

# Nonprofit Financial Statement Changes

CLA's Government and Nonprofit Training Academy  
Jackie Eckman and Megan Nagle



# Session Objective(s)

- Discuss and understand:
  - Activities of Not-for-Profit (NFP) Advisory Committee
  - Discuss Impact of proposed standard on NFP financial statements
- Q&A



# Latest activities of Not-for-Profit Advisory Committee (NAC)

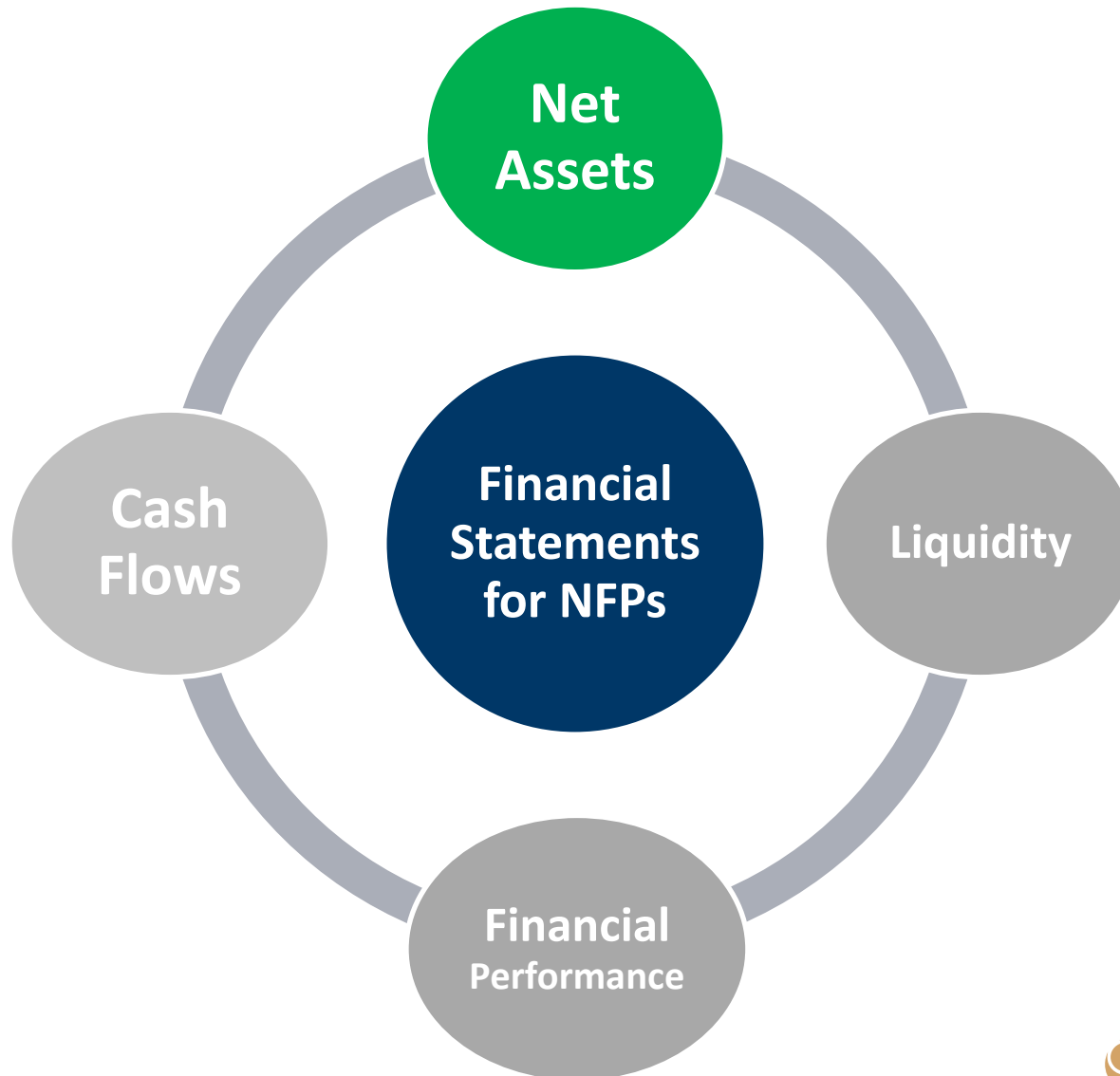
# Not-for-Profit Advisory Committee (NAC)

- Standing Committee within FASB
- Established in October 2009
- Provide input on:
  - Conceptual and practical implications of proposals
  - Implementation issues arising from new standards
  - Improvement and longer-term issues important to NFP sector

