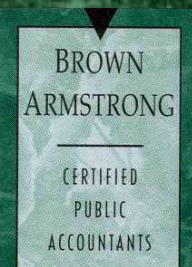


# **BROWN ARMSTRONG**

- **WELCOME TO BROWN ARMSTRONG**
  - **FULL SERVICE ACCOUNTING FIRM WITH SPECIALIZED NICHES IN AGRICULTURE, CONSTRUCTION, GOVERNMENT, HEALTH CARE, EXEMPT ORGANIZATIONS AND ENERGY.**
  - **OUR DEPARTMENTS INCLUDE AUDIT, BUSINESS SERVICES AND TAX. WE HAVE OFFICES IN BAKERSFIELD, FRESNO, LAGUNA HILLS AND STOCKTON.**

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# **BROWN ARMSTRONG**

## **KERN ALLIANCE FOR NONPROFITS SILVER LINING SERIES PART 2**

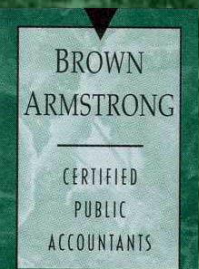
### **UNDERSTANDING FINANCIAL REPORTS: P&L's, BALANCE SHEETS, CASHFLOWS**

**JANUARY 10, 2018**

# BROWN ARMSTRONG

## Learning Objectives

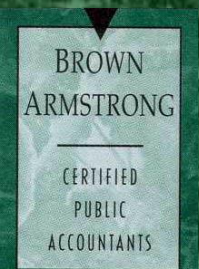
- Recognize the different financial statements of a Not-for-Profit (GAAP)
  - Statement of Financial Position
  - Statement of Activities
  - Statement of Cash Flows
  - Statement of Functional Expenses (optional)
  - Notes to the Financial Statements
- Identify common financial statement errors
- Identify the requirements in FASB's new financial statement standard (ASU 2016-14)



# BROWN ARMSTRONG

## Statement of Financial Position

- Purpose of SFP
  - To provide relevant information about an NFP's assets, liabilities, and net assets and about their relationship to each other at a moment of time.
  - The information in the SFP, along with related disclosures, should help users assess the following:
    - The NFP's ability to continue to provide services
    - The NFP's liquidity and financial flexibility



# BROWN ARMSTRONG

## GAAP Required Totals

- Assets
- Liabilities
- Total Net Assets
- Permanently restricted net assets
- Temporarily restricted net assets
- Unrestricted net assets



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# BROWN ARMSTRONG

## Required Grouping and Classification

- Reasonably homogenous groups
- Provide information about liquidity and financial flexibility by using the any of the following:
  - Sequencing assets and liabilities
  - Classifying assets and liabilities as current and noncurrent
  - Disclose relevant information in notes



# BROWN ARMSTRONG

## Classifying Assets and Liabilities

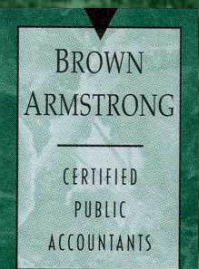
- Logical groupings by asset or liability type
- Use judgement about materiality and level of detail needed by users of the financials
- Effects on grouping and classifying
  - Donor restrictions
  - Other contractual restrictions
  - Self-imposed limits



# BROWN ARMSTRONG

## Formatting Options

- Classified- Assets and liabilities classified as either current or noncurrent
- Unclassified- Assets sequenced according to their nearness to conversion to cash and liabilities sequenced according to their maturity and resulting use of cash



# BROWN ARMSTRONG

## Net Assets

- Permanently Restricted Net Assets
  - Contributions and other inflows of assets whose use by the NFP is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the NFP,
  - other asset enhancements and diminishments subject to the same kinds of stipulations, or
  - reclassifications from or to other classes of net assets as a consequence of donor-imposed stipulations.



