Better Late Than Never – The New and Improved Nonprofit Financial Statements

While standard-setters have been focused primarily on public and private commercial enterprises (think revenue recognition and lease accounting), nonprofit organizations are finally about to join the party. Since 1993, nonprofit financial statements have been prepared under the same guidance. That will soon change with the introduction of FASB's Accounting Standards Update (ASU) 2016-14, which is required for calendar year 2018 and for fiscal years ending in 2019.

So whether you are a nonprofit board member, a preparer of nonprofit financial statements, or someone who reads nonprofit financial statements prior to making a giving-decision, here are the most impactful changes you can expect from this new and improved financial reporting standard.

1. Focus on Liquidity – A significant change is the requirement for enhanced qualitative (narrative) and quantitative (numbers) reporting on financial resources. Financial assets available to meet expected cash needs for general expenditures within one year of the balance sheet date is now required. The ultimate goal here is to inform the reader of the financial statements about any limitations on the use of liquid assets (typically cash and investments).

2. Simplification of Net Asset Classification – Today's practice of presenting net assets and annual operating activities into unrestricted/temporarily restricted/permanently restricted categories will be condensed into only two categories – "with donor restrictions" and "without donor restrictions." Of course, nonprofits will need to continue to disclose the amount and purpose of board-designated net assets.

3. Transparent Expense Reporting – All nonprofit organizations will be required to disclose expenses by both function (that is, program services and supporting activities) and natural class (such as salaries). The standard permits you to report this expense information in a financial statement or in the accompanying notes.

4. Report Investment Return Net of Expenses – In another move to simplify reporting, investment returns are now required to be presented net of external investment expenses, such as management fees and the salary/benefits of certain employees directly involved in investment management.

5. Changes to the Statement of Cash Flows – The new standard makes it less burdensome to use the direct method of cash flow reporting, as a separate reconciliation to the indirect method is no longer required.

Of course, change is never easy; however, there are important steps you can take now to make the implementation of ASU 2016-14 as seemless as possible.

First, educate yourself and educate key leaders in your organization (including board members) about the new standard. Second, develop an implementation plan. Whether you have an accounting/finance department of one or many, you need a thoughtful plan that includes required actions, timelines and resources required. Lastly, this is great opportunity to revise (or even create) policies, such as those involving board designations or expense allocation methodologies.

Although the pace of change in nonprofit financial and tax reporting has not been particularly rapid, a new day is dawning. As we prepare for ASU 2016-14, the FASB is considering Phase Two of this financial reporting project and has also proposed rules to improve the accounting and reporting of grants and contributions. These are welcome improvements to nonprofit financial reporting, and as they say, better late than never.

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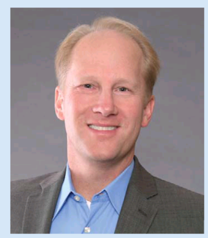

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