

NOT-FOR-PROFIT INSIDER

VOLUME 10 :: ISSUE 2

In This Issue:

Proposed Changes In Not-For-Profit Financial Reporting
Connecting The Dots Of Data Sources = Knowledge!



PROPOSED CHANGES IN NOT-FOR-PROFIT FINANCIAL REPORTING

Accounting guidance for not-for-profit organizations during the 1970's had a variety of different practices with no authoritative guidance. The AICPA issued audit guides for different types of not-for-profits including health care, voluntary health and welfare, and colleges and universities but it was not until 1980 that the Financial Accounting Standards Board (FASB) issued Concepts Statement No. 4 Objectives of Financial Reporting by Nonbusiness Organizations. It took another thirteen years before

Statements 116 and 117 were issued finally creating comprehensive accounting standards for most nonprofit entities and a new financial framework.

The current financial statement framework reflects three classes of net assets-unrestricted, temporarily restricted and permanently restricted which took the place of the fund presentation which many not-for-profits utilized until 116 was adopted.

In 2010, FASB formed a not-for-profit advisory committee to get input from a diverse group of stakeholders, users, preparers, and regulators. The underlying accounting principles for nonbusiness organizations have been well accepted and useful but some have expressed a need for the financial reporting model to be updated to provide additional information about the organization's operations and use of resources.

In April 2015, FASB released its Exposure Draft of the Proposed Accounting Standard Update Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954). Public comments are encouraged and can be submitted either electronically or by mail to the Board.

The objectives of the standards project included refreshing the financial reporting model, making simplifications where possible and focusing on net asset classes, liquidity, financial performance and cash flows. The proposed changes are intended to accomplish these objectives by providing both additional clarity and simplification with the

Continued on Page 2...

PROPOSED CHANGES IN NOT-FOR-PROFIT FINANCIAL REPORTING, CONT.



Continued from Page 1...

goal of providing more useful financial information for all stakeholders of not-for-profit entities.

Here are some of the major changes:

- Net assets would be presented either as with donor restrictions or without donor restrictions rather than in three classes. The characteristics of donor restrictions, purpose, time or permanently restricted will continue to be an important part of the disclosures.
- The Statement of Activities would have some flexibility in allowing either a one-stage or two-stage approach but there will be a requirement to present operating activities which will focus on mission and availability as the keys to financial statement presentation.
- A one-stage Statement of Activities would begin with operating revenues, transfers and expenses which would include the organizations charitable and business activities "the mission", nonoperating revenues, expenses and transfers including investing and financing, and finally donor-restricted activities.

- Investment and financing activities will not be considered mission-related in most instances. Capital like transactions will include gifts of long-lived assets or cash received to construct such assets.

Several of these changes in the format of the Statement of Activities could affect covenants with current lenders and all nonprofits should think about doing a pro forma statement to see how the new presentation might affect their relationships with lenders and donors.

The Statement of Cash Flows will now be under the direct method-as currently required by the GASB standards. Some believe that the direct method provides more meaningful information but others point out that many, if not most systems are not currently programmed to provide this information and the effort to make the change may be costly. There would also be a realignment of some categories to better match with the statement of activities. For example donated property would be reported as operating and interest paid on long term debt would be reported as financing.

Required disclosures will be expanded to include reporting of expenses on

a natural basis as well as a functional basis (currently required only of Health and Welfare Organizations), expanded disclosures about cost allocations and quantitative and qualitative aspects of liquidity. Additional information about governing board designations and transfers, as well as underwater endowment funds, are also part of the proposal.

The key questions regarding the new proposals are whether these changes would not only provide relevant, but more useful information to donors, creditors and other users in assessing the organization's liquidity and financial flexibility, performance during the period, service efforts and ability to continue to provide needed services in accordance with its mission, and evidence of appropriate stewardship and fiduciary responsibilities?

The second key question is with scarce resources for all not-for-profits in today's economic environment, would these changes be cost effective and how much time would be needed to implement such changes, particularly for smaller nonprofits?

After more than 20 years, is the financial reporting model for nonbusiness entities broken? And if so, does the Exposure Draft provide a reasonable approach to providing clarity and more useful information to nonprofit stakeholders? The full text of the Exposure draft is available at www.fasb.org.



By Marilyn Pendergast,
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CONNECTING THE DOTS OF DATA SOURCES = KNOWLEDGE!

When was the last time that your organization connected the dots of key financial information? There is tremendous value in compiling key metrics from a number of data sources that will provide management and board members valuable information on historical results.

We recommend that all nonprofit entities develop and maintain a file that tracks financial and nonfinancial data for at least a 5 year period (ideally a 10 year period). By identifying your key data metrics, your organization will be in control of data that translates into meaningful financial analysis and trends that can guide the future of the organization.

There are several sources of financial and nonfinancial data that should be gathered and leveraged for analysis that is important to you. Specifically, we recommend that you consider compiling information from the following 6 sources:



By performing this annual “Connect the Dots” analysis, the entity can ensure the accuracy of the financial and tax information that is communicated by employees, board members and volunteers to users. Some accounting systems and financial development systems are not integrated and information related to donors for cash and noncash in-kind contributions may not always be in agreement and/or reconciled. Also, for financial and tax reporting, there are other differences in how certain revenues and expenses are reported. Some of the differences between book and tax include noncash in-kind donations of rent and services, unrealized gains/losses on investments and sometimes bad debts, pledges, investment management fees.

A brief analysis of each of these data sources that can be compiled into the master file (such as an Excel file) includes the following:

Annual Financial Statements.

Complete and/or condensed financial data from the core statements and footnotes should be entered into the master file. This information can be expanded and linked to other sources of financial and nonfinancial information. Also, this data can then be used for analytics and metrics.

