

New FASB Accounting Rules For Non-Profits

Presentation

**KNOW
GREATER
VALUE**

Christopher D. Petermann, CPA
Partner, Director of Philanthropic
and Private Foundation Services





FASB Accounting Standards Update (ASU) No. 2016-14 – *Presentation of Financial Statements of Not-for-Profit Entities*

To evaluate the current Not for Profit reporting model and identify areas for improvement.

The update addresses the following broad areas:

- Net asset classification
- Financial performance detail
- Cash flow and liquidity disclosures

Effective date for all Not for Profit Organizations:

Calendar year entities – December 31, 2018

Fiscal year entities – FY 2018 – 2019 (June 30, 2019)



1. Simplify net asset reporting
2. Enhance disclosures regarding the purposes of governing board designations and other self-imposed limits of the use of funds
3. Update the accounting treatment of underwater endowments and expand related disclosures
4. Eliminate the “over-time” expiration treatment of restrictions on gifts to purchase PP&E
5. Expand the disclosure of assessing liquidity and availability of resources



6. Update the required disclosures of external and direct internal investments expenses
7. Expand the required disclosures of expenses by function and nature
8. Provide flexibility regarding the preparation of the Statement of Cash Flows by allowing the choice of the Direct or Indirect method



Simplification of Net Asset Classifications

Current GAAP

Not-for-Profit Entity	
Statement of Financial Position	
June 30, 2016	
ASSETS	
Detail of Assets	xxx
	<u>\$8,642,528</u>
LIABILITIES AND NET ASSETS	
Detail of Liabilities	xxx
Total Liabilities	<u>3,767,255</u>
Net Assets	
Unrestricted	3,923,441
Temporarily restricted	875,132
Permanently restricted	76,700
Total Net Assets	<u>4,875,273</u>
Total Liabilities and Net Assets	<u>\$8,642,528</u>

New ASU

Not-for-Profit Entity	
Statement of Financial Position	
June 30, 2019	
ASSETS	
Detail of Assets	xxx
	<u>\$8,642,528</u>
LIABILITIES AND NET ASSETS	
Detail of Liabilities	xxx
Total Liabilities	<u>3,767,255</u>
Net Assets	
Without donor restrictions	3,923,441
With donor restrictions	951,832
Total Net Assets	<u>4,875,273</u>
Total Liabilities and Net Assets	<u>\$8,642,528</u>



Net Asset Disclosures

Organizations may choose to present disaggregated information on the face of the statement or in the notes.

Without donor restrictions:

Undesignated - operations	\$ 1,360,316
Board Designated:	
Plant reserve	517,500
Quasi-endowment	<u>2,045,625</u>
	<u>3,923,441</u>

New disclosure requirement

With donor restrictions:

Purpose restricted	201,832
For use in future periods	250,000
Perpetual in nature	<u>500,000</u>
	<u>951,832</u>
Total Net Assets	<u><u>\$ 4,875,273</u></u>

Underwater Endowments

Revised Accounting - Investment losses within endowments will now be reflected as a reduction of “net assets with donor restrictions” rather than in “net assets without donor restrictions”

Current GAAP

Net Assets	
Unrestricted	\$3,923,441
Temporarily restricted	875,132
Permanently restricted	76,700
Total Net Assets	\$4,875,273

New ASU

Net Assets	
Without donor restrictions	\$3,933,441
With donor restrictions	941,832
Total Net Assets	\$4,875,273

Upon adopting the new ASU, an Organization with an endowment which is underwater by \$10,000 would recognize an increase in "net assets without donor restrictions" of \$10,000.



Expanded Disclosures – In addition to aggregate amounts by which funds are underwater (current GAAP), organizations will be required to disclose:

- Aggregate of original gift amounts for such funds
- Current fair value
- Any governing board policy, or actions taken concerning appropriation from such funds



Elimination of the “Over-Time” Expiration Treatment of Restrictions on Gifts to Purchase PP&E

In the absence of explicit donor stipulations, current GAAP allows an organization to release donor-imposed restrictions over the estimated useful life of the acquired asset.

