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FASB Agrees to Amend Guidance for Nonprofit Expense Reporting.

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At a meeting in Norwalk, Conn., Don Kim, a postgraduate technical assistant at FASB, said U.S. generally accepted accounting principles don't require all nonprofit organizations to disclose information about expenses according to both their functional and natural classifications, adding that only voluntary health and welfare entities are required to provide information about natural expenses in their statement of functional expenses.

Kim said members of the board's Not-for-Profit Advisory Committee agreed with the staff that requiring the natural classification of expenses wouldn't subject most nonprofit organizations to significant costs regarding financial statement preparation and auditing.

FASB members tentatively supported the staff recommendation to modify U.S. GAAP and require all nonprofit entities to disclose information about their natural expenses — a disclosure that existing guidance only encouraged most nonprofits to provide in their financial statements. The board also agreed to retain the current requirement under FASB Statement No. 117, "Financial Statements of Not-for-Profit Organizations," to provide information about functional expenses.

FASB member Marc Siegel said the reporting of expenses by nature could give financial statement users a better understanding of how nonprofit entities are spending their money. He also noted that nonprofits are already required to provide similar information on Form 990, "Return of Organization Exempt From Income Tax."

The board decided that it would not modify the existing guidance that permits a nonprofit entity to present expenses by nature or function in its statement of activities after the staff couldn't identify sufficient reasoning to mandate more prescriptive presentation requirements.

The staff recommended that nonprofit entities be required to provide information about expenses by function and nature in a matrix format because that disclosure would provide incremental benefits to the users of financial statements. The staff said the information could be provided either as a basic financial statement or as a schedule in a footnote disclosure.

According to Kim, the Not-for-Profit Advisory Committee generally agreed that the matrix format adds understandability, clarity, and transparency to the reporting of expenses, which are useful for donors and the governing boards of nonprofit organizations when they are assessing how a nonprofit allocates its resources.

FASB members agreed that an analysis of a nonprofit entity's reporting of expenses should be presented in a single location in its financial statements, but they decided against requiring the analysis to be presented in a matrix format, thinking that would be overly prescriptive. The board also agreed to grant nonprofit entities some flexibility by permitting them to provide the analysis of expenses either on the statement of activities or in the financial statement footnotes.

FASB member Lawrence Smith said that because nonprofit entities do not maintain the same level of regular communication that public companies can provide to users, they should be allowed more flexibility for presenting the analysis in whatever way they think is most appropriate. He added that most users of nonprofit financial statements are more inclined to review the entire document.

The board tentatively decided that under the newly proposed guidelines, nonprofit entities should be reporting information about all of their natural expenses and not only about those that are classified as operating expenses. The board also agreed not to provide relief to any types of nonprofit entities from the tentative decisions made on the content and presentation of expenses.

FASB's latest decisions were made as part of its project on reexamining the standards for nonprofit financial statement presentation. The board decided in October to modify the existing requirements that dictate how some nonprofit organizations present their operating cash flows.

by Thomas Jaworski

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