What are the Changes Coming to NFP Financial Statements?

The look of financial statements and disclosures for nonprofits is changing, and soon! FASB issued a new accounting standards update in 2016 that will change the look and requirements of not-for-profit financial statements. There are four major changes which will affect all organizations and be required to be presented in issued financial statements.

The first is the change in net asset classifications from three classes of net assets to two classes. In the past, organizations would show their net assets broken out between unrestricted, temporarily restricted and permanently restricted. Now there will be two classes of net assets which are either **net assets with donor restrictions** or **net assets without donor restrictions**. This is supposed to help clarify whether there are donor restrictions or not for users of the financial statements. Even though the change reduces the number of net asset categories, there will be a footnote that breaks out the net assets with donor restrictions for each of the different types including purpose (used to be temporarily restricted) or in perpetuity (used to permanently restricted) therefore even though the presentation may be different, the tracking of donor restricted donations remains the same.

The second change involves funds designated by the board of directors. At times, the board of directors may choose to "set aside" funds to be used for items such as an operating reserve or facility upgrades. These funds are included within net assets without donor restrictions however will now be required to be disclosed in the financial statements therefore will need to be tracked when these funds have been designated and released by the board of directors. It is important to understand that these funds are not restricted, only a donor can restrict funds.

The third change involves the presentation of expenses in either a statement of functional expenses or in the footnotes. In the past, Organizations were required to present their expenses by their functional category such as program, management and general, and fundraising and this requirement has remained the same however Organizations will also be required to show expenses by nature too. This means you will have to show the different types of expenses by their functional purpose. For example, Organizations are now required to show salaries, benefits, travel and rent by program, management and general, and fundraising either in a statement of functional expenses or in the footnotes.

Example of the presentation of functional expenses:

	Program	Management & General	Fundraising	Total
Salaries	$ 100,000	$ 20,000	$ 5,000	$ 125,000
Benefits	10,000	2,000	500	12,500
Rent	6,000	1,500	500	8,000
Utilities	1,350	338	112	1,800
Office Supplies	300	100	50	450
Depreciation	800	150	75	1,025
Total functional expenses	$ 118,450	$ 24,088	$ 6,237	$ 148,775

The last change is a disclosure of liquidity. This will be new for all Organizations and a useful disclosure which will show how much financial resources the Organization has available for use in the near future. The standard is requiring nonprofits to list both the quantitative (financial resources available in the next year for use) and qualitative (how an organization manages and monitors liquidity) measures of their liquidity. This disclosure will help with the transparency of available funds for organizations for use in the next year.

Example of liquidity footnote in quantitative form:

Financial assets at year end:	
Cash and cash equivalents	$ 50,000
Accounts receivable	15,000
Pledges receivable	100,000
Investments	250,000
	$ 415,000
Financial assets available to meet general expenditures over the next 12 months:	
Cash and cash equivalents	$ 50,000
Accounts receivable	15,000
Contributions for general expenditures due in 1 year	20,000
Payout on donor-restricted endowments	6,500
Investments not encumbered by donor restrictions	75,000
	$ 166,500

These changes will be required to be presented in financial statements beginning with the December 31, 2018 statements as it is effective for organizations with fiscal years beginning after December 15, 2017. The change in net asset categories and disclosure of board designated funds are to be presented on a comparative basis if presenting comparative years however the disclosure of functional expenses by nature and liquidity footnote can be presented in the year of implementation.

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