Current GAAP

New ASU

Net Assets

Unrestricted	\$3,923,441
Temporarily restricted	875,132
Permanently restricted	76,700
Total Net Assets	<u>\$4,875,273</u>

Net Assets

Without donor restrictions	\$3,943,441
With donor restrictions	931,832
Total Net Assets	<u>\$4,875,273</u>

Upon adopting the new ASU, an organization with an accounting policy to release restrictions over time on gifts to acquire PP&E will release all of the remaining restricted funds of \$20,000, decreasing TRNA and increasing "net assets without donor restrictions" of \$20,000. The new ASU requires that restrictions be released when the related asset is placed in service.



Liquidity and Availability of Resources

New required disclosure – Financial statements should communicate qualitative information on how an organization manages its liquid available resources and its liquidity risk within the notes to the financial statements.



Liquidity and Availability of Resources – Example Note

Not-for-Profit Entity A is substantially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, Not-for-Profit Entity A must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of Not-for-Profit Entity A's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, Not-for-Profit Entity A invests cash in excess of daily requirements in short-term investments. Occasionally, the board designates a portion of any operating surplus to its liquidity reserve, which was \$1,300 as of June 30, 20X1. There is a fund established by the governing board that may be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities. In the event of an unanticipated liquidity need, Not-for-Profit Entity A also could draw upon \$10,000 of available lines of credit (as further discussed in Note XX) or its quasi-endowment fund.



Liquidity and Availability of Resources (Cont'd)

New required disclosure – Financial statements should communicate quantitative information regarding the availability of financial assets measured at the balance sheet date to meet general expenditures within one year on the face of the statements or in the notes.

- Considerations:
 - The nature of the asset
 - External limitations imposed by donors, laws and contracts
 - Internal limitations imposed by a governing body

Liquidity and Availability of Resources (Cont'd)

Financial assets, at year-end	\$ 234,410
Less those unavailable for general expenditures within one year, due to:	
Contractual or donor-imposed restrictions:	
Restricted by donor with time or purpose restrictions	(11,940)
Subject to appropriation and satisfaction of donor restrictions	(174,700)
Investments held in annuity trust	(4,500)
Board designations:	
Quasi-endowment fund, primarily for long-term investing	(36,600)
Amounts set aside for liquidity reserve	(1,300)
	<hr/>
Financial assets available to meet cash needs for general expenditures within one year	\$ 5,370
	<hr/> <hr/>

Source: FASB ASU 2016-14



Revised disclosure – The amount of investment expense is no longer required to be specifically identified in the financial statements or notes.

Investment return is to be reflected net of investment expenses (both indirect and direct).



Expense Reporting

New required disclosures – All organizations must report expenses by function and nature with a discussion of the allocation basis. Disclosure may be included in a statement or the notes to the financial statements.

Current GAAP – Expenses by Function

EXPENSES

Program services	\$ 3,323,316
Management and general	510,128
Fund raising	<u>56,754</u>
Total Expenses	<u><u>\$ 3,833,444</u></u>



Expense Reporting (Cont'd)

	Program #1	Program #2	Total Program Services	Management and General	Fund Raising	Total
Salaries	\$ 1,703,625	\$ 24,377	\$ 2,236,931	\$ 295,869	\$ 17,202	\$ 2,532,800
Payroll taxes and fringe benefits	503,873	2,929	639,459	81,587	3,444	721,046
Total Personnel Services Expenses	2,207,498	27,306	2,876,390	377,456	20,646	3,253,846
Consultants and contractual	5,363	6,412	90,613	4,938	27,913	95,551
Professional services	2,760	-	3,000	31,472	300	34,472
Travel	15,173	1,662	41,253	1,313	83	42,566
Supplies	16,479	10,707	73,756	13,901	2,807	87,657
Education and conferences	498	670	8,908	-	-	8,908
Insurance	10,738	-	21,015	-	-	16,521
Maintenance	-	-	-	842	-	842
Postage and shipping	1,000	791	4,335	1,258	20	5,678
Rent and utilities	94,539	-	135,460	52,131	4,057	187,591
Telephone and internet	2,809	-	3,943	4,587	928	8,530
Bank charges and interest	-	3,885	3,885	4,311	-	8,196
Data processing	-	-	-	7,898	-	7,898
Miscellaneous	3,875	325	13,313	3,239	-	16,552
Advertising and social marketing	814	38	39,984	-	-	39,984
Equipment	15,221	-	15,950	-	-	15,950
Total Expenses Before Depreciation	2,375,787	51,795	3,323,316	507,426	56,754	3,830,742
Depreciation and amortization	-	-	-	2,702	-	2,702
Total Expenses	\$ 2,375,787	\$ 51,795	\$ 3,323,316	\$ 510,128	\$ 56,754	\$ 3,833,444

