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## USING TECHNOLOGY TO SIMPLIFY COMPLIANCE WITH THE NEW NFP REPORTING STANDARDS

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Not-for-Profit CPE Seminar Series May 3, 2017



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## OVERVIEW OF ASU 2016-14

- **Presentation of Financial Statements of NFP Entities**
- **Released in August 2016 and effective for years beginning after 12/15/17**
- **Examples: December 31, 2018 and June 30, 2019**
- **Early adoption is permitted**

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## OVERVIEW OF ASU 2016-14

- **Improvements in financial reporting needed in these areas:**
  - *Three-class net asset system considered to be complex*
  - *Inconsistent reporting of expenses by NFPs*
  - *Better information needed regarding liquidity and financial performance*
  - *Requirement to present indirect method of cash flows is cumbersome*

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## CHANGES TO NET ASSET REPORTING

- **Elimination of Temporary vs. Permanent Restrictions**
  - *Must present totals for net assets with donor restrictions and net assets without donor restrictions*
  - *Statement of activities would also report the change in these two net asset classes*

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## NET ASSET DISCLOSURES

- **Nature and amount of different donor restrictions**
  - *Assets that cannot be sold or must provide a permanent source of income (permanent restrictions)*
  - *Provided for the support of specific activities*
  - *Held for a specified term or used in a specified period*
  - *Restricted for the acquisition of long-lived assets*
- **Disclosure regarding the amount and purpose for any board-designated net assets**

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## OPTIONAL NET ASSET REPORTING

- **Organizations may wish to present more detail regarding the nature of donor restrictions**
  - *Fund (building, endowment, scholarship etc.)*
  - *Details of programmatic purposes*
  - *Specific fiscal years for longer-term time restrictions*
- **Nature of amounts released from restriction**

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## STATEMENT OF ACTIVITY CONSIDERATIONS

- **Multiple presentation formats for the statement of activities**
  - *Consider which most clearly presents the activities and performance of your organization*
  - *Importance of restricted activities?*
  - *Comparative financial statements*
  - *Revenues and expenses need to be presented at gross amounts, except for investment activity and gains/losses*

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## STATEMENT OF ACTIVITY CONSIDERATIONS

- **Revenues and expenses can be grouped in different ways**
  - *Restricted and unrestricted (required)*
  - *Operating and nonoperating*
  - *Earned and unearned*
  - *Recurring and nonrecurring*
  - *Other*

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## STATEMENT OF ACTIVITY CONSIDERATIONS

- **Other disclosures**
  - *Total fundraising expenses*
  - *Total program expenses and information regarding differences between the statement of activities and the notes*
  - *Relationship between functional and natural classifications for all expenses*
  - *Description of the methods used to allocate costs among program and support functions*

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## OTHER DISCLOSURE CONSIDERATIONS

- **Investment income need no longer be segregated between dividends/interest and gains/losses**
- **Investment rollforward (optional)**
- **Ratio of fundraising expenses to amounts raised – if presented, the method of determining must be disclosed**
- **Summarized comparative information – must be adequately labeled as summarized information, and is essentially a single-year presentation**

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## FUNCTIONAL EXPENSES

- **Now required for all NFPs**
- **Presented either in the statements or the notes**
- **Expenses must be grouped by natural classification**
- **Must disaggregate major classes of program services and supporting services**

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## FUNCTIONAL EXPENSES

- **Added a subtotal for G&A and fundraising expenses**
- **Items that are considered to be gains and losses (incidental, peripheral, or insignificant) are to be excluded from the expense analysis**
- **All expenses must be presented by natural classification, including allocated costs**
- **Methods used to allocate costs must be described**

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## LIQUIDITY

- **Need to disclose the organization’s liquidity policy**
- **Need to present the financial assets available for general use within one year**
  - *Contractual or donor-imposed restrictions*
  - *Board designations*
  - *Held in trust or by third party*

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## LIQUIDITY

- **Example: Disclosure of assets available for use**
  - *NFP A has \$395,000 of financial assets available within 1 year of the balance sheet date to meet cash needs for general expenditure, consisting of cash of \$75,000, contributions receivable of \$20,000, and short-term investments of \$300,000.*
  - *None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date.*
  - *The contributions receivable are subject to implied time restrictions but are expected to be collected within one year.*

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## USING TECHNOLOGY – TRACKING INFORMATION

- **Current methods of tracking information needed for financial reporting**
  - *Current software*
  - *Excel*
  - *“It’s in my head”*

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## USING TECHNOLOGY – TRACKING INFORMATION

- **Risks/concerns with using current methods**
  - *“My memory isn’t as good as it used to be”*
  - *No audit trail*
  - *Reinventing the wheel, generally when there are competing priorities*
  - *Duplicating efforts*

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## USING TECHNOLOGY – TRACKING INFORMATION

- **NFP reporting requirements that can be tracked using your accounting system**
  - *Contributions by restrictions*
  - *Net asset classifications including board designated assets*
  - *Segregation of expenses between program, fundraising and G&A*
  - *Natural classification of expenses*
  - *Allocations*
  - *Liquidity*

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## NOT ALL ACCOUNTING SYSTEMS ARE EQUAL

- **A variety of accounting systems are available from small online applications (Freshbooks), to Quickbooks/Peachtree, Sage/Great Plains, Netsuite, Blackbaud products such as Financial Edge**
- **You do not necessarily need a NFP specific system, but you need to understand how your system can be tailored to meet the needs of your specific NFP**
- **Many software companies are releasing software with NFP-specific capabilities**

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## YOU CAN'T ALWAYS GET WHAT YOU WANT...