# FASB Project

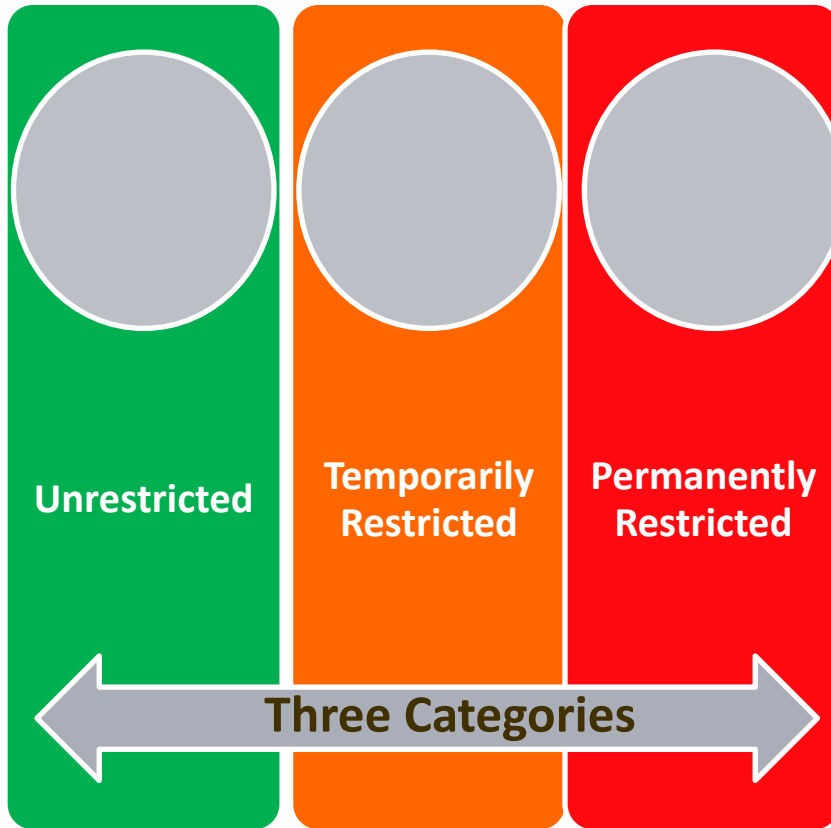
- Title “Financial Statements of Not-for-Profit Entities”
- Exposure draft issued – April 22, 2015
- Focused on improving:
  - Net Asset classification
  - Information provided in financials statements, including:
    - ◇ Liquidity
    - ◇ Financial Performance
    - ◇ Cash Flows