# BROWN ARMSTRONG

## Net Assets, continued

- Temporarily restricted net assets:
  - Contributions and other inflows of assets whose use by the NFP is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the NFP pursuant to those stipulations,
  - Other asset enhancements and diminishments subject to the same kinds of stipulations, or
  - Reclassification from or to other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the NFP pursuant to those stipulations.



# BROWN ARMSTRONG

## Net Assets, continued

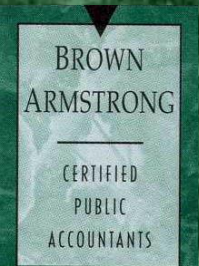
- Unrestricted net assets:
  - The part of net assets of an NFP that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations.



# BROWN ARMSTRONG

## Classifying Net Assets

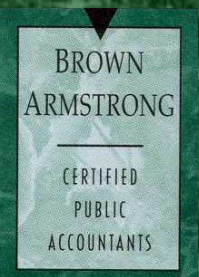
- Report required totals
- Information about nature and amounts of different types of temporary and permanent restrictions must be presented on face of statement or in notes
- It is optional to present information about nature and amounts of different types of self-imposed limits on face of statement or in notes



# BROWN ARMSTRONG

## Formatting Options

- Net asset section only with totals
  - Unrestricted, temporary restricted, permanently restricted
- Net asset section with optional subtotals
  - Subtotals provide information about nature and amount of different types of temporary and permanent restrictions
  - Subtotals may also provide information about nature and amounts of different types of self-imposed limits



# BROWN ARMSTRONG

## Cash and Modified Cash Basis of Accounting

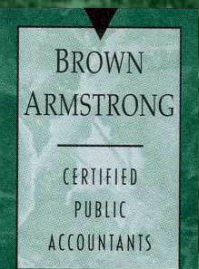
- Cash basis or modified cash basis accounting is a special purpose framework that is not GAAP.
  - Titles should differ from GAAP
  - Include footnotes to describe the basis of accounting
  - Informative disclosures similar to those required by GAAP



# BROWN ARMSTRONG

## Applying Cash Basis to the SFP

- Title example: Statement of Assets, Liabilities, and Net Assets-Modified Cash Basis
- Pure cash basis usually only presents single statement of cash receipts and disbursements.
- Modified cash basis:
  - Report property and equipment, investments, debt, and similar
  - Avoid reporting operating assets and liabilities
  - Consider formatting to provide information about liquidity
  - Consider presenting net asset restrictions



# BROWN ARMSTRONG

## Key Concepts- SFP

- Provide relevant information about the NFPs assets, liabilities, and net assets and about their relationship to each other at a moment in time.
- Required totals:
  - Assets
  - Liabilities
  - Unrestricted net assets
  - Temporarily restricted net assets
  - Permanently restricted net assets
  - Total net assets
- Grouping and classifying assets and liabilities provides information about liquidity and financial flexibility.



# BROWN ARMSTRONG

Bakersfield Community Foundation  
Statement of Financial Position  
As of December 31, 2016

## ASSETS

### Current Assets

Cash and cash equivalents	24,500
Grants receivable	45,000
Prepaid expenses and other current assets	2,500
Investments	50,000
Total current assets	122,000

### Noncurrent assets

Cash designated for renovation project	75,000
Property and equipment, net of accumulated depreciation	65,000
Total noncurrent assets	140,000

### TOTAL ASSETS

262,000

## LIABILITIES AND NET ASSETS

### Current liabilities

Accounts payable	4,500
Accrued expenses and other liabilities	16,000
Current portion of note payable	25,000
Total current liabilities	45,500

### Noncurrent liabilities

Note payable, less current portion	100,000
Total noncurrent liabilities	100,000
<b>TOTAL LIABILITIES</b>	<b>145,500</b>

### Net assets

#### Unrestricted net assets

Undesignated	21,500
Board -designated renovation reserve	75,000
Total unrestricted net assets	96,500

#### Temporarily restricted net assets

Community outreach program	10,000
Renovation project	10,000
Total temporarily restricted net assets	20,000
<b>TOTAL NET ASSETS</b>	<b>116,500</b>