New ASU – Expenses by Function and by Nature

Effective Date – For fiscal years beginning after 12/15/2017:

- Calendar year entities – December 31, 2018
- Fiscal year entities – FY 2018 – 2019 (June 30, 2019)

Early Adoption – Permitted

Transition – For year of adoption, must apply all provisions



During initial exposure drafts of the project the FASB identified additional areas of focus which were not addressed in the ASU:

- Operating Measures
 - Whether to require intermediate measures
 - What should or should not be included
- Realignment of certain items in the Statement of Cash Flows



KNOW
GREATER
VALUE

Questions?



Contact Information

www.pkfod.com

665 Fifth Avenue
New York, NY 10022
T: 212.286.2600

20 Commerce Drive
Suite 301
Cranford, NJ 07016
T: 908.272.6200

293 Eisenhower Pkwy
Suite 270
Livingston, NJ 07039
T: 973.535.2880

32 Fostertown Rd
Newburgh, NY 12550
T: 845.565.5400

100 Great Meadow Road
Wethersfield, CT 06109
T: 860.257.1870

500 Mamaroneck Avenue
Harrison, NY 10528
T: 914.381.8900

Dorothy B. Kraft Building
15 Essex Road
Paramus, NJ 07652
T: 201.712.9800

3001 Summer Street
5th Floor East
Stamford, CT 06905
T: 203.323.2400

100 Great Meadow Road
Wethersfield, CT 06109
T: 860.257.1870

106 Prospect Street
Ridgewood, NJ 07450
T: 102.445.0500

Christopher Petermann



Partner, Director of Philanthropic and Private Foundation Services

Christopher Petermann, CPA has over 30 years of experience serving a multitude of exempt organizations and is a frequent speaker on a variety of exempt organization topics. He authors many of our Firm's monthly Private Foundation bulletins and has published a number of articles including "Alternative Investments/Home Runs or Strike Outs." Chris is a Board Member and Chair of Exponent Philanthropy. He is a Board and Finance Committee Member of the New Jersey Symphony Orchestra as well as a Board and Audit Committee Member of Partners for Health (a community foundation). Additionally, Chris is a Board Member and Treasurer of the William F. Grupe Foundation and most recently was appointed Board Member as well as a Member of the Audit and Compensation Committees of the Kearny Financial Corporation.

Chris earned his Bachelor of Science degree in accounting from Bucknell University. He is a Certified Public Accountant licensed in the states of New York and New Jersey and is a member of the American Institute of Certified Public Accountants, the New York Society of Certified Public Accountants, the New Jersey Society of Certified Public Accountants (NJSCPA) and the Non Profit Committee of the NJSCPA.

Contact Christopher 646-449-6315/cpetermann@pkfod.com

Accreditations

- Certified Public Accountant (New Jersey, New York)

Professional Affiliations & Civic Involvement

- American Institute of Certified Public Accountants (AICPA)
- New York State Society of Certified Public Accountants (NYSSCPA)
 - Large and Medium Firm Managing Partners Committee, Chair
- New Jersey State Society of Certified Public Accountants (NJSSCPA)
 - Non-Profit Interest Group
- Board Chair, Exponent Philanthropy
- Board Member Kearny Financial Corporation (KRN)
 - Member, Audit Committee
 - Member, Compensation Committee
- Board Member and Treasurer, William F. Grupe Foundation
- Board Member, Partners for Health (A Community Foundation)
 - Chair, Audit Committee
- Board Member, New Jersey Symphony Orchestra
 - Member, Finance and Audit Committee
 - Treasurer
 - Member, Executive Committee