# Current FASB Projects

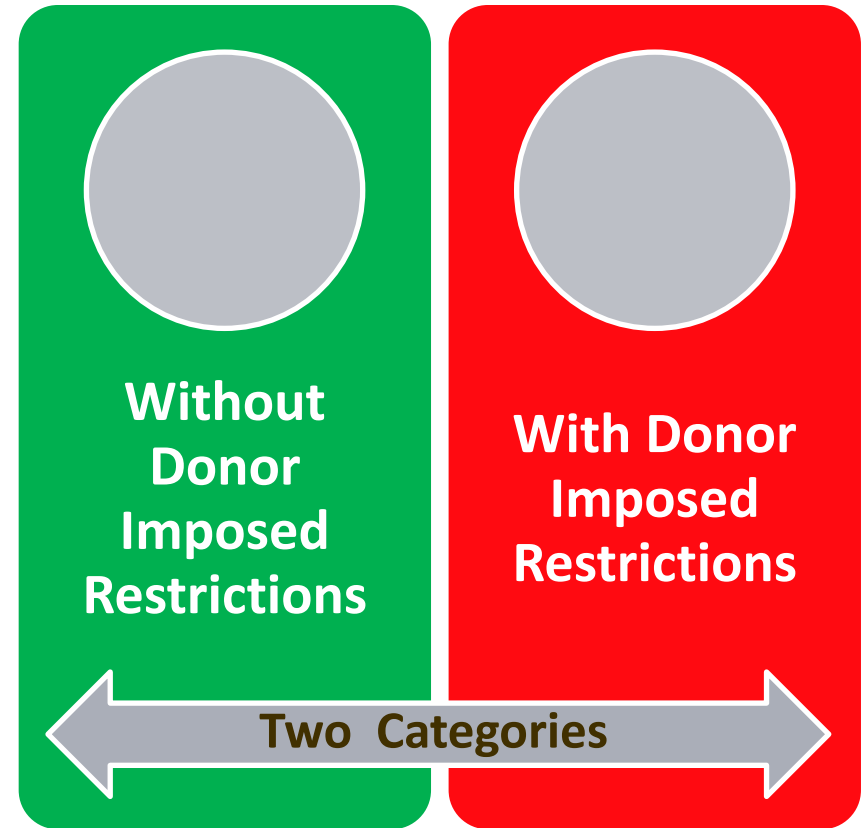


# Net Assets

## Current Presentation



## Proposed Presentation

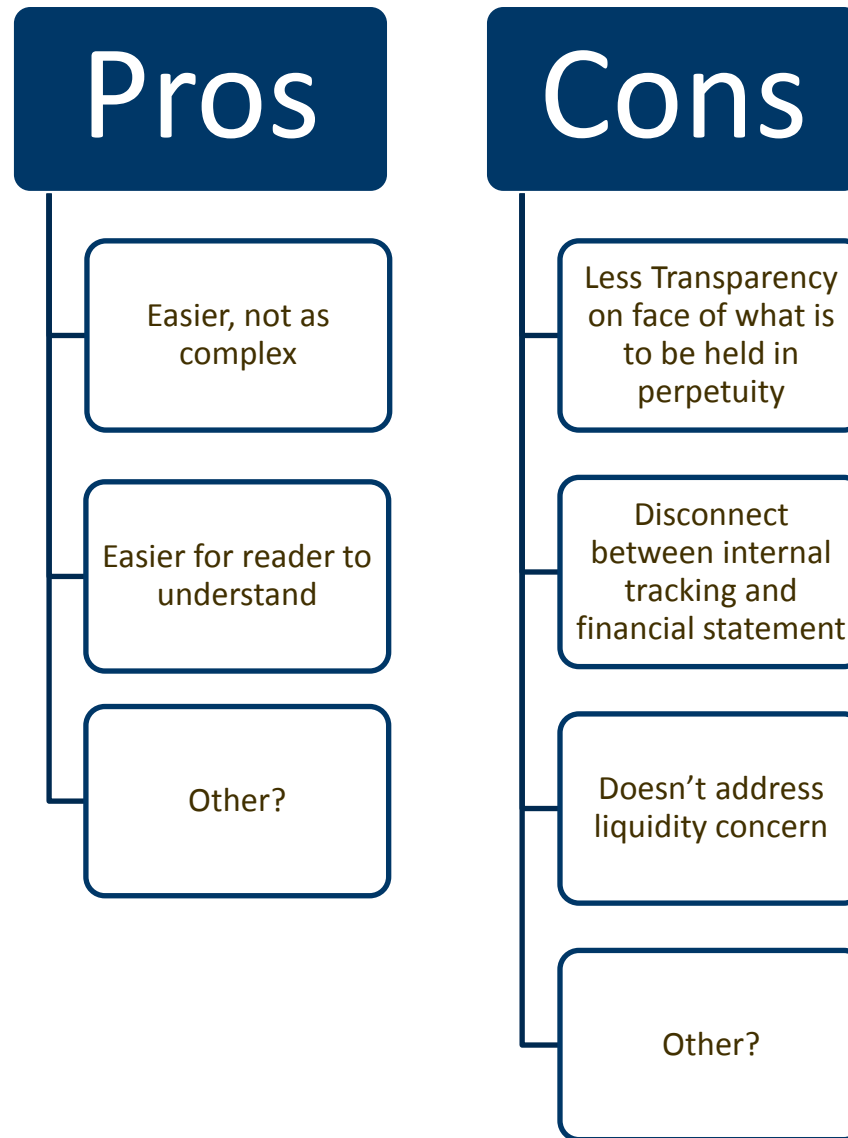


# Net asset classification requirement

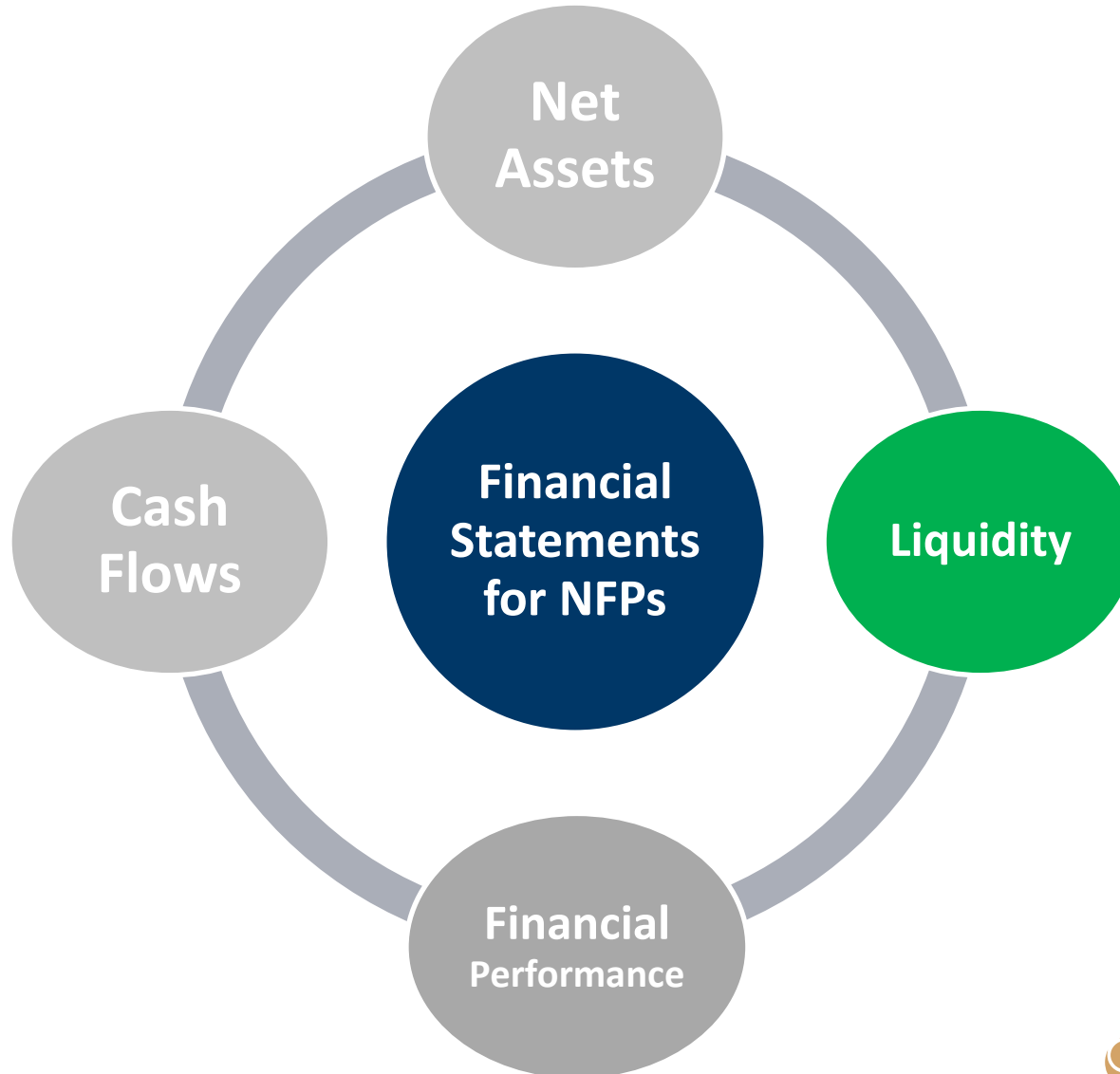
- Two classes
  - *Donor-imposed restrictions*
  - *Without donor-imposed restrictions*
- Disclosure requirement:
  - Remove distinction between temporary and permanent restrictions.
  - Emphasis on how/when resources (net assets) can be used.
  - Purposes of board designations.



