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Not for Profit Reporting

CPE Seminar – July 18, 2019

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MaherDuessel
Certified Public Accountants



Question #1

Which of the following does not change because of ASU 2016-14?

- A. Classification of net assets
- B. Liquidity information
- C. Indirect or direct method of presenting Statement of Cash Flows
- D. Approach to record capital gifts

STATEMENT OF CASH FLOWS - DIRECT METHOD

Cash flows from operating activities:	
Cash received from service recipients	\$ 5,020
Cash received from contributors	8,030
Cash collected on promises to give	2,615
Interest and dividends received	8,570
Miscellaneous receipts	150
Cash paid to employees and retirees	(13,400)
Cash paid to suppliers	(5,658)
Interest paid	(382)
Grants paid	(5,175)
Net cash used by operating activities	(230)
Cash flows from investing activities:	
Purchase of equipment	(1,500)
Proceeds on sale of equipment	200
Insurance proceeds from fire loss on building	250
Proceeds from sale of investments	76,100
Purchase of investments	(74,900)
Net cash provided by investing activities	150
Cash flows from financing activities:	
Proceeds from contributions restricted for:	
Investment in perpetual endowment	200
Investment in term endowment	70
Investment in land, buildings, and equipment	1,210
Investment subject to annuity trust agreements	200
	<u>1,680</u>
Other financing activities:	
Interest and dividends restricted for reinvestment	300
Payments of annuity trust obligations	(145)
Payments on notes payable	(1,140)
Payments on long-term debt	(1,000)
	<u>(1,985)</u>
Net cash used by financing activities	(305)
Net decrease in cash and cash equivalents	(385)
Cash and cash equivalents at beginning of year	4,960
Cash and cash equivalents at end of year	\$ 4,575
Supplemental data for noncash investing and financing activities:	
Gifts of equipment	\$ 140
Gift of paid-up life insurance, cash surrender value	80

STATEMENT OF CASH FLOWS - INDIRECT METHOD

Cash flows from operating activities:	
Change in net assets	\$ 15,450
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation	3,200
Fire loss	80
Actuarial loss on annuity trust obligations	30
Gain on sale of equipment	(200)
Increase in accounts and interest receivable	(480)
Decrease in inventories and prepaid expenses	390
Increase in contributions receivable	(325)
Increase in accounts payable	1,520
Decrease in refundable advance	(850)
Decrease in grants payable	(425)
Contributions restricted for long-term investment	(2,740)
Realized and unrealized gains on investments	(15,800)
Interest and dividends restricted for reinvestment	(300)
Net cash used by operating activities	(230)
Cash flows from investing activities:	
Purchase of equipment	(1,500)
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Supplemental data:	
Noncash investing and financing activities:	
Gifts of equipment	\$ 140
Gift of paid-up life insurance, cash surrender value	80
Interest paid	382

Statement of Cash Flows

	DIRECT METHOD	INDIRECT METHOD
Cash Flows from Operating Activities	Presented as a series of cash inflows and cash outflows	Starts with Change in Net Assets and then a series of reconciliations to get to change in cash
Reconciliation to the Indirect Method	May be presented but no longer required	N/A – already reported above
Supplemental Data for Noncash Investing and Financing Activities	Must be presented if applicable	Must be presented if applicable
Supplemental Data for Interest Paid	N/A - already reported above	Must be presented if applicable

Question #2

Before ASU 2016-14, net assets were categorized as all of the following, except?

- A. Temporarily Restricted
- B. Unrestricted
- C. Permanently Restricted
- D. Without Donor Restrictions



Question #3

Availability of financial assets may be affected by:

- A. Nature of the assets
- B. External limits imposed by donors, laws, and contracts with others
- C. Internal limits imposed by board decisions
- D. All of the above



Question #4

True or False: The new Presentation of Financial Statements for Not-for-Profit Entities must be adopted by December 31, 2018 year-ends and later.

- A. True
- B. False

That Means YOU...6/30/19s!



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If You've Ignored it to This Point...

- Key things to consider:
 - Have you considered any modifications necessary for your **functional allocation of expenses**? (Or those doing this for the first time, have you acknowledged that you need to do this?)
 - Are you prepared for the following enhanced disclosures?
 - Amounts and purposes of **governing board designations**
 - Qualitative information that communicates how your organization will manage its **liquid resources**
 - **Methods** used to allocate costs
 - **Underwater** endowment funds

If You've Ignored it to This Point...

- Key things to consider (continued):
 - Do you have any **long-lived assets** for which you are releasing restrictions over the estimated useful life of the asset?
 - Do you present **comparative financial statements**?
 - Could opt to present single-year, but will still have to adjust beginning net assets
 - If comparative, you can opt to omit the prior period's:
 - Analysis of expenses by both natural and functional classification (however, you are still required to show both classifications separately)
 - Disclosures about liquidity and availability of resources

Question #5

What is the Placed-in-Service Option related to Long-Lived Assets?

- A. Required under ASU 2016-14 in the absence of explicit donor stipulation
- B. Allows recognition when the asset is acquired and placed in service
- C. Results in a reclassification of net assets
- D. All of the above



Question #6

What is an underwater endowment fund?

