

# **Bond Case Briefs**

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## **FASB Agrees to Modify Nonprofit Cash Flow Presentation.**

The Financial Accounting Standards Board on October 23 tentatively decided by a narrow vote to change the method in which several nonprofit organizations present their operating cash flows.

At a meeting in Norwalk, Conn., FASB members voted 4 to 3 to accept a proposal requiring nonprofit organizations to use the direct method of reporting cash flows from their operating activities. The direct method calls for entities to report cash flows from operating activities directly by displaying the major classes of operating cash receipts and payments.

As a result of the board's decision, a future exposure draft would amend the existing guidance under FASB Accounting Standards Codification Topic 958, "Not-for-Profit Entities," that encourages use of the direct method only for reporting net cash flows from operating activities. Under the existing guidance, entities that choose not to report those operating cash receipts and payments are required to report the same amount of net cash flow using an indirect method.

The board tentatively decided to no longer require nonprofits using the direct method to provide a reconciliation of net income and net cash flow provided from its operations.

A staff paper prepared for the meeting said that the feedback received from stakeholders indicated that the direct method of reporting cash flows is more intuitive and understandable for nonprofit financial statement users, in particular donors with limited financial expertise. The paper also said the staff learned that implementation costs wouldn't represent a significant barrier from requiring use of the direct method.

FASB member Thomas Linsmeier supported the proposal to mandate the use of the direct method for reporting cash flows by nonprofit organizations, saying that the direct method better depicts operating cash flows and would make the statement of cash flows more relevant for those types of entities.

FASB member Daryl Buck, however, expressed concern about prescribing a requirement on cash flow reporting, suggesting that the board instead provide nonprofit entities with the option to select either the direct or indirect method depending on which presentation approach is more suitable for the needs of their financial statement users.

Ronald Bossio, a senior project manager at FASB, said that the cash flow statement can be most valuable for those nonprofit organizations that may experience difficulty generating cash despite receiving long-term donations and assets. "It's a very early warning sign and can be a very valuable statement," he said.

The board also considered tentative changes to the existing categories of cash flows that classify donor-restricted cash gifts for long-lived operating assets, cash dividends, and interest income from investing activities, and cash payments of interest expense on long-term capital financing activities.

FASB's latest decisions were made as part of its project on reexamining the standards for nonprofit

financial statement presentation. The board previously decided to replace existing rules that require a nonprofit to present information about its funding and resources.

According to Bossio, the next steps of the nonprofit financial reporting project plan will be to complete discussions on how best to improve the information provided about a nonprofit's liquidity and address potential improvements to the entity's statement of functional expenses.

### Share-Based Payments

FASB also released the proposed accounting standards update, "Compensation — Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved After the Requisite Service Period."

On October 2 FASB ratified the final consensus of the board's Emerging Issues Task Force to invite public comment on proposed guidance that would require that performance targets for share-based payment awards that can be met after the completion of an employee's requisite service period be treated as a performance condition that affects the vesting of the awards.

FASB will accept written comments on the proposal until December 23.

The proposal is available at:

by Thomas Jaworski