# Presentation of Net Assets



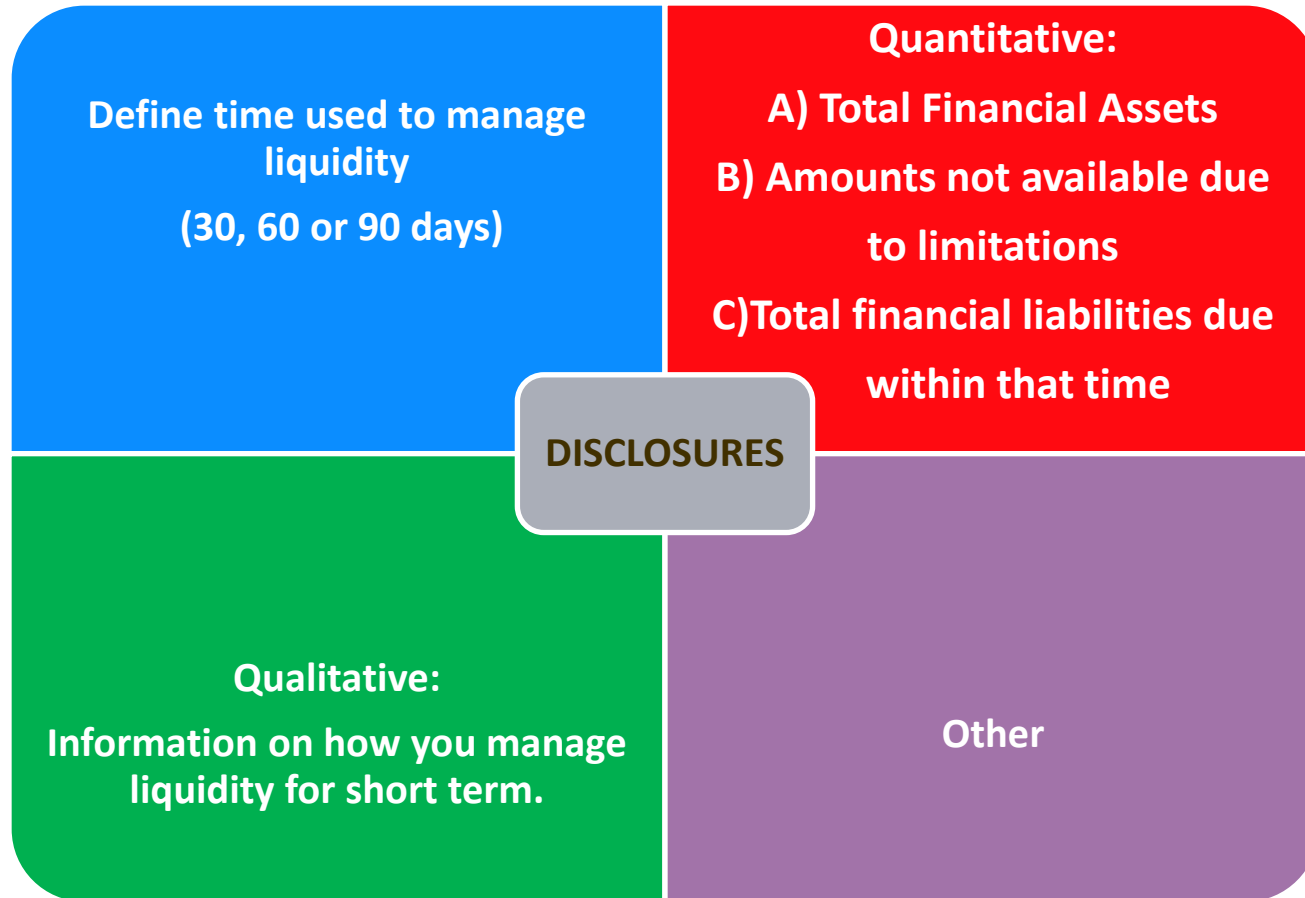
# Current FASB Projects



# Financial Statements - Liquidity

- Note disclosure on external restrictions:
  - Donors
  - Contracts
  - Board of Directors

