AICPA

Implementing the Financial Statement Presentation Standard:

Mastering the Most Difficult Challenges

Today's Presenters

Tim McCutcheon, CPA

- Partner, Eide Bailly, LLP

Cathy Clarke, CPA

- Chief Assurance Officer, CliftonLarsonAllen, LLP

Learning Objectives

- Identify the most significant and complex challenges in adopting FASB's new financial statement standard.
- Determine policies, procedures, and systems that should be in place as a result of the standard.
- Identify implementation techniques that could assist in converting a not-for-profit's financial statements and footnotes to the new standard.

Refresher

Effective Date, Early Adoption, and Transition

Effective Date: For fiscal years beginning after 12/15/2017 (e.g., CY 2018, FY 2018-19)

- Interim financials the following year

Early Adoption: Permitted, but must apply the regular transition provisions.

Transition:

- For year of adoption: apply all provisions.
- For comparative years presented: apply all provisions, except can choose not to present:
  - Analysis of expenses by nature and function*, and/or
  - Disclosures around liquidity and availability of resources
  - **unless already required to do so under current GAAP*

NFP Financial Statements ASU – Key Objectives (recommended by FASB's NFP Advisory Committee (NAC))

- Update, not overhaul, the current model
- Improve net asset classification scheme
- Improve information in financial statements and notes about: financial performance, cash flows, and liquidity
- Better enable NFPs to "tell their financial story"

Issued August 18, 2016, ASU No. 2016-14

ASU 2016-14 Changes

- New liquidity and availability disclosures required
- Net asset classes reduced from three to two
- Additional disclosures for underwater endowments
- All not-for-profits (NFPs) must report expenses by nature and function in one place, and describe the methods used to allocate among functional categories
- Net investment return replaces other alternatives
- Use of direct method in a statement of cash flows eliminates reconciliation of change in net assets to cash flows from (used for) operating activities

Tools - Implementation Checklist

General Implementation

1) The presentation of financial statements for Not-for-Profit (NFP) entities is effective for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. Early application is permitted.

   a) Has your organization decided to early adopt the new provisions or plan to adopt at the above noted effective date?
   b) Has your organization drafted a footnote for a change in accounting principal?
   c) Have proper individuals attended training to understand the new changes in financial reporting?
   d) Has your organization discussed with its auditors the impact of the new changes related to audit timing and planning?
   e) Has your organization identified the team members who will lead the implementation of the new financial reporting requirements?

2) The new guidance shall be applied on a retrospective basis. However, if presenting comparative financial statements, an NFP would have the option to omit the following information for any periods presented before the year of adoption: i) Analysis of expenses by both functional and natural classification, ii) Disclosures about liquidity and availability of resources.

   a) Does your organization present comparative financial statements? If so, while analyzing the below steps remember that retrospective application is required, except for the omissions noted above.

3) In the year of adoption, an NFP shall disclose the nature of any reclassifications or restatements and their effects, if any, on changes in the net asset classes for each year presented.

   a) Has your organization identified restatements and reclassifications?
   b) If the above answer is yes, has a footnote been drafted noting the nature and effects on changes in the net asset classes for year presented?

Liquidity

Liquidity and Availability of Resources

NFPs required to provide:

- **Qualitative** information on how an NFP manages its liquid available resources and its liquidity risk (in the notes)
- **Quantitative** information that communicates the availability of an NFP’s financial assets at the balance sheet date to meet cash needs for general expenditures within one year (on the face and/or in the notes)

Implementation

- Identify all financial assets and any limitations on availability for expenditure in the next 12 months
- Determine the format to present the required quantitative disclosure of liquidity information
  - Display gross amounts of financial assets, then adjustments to arrive at available for expenditure amounts, or
  - Display only the net amounts available for expenditure
- Availability is affected by nature of the asset, external limitations imposed by donors, contractual agreements, and board designations

Implementation (continued)

- Determine whether presenting a classified statement of financial position (SOFP) could enhance or simplify the quantitative disclosure requirements (considering other effects elsewhere in the FS and notes)
- Develop a formal policy for managing the organization’s liquidity needs
  - Will be articulated in the qualitative portion of the note disclosure
- Draft the note disclosure describing how the entity manages its liquid assets and liquidity needs, including conditions under which certain board-designated net assets may be undesignated, access to the lines of credit or other financing sources, and any other information useful in understanding the entity’s liquidity

Tools - Implementation Checklist

Liquidity

1) An NFP shall provide certain additional information useful in assessing liquidity and availability of resources in a note disclosure that includes the following:

- Qualitative information amount how an entity 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 as necessary about the availability of an NFP'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 be affected by i) its nature, ii) external limits imposed by donors, laws, and contracts with others, and iii) internal limits imposed by governing board decisions.

a) Does your organization have a formal policy as to how liquidity is managed?

b) For the quantitative requirements noted above, does the organization want to prepare a classified statement of net position?

Example 1

Example Note 1: Liquidity

NFP A has $395,000 of financial assets available within one year of the balance sheet date consisting of cash of $75,000, contributions receivable of $20,000, and short-term investments of $300,000. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The contributions receivable are subject to time restrictions, but will be collected within one year. NFP A has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet 60 days of normal operating expenses, which are, on average, approximately $275,000. As part of its liquidity management, NFP A invests cash in excess of daily requirements in various short-term investments including certificates of deposits and short term treasury instruments. As more fully described in Note X, NFP A also has committed lines of credit in the amount of $20,000, which it could draw upon in the event of an unanticipated liquidity need.

Example 2

Example Note 2: Liquidity

As part of NFP A's liquidity management, it invests cash in excess of daily requirements in short-term investments. To help manage unanticipated liquidity needs, NFP A has committed lines of credit in the amount of $20 million which it could draw upon. Additionally, NFP A has a quasi-endowment of $33 million. Although NFP A does not intend to spend from its quasi-endowment other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation, amounts from its quasi-endowment could be made available if necessary. However, both quasi-endowment and donor endowment contain lock-up provisions that would reduce the total investments that could be made available.

NFP A's financial assets due within one year of the balance sheet date for general expenditures are as follows:

Cash and cash equivalents	$	4,575
Accounts and interest receivable		2,130
Contributions receivable		1,825
Short-term investments		1,400
Other investments appropriated for current use		1,650
	$	11,580

NFP A's endowment funds consist of donor endowment and quasi-endowment. Income from donor endowment is restricted for specific purposes and, therefore, is not available for general expenditure. The quasi-endowment has a spending rate of 5 percent. $1.65 million of appropriations from the quasi-endowment will be available within the next 12 months.

