



## **Change is Coming....FASB Proposals to Impact Nonprofit Accounting**

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The Financial Accounting Standards Board (FASB) recently released proposed accounting standards updates that could have a major impact on nonprofit organizations. The first major update to the not-for-profit accounting model in more than 20 years is expected to “improve financial statements to make them even more useful to donors, lenders, and other users,” according to FASB member Larry Smith, CPA.

The proposed changes focus on six areas: net asset classification, liquidity information, financial performance measures, reporting of expenses, cash flow statement presentation, and note disclosures. A summary of the proposed changes for each of these six areas is as follows:

- Net asset classifications will be modified from the current structure of three classes (unrestricted, temporarily restricted, and permanently restricted) to a two class structure focused on whether or not the net assets have a donor restriction of any nature.
- Organizations will be required to define how it manages its liquidity both through quantitative and qualitative information, including risk strategies used to manage liquidity.
- Financial performance measures will show operating measures both before and after the effects of any internal actions taken by the organization’s governing board as well as by mission, indicating whether resources are from or directed at carrying out the organization’s mission or are the result of investing and financing activities.
- All organizations will be required to present expenses by both nature and function, with flexibility as to where this is presented – on the face of the statement of activities, in a separate statement, or within the notes to the financial statements.
- All organizations will be required to use the direct method of reporting cash flows for operating activities, and several items would be reclassified into different categories within the statement.
- Additional disclosures related to cost allocation methods and certain endowment fund activity would be required.

FASB hopes that by making these changes, the “financial story” of the nonprofit organization will be clearer to the users of the financial statements.

FASB is accepting comments on the proposed changes until August 20, 2015. It is expected that following the comment period, FASB will re-evaluate the proposed changes and that a second draft of the proposed changes will be released for further review before the changes will become effective. At this time, FASB has not released a tentative effective date. DMLO is monitoring activity on the proposed changes and will continue to provide updates as the proposal progresses.