- **But you can get what you need if... you understand your needs and your system:**
  - *What information are you looking to get out of the system?*
  - *How is that information processed within your system?*
  - *What are the system's reporting capabilities?*

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## REVENUE CONSIDERATIONS

- **Level of detail required, driven by complexity of revenue streams**
- **Earned program revenue is excluded from this consideration**
- **Unrestricted contributions are excluded from this consideration but detail about the type or source of contributions may be helpful**
- **Restricted contributions can include grants, donations, investment donations**
- **Unrestricted contributions can include all of the above as well, so ensure that the person accounting for the transaction understands the parameters (garbage in, garbage out)**

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## RESTRICTED CONTRIBUTIONS

- **Specifics differ by software, but the overall concepts are similar**
- **Can be tracked via the use of the trial balance**
  - *Code the revenue stream with specific G/L account numbers*
  - *Best used with a limited revenue streams and/or restricted contributions that do not require detailed reporting*

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## RESTRICTED CONTRIBUTIONS

- **Questions to consider:**
  - *What features within your system allow for more detailed breakdown of contributions, such as classes in Quickbooks*
  - *Will you want further reporting related to the contributions such as the ability to run a report related to revenues and expenses on a specific grant or program for a given year*

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## NET ASSET CLASSIFICATIONS

- **Begin with the beginning – make sure your net assets in the CY agree to the net assets per your YE audit report**
- **Limit transactions to net asset accounts if possible**
- **Understand the nature of your restricted net asset balances**
- **Evaluate internally how often the net asset accounts on the statement of net assets should be adjusted**
- **Utilize reports in the system to determine what the restricted net asset balances are at YE in order to record adjusting entries**

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## SEGREGATION OF EXPENSES BY CATEGORY

- **Reporting by functional expenses**
  - *Program*
  - *Fundraising*
  - *General and Administrative*
  - *Other*

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## SEGREGATION OF EXPENSES BY CATEGORY

- **Complexity of revenue streams and reporting requirements will dictate the level of detail required to create the reporting buckets**
  - *Programmatic expenses may not require a detailed breakdown to satisfy the requirements, but internal reporting may be enhanced with a detailed breakdown*
  - *G&A expenses are part of the “overhead” bucket, which is sometimes a “dirty” word for NFPs*
  - *The reporting of function expenses forces the consideration of these types of expenses*

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## SEGREGATION OF EXPENSES BY CATEGORY

- **Complexity of revenue streams and reporting requirements will dictate the level of detail required to create the reporting buckets**
  - *Fundraising expenses will be reported in total and compared to the amount raised, which will require allocation of contributions received in conjunction with fundraising to be segregated*
  - *Internally, if there are multiple fundraising initiatives, segregation by event (similar to reporting by program or grant) will provide feedback on the effectiveness of the event*

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## NATURAL ALLOCATION OF EXPENSES

- **Expense reporting by type (facilities, salaries, supplies, etc.)**
- **Detailed on the statement of functional expenses**
- **Chart of accounts – appropriate level of detail – can you use other system functions to provide that detail?**
- **Invoices and other expenses need to be coded appropriately – establish oversight to be sure that minimal transactions are being recorded without the appropriate level of detail**
- **Coding of general journal entries and bank transactions**

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## ALLOCATIONS

- **Develop an understanding of what costs should be allocated (salaries, rent, facility costs, depreciation, professional fees)**
- **Determine how will those costs be allocated – by department, grant, program**
- **Set parameters to be used for allocation, such as square footage, revenue generated, payroll etc.**
- **Consider having outside vendors provide reports by natural classification such as program, development and admin**
- **Establish recurring entries in your software – evaluate options for allocations**

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## LIQUIDITY

- **Begins with the statement of net assets (balance sheet)**
- **Current vs. non-current (grant or campaign receivables)**
- **Budgeting/cash flow projects allow you to track the expected revenue stream of multi-year grants or campaign contributions**
- **Adjusting journal entries**

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## FINAL THOUGHTS

- **Technology is great, but...**
  - *Effective use of technology requires time, energy and a true understanding of what you need to get out of your system*
  - *Consistency and diligence in data entry and in daily, weekly and monthly review*
  - *Information should be reviewed by individuals who understand financial information and reporting*

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## FINAL THOUGHTS

- **Technology is great, but...**
  - *Evaluate the reports built into the system for usefulness (including the statement of cash flows)*
  - *Consider opportunities provided by the system's report writer*
  - *Nothing is set in stone – refine as you go*
  - *Don't forget internal controls*

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