Example 3

Example Note 3: Liquidity

As part of NFP A's liquidity management, it invests cash in excess of daily requirement in short-term investments. Occasionally, the Board designates a portion of any operating surplus to its liquidity reserve, which was $1,300 as of June 30, 20XX. There is an established board-designated fund where the governing board has the objective of setting funds aside to be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside of the typical life cycle of converting financial assets to cash or settling financial liabilities. In the event of an unanticipated liquidity need, NFP A also could draw upon $10,000 of available lines of credit (as further discussed in Note XX) or its quasi-endowment fund.

The following reflects NFP A's financial assets as of the balance sheet date, including amounts not available within one year of the balance sheet date. Amounts not available include amounts set aside for long-term investing in the quasi-endowment that could be drawn upon if the governing board approves that action.

Financial assets, as of June 30, 20XX	$ 229,200
Less:	
Contractual or donor-imposed restrictions making financial assets unavailable for general expenditure	(192,413)
Quasi-endowment fund, primarily for long-term investing	(34,628)
Less amounts set aside for liquidity reserve:	(1,300)
Financial assets available within one year to meet cash needs for general expenditures within one year	$ 859

Comprehensive Example

Available on the AICPA
Not-for-Profit Section website

AICPA®
Not-for-Profit Section

Consolidated Financial Statements
December 31, 20X1 and 20X0

Save Our Charities

This publication provides illustrative financial statements and related disclosures and is organized to be used as a reference tool for nongovernmental, not-for-profit entities other than health care providers. The example contained herein is fictitious. Any resemblance or similarities to real entities is entirely coincidental and beyond the intent of the author and the AICPA. Further, the content is intended as nonauthoritative guidance only. For illustrative purposes, we have included changes resulting from FASB ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This publication includes relevant guidance effective on December 31, 2016; however, it is not a substitute for the authoritative pronouncements. Users of this publication are urged to refer directly to the applicable authoritative pronouncements for further guidance.

Note 2 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash and cash equivalents	$	4,851,231
Accounts receivable		312,216
Operating investments		723,006
Promises to give		985,846
Distributions from assets held under split-interest agreements		145,000
Distributions from beneficial interests in assets held by others		180,110
Endowment spending-rate distributions and appropriations		1,115,664
	$	8,313,073

Our endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

Our board-designated endowment of $15,511,186 is subject to an annual spending rate of 4.5 percent as described in Note 9. Although we do not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of our Board's annual budget approval and appropriation), these amounts could be made available if necessary.

As part of our liquidity management plan, we invest cash in excess of daily requirements in short-term investments, CDs, and money market funds. Occasionally, the Board designates a portion of any operating surplus to its operating reserve, which was $300,000 as of December 31, 201X.

Calculation

Description of Financial Asset	Gross Amount	Less Amounts Unavailable for General Expenditures	Available to Meet Cash Needs Within One Year	Comments
Cash and cash equivalents	5,821,340	(970,109)	4,851,231	Available amount is that portion without donor restrictions for particular purposes, or periods beyond one year (448,377+375,627+146,105=970,109
Operating investments	723,006	-	723,006	Available amonnt is the entire amount, which is comprised entirely of liquid securities, none of which have purpose or time restrictions associated with them
Accounts receivable	312,216	-	312,216	Available amount is the entire amount (which is net of allowance), all of which is expected to be collected within one year
Promises to give	1,165,958	(180,112)	985,846	Available amount is the expected collections of PTG without donor restrictions (57,265+22,847=80,112) plus 100,000 from endowment)
Cash restricted to building project	500,000	(500,000)	-	Available amount is zero; entire balance is restricted to building project
Assets held under split-interest agreeme	1,977,102	(1,832,102)	145,000	Available amount is that portion of the estimated distributions to be received within one year without donor restrictions (per follforward not included here)
Beneficial interests	4,502,751	(4,322,641)	180,110	Available amount is that portion of the estimated distributions to be received within one year without donor restrictions [no restrictions] (4%*4,502,751=180,110)
Endowment	47,364,130	(46,248,466)	1,115,664	Available amount is that portion of the estimated spending-rate formula distribution to be received within one year without donor restrictions
			8,313,073	

Calculation (continued)

Description of Financial Asset	Gross Amount	Unavailable for General Expenditures	Available to Meet Cash Needs Within One Year
Cash and cash equivalents	5,821,340	(970,109)	4,851,231
Operating investments	723,006	-	723,006
Accounts receivable	312,216	-	312,216
Promises to give	1,165,958	(180,112)	985,846
Cash restricted to building project	500,000	(500,000)	-
Assets held under split-interest agreements	1,977,102	(1,832,102)	145,000
Beneficial interests	4,502,751	(4,322,641)	180,110
Endowment	47,364,130	(46,248,466)	1,115,664
			8,313,073

Note 4

Within one year	$ 1,165,958
In one to five years	980,189
Over five years	500,000
	2,646,147

SOFP

Assets		
Cash and cash equivalents		$ 5,821,340
Operating investments		723,006
Accounts receivable, net		312,216
Promises to give, net		1,990,615
Gift shop inventory, net		21,672
Prepaid expenses and other assets		290,813
Cash restricted to building project	2,327,614	500,000
Property and equipment, net		30,810,802
Assets held under split-interest agreements		1,977,102
Beneficial interests in charitable trusts held by others		812,850
Beneficial interest in assets held by community foundation		1,094,842
Beneficial interests in perpetual trusts	4,502,751	2,595,059
Endowment		
Promises to give, net		336,999
Investments		47,027,131
Total assets		$ 94,314,447

Note 9

12/31/20X1	Without Donor Restriction	With Donor Restrictions	Total
Board-designated endowment funds	$ 15,511,186	$ -	$ 15,511,186
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	19,174,849	19,174,849
Accumulated investment gains	-	12,678,095	12,678,095
	$ 15,511,186	$ 31,852,944	$ 47,364,130

Calculation (continued)

Description of Financial Asset	Gross Amount	Unavailable for General Expenditures	Available to Meet Cash Needs Within One Year
Cash and cash equivalents	5,821,340	(970,109)	4,851,231
Operating investments	723,006	-	723,006
Accounts receivable	312,216	-	312,216
Promises to give	1,165,958	(180,112)	985,846
Cash restricted to building project	500,000	(500,000)	-
Assets held under split-interest agreements	1,977,102	(1,832,102)	145,000
Beneficial interests	4,502,751	(4,322,641)	180,110
Endowment	47,364,130	(46,248,466)	1,115,664
			8,313,073

Note 10

Net assets with donor restrictions are restricted for the following purposes or periods.

