



⟨RETHINK⟩

## Nonprofit Financial Reporting

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# Agenda

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- Background
- Significant Elements of the Proposal
- Action Items

# Background – Project History and Objectives

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- Last overhauled approximately 20 years ago through FAS 117 (now codified within Topic 958 of the ASC)
- FAS 117 represented significant change from previous guidance
- Standards kept at a somewhat high level, with expectation that guidance would evolve in certain areas (e.g., operating measure)

# Background – FASB's NFP Advisory Committee

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Refresh, not overhaul, the current model

Improve net asset classification scheme

Improve information in financial statements and notes about:

- Liquidity

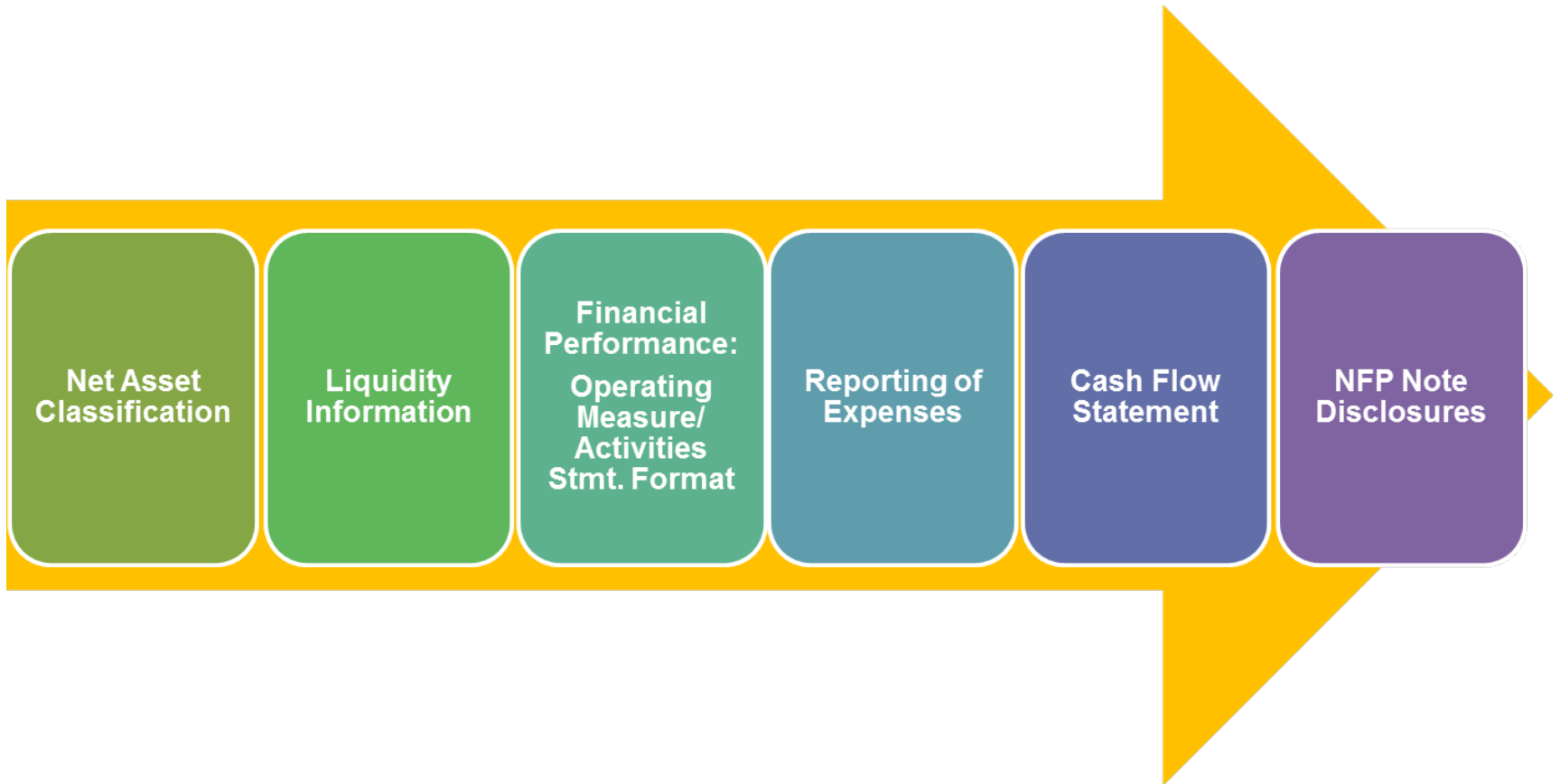
- Financial performance

- Cash flows

Better enable nonprofits to tell their financial story

# Key Elements of the Proposal

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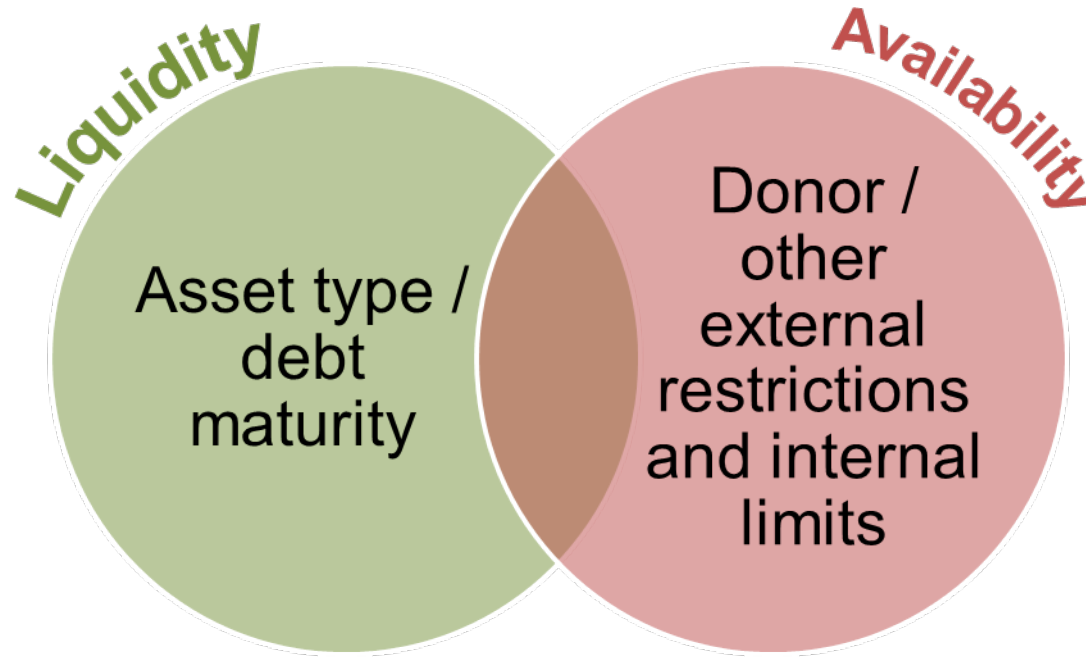
# Net Assets

<b>Current GAAP</b>	Unrestricted	Temp. Restricted	Perm. Restricted
<b>Proposed GAAP</b>	Without Donor Restrictions	With Donor Restrictions	
<b>Disclosures</b>	Amount, purpose, and type of board designations *	Nature and amount of donor restrictions	

**\* New disclosure requirement**

# Liquidity and Financial Availability

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## **FASB discussed:**

- Classified balance sheet
- Separate presentation of assets whose use is limited
- Additional note disclosure

# Liquidity

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- The Board decided that an entity should define the time horizon it uses to manage its liquidity (for example, 30, 60, or 90 days) and disclose the following information:
  1. **Quantitative information** about:
    - a) The total amount of financial assets
    - b) Amounts that are not available to meet cash needs within the time horizon because of (1) external limits and (2) internal actions of a governing board
    - c) The total amount of financial liabilities that are due within that time horizon.
  2. **Qualitative information** about how the entity manages its liquidity. For example, an entity might disclose:
    - a) Its strategy for addressing entity-wide risks that may affect liquidity, including its use of lines of credit
    - b) Its policy for establishing liquidity reserves
    - c) Its basis for determining the time horizon used for managing liquidity.



# Underwater Endowments

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## Revised net asset classification

- To be reflected in net assets with donor restrictions rather than in net assets without donor restrictions

## Enhanced disclosures

- In addition to aggregate amounts by which funds are underwater (current GAAP), also disclose aggregate of original gift amounts (or level required by donor or law) for such funds, fair value, and any governing board policy or decision to reduce or not spend from such funds.