### TOTAL LIABILITIES AND NET ASSETS

262,000



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## Statement of Activities

- Provide relevant information about the following items:
  - The effects of transactions and other events and circumstances that change the amount and nature of net assets
  - The relationship of those transactions and other events and circumstances to each other
  - How the NFPs resources are used in providing various programs or services

# BROWN ARMSTRONG

## GAAP Requirements

- Statement title- GAAP uses “Statement of Activities
- Other appropriate titles:
  - Statement of Activities and Changes in Net Assets
  - Statement of Revenues, Expenses, and Other Changes in Net Assets



Activities



# BROWN ARMSTRONG

## GAAP Requirements, continued

- Required totals:
  - Change in net assets
  - Change in permanently restricted net assets
  - Change in temporarily restricted net assets
  - Change in unrestricted net assets
- “Change in net assets” must correspond to the net asset balance reported in the statement of financial position
- “Change in net assets” should include all activity



# BROWN ARMSTRONG

## Net Asset Classification

- Unrestricted net assets
- Temporarily restricted net assets
- Permanently restricted net assets
- Total net assets



# BROWN ARMSTRONG

## Revenues and Expenses

- Revenues, gains, losses
  - Classified and reported as increases or decreases in permanently restricted, temporarily restricted, or unrestricted net assets based on donor restrictions
  - Presented in reasonably homogeneous groups
- Expenses
  - Reported as decreases in unrestricted net assets only
  - Reported in functional totals on statement or in notes
- Donor-restricted contributions whose restriction is met in the same reporting period
  - May elect accounting policy to report these contributions as unrestricted
  - Must apply policy consistently from period to period



# BROWN ARMSTRONG

## Reclassifications

- Simultaneous increases in one net asset class and decreases in another
  - Net assets released from restriction
  - Contributions released from restriction
- Report separately on SoA



INCREASE



DECREASE



# BROWN ARMSTRONG

## Expenses

- Must report by functional classification
  - Report on the face of the SoA or in the notes
  - Program services
    - Report separate totals for each major program activity
  - Supporting Services
    - Management and general
    - Fundraising
    - Membership-development activities
    - Cost associated with revenue-generating activities that are not program related



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## Allocation of Expenses

- Consistent method for allocating expenses to functional classifications
  - Some expenses are directly related to a single functional category
  - Other expenses relate to multiple categories and must be allocated



# BROWN ARMSTRONG

## Gross vs. Net Reporting

- Revenues and expenses should be presented gross if the activities are ongoing major or central activities.
- Gains and losses from peripheral or incidental activities may be presented net.
- Specific GAAP guidance:
  - Investment earnings and expenses may be reported net.
  - Special fund-raising events expenses.



# BROWN ARMSTRONG

Bakersfield Community Foundation

Statement of Activities

Year Ended December 31, 2017

## *Unrestricted Activities*

### **Revenue and Support:**

Contributions	26,000
Grant income	40,000
Investment income	12,000
Net assets released from restriction	<u>25,000</u>
<b>Total Revenues and Support</b>	<b>103,000</b>

### **Expenses**

Program	19,000
Management and general	5,500
Fundraising	<u>2,500</u>
<b>Total Expenses</b>	<b><u>27,000</u></b>
<b>Change in Unrestricted Net Assets</b>	<b>76,000</b>

## *Temporarily Restricted Activities*

Contributions	35,000
Net assets released from restriction	<u>(25,000)</u>
<b>Change in Temporarily Restricted Net Assets</b>	<b><u>10,000</u></b>

<b>Change in Net Assets</b>	<b>86,000</b>
-----------------------------	---------------

<b>Net assets at beginning of year</b>	<b><u>30,500</u></b>
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<b>Net assets at end of period</b>	<b><u><u>116,500</u></u></b>
------------------------------------	------------------------------