	20X1	20X0
Subject to expenditure for specified purpose:		
Building project	$ 500,000	$ -
Operation of the training center	448,377	108,927
Educational programs	375,627	119,290
Financial aid	146,105	85,744
Promises to give, the proceeds from which have been restricted by donors for		
Educational programs	57,265	-
Centennial anniversary celebration	22,847	-
	1,550,221	313,961
Subject to the passage of time:		
Beneficial interests in charitable trusts held by others	812,850	804,179
Assets held under split-interest agreements	558,975	440,457
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	20,000	35,000
	1,391,825	1,279,636

970,109

80,112 + 100,000
= 180,112

Endowment Calculation

As of December 31, 20X1 and 20X0, we had the following endowment net asset composition by type of fund:

12/31/20X1	Without Donor Restriction	With Donor Restrictions	Total
Board-designated endowment funds	$ 15,511,186	$ -	$ 15,511,186
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	19,174,849	19,174,849
Accumulated investment gains	-	12,678,095	12,678,095
	$ 15,511,186	$ 31,852,944	$ 47,364,130

Endowments:		
Subject to appropriation and expenditure when a specified event occurs:		
Restricted by donors for		
Available for general use	7,223,171	5,252,329
Educational programs	4,186,393	3,761,284
Financial aid	1,268,531	1,023,659
	12,678,095	10,037,272
Subject to NFP endowment spending policy and appropriation:		
Operation of the Training Center	6,811,531	6,726,382
Educational programs	8,279,742	8,000,578
Financial aid	1,688,411	1,686,761
General use	2,058,166	2,058,166
Unconditional promises to give, net - permanently restricted to general endowment	336,999	372,553
Underwater endowments	-	(42,677)
	19,174,849	18,801,763
Total endowments	31,852,944	28,839,035

Analysis of projected endowment distribution:

	PY ending bal	Spending rate	Projected
Without donor restrictions:			
Board-designated endowment	**15,511,186**	**4.50%**	**698,003**
Endowment without restrictions	**9,281,337**	**4.50%**	**417,660**
	24,792,523	**4.50%**	**1,115,664**

One More Example

Financial assets, at year-end	$ 234,410
Less those unavailable for general expenditures within one year, due to:	
Contractual or donor-imposed restrictions:	
Restricted by donor with time or purpose restrictions	(11,940)
Subject to appropriation and satisfaction of donor restrictions	(174,700)
Investments held in annuity trust	(4,500)
Board designations:	
Quasi-endowment fund, primarily for long-term investing	(36,600)
Amounts set aside for liquidity reserve	(1,300)
Financial assets available to meet cash needs for general expenditures within one year	$ 5,370

Not-for-Profit Entity A is substantially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, Not-for-Profit Entity A must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of Not-for-Profit Entity A's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, Not-for-Profit Entity A invests cash in excess of daily requirements in short-term investments. Occasionally, the board designates a portion of any operating surplus to its liquidity reserve, which was $1,300 as of June 30, 20X1. There is a fund established by the governing board that may be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities. In the event of an unanticipated liquidity need, Not-for-Profit Entity A also could draw upon $10,000 of available lines of credit (as further discussed in Note XX) or its quasi-endowment fund.

Net Assets and Endowments

Net Assets

Current GAAP	Unrestricted	Temp. Restricted	Perm. Restricted
Revised GAAP	Without Donor Restrictions*	With Donor Restrictions*	
+ Disclosures	Amount, purpose, and type of board designations**	Nature and amount of donor restrictions	

*** NFPs may choose to disaggregate further**
**** New disclosure requirement**

Net Asset Classification Requirements

- Two classes
  - With donor/grantor-imposed restrictions; and time restrictions
    - Includes perpetual and temporary
  - Without donor/grantor-imposed restrictions
    - Includes board-designated

- Disclosure requirements
  - Composition of net assets with donor/grantor restrictions
  - Emphasis on how/when resources (net assets) can be used
    - Specified purpose(s)
    - Specified time(s)
    - Perpetual (endowment, i.e., “funds of perpetual duration”)
  - Quantitative and qualitative information about board designations

Implementation – Net Assets

- Determine whether you will need to adjust your general ledger, Excel spreadsheet, or other tracking mechanism to accommodate the new terminology and presentation
- Determine the appropriate level of disaggregation of net assets you wish to present among: net assets without donor restrictions; those with donor restrictions that will be satisfied over time and/or by expenditure for a particular purpose; and those that will be maintained in perpetuity
- Decide the degree of disaggregation you wish to present on the face of the SOFP vs in the notes

Implementation – Board-designations

- Assemble information about the amounts and purposes of board designations of net assets without donor restrictions to be provided in notes and/or on the face of the SOFP

- Determine proper presentation of any board-designated endowment funds in the related endowment note

- Draft language to include in the liquidity and availability note pertaining to the self-imposed limitations on board-designated funds, and the conditions under which such funds would be made available to meet expenditure needs

Tools – Implementation Checklist

Net Assets and Endowments

1) Net assets are required to be classified in two categories, net assets with donor restrictions and net assets without donor restrictions.

   a) Has your organization reformatted the statement of financial position and statement of activities to remove temporarily restricted net assets and permanently restricted net assets and replaced these terms with net assets with donor restrictions and net assets without donor restrictions?

   b) Has your organization reviewed the notes to the financial statements replacing the terms temporarily restricted and permanently restricted net assets with net assets with donor restrictions and net assets without donor restrictions?

2) The two required net asset classes are a minimum classification scheme, should they be applicable. An NFP can choose to further disaggregate the two net asset classes. For example, an NFP may wish to disaggregate net assets with donor restrictions between those expected to be maintained in perpetuity and those expected to be spent over time or for a particular purpose. However, amounts for each of the two classes of net assets and the total of net assets must be reported in a statement of financial position.

   a) Would the users of your financial statements find a further disaggregation of net assets from the two required classes useful on the face of the statement of financial position?