# Operating Measures

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- Defined required intermediate operating measures for all nonprofits based on two dimensions:

**Mission (Business & Charitable Activity):**

based on whether resources are from or directed at carrying out an NFP's purpose for existence (vs. investing and financing)

**Availability:**

based on whether resources are available for current period activities and reflecting limits imposed by:

- external donors
- internal actions of an NFP's governing board

# FASB Board's Reasoning on Transfers

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Board reasoning is to:

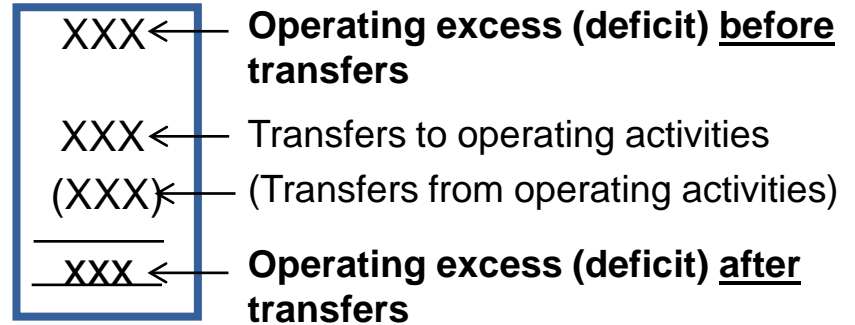
1. Foster greater comparability across NFPs and within each industry,
2. While allowing flexibility for NFPs to tell their financial story.

If transfers are used to reflect internal actions, NFP would present:

1. An operating measure before transfers that reflects all legally available amounts generated by or used in operations of the current period, including effects of donor restrictions and their expiration.
2. All internal transfers (decisions to designate otherwise available amounts as unavailable, or vice versa) in a discrete section after the subtotal, but before the operating measure after transfers.
  - With appropriate labeling/disclosure (one-time vs. ongoing policy; interrelation to net asset designations)
3. At a minimum, present aggregated line items of transfers from and transfers to operating activities
  - Provide details in a note unless all transfers are presented as discrete line items on the face

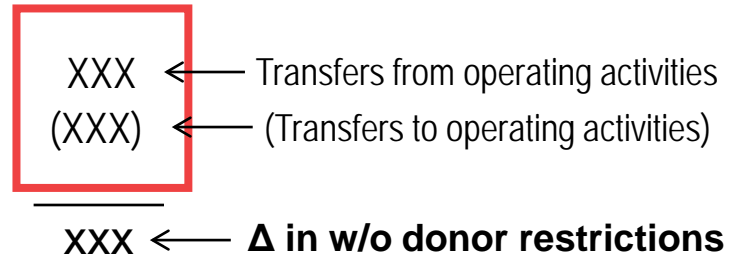
# Statement of Activities – Transfers

**Without Donor Restrictions—  
Operating  
(Charitable and Business)**



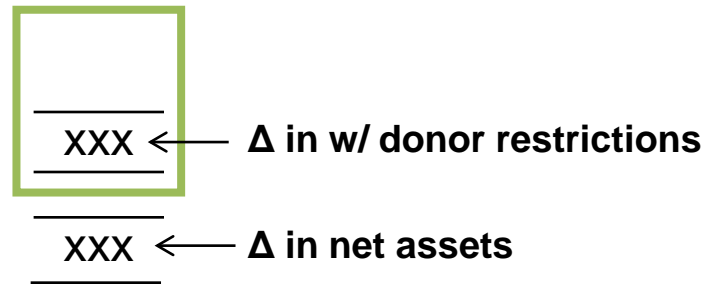
Present below operating or in a 2<sup>nd</sup> statement

**Without Donor Restrictions—  
Nonoperating  
(Investing and Financing)**



Present below or to the right of operating; or in a 2<sup>nd</sup> statement

**With Donor Restrictions  
(below or to the right of operating, or in a second statement)**



# Statement of Activities – Donor Endowment

**Without Donor Restrictions—  
Operating  
(Charitable and Business)**

XXX
XXX
XXX

← Endowment appropriation and release from restrictions

← Operating excess (deficit) before transfers

**Without Donor Restrictions—  
Nonoperating  
(Investing and Financing)**

XXX

**With Donor Restrictions**

XXX
XXX
(XXX)
XXX
XXX

← Contributions

← Investment return, net

← Endowment appropriation and release from restrictions

# Statement of Activities – Quasi-Endowment

**Without Donor Restrictions—  
Operating  
(Charitable and Business)**

XXX
XXX
(XXX)
XXX

Operating excess (deficit) before transfers

XXX ← Transfer of investment return on quasi-endowment  
 (XXX) ← Transfer of bequests to quasi-endowment