# BROWN ARMSTRONG

**Bakersfield Community Foundation  
Statement of Activities  
Year Ended December 31, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and Support:				
Contributions	26,000	35,000		61,000
Grant income	40,000			40,000
Investment income	12,000			12,000
Net assets released from restriction	<u>25,000</u>	<u>(25,000)</u>		<u>-</u>
Total Revenues and Support	103,000	10,000	-	113,000
Expenses:				
Program	19,000			19,000
Management and general	5,500			5,500
Fundraising	<u>2,500</u>			<u>2,500</u>
Total Expenses	<u>27,000</u>	<u>-</u>	<u>-</u>	<u>27,000</u>
Change in Net Assets	76,000	10,000	-	86,000
Net assets at beginning of year	<u>20,500</u>	<u>10,000</u>		<u>30,500</u>
Net assets at end of period	<u><u>96,500</u></u>	<u><u>20,000</u></u>		<u><u>116,500</u></u>



# BROWN ARMSTRONG

## Key Concepts-SoA

- The purpose of the SoA is to provide relevant information about the effects of transactions and other events and circumstances that change the amount and nature of net assets.
- Required totals:
  - Change in net assets
  - Changes in unrestricted, temporarily restricted, and permanently restricted net assets.
- Revenues, gains, and losses provide information about existence or absence of donor restrictions.
- Expenses should be reported by functional categories



# BROWN ARMSTRONG

## Statement of Cash Flows

- Provide relevant information about the cash receipts and cash payments of an entity during the period.
- Help users assess the following:
  - Ability to generate positive future net cash flows
  - Ability to meet its obligations and its needs for external financing
  - Reasons for differences between change in net assets and associated cash receipts and payments
  - Effects on an entity's financial position of both its cash and noncash investing and financing transactions during the period



# BROWN ARMSTRONG

## SCF- Form and Content

- Classify cash receipts and payments:
  - Operating activities
  - Investing activities and
  - Financing activities
- Cash and cash equivalents must be the same amount as shows on the statement of financial position.



# BROWN ARMSTRONG

## Gross and Net Cash Flows

- Preparer should gross reporting is required unless there is a specific provision for net reporting for the category of cash receipts and payments.
- Net reporting allowed for certain items where turnover is quick, amounts are large, and maturities short
  - Investments- example, money market fund
  - Loans receivable- example, short term lending
  - Debt- example, line of credit



# BROWN ARMSTRONG

## Operating Activities

- Operating activities include all transactions and other events that are not defined as investing or financing activities. Operating activities generally involve producing and delivering goods and providing services. Cash flows from operating activities are generally the cash effects of transactions and other events that enter into the determination of net income.

# BROWN ARMSTRONG

## Investing Activities

- Investing activities include making and collecting loans and acquiring and disposing of debt or equity instruments and property, plant, and equipment and other productive assets, that is, assets held for or used in the production of goods or services by the entity (other than materials that are part of the entity's inventory).
- Investing activities exclude acquiring and disposing of certain loans or other debt or equity instruments that are acquired specifically for resale.



# BROWN ARMSTRONG

## Financing Activities

- Financing activities include obtaining resources from owners and providing them with a return on and a return of their investments; receiving restricted resources that by donor stipulation must be used for long-term purposes; borrowing money and repaying amounts borrowed, or otherwise settling the obligation; and obtaining and paying for other resources obtained from creditors on long-term credit.



# BROWN ARMSTRONG

## Direct vs. Indirect Method

- SCF may be presented using either the direct or indirect method.



# BROWN ARMSTRONG

## Indirect Method

- The indirect method presents a reconciliation of change in net assets to net cash from operating activities.
- Separate schedule reconciling change in net assets to net cash from operating activities is not required;
- Must disclose cash paid for interest and income taxes, if any.



