



New FASB Rules:

The goal of the new rules was to:

- Simplify the presentation of unrestricted and donor restricted assets
- Improve information about liquidity of resources to cover the coming years expenses
- Enhance the usefulness of the cash flow statement

This chart summarizes the changes:

Financial Statement	Old Standard	New Standard
Net Assets- Endowments	No additional reporting if donor restricted endowment funds value declined to less than the original donation (underwater donor restricted funds)	Additional reporting and footnote disclosure if donor restricted endowment
Net Asset Classes	Unrestricted Temporarily Restricted Permanently Restricted	Net Assets without Donor Restrictions Net Assets with Donor Restrictions
Board designated net assets	Brief description of purpose	More information about purpose
Restrictions on capital gifts	Temporarily restricted amount was released over time as the capital asset was depreciated	Temporarily restricted amount can be released as soon as the capital asset is placed in service absent donor stipulations
Investment income & expenses	Investment income classified as revenues Investment expenses classified as expenses Optional to net expenses against income	Net investment expenses against investment income in revenues
Functional Expenses	Reporting by function: program, administrative, & fundraising	Reporting by function <i>and</i> nature (salaries, insurance, rent, etc) Administrative and fundraising are under the heading "supporting activities" Enhanced disclosures about the methods used to allocate costs among functions
Cash flow statement	Direct method or indirect method	Direct method or indirect method but direct method presentation does not need to include reconciliation to the indirect method
Footnotes	No requirement	Disclose quantitative information on the availability of financial assets to meet cash needs for general expenditures within one year Disclose qualitative information as to how a nonprofit manages its liquid assets

The new financial reporting rules will be effective for calendar year ending 12/31/18 and for other years ending in 2019.

What do you need to do now?

- If your board has designated net assets, make sure there is a clear connection between the amount designated and the purposes
- It is permitted to spend from a permanently restricted endowment even though the value may have declined below the original donation gift. However, this will be disclosed in the statements. If this has occurred in your organization, make sure the users of your financial statements and the Board members understand why you are spending the endowment even though there is a decline
- Understand the effect of investment expenses on your overall investment return
- Determine and document your process to manage liquidity
- Determine and document your process to allocate expenses by function
- Some commentaries on the new standard are noting that these new standards allow users to better evaluate the financial performance of nonprofits. The nonprofit world already fights misunderstanding around issues of nonprofit overhead. Will these enhanced disclosures make that conversation clearer or more difficult?

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Questions? Contact Cindy Bergvall, CPA of Bee, Bergvall & Co. cbergvall@bbco-cpa.com, 215-343-2727