Tools – Implementation Checklist (continued)

Classification of Net Assets

Separate line items may be reported within net assets with donor restrictions or in notes to financial statements to distinguish between various types of donor-imposed restrictions, such as the following:

a) Assets such as land or works of art, donated with stipulations that they be used for specified purpose, be preserved, and not be sold

b) Assets donated with stipulations that they be invested to provide a permanent source of income. These result from gifts and bequests that create a donor-restricted endowment that is perpetual in nature

c) Support of a particular operating activity

d) Investment for a specified term

e) Use in a specified future period

f) Acquisition of long-lived assets

Example SOFP Presentation

Net assets:	
Without donor restrictions	97,677
With donor restrictions	115,657
Total net assets	213,334

Minimum presentation required

Alternative disaggregation allowed

Net Assets [The level of detail presented here is not required, however if the information presented on the face is not sufficiently detailed, it must be included in the notes.]

Without donor restrictions		
Undesignated	3,057,607	1,370,401
Designated by the Board for operating reserve	300,000	250,000
Designated by the Board for endowment	15,511,186	14,912,222
Invested in property and equipment, net of related debt	21,150,885	20,193,878
	40,019,678	36,726,501
With donor restrictions		
Perpetual in nature	22,864,750	22,450,146
Purpose restrictions	14,228,316	10,351,233
Time-restricted for future periods	1,391,825	1,279,636
Underwater endowments	-	(42,677)
	38,484,891	34,038,338
Total net assets	78,504,569	70,764,839
Total liabilities and net assets	$ 94,314,447	$ 86,137,541

Tools – Implementation Checklist

3) Statement of activities shall report the following amounts for the period: i) the change in net assets, ii) the change in net assets with donor restrictions, iii) the change in net assets without donor restrictions. Reclassification of net assets, such as expirations of donor-imposed restrictions, shall be reported as separate line items.

a) Has the organization reformatted its statement of activities to conform with the above requirements?

Not-for-Profit Entity A
Statement of Activities
Year Ended June 30, 20XX

	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Revenues, gains, and other support:			
Contributions	$ 8,640	$ 8,390	$ 17,030
Fees	5,200	-	5,200
Investment return, net	4,678	20,272	24,950
Gain on sale of equipment	200	-	200
Other	150	-	150
Net assets released from restrictions:			
Satisfaction of program restrictions	21,990	(21,990)	-
Satisfaction of equipment acquisition restrictions	1,500	(1,500)	-
Expiration of time restrictions	1,250	(1,250)	-
Appropriation from donor endowment	7,500	(7,500)	-
Total net assets released from restrictions	32,240	(32,240)	-
Total revenues, gains, and other support	51,108	(3,578)	47,530

Tools – Implementation Checklist (continued)

3) Statement of activities shall report the following amounts for the period: i) the change in net assets, ii) the change in net assets with donor restrictions, iii) the change in net assets without donor restrictions. Reclassification of net assets, such as expirations of donor-imposed restrictions, shall be reported as separate line items.

a) Has the organization reformatted its statement of activities to conform with the above requirements?

Not-for-Profit Entity A
Statement of Activities
Year Ended June 30, 20XX

	Without Donor Restrictions	With Donor Restrictions	Total
Expenses and losses			
Program A	13,296	-	13,296
Program B	8,649	-	8,649
Program C	5,837	-	5,837
Management and general	2,038	-	2,038
Fundraising	2,150	-	2,150
Total expenses	31,970	-	31,970
Fire loss on building	80	-	80
Actuarial loss on annuity trust obligations	-	30	30
Total expenses and losses	32,050	30	32,080
Change in net assets	19,058	(3,608)	15,450
Net assets at beginning of year	73,619	197,021	270,640
Net assets at end of year	$ 92,677	$ 193,413	$ 286,090

Tools – Implementation Checklist (continued)

4) Endowment funds can be either with donor restrictions or without donor restrictions. Those without donor restrictions are referred to as board-designated endowment funds. A board-designated endowment fund is created when a governing board designates or earmarks a portion of its net assets without donor restrictions to be invested generally for a long but possibly unspecified period of time. Endowment funds with donor restrictions are referred to as donor-restricted endowment funds. A donor-restricted endowment fund results from a gift with a stipulation that those resources be invested either for a long, specified period of time or in perpetuity.

a) Can the current tools used to track endowment funds be converted to track endowments per the revised definitions above? Are any reclassifications required from current funds accounted for as endowments to meet the above definitions?

5) Donor-restricted endowment funds generally result from a donor's stipulation or by extension of a donor restriction imposed through the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) that limits an NFP's use of net assets of an endowment fund. The original gifted amount, any additional gifts to that fund, and any resulting investment returns shall initially be classified as net assets with donor restrictions. Therefore, unless stated otherwise in the gift instrument, the assets in an endowment fund are donor-restricted assets until appropriated for expenditure by the NFP's governing board.

a) Does the current ERP system or other tracking tool the organization uses need to be updated to track endowments per the above guidance?

Tools – Implementation Checklist (continued)

6) The amount of net assets with donor restrictions is reduced by appropriations for expenditure from the donor-restricted endowment fund. Upon appropriation for expenditure, the time restriction expires to the extent of the amount appropriated and, in the absence of any purpose restrictions on the use of the appropriated returns, results in a reclassification of net assets of that amount from net assets with donor restrictions to net assets without donor restrictions. However, if a restricted purpose also exists, the reclassification of net assets shall not occur until that purpose restriction is also met.

   a) Does the organizations current method for tracking net assets released from restriction comply with the above noted guidance?

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors as follows for the year ended June 30, 20XX:

Purpose restrictions accomplished:	
Program A expenses	$ 15,800
Program B expenses	4,600
Program C expenses	1,590
	21,990
Program A equipment acquired and placed in service	1,500
Time restrictions expired:	
Passage of specified time	850
Death of annuity beneficiary	400
	1,250
Release of appropriated endowment returns without purpose restrictions	7,500
Total restrictions released	$ 32,240

Tools – Implementation Checklist (continued)

7) A NFP shall disclose, for each period it presents financial statements, a reconciliation of beginning and ending balance of the NFP's endowment, in total and by net asset class, including, at a minimum, all of the following line items that apply:

- i) Investment return, net
- ii) Contributions
- iii) Amounts appropriated for expenditure
- iv) Reclassification of net assets
- v) Other changes

a) Does the current tool or method used to prepare the required endowment footnote capture all of the above activity?