# Liquidity



# Liquidity

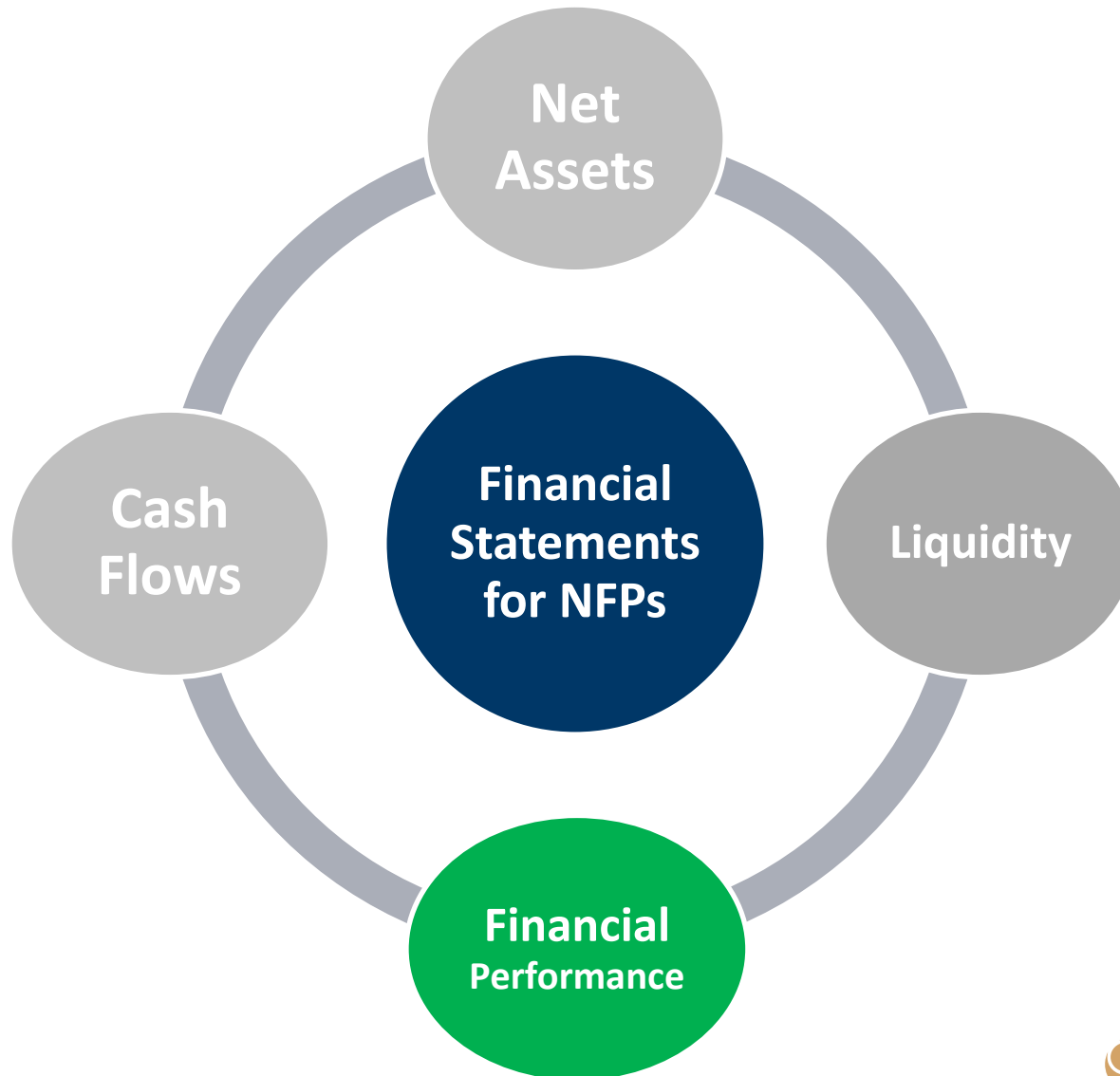
**We suggest.....**

- 1) If policy not already in place, adopt policy addressing liquidity.**
- 2) Review current policy to determine if any changes need to be made prior to implementation of required disclosure.**
- 3) Periodically review to ensure addresses current economic factors.**

