

New FASB Accounting Requirements: **Board Financial Oversight Update**

CAPLAW Webinar
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Who is in our group today?



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Tools for Top Notch CAAs

- CAPLAW's updated guide
- *Getting the Most Out of Your Financial Statements*
- Questions to ask – red flags to spot
- Sample Financial Report formats

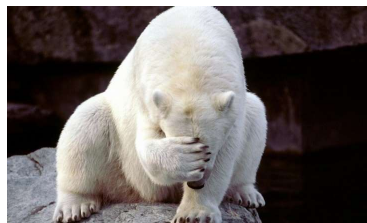
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Workshop Topics

- Key FASB accounting & reporting **changes**
- CAA Board financial **oversight roles**
- What **differences** will the FASB changes make **for your CAA**
- Getting the financial **info you need**
- Your next steps

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What is GAAP? Who is FASB? ***Why Should I Care?***



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GAAP

- **Generally Accepted Accounting Principles governing:**
 - how transactions are recorded in accounting records
 - how financial information is presented

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How is GAAP Determined?

- **FASB** - Financial Accounting Standards Board – www.fasb.org
- Determines what is **U.S. GAAP**
- **CPAs** determine & reveal whether financial statements conform to GAAP

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Why Should Your CAA Comply with FASB Changes ?

- Prefer **unqualified** audit opinion
- GAAP represents **best practice**
- New approach may be more **understandable to readers**
- Relatively **easy** to convert a system that is already GAAP compliant to the new standards

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What impact did **FASB changes** have on **board financial oversight**?

- Familiar concepts in financial statements, but **referred to differently**
- Emphasis on **liquidity**– having cash when you need it
- Treatment of **cost reimbursement awards** clarified
- Treatment of government \$\$ in **purchase of service agreements** clarified

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Impact of FASB Changes

- **Grant and Contract Accounting**
- **Board Designated Net Assets**
- **Liquidity Disclosure**
- **Functional Expenses**
- **Statement of Cash Flows**
- **Underwater Endowments**
- **Investment Expenses**

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Major FASB Nonprofit ASU's **Accounting Standards Updates**

- **Financial Statement Presentation**
ASU # 2016-14: Effective 2018
- **Guidance for Contributions Received & Made**
ASU # 2018-08: Effective 2019-2021
- **Statement of Cash Flows**
ASU # 2016-15: Effective 2019
ASU # 2016-18: Effective 2019
- **Note: partial list – check [FASB.org](https://www.fasb.org) for more**

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Older News & Delayed News

- **Net Assets – 2 classes, not 3**
Effective: **FY beginning after**
12/15/17
- **Lease Accounting**
Delayed to fiscal years beginning
after 12/15/21

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Key Board Roles

- **Set mission & priorities**
- **Oversight**
- **Liaison with community**
- **Ensure availability of resources**

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Core Board Concerns

- **Financial health & sustainability**
- **Progress toward strategic goals**
- **Risk management**

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Financial Health Indicators

- Positive **net income**
- **Net Assets** (equity) to withstand adversity
- **Cash** available when needed
- Ability to achieve and document **compliance**

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Board Financial Oversight Responsibilities

- **Approve** annual budget
- **Approve** asset purchases & debt
- **Monitor** financial condition
- **Ensure** sound management, compliance, sustainability
- Select **auditor**

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Basic Financial Statements

| Nonprofit Financial Statements | "Also known As.." | What's in this Statement? |
|---|---|---|
| Statement of Financial Position | Balance Sheet | <ul style="list-style-type: none"> Assets, Liabilities, Net Assets |
| Statement of Activities | <ul style="list-style-type: none"> Income Statement Profit & Loss Statement Statement of Support, Revenues, and Expenses | <ul style="list-style-type: none"> Revenues Expenses Net Income |
| Statement of Cash Flows | No aliases | Cash Flows from: <ul style="list-style-type: none"> Operating Activities Investing Activities Financing Activities Net change in cash |
| Statement of Functional Expenses | No aliases | Matrix of expenses displayed by line item and by functional categories – management, fund raising, programs |
| Statement of Functional Revenues and Expenses | Program report | Matrix with both revenues and expenses displayed by line item and functional categories – management, fund raising, programs |

Statement of Financial Position

Balance Sheet:

