

M A R K S P A N E T H

ACCOUNTANTS & ADVISORS

FASB ROUNDTABLE ON PROPOSED NONPROFIT ACCOUNTING STANDARDS

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RECAP OF RECENT ROUNDTABLE REGARDING FASB'S PROPOSED ACCOUNTING STANDARD UPDATE, PRESENTATION OF FINANCIAL STATEMENTS OF NON-FOR-PROFIT ENTITIES

You are most likely aware that the Financial Accounting Standards Board (FASB) issued a Proposed Accounting Standard update (exposure draft) suggesting major revisions to the way nonprofit financials will look in the future. The proposed changes are considered to be the most sweeping since 1993. The public comment period ended on August 20, during which time Marks Paneth and approximately 260 other entities (accounting firms, state societies of CPA's, individuals, universities and other nonprofits) issued comment letters relative to the exposure draft.

In response to this feedback, the FASB established a series of roundtable meetings on both the East and West coasts to enhance their understanding of the views expressed in the comment letters and to hear possible alternatives suggested by participants.

Marks Paneth was invited to attend one of two roundtable meetings held on September 21 at the FASB's offices in Norwalk, Connecticut, to discuss our views with the FASB Board and their technical managers. On behalf of Marks Paneth, I participated together with my colleague, John D'Amico, Director of our firm's Professional Standards Group.

Other roundtable participants included representatives from EY, The Museum of Modern Art, the National Association of College and University Business Officers (NACUBO), the New York State Society of CPAs, the Pennsylvania Institute of CPAs, the American Diabetes Association, Grant Thornton, KPMG, the Massachusetts Society of CPAs, the North Carolina Association of CPAs, New York University, PwC, the Nonprofit Finance Fund and the University of Pennsylvania.

The discussion focused on the following topics:

INTERMEDIATE MEASURE OF OPERATIONS

The FASB is proposing two intermediate measures of operations on the statement of activities, namely by mission and by availability. There were lengthy conversations on this topic and general acceptance of having a required intermediate measure of operations. Participants stated that this might increase financial statement complexity, and not all not-for-profits (NFP) can measure their operations in the consistent manner that appears to be the suggestion of the FASB.

Marks Paneth does not fully agree with requiring a standardized measure of operations for all nonprofits. Defining "operations" in such a manner is not practical with so many different types of NFP organizations.

We suggested creating a number of sub-industry groups within the NFP sector to which some standardization by sub-group might be achievable.

PRESENTATION OF CASH FLOWS

Generally, there was agreement that the direct method (showing sources and uses of cash in the operating section) is more useful than the indirect method (showing non-cash items like depreciation and changes in balance sheet accounts year-over-year) within the operating section. The indirect method is widely used at present. If the direct method were to be required, the feedback was mixed on allowing the reconciliation of operations to be an addendum to the indirect method. The FASB representatives also advised that they will not pursue alignment of the meaning of operating activities on the statement of cash flows with the proposed operating classification for the statement of activities.

Marks Paneth agrees that the direct method is more understandable and useful. We also believe that the FASB should allow nonprofits to present the reconciliation of operations to the indirect method.

INFORMATION USEFUL FOR ASSESSING LIQUIDITY

There was general consensus on having more information on liquidity. There were mixed views on requiring a footnote that has qualitative information about liquidity as it might be too subjective. There were also discussions that a “classified” balance sheet for nonprofits might be a partial solution to the perceived lack of communication about liquidity. A classified balance sheet arrays assets convertible to cash, in the 12 months after the year-end, as current assets with all other assets relegated to long-term. Similarly, the liabilities that would come due in the same 12 months would be shown as current and all others as long-term. This at least provides the financial user with a measure of working capital.

Marks Paneth believes that improving the ability to assess liquidity is an important concept that should be easily communicated and understood in financial statements. We agree that a note to the financial statements would be helpful, and that a classified balance sheet can improve how a nonprofit can show its liquidity position. We also believe information in the notes should be relevant and reliable. Accordingly, we do not agree with the FASB’s suggestion that such a disclosure might speak to cash flow needs of the NFP in increments of 30, 60 and 90 days after year-end. This is obvious because often the financials are not issued with the audit report until at least 90 days after year-end. Our view is that a modified classified balance sheet showing assets convertible to cash over the six months after year-end should be classified as current in the notes and all else be considered non-current. For liabilities payable during the same six months, they, too, would be shown as current in the notes.

EXPENSES BY FUNCTION

There was overall support for all nonprofits to report their expenses by both function (program[s] and supporting services) together with the natural classification of expenses such as personnel costs, occupancy, etc. Such a “matrix” could be reflected either on the face of the financials or in a separate disclosure in the notes.

Marks Paneth agrees that all nonprofits (not just most voluntary health and welfare organizations) should report their expenses by both function and natural classification.

INVESTMENT RETURN

There was overall support for reporting investment return, net of investment expenses including internal direct costs, if applicable, such as personnel and measurable external costs such as broker fees.

Marks Paneth agrees that investment expense should be shown in this manner.

CHANGES IN CLASSES OF NET ASSETS

There was general consensus around combining the temporarily and permanently restricted net asset classes into one category called “net assets with donor restrictions”, thus leaving only two net asset classes titled, “those without donor restrictions” and “those with donor restrictions”.

Marks Paneth agrees with combining these two net asset classes into one donor restricted category. This will help avoid confusion over the existing permanently restricted net asset class, especially as it relates to each state’s legal interpretation of the corpus of those funds under their enacted rules of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). We also agree that requiring an enhanced financial statement note, describing what resources can be made available over time or by meeting the donor’s intent, would be appropriate. This note would display the temporary nature of those restrictions and further describe those net assets that have a more permanent aspect to them. At the meeting, we also suggested that consideration should be given to requiring a further breakdown of the net asset class without donor restriction to include the net investment in property and equipment and other non-liquid items.

If you would like to hear the audio recordings of each of the three-hour Norwalk roundtable sessions, please click [here](#). Once you are at the link, you can click on the “9/21/15 P.M. Session” to hear Marks Paneth’s comments. To read our comment letter, click [here](#).

In conclusion, we recognize the changes proposed by the FASB have potentially far reaching implications for your organization. We expect the draft standard will undergo revisions as a result of the comments and roundtable input that the FASB received from Marks Paneth and the other roundtable participants. One more roundtable is being held in Los Angeles in October. As changes and further clarity emerge from the FASB, we will keep you informed. In the meantime, if you have any questions, please feel free to reach out to us.

FOR MORE INFORMATION

If you have questions about this topic, please contact [Michael McNee](#), Partner-in-Charge of the Nonprofit and Government Group, by phone at (212) 503-8954 or by email at mmcne@markspaneth.com or any of our [Marks Paneth Professionals](#).