# BROWN ARMSTRONG

Bakersfield Community Foundation  
Statement of Cash Flows  
Year Ended December 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	86,000
Adjustments to reconcile change in net assets to cash provided by operating activities:	
Depreciation	1,500
Loss on sale of investment securities	(3,000)
Contributions restricted for long-term purposes	(10,000)
Increase (decrease) in operating liabilities	
Accounts payable	(1,700)
Accrued expenses	<u>2,500</u>
Net cash provided by operating activities	<u>75,300</u>
NET CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sale of investment securities	1,200
Purchase of investment securities	<u>(25,000)</u>
Net cash used in investing activities	<u>(23,800)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Decrease in long-term debt	<u>(29,750)</u>
Net cash provided by financing activities	(29,750)
Net increase in cash and cash equivalents	21,750
Cash and cash equivalents at beginning of year	<u>2,750</u>
Cash and cash equivalents at end of period	<u><u>24,500</u></u>



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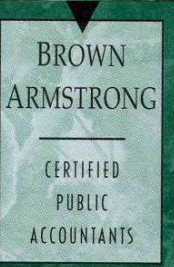
## Cash Flow Worksheet

- Beginning and ending statement of financial position (SFP)
- Net change of SFP balances
- Allocate net changes to SCF line items
- Create line items for indirect method operating activities

# BROWN ARMSTRONG

Bakersfield Community Foundation  
Statement of Cash Flows - Indirect Method  
December 31, 2017

	Cash & Cash Equivalents	Receivables	Investments	Prepaid Expenses	PP&E	Cash Long-Term	Accounts Payable	Accrued Expenses	Long-Term Debt	Net Assets
12/31/17	24,500	45,000	50,000	2,500	65,000	20,000	(4,500)	(16,000)	(125,000)	(116,500)
12/31/16	2,750	45,000	23,200	2,500	66,500	10,000	(6,200)	(13,500)	(154,750)	(30,500)
	21,750	-	26,800	-	(1,500)	10,000	1,700	(2,500)	29,750	(86,000)
CASH FLOWS FROM OPERATING ACTIVITIES:										
Net income	86,000									86,000
Adjustments to reconcile net income to net cash used by operating activities:										
Depreciation	1,500				1,500					
Unrealized gain (loss) on investments	-		-							
Loss on sale of investment securities	(3,000)		(3,000)							
Contributions restricted for long-term purposes	(10,000)					(10,000)				
Changes in assets and liabilities:										
Increase in accounts payable and other accrued liabilities	(1,700)					-	(1,700)			
Increase in accrued expenses	2,500							2,500		
Net Cash Provided in Operating Activities	<u>75,300</u>									
CASH FLOWS FROM INVESTING ACTIVITIES:										
Purchase of Property & Equipment	-				-					
Proceeds from sale of equipment	-									
Purchase of investment securities	(25,000)		(25,000)							
Proceeds from sale of investment securities	1,200		1,200		-					
Reinvested interest and dividends on investments	-		-							
Net Cash Used by Investing Activities	<u>(23,800)</u>									
CASH FLOWS FROM FINANCING ACTIVITIES:										
Long Term Debt	(29,750)		-						(29,750)	-
Release of Cash held for LT Purposes	-					-				
Net Cash Used by Financing Activities	<u>(29,750)</u>									
NET INCREASE IN CASH AND CASH EQUIVALENTS	21,750									
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>2,750</u>									
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>24,500</u>									



# BROWN ARMSTRONG

## Key Concepts-SCF

- The purpose of the SCF is to provide relevant information about the cash receipts and cash payments of an entity during the period.
- The following totals are required on the SCG:
  - Operating, investing, and financing net cash flows
  - Reconciliation to cash on the statement of financial position
- Two methods- direct and indirect
- Key tool for preparing the SCF is the cash flow worksheet



# BROWN ARMSTRONG

## Statement of Functional Expenses

- Functional classification- “a method of grouping expenses according to the purpose for which costs are incurred. The primary functional classifications are program services and supporting activities.
- Program services- “the activities that result in goods and services being distributed to beneficiaries, customers or members that fulfill the purposes or mission for which the not-for-profit entity (NFP) exists.
- Supporting activities- “all activities of a not-for-profit entity (NFP) other than program services. Generally, they include the following:
  - Management and general activities
  - Fundraising activities
  - Membership development activities”