Tools – Implementation Checklist (continued)

NFP A's endowment consists of approximately 100 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

NFP A is subject to the State Prudent Management of Institutional Funds Act (SPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions until the Board of Trustees appropriates such amounts for expenditure and any other purpose restrictions have been met. The Board of Trustees of NFP A has interpreted SPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, NFP A considers a fund to be underwater when the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. NFP A has interpreted SPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with SPMIFA, NFP A considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the organization and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the organization
(7) The investment policies of NFP A

Endowment net asset composition by type of fund was as follows as of June 30, 20XX:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	$ 7,084	$ -	$ 7,084
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be retained by donor	-	97,759	97,759
Portion subject to appropriation under SPMIFA	-	35,201	35,201
Term	-	4,388	4,388
Total funds	$ 7,084	$ 137,348	$144,432

Changes in endowment net assets were as follows for the year ended June 30, 20XX:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 6,947	$ 142,053	$149,000
Investment return, net	10	372	382
Contributions	-	2,000	2,000
Appropriation of endowment assets for expenditure	(373)	(7,077)	(7,450)
Other changes:			
Transfers to create board-designated endowment funds	500	-	500
Endowment net assets, end of year	$ 7,084	$ 137,348	$144,432

Tools – Implementation Checklist (continued)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor of SPMIFA requires NFP A to retain as a fund or perpetual duration. Deficiencies of this nature exist in three donor-restricted endowment funds, which together have an original value of $3,500, a current fair value of $3,300, and a deficiency of $200 as of June 30, 20XX. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment funds and continued appropriation for certain programs that was deemed prudent by the Board of Trustees.

NFP A has a policy of appropriating for distribution each year 5% of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, NFP A considered the long-term expected return on its endowment. Accordingly, over the long-term, NFP A expects the current spending policy to allow its endowment to grow at an average of 3% annually. NFP A has a policy that permits spending from underwater endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations. The governing board appropriated for expenditure $75 from underwater endowment funds during the year, which represents 3% of the 12-quarter moving average, not the 5% it generally draws from its endowment.

Tools – Implementation Checklist (continued)

8) Other required disclosures include:

i) If not provided on the face of the financial statements, discussion of the following: i) Information about the nature and amounts of different types of restrictions that affect how and when, if ever, the resources (net assets) can be used and ii) information about additional limitations placed on net assets, such as information about the amounts and purposes of board designations of net assets without donor restrictions.

ii) Composition of net assets with donor restrictions at the end of the period and how the restrictions affect the use of resources.

a) Does the organization currently track the above noted information in a manner that can be summarized in the required note disclosure?

Tools – Implementation Checklist (continued)

Example Note 1: Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods as of June, 30, 20XX:

Subject to expenditure for specific purpose:	
Program A activities:	
Purchase of equipment	$ 1,530
Research	2,128
Educational seminars and publications	760
Program B activities:	
Disaster relief	1,120
Educational seminars and publications	1,079
Program C activities, general	1,484
Buildings and equipment	1,075
Annuity trust agreements for research	1,425
	10,601
Subject to passage of time:	
For periods after June 30, 20XX	3,140
Subject to NFP spending policy and appropriation:	
Investment in perpetuity (including amounts above original gift amount of $22,377), the income from which is expendable to support:	
Program A activities	27,524
Program B activities	27,403
Program C activities	13,662
Any activities of the organization	105,793
	174,382
Subject to appropriation and expenditure when a specific event occurs:	
Endowment requiring income to be added to original gift until fund's value is $2,500	2,210
Paid-up life insurance policy that will provide proceeds upon death of insured for an endowment to support general activities	80
	2,290
Not subject to appropriation or expenditure:	
Land required to be used as a recreation area	3,000
Total net assets with donor restrictions	$ 193,413

Example Note 2: Net Assets without Donor Restrictions

NFP A's governing board has designated net assets without donor restrictions for the following purposes as of June 30, 20XX:

Quasi-endowment	$ 34,658
Liquidity reserve	1,300
Total	$ 35,928

Underwater Endowments

- Now defined in Master Glossary
  - Donor-restricted endowment fund for which the fair value of the fund at the reporting date is less than either the original gift amount or the amount required to be maintained by the donor or by law that extends donor restrictions

- The entire balance of the endowment fund is reported in the “with donor restrictions” class of net assets

Underwater Endowments

- New disclosure requirements:
  - Interpretation of the NFP’s ability to spend from underwater endowment funds
  - NFP’s policy, and any actions taken during the period, concerning appropriation from underwater endowment funds
  - For each period presented - each of the following, in the aggregate, for all underwater endowment funds:
    1. The fair value of the underwater endowment funds
    2. The original endowment gift amounts (or level required to be maintained by donor stipulations or by law that extends donor restrictions)
    3. The amount by which the original gift amount exceeds the fair value (the deficiency = 2 less 1)

Implementation – Endowments

- Recast your endowment note to conform to the new two-net-asset categories presentation
- For underwater endowments, determine:
  - The fair value of underwater funds
  - The original gift amount or level required by donor stipulations or law that extends donor restrictions
  - The aggregate amount of the deficiencies of each underwater fund
- Remember that the underwater portion of endowments is now presented entirely in funds with donor restrictions

Implementation – Endowments (continued)

- Remember that investment return is now presented net of external and direct internal investment expenses, and does not require a separate break-out of the components of investment return

- Determine the changes needed to properly identify direct internal investment expenses if you haven’t been doing this before now

Tools – Implementation Checklist

Underwater Endowment Funds

1) A NFP is required to disclose i) its interpretation on the ability to spend from underwater endowment funds, ii) its policy to either reduce expenditure or not spend from underwater endowment funds, if any, and if this policy was followed, iii) for each period a statement of financial position is presented each of the following, in the aggregate, for all underwater endowment funds:

- the fair value of the underwater endowment funds
- the original endowment gift amount or level required by donor stipulations or by law that extends donor restrictions
- the aggregate of the amount of the deficiencies of each of the underwater endowment funds

a) Does the current tool or system used to track endowment funds able to determine if an individual endowment fund is underwater (current market value below that of the original gift(s)?

b) If underwater endowment funds exist, has a supporting schedule that contains the amount of the initial gift(s), current fair value and the calculated difference prepared to support the footnote?

Tools – Implementation Checklist (continued)

Underwater Endowment Funds

1) A NFP is required to disclose i) its interpretation on the ability to spend from underwater endowment funds, ii) its policy to either reduce expenditure or not spend from underwater endowment funds, if any, and if this policy was followed, iii) for each period a statement of financial position is presented each of the following, in the aggregate, for all underwater endowment funds:

- the fair value of the underwater endowment funds
- the original endowment gift amount or level required by donor stipulations or by law that extends donor restrictions
- the aggregate of the amount of the deficiencies of each of the underwater endowment funds

a) Does the current tool or system used to track endowment funds able to determine if an individual endowment fund is underwater (current market value below that of the original gift(s)?

b) If underwater endowment funds exist, has a supporting schedule that contains the amount of the initial gift(s), current fair value and the calculated difference prepared to support the footnote?