Annual Tax Return Form 990.

Data should be extracted on key items, including revenues, expenses, and balance sheet from the core form 990. Also, other key information on transactions can be extracted from:

- Schedule B (Contributions – cash and noncash property)
- Schedule G (Special events and gaming activities)
- Schedule J (Compensation – details on base compensation and benefits of key employees/officers)
- Schedule M (Noncash donated real and personal property – details on number of transactions can be used to track averages for each of 24 categories)

General Ledger & Sub-ledgers (Donors). Financial and nonfinancial data (number of transactions or accounts) should be extracted and entered for items such as:

- Bank and investment accounts (for example, cash receipts and disbursements) (#)
- Customers/clients/donors/grantors
- Property by category (consider expanding historical cost/net book value with replacement value)
- Vendors/employees
- Revenues (separate restricted and noncash contributions)
- Expenses

(#) For example, data on cash receipts may be sorted by level of giving that can provide meaningful data on number of donors by level. Also, what are the sources or channels of giving of donations (i.e., ACH, mail, gift shop, website, special event, honor/tributes, 3rd party vendor, phone, mobile/text, and social networking)? Other key information on seasonality of receipts/disbursements may be important to maintain on the master file.

Website. Data on programs, fundraising appeals, donor acknowledgements, etc. should be maintained and measured on the master file. Is the information consistent and verified with other data sources?

Annual reports. Data on nonfinancial results such as program statistics and other success or outcome based metrics should be maintained and measured on the master file. Donors today want to support charities that have successes and a track record of positive outcomes.

Watchdogs (Charity Navigator/ Better Business Bureau). Data should be entered on ratings and analysis that are relevant to your organization. The watchdogs are a great source of providing key trends on performance that are important to donors/grant making organizations.

Once you assess and evaluate these data sources, the next step is to bridge that data with your existing data reports (key indicators, benchmarks, performance measurements) that are shared with the board of directors and key committees. The master data file should ideally include a worksheet/tab for an executive overview of the 5 or 10 year period that is supported by multiple worksheets/tabs on key data points. Remember, most nonprofits have talented board members that prefer the executive summary; however, some of the financial experts will want details on the underlying data.



There are several sources of financial and nonfinancial data that should be gathered and leveraged for analysis that is important to you.



Continued on Page 5...

CONNECTING THE DOTS OF DATA SOURCES = KNOWLEDGE!, CONT.

Continued from Page 4...

We have illustrated below a sample of the types of data that might be included:

ABC Charity						
Financial History & Analysis						
	2014			2013		
Charity Navigator Ratings						
Accountability & Transparency	95			80		
Financial	93			92		
Overall	94			86		
Star Rating (4 is highest)	4			3		
Financial Statements						
	\$	%		\$	%	
Revenues						
Contributions & Grants	1,358,954	64%		904,587	59%	
Program	659,088	31%		621,568	40%	
All Other	93,957	4%		16,289	1%	
Expenses						
Program	1,678,998	83%		1,292,045	78%	
Management & General	168,234	8%		184,213	11%	
Fundraising	187,987	9%		179,356	11%	
Net Assets	2,000,346			1,923,566		
Increase (Decrease) in Net Assets	4%			-6%		
Income Tax Information (Form 990)						
	\$	#	Ave.	\$	#	Ave.
Compensation & Benefits/# Employees/Ave.	\$ 1,256,888	43	\$ 29,230	\$ 1,211,568	40	\$ 30,289
All Other Expenses/# of Vendors/Ave.	778,331	22	\$ 35,379	444,046	21	\$ 21,145
Number of Volunteers		56			45	
Contributions & Grants (from GL/subledger)						
	\$	#	Ave.	\$	#	Ave.
\$5,000 & Higher/# of Donors/Ave	\$ 733,835	39	\$ 18,816	\$ 488,477	32	\$ 15,265
\$1,000 to \$4,999/# of Donors/Ave	298,970	45	6,644	199,009	41	4,854
\$ 1 to \$ 999/# of Donors/Ave	326,149	567	575	217,101	566	384
Total	\$ 1,358,954	651	\$ 2,087	\$ 904,587	639	\$ 1,416
Cash & Investments						
	\$	#	Ave.	\$	#	Ave.
Checking accounts	\$ 431,223	5	\$ 86,245	\$ 431,223	5	\$ 86,245
Investment accounts	\$ 1,543,088	3	\$ 514,363	\$ 1,543,088	3	\$ 514,363

Summary. A master worksheet that incorporates data from multiple sources and is leveraged to develop graphics, trends, and percentages of historical data will bring significant value to your organization. With the increasing pressure on the nonprofit sector to become more transparent and accountable, monitoring and evaluation is becoming more and more important to demonstrate that programs and initiatives are achieving their objectives. Having an evidence base to better direct funding from donors is beneficial. Remember knowledge is powerful for management, board members and volunteers to understand the data and trends, and more importantly, to plan for the future.



By Patrick Rohrkaste, Partner (St. Louis, MO) & Heather Ward, Senior Manager (St. Louis, MO)

NOT-FOR-PROFIT INDUSTRY INSIGHT

With the increasing complexity of laws and regulations, it's important for associations, foundations, charities, hospitals, schools and other tax-exempt entities to seek out professionals with extensive experience in nonprofit compliance issues. We understand there are many challenges affecting the industry and provide the attention needed to help clients stay focused on their job at hand.

UHY LLP's National Not-For-Profit Practice offers comprehensive audit and assurance, tax planning and compliance and business advisory services to meet the unique, complex needs of nonprofit organizations.

These types of specialized services, which cut across the traditional service lines, demonstrate our philosophy of skilled professionals integrating industry expertise with technical services.

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