- **Assets, Liabilities, and Net Assets**



- Net Assets without Donor Restrictions
- Net Assets with Donor Restrictions

- **Comparative: two points in time**



** Note new terms for old concepts*

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Exhibit 1

BCA
Statement of Financial Position
September 30, 2019
 with comparative totals as of June 30, 2019

| | 9-30-19 | 6-30-19 |
|--|--------------------|--------------------|
| Assets | | |
| Cash | \$160,000 | \$200,000 |
| Receivables | 501,100 | 281,100 |
| Prepaid expenses | 200,000 | 100,000 |
| Land, buildings, equipment (net of accum deprec) | 1,500,000 | 1,510,000 |
| Total assets | 2,361,100 | 2,091,100 |
| Liabilities and Net Assets | | |
| Liabilities | | |
| Accounts payable | 190,000 | 170,000 |
| Line of credit payable | 250,000 | 150,000 |
| Unemployment Comp Reserve | 80,000 | 50,000 |
| Total liabilities | 520,000 | 370,000 |
| Net Assets without Donor Restrictions | | |
| Available for operations | -8,900 | 11,100 |
| Invested in fixed assets | 1,500,000 | 1,510,000 |
| Board designated reserves | 100,000 | 100,000 |
| Sub-total - Unrestricted net assets | 1,591,100 | 1,621,100 |
| Net assets with donor restrictions | 250,000 | 100,000 |
| Total Net Assets | 1,841,100 | 1,721,100 |
| Total liabilities & net assets | \$2,361,100 | \$2,091,100 |

FASB Language Change



- **Unrestricted Net Assets became-**
Net Assets without Donor Restrictions
- **Temporarily & Permanently Restricted Net Assets became-**
Net Assets with Donor Restrictions

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Nonprofit Net Worth

$$\begin{array}{r} \text{Assets} \\ - \text{Liabilities} \\ \hline = \text{Net Assets} \end{array}$$

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Net Assets Provide:

- **Ability to continue** to operate despite experiencing losses
- **Capacity to take risks** and innovate

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Net Assets without Donor Restrictions



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FASB Requirement

- **Board Designations** of Net Assets must be **disclosed**
- Net Assets with donor restrictions may be segmented by temp & permanently restrictions, but total must be shown on Balance Sheet

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Implementation – Balance Sheet

| | | |
|----------------------------|----------------|--|
| Net assets: | | |
| Without donor restrictions | 97,677 | |
| With donor restrictions | <u>115,657</u> | |
| Total net assets | <u>213,334</u> | |

← Minimum presentation required

Alternative disaggregation allowed →

| | | |
|--|--------------|----------------|
| Net assets: | | |
| Without donor restrictions - | | |
| Undesignated | | 97,677 |
| Designated by the Board for [purpose] | | <u>5,000</u> |
| | | 97,677 |
| With donor restrictions - | | |
| Time restricted only, for periods after 20X1 | 5,250 | |
| Purpose restricted | <u>8,250</u> | |
| Perpetual in nature | | <u>102,157</u> |
| | | <u>115,657</u> |
| Total net assets | | <u>213,334</u> |

AICPA American Institute of CPAs®

Not-for-Profit Section

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Revenues and Expenses

Statement of Activities:

- **Organization-wide** Revenues and Expenses for specified time period
- Distinguish **program, management, and fund-raising** expenses
- Distinguish income **without donor restrictions** from **income with donor restrictions**

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BCA
Statement of Activities
7/1/19 through 9/30/19

