



# SDK

Schechter Dokken Kanter



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## The New Nonprofit Financial Reporting Standard

Monday, September 24, 2018  
The Depot Minneapolis

Presenters:

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## Agenda

1. Project Goals
2. 5 Key Areas Affected
3. Case Studies:
  - Liquidity & Availability
  - Expense Reporting
4. Effective Date & Transition Guidance
5. Question & Answer



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## Project Goals – Phase I & II

- Update to current model, not overhaul
- Better enable NFPs to “tell their financial story”
- Provide useful information to donors, creditors and other financial statement users



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## Project Goals – Phase I Changes to Address

- Complexity of using 3 net asset classes
- More transparency and useful information on NFP's liquidity
- Comparability in type of information provided about expenses
- Improve understanding and usefulness of statement of cash flows, specifically operating cash flows



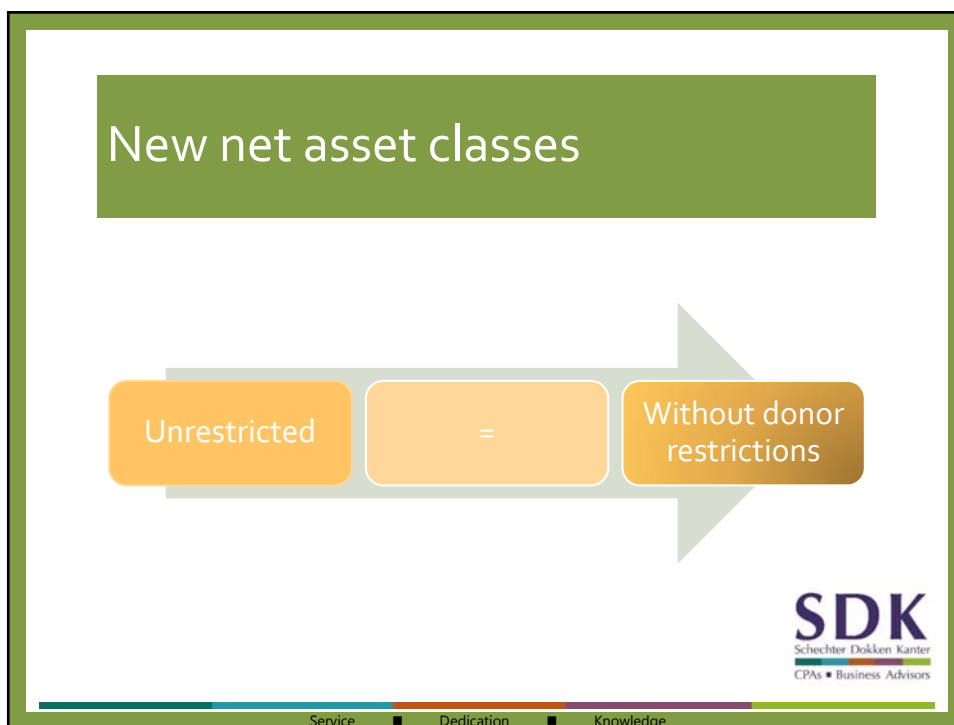
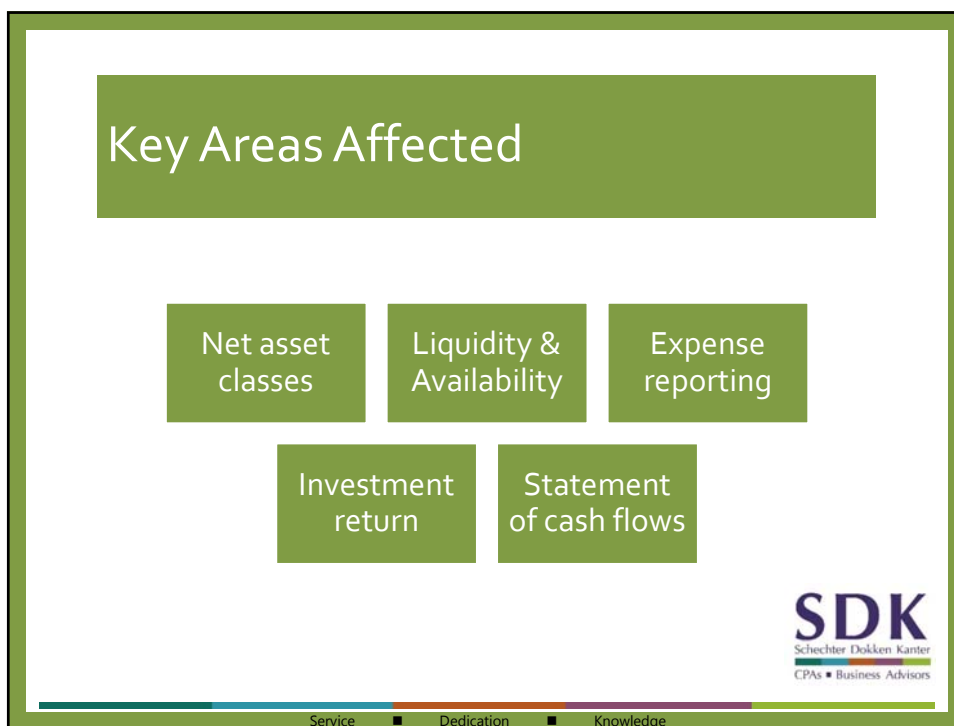
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## Project Goals - Phase II Still in process

