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The FASB's not-for-profit accounting standard is the first major update to not-for-profit reporting in more than two decades, and it aims to lend better insight into how an organization operates and manages its finances. Other changes to the financial reporting by not-for-profit groups may also be in store. The FASB recently published a proposal to clarify when and how to recognize contributions with



public comment a proposal that aims to make it easier for organizations to determine how to record the proceeds from grants and donations that have conditions attached to them. While it may not sound as big of a change as a financial statement makeover, the question has dogged financial reporting for years because contributions with conditions attached to them are recognized differently from other types of contributions, and the distinction could affect the timing of the recognition of potentially millions of dollars.

"People need to think about how these different things affect them", said BDO USA LLP Assurance Director Lee Klumpp. "It could get really ugly for some of these nonprofits, especially if they don't know what's coming."

The FASB in August 2016 published Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, the first significant change to not-for-profit accounting in more than two decades. The update goes into effect for financial statements for fiscal years that start after December 15, and it changes many areas of accounting for not-for-profit groups.

The amended standard requires more disclosures about liquidity — access to cash — and endowments that have dropped below their initial value or the value set by law or a contract. It also changes the categorization of an organization's assets into those with donor restrictions and those without. The current standard uses three categories — unrestricted, temporarily restricted, and permanently restricted. Few people outside not-for-profit accounting circles know what "unrestricted" assets meant, the FASB said, and they may have thought the term applied to funds that are free for any use. In reality, unrestricted assets can mean there may not be strings attached to them by donors, but they could be tied up by board restrictions or for legal reasons. The new categories attempt to clarify the distinctions.

In addition, all organizations must report an expense analysis with information



decided to adopt the standard early, the expense analysis was easy to implement with the 2016 financial statements it recently published because the group already reported it, said Ken Euwema, the organization's vice president and corporate controller.

"It was not really complicated", Euwema said. "The process itself was sitting down with my team, conveying to them what key points of the changes were, and, for the most part, reorganizing and remapping the numbers to get the format right. The biggest amount of work was getting the disclosures right."

As a member of the FASB's special advisory group for not-for-profit accounting issues, Euwema acknowledges that he had special insight into the standard's revised requirements because he had a front-row seat to the debates that shaped them. He also happens to believe strongly that the standard offers an improvement over current U.S. GAAP.

"I believe wholeheartedly that this is going to give people a different perspective on not just United Way, but on the not-for-profit sector as a whole", he said. "This is going to allow the not-for-profit sector to convey how we are different — because we are different — and to convey what it is we're about."

To Klumpp, who served as a project manager at the FASB on the not-for-profit project from September 2012 to March 2014, the update will help communicate not-for-profit finances more clearly, but he does not believe that most organizations are prepared.

"People need to get on the bandwagon and need to understand how it's going to affect their statements", he said. "Even more so, management needs to be talking to the board."

Organizations also cannot let the FASB's proposal for clarifying when to record



The proposal aims to address a long-standing criticism that U.S. GAAP contains limited and conflicting guidance for not-for-profit organizations to distinguish between exchanges and contributions.

Chris Cole, associate director of product management and development at the AICPA, said he first started talking to the FASB about the problems six years ago. His personal experience with the shortcomings in the guidance goes back more than a decade, he said.

"This was one of the things we struggled with on a regular basis, having difficulty coming to a consensus with clients", Cole said. "You're talking about the difference between recognizing potentially millions of dollars today for a five-year contract, or recognizing it over a five-year period as it is spent."

An exchange, sometimes called a reciprocal transaction, involves a not-for-profit group receiving money in return for providing services or incurring other obligations, such as when a government group grants money to a health care organization for cancer research. The proposal says an exchange transaction involves evaluating whether the resource provider — typically a foundation or government agency — is receiving "commensurate value" in return for the funds. If so, it is an exchange transaction that must follow the revenue recognition standard. An indirect benefit to the public is not considered commensurate value, nor is "positive sentiment" or fulfilling the foundation or agency's broader mission, the FASB said.

The guidance for the transactions could affect situations such as a donor's offer of $100,000 to a service organization to feed 5,000 people. Under current GAAP, if a not-for-profit typically serves 4,000 meals and believes it can easily serve 5,000, most groups would classify the gift as restricted and recognize the revenue the day they either are told that a donation is coming or the day they get the check, whichever comes first. The proposal, however, would call this arrangement a



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