

### Background

A new update from the Financial Accounting Standards Board (FASB) constitutes the first major revision to nonprofit reporting since 1993 and focuses on how consumers of nonprofit financial statements (including the Board, donors and other funders) can better understand and make decisions based on the information contained in those statements.

The changes are in response to concerns from stakeholders about nonprofit financial reports in an effort to:

- Reduce the complexities in understanding the 3 different net asset classes,
- Address deficiencies in the transparency and utility of information that can be used to assess a nonprofit organization's liquidity, and
- Remove inconsistencies in the type of information nonprofits provide about their expenses.

### What's changing?

**Net Assets:** The update consolidates the existing three Net Assets classes into two:

- Unrestricted net assets will be referred to as "Net assets without donor restrictions"
- Temporarily restricted + Permanently restricted will be collapsed into "Net assets with donor restrictions"

**Expenses:** The update requires all nonprofits to present expenses allocated by functional category and provide disclosures on the methodology used for allocations

**Liquidity:** A new future-focused disclosure asks nonprofits to share information about their Liquidity and availability of resources (what we at FMA call Liquid Unrestricted Net Assets, or LUNA). Nonprofits will need to share

- *Qualitative information* on how the organization manages its available liquid resources
- *Quantitative information* about the ready availability of financial assets to meet cash needs for general expenditures within one year of the balance sheet date

**Enhanced Disclosures:** Additional "enhanced" disclosures are required of nonprofits showing

- Any self-imposed limits on the use of resources, such as those restricted by board designation for a particular use,
- Detailed information describing the composition of net assets with donor restrictions, and
- Endowment funds that are "underwater"

### Effective Date

The new standards will go into effect for calendar 2018 or fiscal 2019 reporting periods. We recommend that the prior year's financials be used as a planning tool to identify potential areas that may require further work.

### How should you prepare?

FMA is committed to ensuring that our clients fully understand and comply with the new standards. We also believe that organizations can be proactive about letting the new standards tell a story about their sustainability and effective stewardship of resources. To that end, we have already prepared some resources to help orient you to the changes at [fmaonline.net/FASBready](http://fmaonline.net/FASBready). There you can sign up to be notified of updated tools and assessments as we develop them, including a webinar series on the topic!

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