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FASB Advisory Group Expects Challenges With New Nonprofit Rules.

An advisory group of the Financial Accounting Standards Board on September 4 expressed general support for the board's efforts to improve nonprofit organizations' financial statements but also identified challenges that could result from the significant changes being proposed.

At a meeting in Norwalk, Connecticut, members of FASB's Not-for-Profit Advisory Committee (NAC) expressed concern about the complexity associated with the board's tentative decisions on the treatment of capital donations and the proposed disclosure of those gifted assets throughout the nonprofit entity's statement of activities.

NAC member John A. Mattie of PricewaterhouseCoopers LLP said one of the primary goals of the board's project was to improve the consistency and comparability of financial reporting across the nonprofit industry. Despite those benefits, the proposed rule changes could put more pressure on financial statement preparers regarding the footnote disclosures that must support the nonprofit's accounting decisions, he said, adding that FASB's guidance should provide several illustrative examples of those disclosures.

NAC member Michael B. Tarnoff of the Jewish Federation of Metropolitan Chicago said he believes that the rule changes under discussion would motivate nonprofit organizations and their governing boards to ensure that the financial statements reflect how they behave under the policies they've adopted. "I see it as an excellent result that we're moving toward," he said.

NAC member Bennett Weiner of the Better Business Bureau Wise Giving Alliance said the proposed footnote disclosure communicating information about a nonprofit's liquidity will provide value to the organization and users of its financial statements.

According to Weiner, the proposed disclosure requirement on liquidity could bring attention to an issue that has been neglected by several nonprofits for a variety of reasons.

However, Weiner expressed concern that some of the changes to nonprofit financial statements being proposed may create differences between the information provided in audited financials and Form 990, "Return of Organization Exempt From Income Tax," or other government filings. But those differences shouldn't necessarily dictate what the boards decide because the wheels of government turn slowly, and any change to those documents would represent a significant hurdle, he added.

Jeffrey Mechanick, an assistant director at FASB, said the staff will attempt to perform outreach with some government agencies to the extent that those organizations have the time and ability to contribute, adding that the IRS Tax-Exempt and Government Entities Division could provide valuable feedback on FASB's project on nonprofit reporting.

FASB member Lawrence Smith admitted that developing accounting standards for the nonprofit sector is particularly challenging because of the wide variety of nonprofits that exist. Although some

are strictly nonprofit operations, others are funded by government agencies or operate like for-profit businesses, he noted.

Smith said that while FASB should consider the views of financial statement preparers, users, and auditors when making standard setting decisions, board members must keep the statement users at the front of their minds in deciding how to address a particular accounting issue.

FASB cannot gear nonprofit financial statements toward all users that could provide contributions to an organization, Mechanick said. He added that the board receives the most feedback from grant-making foundations and surrogates for donors, such as watchdog agencies and regulatory bodies.

Concerns With Revenue Standard

At a September 5 meeting with FASB, NAC members said they anticipated that the board's transition resource group may need to address the implementation problems that nonprofits have regarding the guidance in Accounting Standards Update No. 2014-09, "Revenue From Contracts With Customers (Topic 606)." NAC members expressed particular concern about applying the new revenue standard to healthcare payments and government grants such as social impact bonds.

FASB Chair Russell Golden said the board will provide staff resources to help nonprofit organizations better interpret the revenue recognition guidance, but he advised those entities to confirm whether their implementation problems apply to the existing guidance under U.S. generally accepted accounting principles, the new standard issued in May, or both.

Mechanick added that the implementation problems of healthcare entities and nonprofit organizations also may be examined by the industry task forces that were established by the American Institute of Certified Public Accountants to assist with application of the new guidance. The AICPA Financial Reporting Executive Committee plans to provide its own accounting guide on FASB's revenue standard, he said.

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