Happy Holidays! Welcome to the Jones & Associates LLC, CPAs December 2016 newsletter! Feel free to pass it along…

FASB issues new standard on financial statement presentation

The Financial Accounting Standards Board has recently issued accounting standard update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, intended to improve how a nonprofit organization classifies its net assets, as well as the information it presents in its financial statements about its liquidity and availability of resources, expenses, investment return, and cash flows. The major provisions of ASU 2016-14 are summarized below.

Net Asset Classification

The update requires a nonprofit organization to present on the face of the statement of financial position amounts for two classes of net assets at the end of the period, rather than for the currently required three classes. The two classes to disclose are net assets without donor restrictions (formerly unrestricted net assets) and net assets with donor restrictions (formerly temporarily and permanently restricted net assets). Additionally, the amount, purpose and type of any board designed net assets must be disclosed.

Related to the release of net assets, in the absence of explicit donor restrictions, the guidance requires that gifts that are restricted for acquisition or construction of property and equipment be released when the asset is placed in service. No longer will the releases be allowed over the depreciable period (i.e., through depreciation).

Liquidity and Availability of Resources Disclosure

The organization will need to disclose:

- Qualitative information that communicates how the organization manages its liquid resources available to meet cash needs for general expenditures within one year of the balance sheet date.
- Quantitative information, either on the face of the balance sheet or in the notes, and additional qualitative information in the notes as necessary, that communicates the availability of the organization's financial assets at the balance sheet date to meet cash needs for general expenditures within one year of the balance sheet date.

Availability of a financial asset may be affected by its nature, external limits imposed by donors, grantors, laws, contracts with others, and internal limits imposed by governing board decisions.

Functional Expense Allocation

The ASU provides enhanced guidance on how to allocate expenses into functional categories. This is the most concrete GAAP guidance on how to allocate expenses to date. These clarified guidelines may significantly change how your organization currently discloses its expenses.

The key concepts in this clarification are: direct conduct or direct supervision.

Under the new enhanced guidance, all of the following are considered, and should be allocated 100% to management and general (M&G) expense:

- Oversight, business management, budgeting
- General recordkeeping and payroll processing
- Administering government, foundation, and similar customer-sponsored contracts, including billing and collecting fees and grant and contract financial reporting

- Employee benefits management and oversight (human resources)
- Financing, including unallocated interest costs
- Soliciting funds other than contributions and membership dues
- Disseminating information to inform the public of the Organization's stewardship of contributed funds
- Making announcements concerning appointments
- Producing and disseminating the annual report
- All other management and administration except for the direct conduct of program services, fundraising activities, or membership development activities

What this means:

- CEO –could be allocated to program, fundraising, M&G
- CFO –could be allocated to M&G and investment expense
- HR –generally would assign all to M&G
- IT –benefits various functions and generally would be allocated
- Grant Accounting and Reporting –program reports would be program (grant-related) but financial reports and related accounting would be M&G

Investment Return Presentation

The new update allows the investment return to be net of external and direct internal investment expenses and no longer requires disclosure of those netted expenses.

Statement of Cash Flows

While most of our clients already present their statement of cash flows on the direct method, with the required reconciliation, the new guidance allows the presentation to exclude the reconciliation section if using the direct method.

Effective Date and Resources

The new guidance is effective for annual financial statements for fiscal years beginning after December 15, 2017 with earlier application allowed under certain qualifications. To read the original guidance, see http://www.fasb.org/cs/ContentServer?c=Document_C&pagename=FASB%2FDocument_C%2FDocumentPage&cid=1176168381847&mc_cid=fbb02b926c&mc_eid=93ef20f593.

FSLA Overtime Law – delayed…

We just received word from the National Council of Nonprofits:

> "The news is just now breaking that Federal Judge Amos Mazzant has issued a preliminary injunction blocking the Overtime Final Rule from going into effect on December 1, 2016. Siding with 21 states that challenged the rule, the judge ruled that the U.S. Department of Labor exceeded its authority in issuing a salary level test, and that the exemption for executive, administrative, and professional employees (the White Collar Exemption) is defined by the duties of the employees, not how much they earn. In making the decision, the judge is striking down not just the pending overtime rule, but longstanding DOL policy modified in both Democratic and Republican administrations."

That means that there will be a delay in the new rule going into effect on December 1st. We will keep you informed as we learn more.

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Should you have any questions about the content of anything in this newsletter, please contact us.

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