**Without Donor Restrictions—  
Nonoperating  
(Investing and Financing)**

XXX
(XXX)
XXX
XXX

XXX ← Investment return, net  
 (XXX) ← Transfer of investment return on quasi-endowment\*  
 XXX ← Transfer of bequests to quasi-endowment\*

**With Donor Restrictions**

XXX
XXX

\* Minimum requirement would be to show all (a) transfers to and (b) transfers from operating activities, with further details in the notes.

# Capital-Like Transactions and Events

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## Gifts of long-lived assets without donor restrictions

By placing a gift of a long-lived asset in service (rather than selling it), the entity effectively makes the economic benefit of the gifted asset **unavailable** for current operations.

Initial period: all unrestricted gifts are reported *within* operations. If the asset is placed in service, the entity would report a transfer *out* of current operations for the entire amount of the gifted asset

## Gifts of cash restricted for acquisition or construction of long-lived assets

Initial period: reported as revenues that increase net assets *with* donor restrictions

Release of donor restriction *within* operations and report a transfer *out* of current operations for the entire gifted amount (consistent with gifts of long-lived assets)

# Statement of Activities – Gifts of PP&E

**Without Donor Restrictions—  
Operating  
(Charitable and Business)**

XXX	← Contributions of buildings/equipment
XXX	Operating excess (deficit) <u>before</u> transfers
(XXX)	← Transfers of buildings/equipment [ <i>to extent placed in service, not monetized</i> ]
<hr style="border: none; border-top: 1px solid black;"/>	
XXX	

**Without Donor Restrictions—  
Nonoperating  
(Investing and Financing)**

XXX	← Transfers of buildings/equipment
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XXX	

**With Donor Restrictions**

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XXX	
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XXX	



# Statement of Activities – Gifts of Cash for PP&E

**Without Donor Restrictions—  
Operating  
(Charitable and Business)**

XXX	← Release of restrictions on contributions for buildings/equipment*
XXX	Operating excess (deficit) <u>before</u> transfers
(XXX)	← Transfers of buildings/equipment*
XXX	

**Without Donor Restrictions—  
Nonoperating  
(Investing and Financing)**

XXX	← Transfers of buildings/equipment*
XXX	

**With Donor Restrictions**

XXX	← Contributions of cash for buildings/equipment
(XXX)	← Release of restrictions on contributions for buildings/equipment*
XXX	
XXX	

\* When acquired/placed in service; may be in a subsequent year

# Statement of Activities – Depreciation and Interest

**Without Donor  
Restrictions—  
Operating  
(Charitable and Business)**

XXX
XXX
—
<u>XXX</u>

Depreciation (part of expenses)  
Operating excess (deficit) before  
transfers

**Without Donor  
Restrictions—  
Nonoperating**

XXX
—
<u>XXX</u>

Interest expense

**With Donor Restrictions**

—
<u>XXX</u>
—
<u>XXX</u>

# Reporting of Expenses

**Expense by nature **and** function → one place in the F/S**  
**(statement of activities, separate statement, or schedule in notes)**

N  
A  
T  
U  
R  
E



	Program Activities		Supporting Activities		Total Operating Expenses	Non-Operating	Total Expenses
	Program A	Program B	M&G	Fundraising			
Salaries & Benefits							
Grants to Others							
Equipment Rental & Maintenance							
Occupancy Cost							
Depreciation							
Information Technology							
Professional Service Fees							
Supplies							
Travel							
Printing & Publication							
Interest							
Other							
<b>Total</b>							

**Either nature or function (or both) on face of Statement of Activities**

# Reporting of Investment Returns

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## How to present?