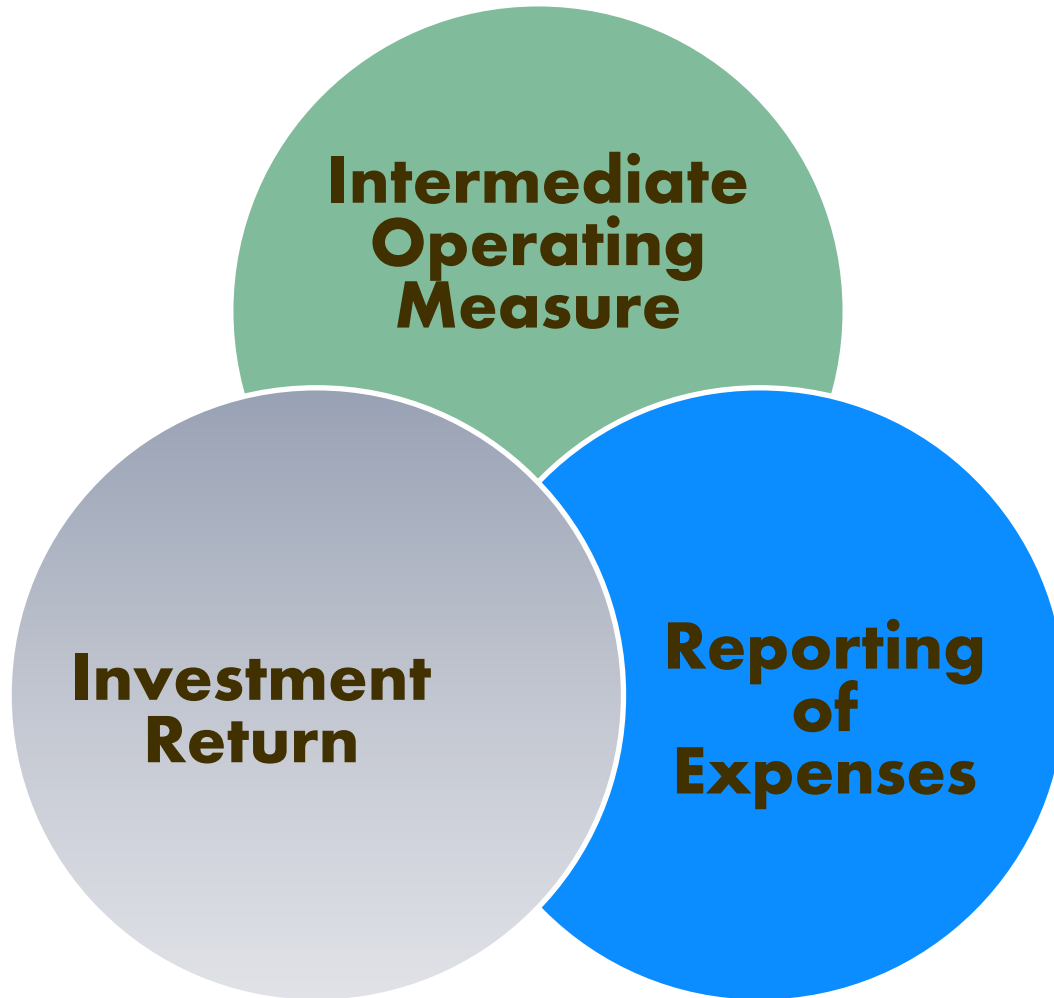
# Underwater Endowments

- Reported within “with donor restrictions” class of net assets.
- Disclose
  - Policy to spend from underwater funds
  - Original gift of underwater funds (in aggregate)
  - Fair value of underwater funds (in aggregate)

# Current FASB Projects



# Financial Performance





# Financial Performance – Intermediate Operating Measure

- Required to present intermediate measure of current operations.
  - Currently optional
- Defined by two key dimensions:
  - Mission
  - Availability

## Private Foundation - Recast

(dollars in thousands)

	<u>Without Donor Restrictions</u>	
<b>NONOPERATING ACTIVITIES</b>		
Net realized gain on sales of investments	\$ 2,611	
Net change in unrealized gain on investments	44,717	
Interest and other income	10	
Dividend income	11,222	
Investment management expenses	(642)	
Current federal excise tax (net of tax refund)	(167)	
Deferred federal excise tax	(850)	
Investment return, net	<u>56,901</u>	
Increase from nonoperating activities	<u>56,901</u>	
<b>BUSINESS &amp; CHARITABLE ACTIVITIES</b>		
<b>Expenses</b>		
Grants authorized, net of refunds	\$ 13,904	
Foundation administered projects	778	
Administrative expenses	<u>5,553</u>	
Total expenses	20,235	
Revenues [contributions and other, if any]	-	
Excess/(deficit) from business & charitable activities	<u>(20,235)</u>	← Intermediate Measure of Ops.
Increase in net assets	<u>36,666</u>	
Net assets at the beginning of the period	<u>381,131</u>	
Net assets at the end of the period	<u>\$ 417,797</u>	

# Mission

- Gifts may be from carrying out current period activities, but may not be available for current period.
- Present all mission-related revenues prior to reductions for amounts designated by the governing board for use in future periods (vs net).
- Investing and financing activities generally would NOT meet definition.

# Availability


Internal  
Limits

External  
Limits

# Examples

- Gift of long-lived assets
- Board designated resources
- Investments

# Intermediate Operating Measure

- Will be allowed to present subtotals
  - Healthcare  Performance Indicator
- Still allowed one or two statement approach
- Requirement to show change in unrestricted net assets no longer required.