| | 7/1/19 – 9/30/19 | Annual Budget | % Budget Realized | Projected Year End |
|--|---------------------|------------------|----------------------|-----------------------|
| Support & Revenues w/o Donor Restrictions | | | | |
| Foundation and corporate grants | \$ 45,000 | \$ 30,000 | 1.50 | 50,000 |
| Governmental grants & contracts | 240,000 | 830,000 | 0.29 | 830,000 |
| Contributions from individuals | 15,000 | 60,000 | 0.25 | 50,000 |
| Events net of expenses | 5,000 | 50,000 | 0.10 | 50,000 |
| Investment income | 1,300 | 5,000 | 0.26 | 3,000 |
| | <u>306,300</u> | <u>975,000</u> | <u>0.31</u> | <u>983,000</u> |
| Net assets released from restrictions | <u>100,000</u> | <u>225,000</u> | <u>0.44</u> | <u>225,000</u> |
| Total unrestricted support and revenue | <u>406,300</u> | <u>1,200,000</u> | <u>0.34</u> | <u>1,208,000</u> |
| Expenses w/o Donor Restrictions | | | | |
| Personnel | 329,000 | 920,000 | 0.36 | 950,000 |
| Prof Services | 35,000 | 40,000 | 0.88 | 40,000 |
| Occupancy | 22,300 | 45,000 | 0.50 | 50,000 |
| Other expenses | 50,000 | 170,000 | 0.29 | 165,000 |
| Total Expenses w/o donor restrictions | <u>436,300</u> | <u>1,175,000</u> | <u>0.37</u> | <u>1,205,000</u> |
| Increase in Net Assets w/o Restrictions | <u>(30,000)</u> | <u>25,000</u> | <u>-1.20</u> | <u>3,000</u> |
| Support with Donor Restrictions | | | | |
| New TR Grants Received | 250,000 | 360,000 | 0.69 | 325,000 |
| Released from Temp Restrict | (100,000) | (225,000) | 0.44 | (225,000) |
| Increase in Net Assets w. restrictions | <u>150,000</u> | <u>135,000</u> | <u>1.11</u> | <u>100,000</u> |
| Increase in Total Net Assets | <u>120,000</u> | <u>160,000</u> | <u>0.75</u> | <u>103,000</u> |
| Net Assets, Beginning of Year | <u>1,721,100</u> | | | |
| Net Assets, End of 1st Qtr. | <u>1,841,100</u> | | | |

Exhibit 2 A

BCA
Statement of Activities
7/1/19 through 9/30/19

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|-------------------------------|----------------------------|---------------------|
| SUPPORT AND REVENUE | | | |
| Foundation and corporate grants | \$ 45,000 | \$ 250,000 | \$ 295,000 |
| Governmental grants & contracts | 240,000 | - | 240,000 |
| Contributions from individuals | 15,000 | - | 15,000 |
| Events (net of expenses) | 5,000 | - | 5,000 |
| Investment income | 1,300 | - | 1,300 |
| Total support and revenue | <u>306,300</u> | <u>250,000</u> | <u>556,300</u> |
| Net assets released from restrictions | <u>100,000</u> | <u>(100,000)</u> | <u>-</u> |
| Total support and revenue | <u>406,300</u> | <u>150,000</u> | <u>556,300</u> |
| EXPENSES | | | |
| Personnel | 329,000 | - | 329,000 |
| Prof Services | 35,000 | - | 35,000 |
| Occupancy | 22,300 | - | 22,300 |
| Other expenses | 50,000 | - | 50,000 |
| Total expenses | <u>436,300</u> | <u>-</u> | <u>436,300</u> |
| INCREASE IN NET ASSETS | <u>(30,000)</u> | <u>150,000</u> | <u>120,000</u> |
| NET ASSETS, Beginning of Year | <u>1,621,100</u> | <u>100,000</u> | <u>1,721,100</u> |
| NET ASSETS, End of 1st Qtr. | <u>\$ 1,591,100</u> | <u>\$ 250,000</u> | <u>\$ 1,841,100</u> |

Internal Use Revenue & Expense Reports

- **Compares** Year-to-Date Revenues and Expenses to **annual budget**
- **Shows full cost of programs and extent to which grant funds cover the full cost**
- **Progress toward building sustainability**

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Exhibit 5

BCA
Statement of Unrestricted Revenues and Expenses by Function
July 1, 2011 through September 30, 2011