- A. Donor-restricted fund whose FMV fell below original gift amount
- B. Unrestricted fund
- C. Donor-restricted fund whose FMV rose above original amount
- D. A negative change in a donor-restricted fund

Question #7

Under ASU 2016-14 Topic 958, NFPs will be required to report net assets as which of the following?

- A. Unrestricted & Restricted
- B. Unrestricted, Temporarily Restricted, & Permanently Restricted
- C. Designated & Undesignated
- D. Without Donor Restrictions & With Donor Restrictions

Net Asset Classifications

- Although only two types for the financial statements, disclosures will continue to show an analysis by time, purpose and perpetual restrictions.

Question #8

Under ASU 2016-14, NFPs will be required to provide in the notes to the financial statements' information pertaining to which of the following?

- A. **How the NFP manages its liquid assets**
- B. How the NFP serves the community
- C. How the NFP compensates its executives
- D. How the NFP communicates with donors

Liquidity and Availability

- Discuss what sources of funds are available, such as cash reserves or a line of credit
- Remember that investments may be illiquid (not available in one year or less), even if there are no donor restrictions
- Identify any external restrictions or limits (e.g., investments pledged as collateral for a loan)
- Identify any internal limitations (e.g., board designations)
- There is no prescribed format
- Consider also a classified balance sheet for ease of presentation

Liquidity and Availability – Sample Disclosure

Liquidity and Availability

The following reflects the Organization's financial assets (cash and cash equivalents, accounts and pledges receivable, and investments) as of December 31 expected to be available within one year to meet the cash needs for general expenditures.

	2018	2017
Financial assets, at year-end	\$ X,000,000	\$ X,000,000
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions:		
Restricted by donor with time or purpose restrictions	X,000,000	X,000,000
Assets to be held in perpetuity	X,000,000	X,000,000
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ X,000,000</u>	<u>\$ X,000,000</u>

The Organization is substantially supported by contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet those responsibilities to its donors. Thus, some financial assets may not be available for general expenditure within one year. As part of the Organization's liquidity management, management structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization manages its liquid resources by focusing on fundraising and grant writing efforts to ensure the entity has adequate contributions and grants to cover the programs that are being conducted. The Organization prepares detailed budgets and remains active in fundraising and grant writing as well as cost management to ensure the entity maintains adequate liquidity.

Question #9

Which of the following is an element of the Statement of Financial Position?

- A. The change in net assets without donor restrictions
- B. The change in total net assets
- C. **Total net assets with donor restrictions**
- D. The change in net assets with donor restrictions

Question #10

In Swahili, what does Rafiki mean?

- A. Wise
- B. Friend
- C. Monkey
- D. Strange



Question #11

True or False: Under ASU 2016-14, NFPs will be required to record Underwater Endowment Funds as net assets with donor restrictions.

- A. True
- B. False

Underwater Endowments

- The accumulated losses shall be included together with that fund in net assets with donor restrictions. [\(958-205-45-13H\)](#)
- Previously, accumulated losses would be presented as reductions of temporarily restricted or unrestricted net assets, as applicable.

Question #12

NFPs will continue to provide information about the nature and amounts of different types of donor-imposed restrictions by:

- A. Reporting the amount on the face of the statement of financial position
- B. Noting relevant details in the notes to the financial statements
- C. **Both A and B**

Reasons for Restrictions/Designations

- Information on the restriction/designation can be displayed on the face of the financial statements or in the notes

Question #13

Current Assets and Liabilities are classified as items that are expected to be used or due within what time period?

- A. Three Months
- B. Six Months
- C. One Year
- D. Five Years



Question #14

During the year of adoption for ASU 2016-14, what will apply?

- A. Apply all provisions of the new ASU
- B. Include an emphasis-of-matter paragraph in auditor's report if the adoption results in changes that have a material impact on the financial statements
- C. Disclose the nature of any reclassifications or restatements and their effects, if any, on changes in the net asset classes for each period presented
- D. All of the above



Question #15

True or False: Qualitative information is the only disclosure required in the Liquidity and Availability Footnotes.

- A. True
- B. **False**

Question #16

True or False: Under ASU 2016-14, a NFP is required to present a reconciliation of net cash provided by (used in) operating activities to the change in net assets if cash flows are presented using the direct method.

A. True

B. False

Question #17

What is the final spoken line in The Lion King?

- A. "I killed Mufasa"
- B. "It is time"
- C. "Long live the king"
- D. "Remember . . ."



Question #18

A description of endowment investment policies includes:

- A. Return objectives and risk parameters
- B. How the objectives relate to spending policies
- C. Strategies for achieving objectives
- D. All of the above

Question #19

Which is NOT considered a liquid resource?

- A. Cash on hand
- B. Funds in a checking account
- C. **Property**
- D. Funds in a savings account

Question #20

When the NFP's board determines a designation of a fund, the financial statements must disclose the amount and purpose of the board designation.