# Reporting of Expenses

NATURE

versus

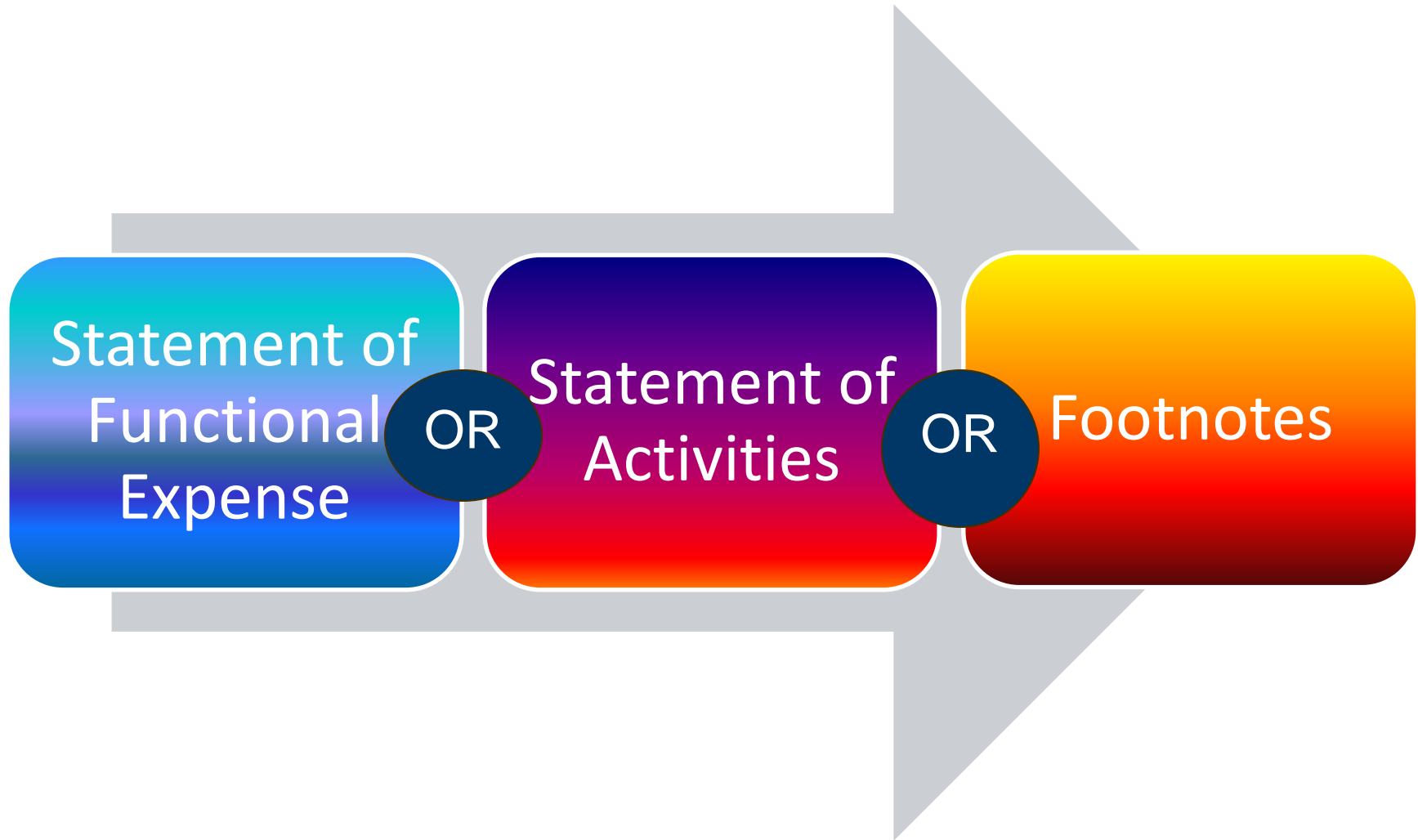
FUNCTION

# Reporting of Expenses

- Current requirement  by Function for most NP's
  - No changes for current functional statement requirement if done already , but adds.....
- New requirement  by Nature and all NP's must report expenses functionally!



# Reporting of Expenses – One Location

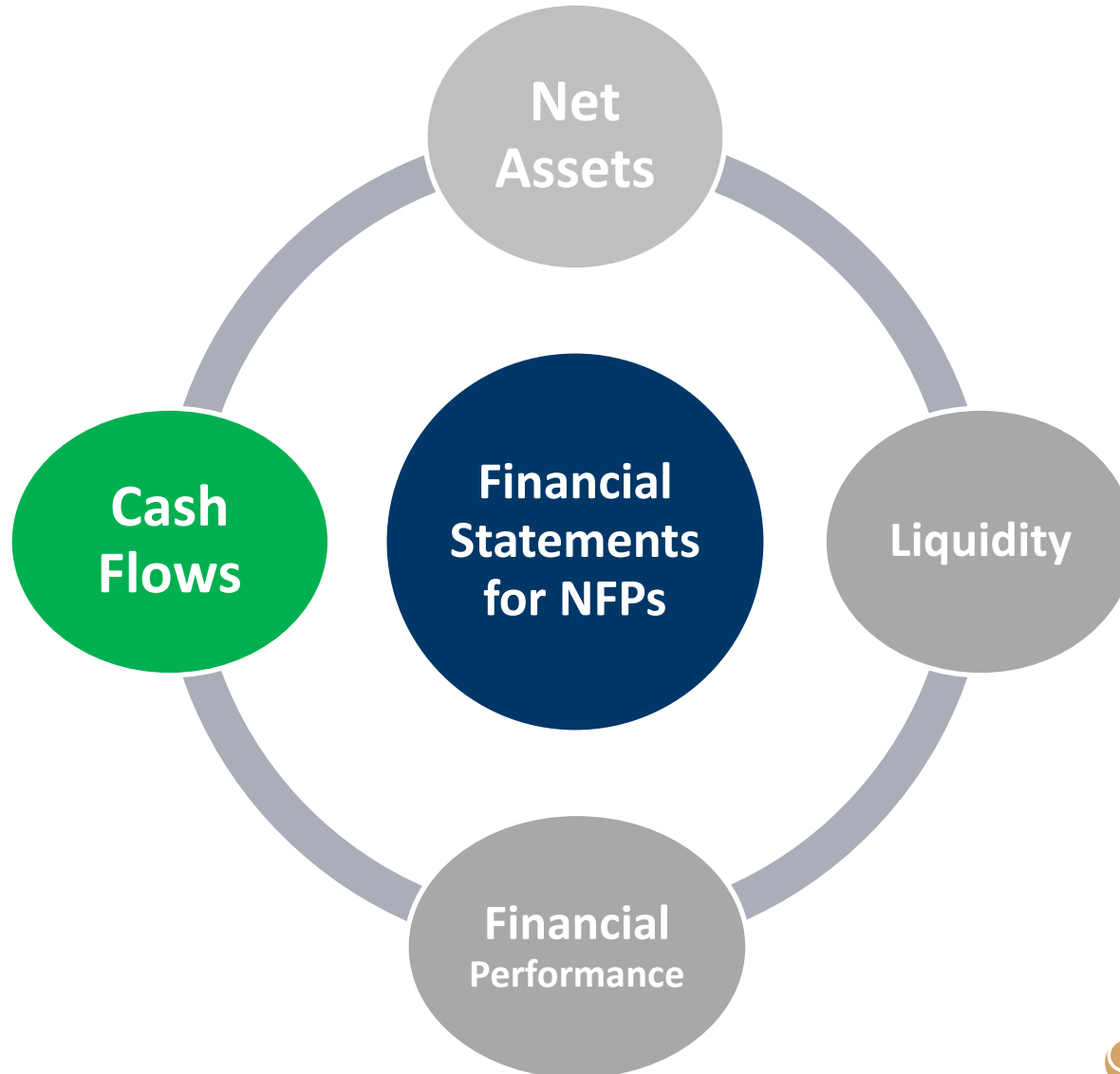


# Investment Return

- Requires net presentation of investment expenses against investment return.
  - Both EXTERNAL and direct INTERNAL expenses
  - Don't have to disclose the gross income and expenses anymore

**P.S.-You should be doing this now!**

# Current FASB Projects



# Cash Flow Statement

Can no longer use...

