

Nonprofit Financial Reporting Revisited



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The last significant change to the financial reporting model for nonprofits was made back in 1993 when the Financial Accounting Standards Board (FASB) issued SFAS 117 (now codified at FASB ASC 958) changing financial statement formats from fund balances to using net asset classifications. FASB is now taking a look at ways to improve on that model.

The FASB created the Not-For-Profit Advisory committee (NAC) in 2009 to advise the FASB on issues unique to nonprofit entities. The NAC's work in late 2010 and early 2011 resulted in the proposals made to the FASB Board in November and the Board choosing to create two new projects (a standard setting project and a research project) to address nonprofit financial reporting.

The standard setting project will focus on nonprofit entities' net asset classification requirements and information provided in the financial statements and notes. This project would look at ways to provide better information about net assets to financial statement users, for example, better information on what is included in unrestricted net assets. Better information could include relabeling or redefining the current net asset classification of unrestricted, temporarily restricted, and permanently restricted net assets. The NAC felt that nonprofit entities also need to provide users better information about liquidity of assets, financial performance, and cash flows. Therefore, the project will also look at the statements of activities and cash flows.

The research project may or may not result in future accounting standards. This project is looking at how nonprofit organizations communicate information to donors and other financial statement users outside of just basic financial statements. This would include communication methods similar to the Management Discussion and Analysis (MD&A) format used by governments and public companies. As part of this project, the FASB will consider the current best practices of nonprofit organizations and how those best practices could be shared with other nonprofit organizations. That sharing of best practices could be through education efforts or through future accounting standards changes.

Any resulting changes will certainly not be immediate, but it's helpful to keep an eye on what's happening in new standard development regarding nonprofits.

If you have any questions related to this article, please feel free to contact John Kent (jkent@keitercpa.com) for further clarification.

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