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New Accounting Rules for Nonprofits

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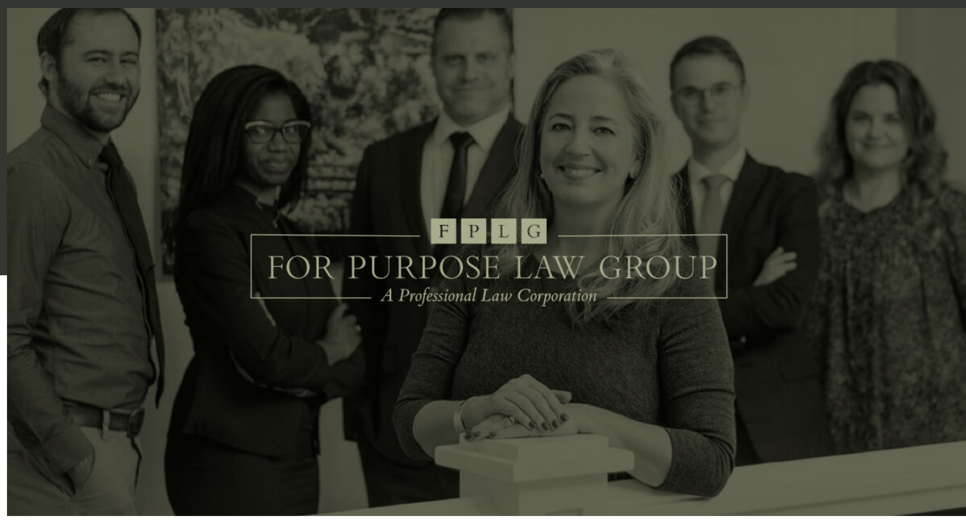

In August 2016, the Financial Accounting Standards Board (FASB) announced new rules for nonprofits: "Accounting Standards Update 2016-14 "Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities."

It's the first significant set of changes since 1993 to the presentation standards for nonprofit financial statements. Ahead of the effective date – that is, fiscal years after December 2017 – nonprofit groups and publications have offered introductory explanations to pave the way for this important development.

Then, on June 21, 2018, the FASB released an accounting standards clarification which, among other items, helps to improve the scope and accounting guidance for contributions of cash and other assets received and made by nonprofit organizations and businesses.

Now that the new rules are in effect, there is additional, in-depth, information available.

FASB Accounting Rules Affect Most Nonprofits

The new rules will apply to "substantially all" nonprofits including but not only 501(c)(3) organizations. Generally, a group with audited financial statements must follow these rules in presentation of those statements. For an organization not required to have an audit, these rules will apply to a "review" engagement and any financial statements that must be prepared following "Generally Accepted Accounting Principles. (GAAP)". See this 50-state map by the National Council of Nonprofits for help in determining your audit requirements.

The purpose of these new rules is to "provide better information to donors, grantmakers, creditors and others who read nonprofit financial statements" and to "reduce complexities and costs of financial reporting."

Key changes include: The National Council of Nonprofits helpfully summarizes some of what the new rules do:

Characterize Net Assets

There is a much-needed change in the treatment of "net assets," which has " long been an area of confusion." There is a new focus on the existence or non-existence of donor-imposed restrictions. Previously, that focus was on the type of restriction; that is, either temporary or permanent. This should "remind nonprofit staff and board members about the importance of documenting *in writing* how donors restrict their contributions" and will help "give board and staff a clearer picture of what funds are available for *other uses*."

Clarify Liquidity

The rules now "require quantitative and qualitative information" to show how the group "manages its liquid resources available to meet cash needs for general expenditures within one year of the balance sheet date." The focus here is to highlight any limitations on use of liquid assets. A goal is to "push … (all nonprofits) … to have a 'liquidity plan' for surviving cash flow droughts …."

Ensure Consistency Re: Investment Income

Nonprofits now must report investment income "net of related internal and external investment expenses" which under the prior rule was optional. The requirement to disclose the amount of those netted investment expenses is also cut. The purpose is to ensure consistent presentation of these items and reduce difficulty and costs.

Change How Functional Expenses are Reported

There are new rules about how functional expenses are "reported and appear on the financial statements, enabling a clearer-eyes look at how much it really costs to advance the nonprofit's mission."

Improve Statement of Cash Flows

The new rules "correct misunderstandings" in connection with the statement of cash flows and presentation options for it. The purpose is to create a more useful document with lower preparation costs.

Resources for Help With Accounting Changes

The National Council of Nonprofits has information at its *FASB Resource Webpage*. There is also an "explainer" podcast by Curt Flotz, Vice President of Finance and Chief Financial Officer at Propel Nonprofits, with information about the key changes to the FASB Nonprofit Rules.

The Nonprofit Quarterly is also joining in to provide assistance with a presentation by editor-in-chief Ruth McCambridge, FMA founder and CEO Hilda Polanco, and FMA Lead Consultant Gina McDonald.

They “recap FASB’s new liquidity disclosure for nonprofits and financial statement presentation changes” and dive “deeper” in “some ‘lesser discussed’ aspects of” the FASB’s changes to nonprofit reporting including “expense allocation disclosure: how much is enough” and “investment expenses: it’s more than you think….” Click here for the accompanying slideshow.

Conclusion

The new accounting changes won’t significantly affect how the underlying transactions are handled, but staff will have to learn about these new rules, including how to present them to the board members who, in turn, will need training on these matters.