Indirect

Must use.....

Direct

# CASH FLOW - INDIRECT

	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in net assets	\$ 5,454,359	\$ 6,568,768
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,631,197	2,206,748
Change in fair value of interest rate swap	(171,916)	275,686
(Gain)/loss on sale of fixed assets	(1,728,296)	127,660
Investment gains and losses restricted for long-term investment	(17,167)	(6,139)
Changes in operating assets and liabilities:		
Accounts receivable	(534,707)	(1,348,084)
Allowance for doubtful accounts	(162,474)	57,157
Inventories	(25,674)	8,566
Prepaid expenses	(103,977)	23,940
Deposits	9,686	(7,396)
Accounts payable	(277,858)	173,358
Accrued liabilities	785,863	(253,586)
Medicare payable	-	(1,250,000)
Other long-term liabilities	(26,928)	115,656
Net cash provided by operating activities	<u>5,832,108</u>	<u>6,692,334</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sale of investments	3,770,166	242,734
Purchase of investments	(5,421,395)	(1,506,414)
Purchases of property and equipment	(4,145,423)	(11,076,185)
Proceeds from sale of fixed assets	2,241,857	10,664
Change in funds held by Trustee under bond agreements	4,094	591,201
Net cash used in investing activities	<u>(3,550,701)</u>	<u>(11,738,000)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of new long-term debt	3,084,120	4,229,696
Debt issuance costs	-	(7,616)
Principal payments on long-term debt	(2,398,466)	(935,387)
Net cash provided by financing activities	<u>685,654</u>	<u>3,286,693</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	2,967,061	(1,758,973)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>8,838,957</u>	<u>10,597,930</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 11,806,018</u>	<u>\$ 8,838,957</u>
Cash paid for interest	<u>\$ 533,233</u>	<u>\$ 536,212</u>
<b>NON-CASH ACTIVITIES</b>		
Donated services and medications	<u>\$ 84,536</u>	<u>\$ 115,096</u>

# CASH FLOW - DIRECT

## CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 1,062,947
Grants and contracts	731,802
Payments to suppliers	(608,699)
Payments to employees	(1,501,107)
Payments for scholarships	(25,035)
Auxiliary	318,494
Gifts for long-term assets used in operations	500,000
Purchases and construction of capital assets	(310,739)
Proceeds from sale of long-lived assets	<u>47,881</u>
Cash flows provided by (used in) operating activities	<u>215,544</u>

## CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sales and maturities of investments	3,314,736
Investment purchased	(3,403,189)
Interest on investments	<u>14,308</u>
Net cash provided by (used in) investing activities	<u>(74,145)</u>

## CASH FLOWS FROM FINANCING ACTIVITIES

Contributions restricted for investment in endowment	248,999
Principal paid on capital debt	(61,297)
Interest paid on capital debt	<u>(51,772)</u>
Net cash provided by (used in) capital and related financing activities	<u>135,930</u>

## NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

277,329

## CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR

56,058

## CASH AND CASH EQUIVALENTS - END OF YEAR

\$ 333,387

# Financial Statements – Cash Flow

Activity	Presentation	Previously...
Cash gifts – for long term assets for operations	Operating	Financing
Cash payments to purchase, construct, or acquire long-lived assets for operating purposes	Operating	Investing
Cash proceeds from sale of long-lived assets	Operating	Investing
Cash dividends and interest income	Investing	Operating
Cash payments of interest expense	Financing	Operating

# Additional Information

- [www.fasb.org](http://www.fasb.org)
- Next steps
  - Comment Period – Open until August 20, 2015
  - Redeliberations
  - Final Standard – Expected in Spring 2016
  - Changes Implemented – Expected 2018



# Comment Period - Feedback Needed!

Provide your feedback to FASB by August 20, 2015!

How to comment:

- Complete the online feedback form at [fasb.org](http://fasb.org).
- Written comments can also be submitted via email to [director@fasb.org](mailto:director@fasb.org), File Reference No. 2015-230, or by sending them to “Technical Director, File Reference No. 2015-230, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116.”

# Other Financial Communications Project

# Other Financial Communications Project

- Removed from agenda January 2014
  - 1) Availability of resources
  - 2) Prioritization of projects
  - 3) Results from project could be voluntary versus mandatory
  - 4) Beyond scope of FASB?
- NAC continues to discuss MD&A:
  - Outside body, but with continued involvement with FASB?
  - Produce “best practices” guide

**In the Meantime.....**

**Consider  
use of MD&A  
to tell your  
story!**

# Questions?





## Jacqueline Eckman, CPA

Principal

Jackie.Eckman@CLAconnect.com

602-604-3538

## Megan Nagle

Senior

Megan.Nagle@CLAconnect.com

602-604-3549



**CliftonLarsonAllen**

CLAconnect.com



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