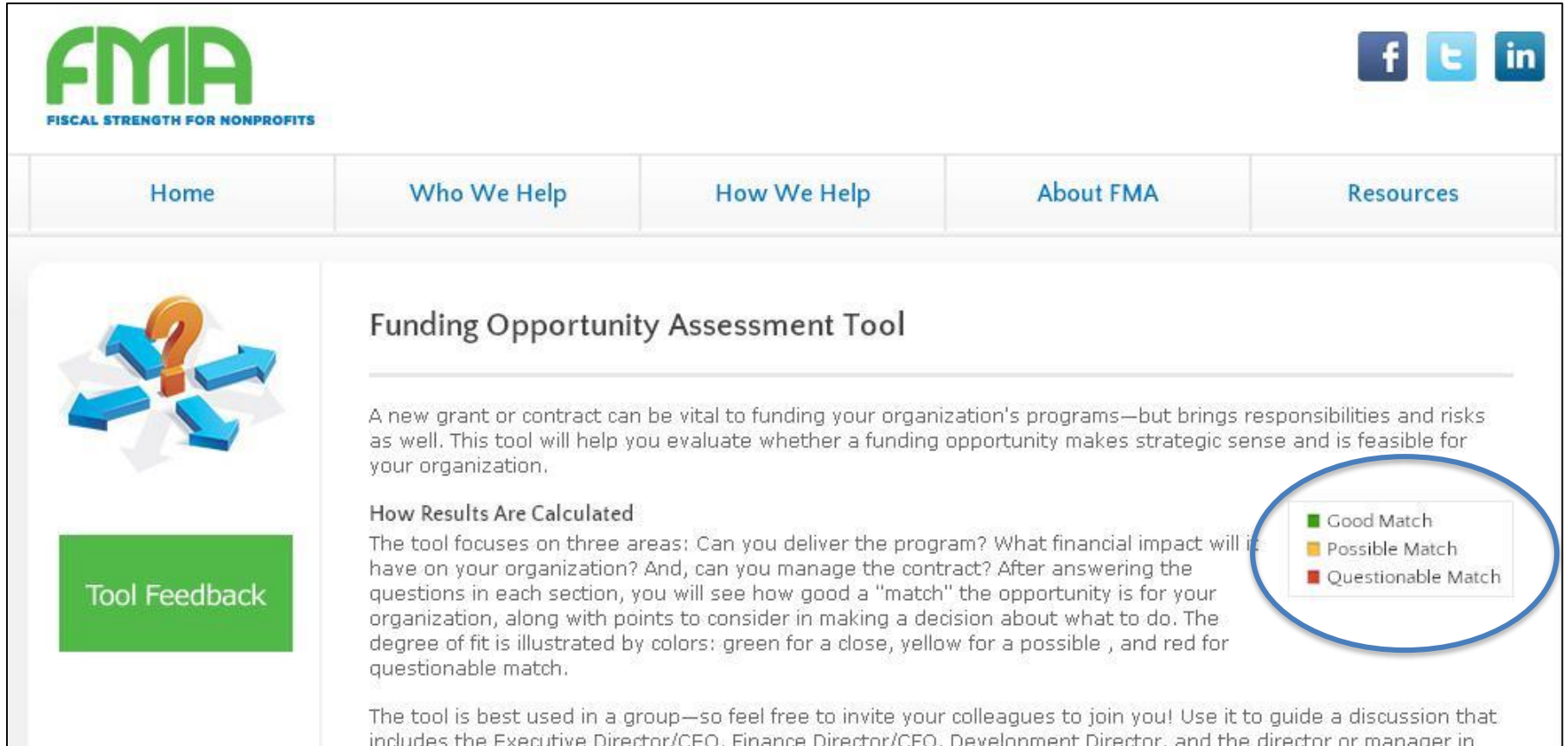


Effect on Fundraising

Show of Hands...

Does your organization have an established process to evaluate funding opportunities *prior* to applying?