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor of SPMIFA requires NFP A to retain as a fund or perpetual duration. Deficiencies of this nature exist in three donor-restricted endowment funds, which together have an original value of $3,500, a current fair value of $3,300, and a deficiency of $200 as of June 30, 20XX. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment funds and continued appropriation for certain programs that was deemed prudent by the Board of Trustees.

NFP A has a policy of appropriating for distribution each year 5% of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, NFP A considered the long-term expected return on its endowment. Accordingly, over the long-term, NFP A expects the current spending policy to allow its endowment to grow at an average of 3% annually. NFP A has a policy that permits spending from underwater endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations. The governing board appropriated for expenditure $75 from underwater endowment funds during the year, which represents 3% of the 12-quarter moving average, not the 5% it generally draws from its endowment.

Functional Expenses

Requirements for Reporting Expenses

- <u>All NFPs</u>, including Voluntary Health and Welfare Entities, must present an analysis of expenses by function and nature in one location
  - Present a separate statement of functional expenses
  - Present a table in the notes
  - Incorporate into the statement of activities
- Include a description of the method(s) used to allocate costs among program and support functions
- The ASU includes improved and expanded guidance about management & general expenses

[All NFPs are required to report information about expenses in one location, either on the face of the statement of activities, as a schedule in the notes to the financial statements, or as a separate financial statement. Presenting this information as supplementary information does not meet the requirement.]

Save Our Charities

Consolidated Statement of Functional Expenses

Year Ended December 31, 20X1

	Program Services			Management and General	Fundraising and Development	Cost of Goods Sold	Total
	Advisory	Training	Total				
Grants and other assistance	$ 294,261	$ -	$ 294,261	$ -	$ -	$ -	$ 294,261
Salaries and wages	6,769,754	1,061,585	7,831,339	370,234	254,176	-	8,455,749
Employee benefits	1,398,503	310,865	1,709,368	99,963	26,222	-	1,835,553
Payroll taxes	541,580	84,927	626,507	29,619	19,823	-	675,949
Professional services	1,306,807	87,197	1,394,004	12,780	1,704	-	1,408,488
Accounting fees	-	-	-	40,073	-	-	40,073
Legal fees	-	7,939	7,939	-	-	-	7,939
Advertising and promotion	33,085	21,006	54,091	79,261	132,478	-	265,830
Office expenses	87,071	56,654	143,725	9,867	22,794	-	176,386
Information technology	37,858	606,535	644,393	12,399	14,653	-	671,445
Occupancy	446,601	29,799	476,400	14,918	55,427	-	546,745
Travel	170,957	18,283	189,240	149,292	-	-	338,532
Conferences, conventions and meetings	32,516	66,287	98,803	11,505	-	-	110,308
Interest	387,428	-	387,428	-	9,457	-	396,885
Insurance	198,174	12,556	210,730	5,443	1,022	-	217,195
Training and development	457,617	20,659	478,276	9,113	33,669	-	521,058
Gift shop cost of goods sold	59,621	-	59,621	-	-	-	59,621
Cost of direct benefits to donors	-	-	-	-	-	12,601	12,601
Depreciation and amortization	1,147,186	74,425	1,221,611	20,112	13,960	-	1,255,683
Bad debt expense	-	-	-	16,892	-	-	16,892
Other	31,569	5,977	37,546	2,122	7,474	-	47,142
Total expenses by function	13,400,588	2,464,694	15,865,282	883,593	592,859	12,601	17,354,335
Less expenses included with revenues on the statement of activities							
Gift shop cost of goods sold	(59,621)	-	(59,621)	-	-	-	(59,621)
Cost of direct benefits to donors	-	-	-	-	-	(12,601)	(12,601)
Total expenses included in the expense section on the statement of activities	$ 13,340,967	$ 2,464,694	$ 15,805,661	$ 883,593	$ 592,859	$ -	$ 17,282,113

Option to Present on Statement of Activities

Expenses:	
Grant activities -	
Grants	12,125
Salaries, benefits and taxes	1,808
Occupancy costs	970
Depreciation	845
Supplies	1,255
Other	56
	17,059
Management and general -	
Salaries, benefits and taxes	452
Occupancy costs	243
Depreciation	211
Supplies	314
Other	14
	1,234
Total expenses	18,293

Implementation – Expenses

- Determine where/how to present all expenses by nature and function in one place
  - In a statement of functional expenses
  - In the statement of activities
  - In a note to the financial statements
  - Note - presentation in a supplementary schedule is prohibited

- If not already in place, develop formal allocation methodologies to be used to allocate expenses among programs and supporting services

- Draft the note disclosure of the methods utilized in the allocation process

Tools – Implementation Checklist

Reporting of Expenses by Nature and Function

1) All NFP's shall report information about all expenses (by nature and function) in one location - on the face of the statement of activities, as a schedule in the notes to the financial statements, or in a separate financial statement.

   a) Has your organization decided where to present all expenses by nature and function?

2) The relationship between functional and natural classification for all expenses shall be presented in an analysis that disaggregates functional expense classifications, such as major classes of program services and supporting activities by their natural expense classifications , such as salaries, rent, electricity, supplies, depreciation, awards and grants to others, and professional fees.

   a) Does your organization track expenses by both natural and functional classifications?

   b) Does your organization have a written policy or methodology as to how expenses are classified into functional expense categories including consideration for any needed allocations?

Allocations

Activities that represent direct conduct or direct supervision of program or other supporting activities would require allocation from management and general activities. Additionally, certain costs benefit more than one function and, therefore, shall be allocated. For example, information technology generally can be identified as benefitting various functions, such as accounting and financial reporting, human resources, fundraising, and program delivery. Information technology costs generally would therefore be allocated among the functions receiving direct benefit.

Tools – Implementation Checklist (continued)

Example Note 1: Functional Expenses

The table below presents expenses by both their nature and function for fiscal year 20XX.

	Program Activities				Supporting Activities			
	A	B	C	Programs	Management and General	Fund-Raising	Supporting	Total Expenses
Salaries and benefits	$ 7,400	$ 3,900	$ 1,725	$ 13,025	$ 1,130	$ 960	$ 2,090	$ 15,115
Grants to other organizations	2,075	750	1,925	4,750	-	-	-	4,750
Supplies and travel	865	1000	490	2,355	240	560	800	3,155
Services and professional fees	160	1490	600	2,250	200	390	590	2,840
Office and occupancy	1,160	600	450	2,210	218	100	318	2,528
Depreciation	1,440	800	570	2,810	250	140	390	3,200
Interest	196	109	77	382	0	0	-	382
Total expenses	$ 13,296	$ 8,649	$ 5,837	$ 27,782	$ 2,038	$ 2,150	$ 4,188	$ 31,970

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, interest, and office and occupancy, which are both allocated on a square footage basis, as well as salaries and benefits which are allocated on the basis of estimates of time and effort.