- **Net presentation** of investment expenses against investment return on the face of the statement of activities
  - Netting limited to external and direct internal expenses

## What to disclose?

- Disclosure of investment expenses **no longer required, except for** the disclosure of the amount of internal salaries and benefits that have been netted (if any) against investment return
- No longer require disclosure of investment income **components**

# Cash Flow Statement

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- Require **Direct Method** for operating cash flows
  - No longer require Indirect Method
  - *Should indirect method still be required for certain NFPs?*
- **Re-categorize** certain items to better align operating cash flows with the operating measures
  - Purchases of and proceeds on sale of long-lived assets (e.g., PP&E; capitalized and noncapitalized collections)
  - Cash gifts restricted for long-lived assets
  - Cash from interest and dividends
  - Interest paid on long-term debt

# Cash Flow Statement

<b>Cash Flows from Operating Activities</b>	
Cash received from service recipients	
Cash received from donors	
Cash paid to employees	
Cash paid to vendors	
Purchase of property and equipment	
Proceeds on sale of property and equipment	
Contributions restricted for property and equipment	
<b>Net cash from operating activities</b>	
<b>Cash Flows from Investing Activities</b>	
Cash received from interest and dividends	
Purchase of investment assets	
Proceeds from sale of investments	
<b>Net cash from investing activities</b>	
<b>Cash Flows from Financing Activities</b>	
Payments of principal on long-term debt	
Interest paid on long-term debt	
Contributions restricted for endowment	
<b>Net cash from financing activities</b>	
Net increase in cash	
Cash at the beginning of year	
<b>Cash at end of year</b>	

# One Statement Approach

## Statement of Activities

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue and support:</b>			
Fees for services	\$ 495		\$ 495
Bequests	600		600
Other contributions	425	1,500	1,925
Restricted support released	1,375	(1,375)	-
<b>Total revenue and support</b>	<b>2,895</b>		
<b>Expenses:</b>			
Total expenses	1,950		1,950
Operating excess before transfers	945		
Transfers to/(from) operating activities:			
Aggregate of transfers to operating activities	150	a	150
Aggregate of transfers from operating activities	(500)	b	(500)
	(350)		
Operating excess after transfers	\$ 595		
Interest expense	(75)		(75)
Investment return, net	170	445	615
Transfers (to)/from operating activities:			
Aggregate of transfers to operating activities	(150)	a	(150)
Aggregate of transfers from operating activities	500	b	500
	350		
<b>Total change in net assets</b>	<b>1,040</b>	<b>570</b>	<b>1,610</b>
Net assets at the beginning of the period	1,500	2,100	3,600
Net assets at the end of the period	\$ 2,540	\$ 2,670	\$ 5,210

(a)(b) Amounts and purposes of aggregated transfers that are presented on the face would be disclosed in the notes to the financial statements.

■ Operating ■ Nonoperating w/o donor restrictions; ■ With donor restrictions

# Two Statement Approach

## Statement of Operations

### OPERATING ACTIVITIES

#### Revenue and Support:

Fees for services

Bequests

Other contributions

Restricted support released

Total revenue and support

#### Expenses:

Total expenses

Operating excess before transfers

Transfers (to)/from operating activities:

Aggregate of transfers to operating activities

Aggregate of transfers from operating activities

Operating excess after transfers

\$	495	
	600	
	425	
	1,375	
	2,895	
	1,950	
	945	
	150	a
	(500)	b
	(350)	
\$	<b>595</b>	



# Two Statement Approach (cont'd)

## Statement of Changes in Net Assets

	Without Donor Restrictions		With Donor Restrictions		Total
Operating excess after transfers	\$ 595	c			\$ 595
<b>NONOPERATING ACTIVITIES</b>					
Contributions			1,500		1,500
Restricted support released			(1,375)		(1,375)
Interest expense	(75)				(75)
Investment return, net	170		445		615
Transfers (to)/from operating activities:					
Aggregate of transfers to operating activities	(150)	a			(150)
Aggregate of transfers from operating activities	500	b			500
	350				
<b>Changes in Net Assets</b>	<b>1,040</b>		<b>570</b>		<b>1,610</b>
<b>Net assets at the beginning of the period</b>	<b>1,500</b>		<b>2,100</b>		<b>3,600</b>
<b>Net assets at the end of the period</b>	<b>\$ 2,540</b>		<b>\$ 2,670</b>		<b>\$ 5,210</b>

■ Operating 
 ■ Nonoperating w/o donor restrictions; 
 ■ With donor restrictions