- Operating measures - require immediate operating measures and define those measurers
- Statement of cash flows – realigning certain items and alignment of SOCF with the SOA
- Expense reporting – considering segment reporting for health care entities



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## New net asset classes

Temporarily restricted\*  
+ Permanently restricted\*

With donor restrictions

\*Important – Still required to show detail of these types of restrictions in the footnotes; therefore tracking of these types does NOT go away. Will continue to see an analysis by time, purpose and perpetual restrictions.



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## New net asset classes

- Net Asset Disclosure Requirements:
  - Composition of net assets with donor/grantor restrictions
  - Emphasis on how/when resources (net assets) can be used
    - Purpose
    - Time
    - Perpetual (endowment)
  - Quantitative and qualitative information about board designations, including amount, purpose and type of board designation



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## Capital Related Contributions

Donations of, or contributions restricted for the purchase of, property and equipment

Accounting for the release of donor restriction has changed:

OLD GAAP Options

1. Release as dollars are spent
2. Placed-in-service approach
3. Imply a time restriction, release ratably over useful life of asset



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## Capital Related Contributions

Donations of, or contributions restricted for the purchase of, property and equipment

New GAAP

1. Placed-in-service approach
  - Reporting expirations of restrictions on gifts of cash/other assets to be used to acquire PP&E
  - Reclassify amounts from net assets with donor restrictions to without donor restrictions for long-lived assets placed in service as of the beginning of the period of adoption



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## Underwater Endowments

- Donor-restricted endowment fund: fair value of fund at FYE < original gift or amount required to be maintained by donor
- Report entire balance of endowment fund within “with donor restrictions”; previously underwater portion of endowments were reported in unrestricted net assets



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## Underwater Endowments

### New Disclosure Requirements:

- Interpretation of ability to spend from underwater endowments
- NFP’s endowment policy and any changes
- For each period presented, in the aggregate, for all underwater endowment funds show:
  - Fair value of underwater endowment funds
  - Original endowment gift amount or level required by donor
  - Amount of the deficiencies of the underwater endowment funds



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## Underwater Endowments

- See example handout page 4-6



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## Example Statement of Financial Position

Minimum presentation required

Net assets:

Without donor restrictions

With donor restrictions

Total net assets



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## Liquidity & Availability

Financial Assets – generally includes cash, investments and receivables

- New Required Two-Part Disclosure
  - **Qualitative** – how NFP manages its liquid available resources and its liquidity risk
  - **Quantitative** – communicate availability of NFP's financial assets at the FYE to meet cash needs for general expenditures within one year