Tools – Implementation Checklist (continued)

Case Study A: CEO Allocation

The broad responsibilities of a CEP generally include administrative and programmatic oversight. At NFP A, the CEO spends a portion of time directly overseeing the research program. Additionally, a portion of time is spent with current and potential donors on fundraising cultivation activities. A portion of the CEO's compensation and benefits and other expenses would be allocated to the research program and to the fundraising function representing the portion of time spent on those activities because they reflect direct conduct or direct supervision. If the remainder of the CEO's time is spent indirectly supervising the other areas of NFP A, including the administrative areas, those activities would not constitute direct conduct or direct supervision, and the ratable portion of compensation and benefit amounts would remain in management and general activities.

Case Study B: CFO Allocation

The CFO at NFP B has primary responsibility for (a) accounting and reporting, (b) short-term budgeting and long-term financial planning, (c) cash management, and (d) direct oversight of the NFP's endowment. A portion of the CFO's compensation and benefits and other expenses would be allocated to management and general activities for the accounting and reporting, short-term budgeting and long-term financial planning, and cash management functions because they benefit the overall organization. A portion would also be allocated to investment expenses for management of the investment strategy of the endowment and would be netted against investment return. However, any portion of time spent supervising the accounting for investments or other fiduciary oversight would not be allocated to investment expenses because that time is related to an accounting and general management activity that benefits the overall organization and should be allocated to management and general activities.

Tools – Implementation Checklist (continued)

Case Study C: Human Resources Department Allocation

The human resources department at NFP C generally is involved in the recruitment of all personnel of the NFP. If NFP C hired an employee to work in Program A, the human resources department's related costs would not be allocated to that program. Rather, those costs would remain a component of management and general activities, because the human resources department's efforts to hire an employee for a particular function are not deemed to be direct conduct or direct supervision of programmatic activity.

Case Study D: Grant Accounting and Reporting Allocation

NFP D receives federal grants and employs an accountant who is responsible for grant accounting and reporting. In some cases, under the terms of the grant agreement, a fiscal report is required to be filed that details expenses incurred and charged against the grant. The fiscal report is not part of the direct conduct or direct supervision of the grant but rather is an accounting function. Therefore, the grant accountant's compensation and benefits would not be allocated to the programmatic area. However, a scientific report prepared by a principal investigator who is responsible for the research activity would be indicative of direct conduct and/or direct supervision of the grant activity, and the principal investigator's compensation and benefits would be allocated to the grant.

Tools – Implementation Checklist (continued)

3) A description of the methods used to allocate costs among program and support functions shall be disclosed in the notes to financial statements.

a) Does your organization have a formal policy documenting the basis for allocations of expenses to support the required note disclosure?

Example Note 2: Functional Expenses

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Organization. Those expenses include depreciation and amortization, the president's office, communications department, and information technology department. Depreciation is allocated based on a square footage basis, the president's office is allocated based on estimates of time and effort, certain costs of the communications department are allocated based on the benefit received, and the information technology department is allocated based on estimates of time and costs of specific technology utilized.

Investment Return

Net Investment Return

- Presented on a net basis, with all external and direct internal investment management and custodial expenses netted against the return
- No longer required to report investment income components and related expenses separately
- Internal expenses include the direct conduct or direct supervision of the strategic and tactical activities involved in generating investment return
  - Salaries, benefits, travel, and other costs associated with staff responsible for development and execution of investment strategy, including supervising, selecting and monitoring external managers
  - Excludes costs not associated with generating investment return, such as administrative management, contracts, and pooled-fund administration

Programmatic Investments Excluded

- This guidance is not applicable to programmatic investments
  - Programmatic Investing: The activity of making loans or other investments that are directed at carrying out an NFP’s purpose for existence rather than investing in the general production of income or appreciation of an asset (for example, total return investing). An example of programmatic investing is a loan made to lower-income individuals to promote home ownership.

Implementation – Investment Expenses

- Report external and direct internal investment expenses as a component of net investment return
- Exclude those expenses from the presentation of expenses by nature and function
- Establish procedures to accumulate the investment expenses to be netted against investment return

Tools – Implementation Checklist

Investment Return

1) Investment expenses shall be reported on the statement of activities netted against investment return and reported in the net asset category in which the net investment return is reported. Investment expenses include both internal and external investment expenses.

   a) Does your organization currently net all internal end external investment expenses with investment return?

2) Direct internal investment expenses involve the direct conduct or direct supervision of the strategic and tactical activities involved in generating investment return. These include, but are not limited to i) salaries, benefits, travel, and other costs associated with the officer and staff responsible for the development and execution of investment strategy and ii) allocable costs associated with internal investment management and supervising, selecting, and monitoring of external investment management firms. Direct internal investment expenses do not include items that are not associated with the generating investment return. For example, the costs associated with unitization and other such aspects of endowment management would not be allocated.

   a) Does your organization have internal investment expenses? If so, are they currently tracked in a manner so they can be netted against investment return?

Statement of Cash Flows

Statement of Cash Flows

- NFPs may use either the direct or indirect method
- If the direct method is used, NFPs are no longer required to show the reconciliation of the change in net assets to cash flows from operating activities
- Other proposed changes under consideration were deferred to Phase 2:
  - Reclassifications among types of activities (i.e. operating, investing and financing)
  - Changes to improve alignment of the statement of cash flows with the statement of activities

Operating Cash Flows – Which is Better?

Cash flows from operating activities:	
Cash received from contributors	10,645
Cash received from service receipients	5,020
Interest and dividends received	8,570
Miscellaneous receipts	150
Cash paid to employees	(13,400)
Cash paid to suppliers	(5,658)
Interest paid	(382)
Grants paid	(5,175)
Net cash used by operating activities	(230)

Direct Method

Indirect Method

Cash flows from operating activities:	
Change in net assets	15,450
Adjustments to reconcile change in net assets to net cash	
Depreciation	3,200
Net gains on investments	(15,800)
Net gain on sale of equipment	(90)
Net change in operating assets and liabilities -	
Contributions receivable	(325)
Accounts receivable	(460)
Prepaid expenses and other assets	390
Accounts payable and accrued expenses	870
Grants payable	(425)
Contributions restricted for long-term investments	(3,040)
Net cash used by operating activities	(230)

User surveys indicate a strong preference of the direct method – FASB is listening!