# BROWN ARMSTRONG

## Notes to the Financial Statements

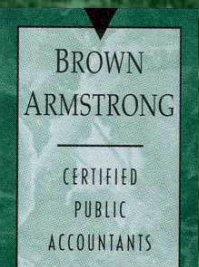
- Amplify or complement information presented in the financial statements
- Provide information that cannot be presented in the financials



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## Common Financial Statement Errors

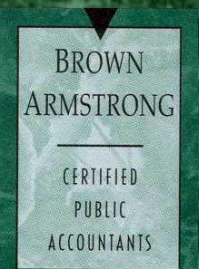
- Statement of Financial Position
  - Display current/non current assets without display current/non current liabilities when a classified statement is used
  - Improperly including items in cash and cash equivalents, such as restricted cash
  - Inappropriately reporting dues revenues receivable when the member receives no goods or services (contributions)
  - Failure to capitalize the value of leasehold improvements, which should generally be amortized over the shorter of the useful life of the asset or the term of the lease
  - Reporting board designated net assets as temporarily or permanently restricted net assets



# BROWN ARMSTRONG

## Statement of Activities

- Omitting one or more of the required totals, such as change in net assets
- Inappropriate accounting for investment return (including gains/losses) as unrestricted when there are donor-imposed restrictions on such investment returns and gains
- Improperly utilizing unrestricted net assets before releasing available net assets that are restricted for the same purpose
- Recording amounts as a receivable under cost-reimbursement contracts for which costs have not been incurred.
- Failing to report fundraising expenses incurred
- Erroneously reporting just one program service function when the NFP has more than one major class of program services



# BROWN ARMSTRONG

## Statement of Cash Flows

- Netting amounts for investment purchases and sales
- Failing to display donor restricted capital-type contributions (permanently restricted gifts, gifts restricted for acquisition of property) as a financing activity.
- Failing to display information about noncash gifts for endowment or property, plant and equipment
- Netting amounts for purchases and sales of property, plant, and equipment
- Netting borrowings and repayments of long-term debt
- Failing to disclose cash payments for interest, or mistakenly showing interest expense instead of actual cash payments made for interest
- Including agency transactions in a classification other than operating



# BROWN ARMSTRONG

## FASB New Standard: ASU 2016-14

- Effective for fiscal years beginning after 12/15/17
- Interim financials the following year- 12/15/18
- Update, not overhaul of the current model
- Improve net asset classification scheme
- Improve information in the financial statements and notes about: financial performance, cash flows, and liquidity
- Better enable NFPs to “tell their financial story”



# BROWN ARMSTRONG

## ASU 2016-14 Changes

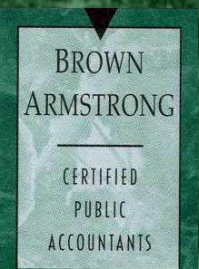
- New liquidity and availability disclosure required
- New asset classes reduced from three to two
- Additional disclosures for underwater endowments
- All not-for-profits (NFPs) must report expenses by nature and function in one place, and describe the methods used to allocate among functional categories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



# BROWN ARMSTRONG

## Net Assets

- Current GAAP has three net asset classifications- unrestricted, temporarily restricted, and permanently restricted
- Revised GAAP will have two net asset classifications- without donor restrictions and with donor restrictions
  - No longer necessary to break into temporarily and permanently restricted
- Disclosures required will include:
  - Without donor restrictions- amount, purpose, and type of board designations
  - With donor restrictions- nature and amount of donor restrictions



# BROWN ARMSTRONG

## Functional Expenses

- All NFPs, 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



# BROWN ARMSTRONG

## Resources

- Nonprofit Finance Fund  
[www.nonprofitfinancefund.org](http://www.nonprofitfinancefund.org)
- Blue Avocado  
[www.blueavocado.org](http://www.blueavocado.org)
- Nonprofit Assistance Fund  
[www.nonprofitsassistancefund.org](http://www.nonprofitsassistancefund.org)



# BROWN ARMSTRONG

THANK YOU

GRACIAS

MERCI

DANKE