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## Liquidity & Availability

Implementation Thoughts:

1. Identify all financial assets and any limitations on availability in next 12 mo's  
Availability affected by its nature, external limits by donors, contracts, etc, internal limits by governing board decisions
2. Determine format for quantitative disclosure
  - Display gross financial assets, then adjustments to equal available for expenditure
  - Display only net amounts available for expenditure



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## Liquidity & Availability

### Implementation Thoughts:

3. Consider presenting classified SOFP to enhance or simplify quantitative disclosure requirements
4. Develop a formal policy for managing the NFP's liquidity needs – will be articulated in qualitative portion of the footnote



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## Liquidity & Availability

Example in Handout – see page 1 – 3,  
includes footnote policy

Remember - Lots of flexibility in writing  
this footnote!



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## Liquidity & Availability

Liquidity & Availability Exercise – see handout page 9-11 for case study facts



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## Expense Reporting

1. Present expenses by function and nature in one location
2. Include description of method used to allocate costs among program and support functions
3. Improved guidance about management & general expenses



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## Expense Reporting

Functional expenses defined:

### Program services

Activities resulting in goods & services being distributed to beneficiaries, customers or members that fulfills the NFP's purpose or mission

### Supporting activities

Generally includes M&G, fundraising and membership development activities



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## Expense Reporting

Improved guidance on M&G Allocation

Direct conduct or supervision of program requires allocation from M&G, for example,

Both IT & CEO – benefits various functions & generally would be allocated across all functions

HR – typically all M&G



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## Expense Reporting

Improved guidance on M&G Allocation

CFO – typically allocated to M&G and possibly to investment expense

Grant Accounting and Reporting – program reports allocated to program, but financial reports & related accounting allocated to M&G



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## Expense Reporting

New guidance on M&G Allocation provides examples of M&G, which now include:

- Payroll
- Contract financial reporting
- Employee benefits management & oversight (HR)



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## Expense Reporting

See handout for functional expenses  
statement example and footnote  
disclosure of allocation methods on pages  
7-8



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## Expense Reporting

Functional Expense Exercise  
Dental Health Clinic



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## Investment Return

- Net presentation of investment expenses against investment return
  - Includes both EXTERNAL and direct INTERNAL expenses
  - Removes requirement to disclose gross investment income and expense in an investment endowment footnote
- No longer present investment expenses at “gross” with other expenses.



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## Investment Return

### Internal Investment Expenses

Direct conduct or direct supervision of strategic and tactical activities involved in generating investment return



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## Investment Return

### Internal Investment Expenses Examples

- Salaries, benefits, and travel for staff responsible for development and execution of investment strategy
- Allocate costs for internal investment management and supervising, selecting and monitoring of external investment management firms



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## Statement of Cash Flows

- Can use indirect or direct method for reporting operating cash flows
- If direct is used, not required to show indirect reconciliation



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## Effective date

Effective date for annual financial statements for fiscal years beginning after December 15, 2017

Example effective year ends:

- Calendar year ending 12/31/18
- Fiscal years ending in 2019, for example 6/30/2019 or 9/30/2019



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## Transition Guidance

In year of adoption:

- apply all provisions
- disclose nature of any reclassifications or restatements and their effects on changes in net asset classes for each period presented

For comparative years presented, can choose to not present:

- analysis of expenses by nature and function and/or (unless already required to by GAAP)
- disclosures around liquidity and availability of resources



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## Transition Guidance

Disclosures and Auditor's Reports in year of adoption

- Required disclosure – disclose nature of reclassifications or restatements and their effects on change in net asset classes
- Auditor's reports – Include emphasis of matter paragraph in the auditor's report if adoption results in changes that have material effect on financial statements

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# QUESTIONS?

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# Questions?

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# Upcoming Events

## **SDK's Annual Oktoberfest**

Thursday, October 25

at the Nicollet Island Pavilion

## **Roundtable Seminar**

Monday, November 5

at The Depot Minneapolis

## **SDK's Annual Tax Update**

Tuesday, December 11

at The Depot Minneapolis