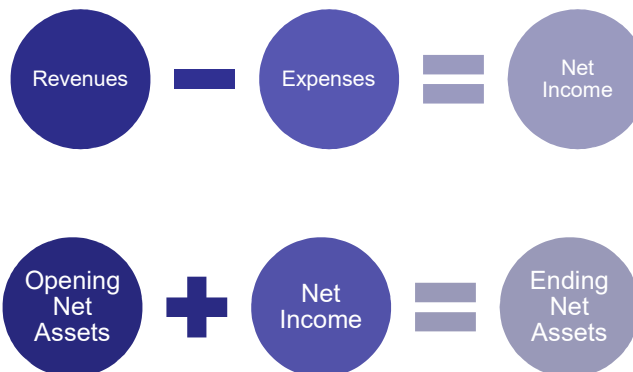
| | 7/1/11 thru 9/30/11 | Admin | Fund Raising | Prog X | Prog Y | Prog Z |
|--|---------------------------|-----------------|-----------------|-------------------|------------------|----------------|
| Unrestricted Support and Revenues | | | | | | |
| Foundation grants | 45,000 | | | 5,000 | | |
| Government contracts | 240,000 | | | 35,000 | 85,000 | 120,000 |
| Individual gifts | 15,000 | | 15,000 | | | |
| Events net of expenses | 5,000 | | 5,000 | | | |
| Investment Income | 1,300 | | 1,300 | | | |
| Released from Temp Restrictions | 100,000 | | 40,000 | 28,000 | 40,000 | 32,000 |
| Total unrestricted support and revenue | 406,300 | 0 | 61,300 | 68,000 | 125,000 | 152,000 |
| Direct Expenses | | | | | | |
| Personnel | 329,000 | 60,000 | 20,000 | 79,000 | 80,000 | 90,000 |
| Prof Services | 35,000 | 15,000 | | | 10,000 | 10,000 |
| Other expense | 50,000 | 3,730 | 7,030 | 6,240 | 13,000 | 20,000 |
| Sub-total direct expenses | 414,000 | 78,730 | 27,030 | 85,240 | 103,000 | 120,000 |
| Allocated Expenses | | | | | | |
| Occupancy | 22,300 | 2,030 | 2,000 | 11,500 | 2,325 | 4,445 |
| Direct and allocated expenses | 436,300 | 80,760 | 29,030 | 96,740 | 105,325 | 124,445 |
| Allocation of administrative expenses | 0 | (80,760) | 6,594 | 21,974 | 23,924 | 28,267 |
| Expenses after allocation of administrative expenses | 436,300 | 0 | 35,624 | 118,714 | 129,249 | 152,712 |
| Excess (deficit) of support & rev over total expenses | (\$30,000) | 0 | \$25,676 | (\$50,714) | (\$4,249) | (\$712) |

Know the past – Focus on the future

| | Yr-to-date | Annual Budget | Actual as % of budget | Projected year end |
|------------|------------|---------------|-----------------------|--------------------|
| Income | | | | |
| Expense | | | | |
| Net Income | | | | |

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⬆️ Growing Net Assets ⬆️



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CAA Challenge – Building Net Assets without Donor Restrictions

- Positive net **unrestricted income** needed to build Net Assets
- “**Use it or lose it**” funding restrictions result in no contribution to Net Assets without Donor Restrictions

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Conditional Contributions

Conditional contributions:

donor requires the recipient to **overcome a barrier** and if the recipient fails to do so, grantor is released from obligation & can demand return of funds provided

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Indicators of Performance Barriers

that create “conditional” contributions

- Requires performance by recipient, or
- Requires an event to occur that is outside the control of recipient
- Limits recipient’s discretion in how to conduct activity funded by grant
- **No longer impacted by** “likelihood” of failing to overcome the barrier

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Timing to Record Conditional Gifts

- Conditional Gifts are **not recorded as income** until the **conditions are met**
- This change impacts treatment of some **multi-year foundation grants**

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Distinguishing Conditional & Restricted Contributions

- **Restricted contributions are recorded as gifts with donor restrictions when the promise to give is made**
- Grant agreement may require return of the money if you don't satisfy a restriction, but
- Grant is not “**conditional**” unless there is a **measurable performance** barrier included in the gift agreement.

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Why Some Governmental Awards Are Not Treated as Restricted Under GAAP

- **Cost reimbursement** agreements require that allowable costs be incurred before the CAA is entitled to the funds
- This requirement imposes a **condition** – by the time the condition is met, the CAA has expended \$\$, so the **reimbursement is not treated as restricted**

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Liquidity Disclosure Requirement

ASU # 2016-14: Effective 2018

- Calculation of the CAA's **financial assets that are available to meet operating expenditures within one year**
- Includes Cash & cash equivalents, A/R, & Investments
- Excludes amounts not available within one year – donor restricted funds
- Reveals potential **cash flow problems**

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Enough GAAP ?

What Do We Do Now?



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Get the Info You Need for Effective Oversight

- **Make financial reports understandable**
 - One-page formats
 - Bullet point narratives
- **Ask questions 'til you understand**
- **Talk with your independent auditor about the impact of the FASB changes on your CAA**
- **Get financial oversight training for your Board**

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