



## Rethinking Nonprofit Financial Reporting

The Financial Accounting Standards Board (FASB) has issued new accounting standards for nonprofit financial reporting. The update, *Presentation of Financial Statements of Not-for-Profit Entities*, is designed to help nonprofits present their financials in a way that tells their story more transparently.

### A Clearer Picture, Inside and Out

Both internal and external audiences are expected to benefit from this new reporting structure, which provides clear details of an organization's liquidity, financial performance and cash flows.

Externally, donors and funders will be able to better assess the financial health of the nonprofits they are interested in supporting. Internally, those charged with nonprofit management and governance will enjoy improved clarity of their organization's financial information.



In particular, the changes cover these key areas of nonprofit financial reporting:

**Asset Restrictions** — Nonprofits have traditionally been required to report assets within three categories: restricted, temporarily restricted and permanently restricted. Under the new accounting standards, assets will be categorized either as “with donor restrictions” or “without donor restrictions.” This streamlined approach will allow endowments that previously were classified as permanently restricted to be grouped for financial statement presentation with other restrictions that may be more time-limited.

**Expenses** — Expenses will be reported by both their nature and function. Currently, only those nonprofits classified as voluntary health and welfare organizations are required to allocate expenses this way. Nonprofits will have the flexibility to present expenses either on their statement of activities, as a separate statement or within notes to the financial statements.

**Liquidity** — Financial statements will be required to provide quantitative and qualitative information that assesses a nonprofit's liquidity and how it is managed. For example, a reconciliation must be included in the disclosures to detail what resources are available for use in the following year, and management must disclose its strategies to have cash available.

**Endowment Funds** — The amount of any endowment funds that are underwater will be reported under the new “with donor restrictions” category of net assets. Additional disclosures about the original gift amount, current fair value and organizational spending policies must be provided.

**Investment Expenses** — The accounting change also requires the netting of external and direct internal investment expenses against investment return. Nonprofits would not be required to disclose internal salaries and benefits that are netted against investment return.

### Clear Your Mind

These changes to the reporting model represent a conceptually different approach to how information is presented in nonprofit financial statements. In fact, FASB acknowledges that the new standards are “reasonably different” from current generally accepted accounting principles (GAAP) — and that initial compliance with the rules could be challenging.

The end result for nonprofit financial statement users is expected to be positive. The new standards will help donors, existing and potential board members, lenders and regulators understand the financial health of the organization — where the money is coming from and where it's going.

For more information on this topic, please contact our office at 401-331-0500 and ask to speak to one of our Not-for-Profit specialists.

### Is your Organization getting the most from Social Media?

Fundamentally, social media aims to create more human connection. This is a powerful tool for nonprofits that know how to use it well. For relatively little investment, social networks offer the ability to:

1. communicate and spread a nonprofit's mission.
2. identify and build lasting relationships with donors.
3. demonstrate success through communicating results.

Here are a few helpful sites specifically geared toward nonprofits:

<https://www.thebalance.com/nonprofit-marketing-social-media-2295346>

<https://www.networkforgood.com/nonprofitblog/social-media-nonprofits-top-4-dos-and-donts/>