[An NFP may choose to report cash flows from operating activities under either the direct or indirect method. If the direct method is used, a reconciliation of the change in net assets from operating activities may be reported but is not required.]

Save Our Charities

Consolidated Statements of Cash Flows

Years Ended December 31, 20X1 and 20X0

	20X1	20X0
Cash Flows from Operating Activities		
Program service payments received	$ 13,410,429	$ 12,458,235
Membership receipts	373,781	355,044
Gift shop sales receipts	112,364	107,677
Receipts from federal and state contracts and grants	256,663	285,129
Contributions received, net of amounts restricted for long-term purposes	4,264,113	2,647,976
Receipts from special events	114,989	272,402
Distributions from beneficial interests and assets held by others	182,521	155,717
Other cash receipts	101,275	82,710
Grants paid	(294,261)	(288,376)
Payments for salaries, benefits and payroll taxes	(10,964,676)	(10,734,090)
Payments to vendors	(3,935,150)	(4,086,056)
Interest paid	(441,514)	(493,767)
Net Cash from Operating Activities	3,180,534	762,601
Cash Flows from Investing Activities		
Purchases of operating investments	(275,000)	(150,000)
Proceeds from sales of operating investments	173,520	109,761
Purchases of property and equipment	(1,407,916)	(875,456)
Proceeds from sales of property and equipment	-	5,390
(Addition to) cash restricted to building project	(500,000)	-
(Addition to) withdrawal from assets held under split-interest agreements	88,476	(6,859)
(Addition to) withdrawal from endowment	541,671	(342,531)
Net Cash used for Investing Activities	(1,379,249)	(1,259,695)
Cash Flows from Financing Activities		
Collections of contributions restricted to building project	500,000	-
Collections of contributions restricted to endowment	365,963	1,891,105
Payments to beneficiaries of split-interest agreements	(76,588)	(87,219)
Proceeds from establishment of split-interest agreements	-	107,899
Net borrowings (repayments) under line of credit	(50,000)	275,000
Proceeds from issuance of bonds and notes	-	125,000
Principal payments on bonds, notes and capital leases	(205,236)	(423,568)
Net Cash from Financing Activities	534,139	1,888,217
Net Change in Cash and Cash Equivalents	2,335,424	1,391,123
Cash and Cash Equivalents, Beginning of Year	3,485,916	2,094,793
Cash and Cash Equivalents, End of Year	$ 5,821,340	$ 3,485,916

Implementation - Statement of Cash Flows

- If using the direct method, eliminate the reconciliation of the change in net assets to the net cash provided by (used in) operating activities

- If using the indirect method, determine the usefulness of changing to the direct method

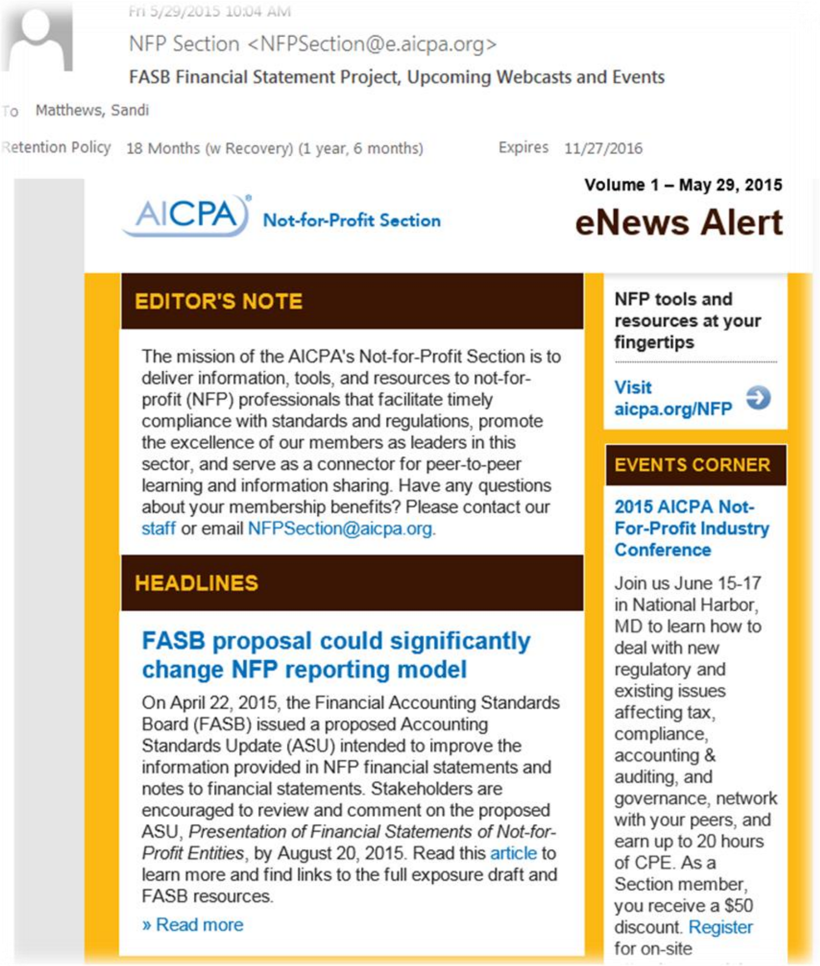
NFP Section

About the AICPA's NFP Section

- Get NFP tools and resources at your fingertips
- Receive exclusive discounts off the AICPA's NFP offerings, including events, publications, and products
- Find us at: www.aicpa.org/nfp
- Questions? Email us at NFPsection@aicpa.org.

NFP Section Benefits

- Subscription to eAlerts to keep you informed
- Four complimentary webcasts



AICPA Staff

Chris Cole, CPA, CFE, CGMA
Associate Director

Ashley Britton, CPA
Lead Manager

Lana Richards, CPA
Manager

CPE Certificate

- As a reminder, you may access your CPE certificate by clicking the “Get CPE” icon if you have fulfilled the attendance check requirements.
- If you do not have an opportunity to obtain your CPE certificate during today’s presentation, you may obtain your certificate *after* 24 hours by logging back into the event and clicking the “Get CPE” icon. Please note that you will not be able to respond to the attendance checks in the archive, and you must fulfill the attendance requirements during the actual presentation to receive your CPE certificate.

Thank you