Evaluating Funding Opportunities



The screenshot shows the FMA website interface. At the top left is the FMA logo with the tagline "FISCAL STRENGTH FOR NONPROFITS". To the right are social media icons for Facebook, Twitter, and LinkedIn. Below the logo is a navigation menu with five items: Home, Who We Help, How We Help, About FMA, and Resources. The main content area features a large graphic of a question mark surrounded by arrows pointing outwards. Below this graphic is a green button labeled "Tool Feedback". The main heading is "Funding Opportunity Assessment Tool". The text below the heading describes the tool's purpose: "A new grant or contract can be vital to funding your organization's programs—but brings responsibilities and risks as well. This tool will help you evaluate whether a funding opportunity makes strategic sense and is feasible for your organization." It then explains "How Results Are Calculated": "The tool focuses on three areas: Can you deliver the program? What financial impact will it have on your organization? And, can you manage the contract? After answering the questions in each section, you will see how good a 'match' the opportunity is for your organization, along with points to consider in making a decision about what to do. The degree of fit is illustrated by colors: green for a close, yellow for a possible, and red for questionable match." A legend on the right side of the page, circled in blue, shows three color-coded boxes: a green box for "Good Match", a yellow box for "Possible Match", and a red box for "Questionable Match". At the bottom of the page, there is a note: "The tool is best used in a group—so feel free to invite your colleagues to join you! Use it to guide a discussion that includes the Executive Director/CEO, Finance Director/CEO, Development Director, and the director or manager in charge of the program area."

Preparing for the Change

- Educate team members on the new requirements
 - Leaders
 - Development/Fundraisers
 - Board
- Clarify and document your board's intentions as they relate to available unrestricted resources
- Seek professional advice



Resources

FMA FASB Ready

<https://fmaonline.net/fasbready/>

This Excel-based tool provides a wealth of information about the new standards, including a summary of the changes, terminology you'll need to know, DIY calculators, and several examples!

Download Tool

FASB Ready: Summary & Implementation Guide			
FASB ASU 2016-14 ASC 958 Not-for-Profit Entities			
Type	Requirements	Financial Statement Effects	Disclosures
Net Asset Categories	<ul style="list-style-type: none"> Present 2 classes of net assets – net assets with donor restrictions and net assets without donor restrictions. Enhanced disclosures required, including information about board designated net assets. 	<ul style="list-style-type: none"> Flexibility in format. At a minimum, need to present "net assets without donor restrictions" and "net assets with donor restrictions" if restricted net assets exist. Within each category noted above, can provide further detail, if desired. 	<ul style="list-style-type: none"> Replace "temporarily restricted" and "permanently restricted" with updated terms. Disclose amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor imposed restrictions as of the end of the period. Disclose composition of net assets with donor restrictions at the end of the period and how the restrictions affect the use of resources.
Liquidity and Availability of Financial Assets	<ul style="list-style-type: none"> Disclose qualitative and quantitative information that communicates how an NFP manages its liquid resources available to meet cash needs for general expenditures within one year of the balance sheet date. 	N/A	<ul style="list-style-type: none"> New future-focused footnote disclosures including the qualitative information in tabular form, followed by qualitative information in paragraph form. See Liquidity Calculation tab for example of quantitative calculation. Disclose in paragraph form information that describes various factors affecting "financial flexibility" and cash flow (how the organization will pay the bills). These may include discussion of reserves, lines of credit, etc.
Functional Expenses	<ul style="list-style-type: none"> Disclose amounts of expenses by both their natural classification and their functional classification. Disclose method(s) used to allocate costs among program and support functions. 	<ul style="list-style-type: none"> Analysis of expenses is to be provided in one location, which could be on the face of the statement of activities, as a separate statement, or in notes to financial statements. 	<ul style="list-style-type: none"> Disclose method(s) used to allocate costs among program and support functions (such as by square foot or by FTE, for example).
Investment Expenses	<ul style="list-style-type: none"> Report investment return net of external and direct internal investment expenses. Disclosure of those netted expenses no longer required. 	<ul style="list-style-type: none"> Investment income to be reported net of expenses (same as current practice), but some companies may categorize certain internal costs as investment expenses. 	<ul style="list-style-type: none"> Additional disclosures are permitted, which would include disclosure of netted expenses, at management's option.
Underwater Endowments	<ul style="list-style-type: none"> Enhanced disclosure of underwater endowment funds (when fair value of funds are below amounts required to be maintained by other donor or law). 	<ul style="list-style-type: none"> Classify deficiency (amount underwater) in the endowment fund. This is different than the previous ability to keep the endowment fund "whole" and 	<ul style="list-style-type: none"> Disclose underwater endowment funds, which includes information on: (1) an NFP's policy, and any actions taken during the period, concerning

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](#)



- 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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[**www.fmaonline.net**](http://www.fmaonline.net)