- A. True
- B. False

Board Designated Disclosures

- Amounts and purposes of board designations
- Documented policies and procedures on establishment of board designations, amounts, and how such board designated net assets may be released

Question #21

A disclosure of an Underwater Endowment must include:

- A. Interpretation of ability to spend from fund
- B. Policy concerning appropriation
- C. The fair value of the underwater funds
- D. All of the above

Underwater Endowment Disclosures

- Interpretation of the organization's ability to spend from underwater endowment funds
- The organization's spending policy
- The fair value of the underwater endowment
- The original endowment value
- The amount of the deficiency

Question #22

What are the three types of cash flows to be reported on a Statement of Cash Flows?

- A. Operating, Financing, & Investing
- B. Operating, Debt, & Investing
- C. Revenues, Expenses, & Contributions
- D. Contributions, Pledges, & Internally Generated

Question #23

True or False: Under ASU 2016-14, all NFPs are required to report a separate Statement of Functional Expense.

- A. True
- B. False

Functional Expense Options

- Present a separate statement of functional expenses
- Present a table in the notes
- Incorporate into the statement of activities

Question #24

On what date did The Lion King open in theaters?

- A. July 15, 1994
- B. May 13, 1995
- C. June 24, 1994
- D. July 28, 1995



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Question #25

Classifying expenses into program activities and supporting activities is known as the _____ basis.

- A. Natural
- B. Functional
- C. Program
- D. Cost

Question #26

Reporting expenses by categories such as salaries, rent, utilities, etc., is known as the _____ basis.

- A. Natural
- B. Functional
- C. Program
- D. Cost

Question #27

A nonprofit's assets that have been designated by its board of directors for a specific project should be reported on the financial statements as net assets _____ donor restrictions.

- A. With
- B. Without

Question #28

Not for Profit entities should report which of the following categories within their Functional Expense report?

- A. Program Services
- B. Management & General
- C. Fundraising
- D. All of the above



Question #29

Unrealized gains/losses on investments are classified on the Statement of Cash Flows as which of the following when using the indirect method?

- A. **Operating activities**
- B. Investing activities
- C. Financing activities

Question #30

The Statement of Financial Position is most synonymous with the following for profit Financial Statement?

- A. Income Statement
- B. Statement of Owner's Equity
- C. Statement of Expenses
- D. Balance Sheet

Question #31

Which William Shakespeare work inspired the plot of The Lion King?

- A. Hamlet
- B. Macbeth
- C. The Tempest
- D. King Lear



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Question #32

Which of the following should not be included on the Statement of Activities?

- A. Revenue from contracts
- B. Effect of a change in accounting principle
- C. Change in net assets
- D. Net asset balance at the beginning of the period

Question #33

Net assets with donor restrictions could include all of the following elements, except:

- A. Purpose
- B. Time
- C. Board Designated
- D. Endowment

Question #34

Examples of natural expense classifications include all of the following, except:

- A. Salaries and Wages
- B. Program Expenses
- C. Rent and Utilities
- D. Depreciation

Question #35

Which of the following items should NOT be included as “available to meet obligations”?

- A. Cash
- B. Investments
- C. Accounts Receivable
- D. **Fixed Assets**

Question #36

Activities that result in goods and services distributed to beneficiaries, customers, or members that fulfill the purposes or mission for the nonprofit are:

- A. Program Services
- B. Functional Expenses
- C. Natural Expenses
- D. Both A and B



Question #37

What was the original title of The Lion King?

- A. Pride Rock
- B. King of the Jungle**
- C. Simba's Pride
- D. Mufasa's Pride



Question #38

True or False: ASU No. 2016-14 requires a description of the method(s) used to allocate costs among program and support functions.

- A. True
- B. False

Question #39

Generally, Human Resources would be assigned to the _____ expense category.

- A. Fundraising
- B. Program
- C. Management and General
- D. Investment

M&G Expenses

- Oversight
- Business management
- General record keeping and payroll
- Budgeting
- Financing
- Soliciting funds other than contributions and membership dues
- Administering contracts
- Making announcements concerning appointments
- Producing and disseminating the annual report
- Employee benefits management and oversight
- All other management and administration except for direct conduct of program services, fundraising, or membership development activities

Fundraising Expenses

- Publicizing and conducting fundraising campaigns
- Maintaining donor mailing lists
- Conducting special fundraising events
- Preparing and distributing fundraising manuals, instructions, and other materials
- Conducting other activities involved with soliciting contributions

Examples from the ASU

- IT – benefits various functions and generally would be allocated
- CEO – could be allocated to Program, M&G, and Fundraising
- CFO – could be allocated to M&G and investment expense
- HR – generally would be assigned to M&G
- Grant accounting and reporting – program reports would be Program but financial reports and related accounting would be M&G

Other Items

- Investment Return is required to be shown net of investment expenses on the Statement of Activities
- No longer required to disclose investment expenses that have been netted

Other Items (cont.)

- Restatement may be necessary
- Emphasis of Matter paragraph in opinion
- Adoption of Pronouncement footnote
- Disclosure of reclassifications
- Watch wording in footnotes – the phrases “with donor restrictions” or “without donor restrictions” does not always flow the same way as “unrestricted” or “temporarily/permanently restricted”

Questions? Contact Me!



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