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THE NEWSLETTER OF THE BDO NONPROFIT & EDUCATION PRACTICE

NONPROFIT STANDARD

CONTENTS

LIQUIDITY: CAN IT BE THE DIFFERENCE BETWEEN SUCCESS AND BANKRUPTCY FOR NFPS?

By Adam Cole, CPA, and Lee Klumpp, CPA, CGMA

Before New York's Federation Employment and Guidance Service (FEGS) filed for bankruptcy last year, nobody saw it coming. The legacy social services organization was 80 years old and had $260 million in revenues, but lurking behind those successes was a $20 million deficit.

The nonprofit industry was rocked when nobody—not even the board and management—seemed to be aware of the liquidity and cash flow problems plaguing the organization.

The question everyone's been asking is "how did this happen?" Answering it requires an understanding of the complexities of nonprofit financial statements, including the importance of liquidity, performance measures and net assets, and how the tracking of financial performance differs between private for-profit firms and not-for-profits (NFPs). And from there, how and why that could soon change under guidance from the Financial Accounting Standards Board (FASB).

In practical terms, liquidity is typically understood as the amount of cash and/or assets, such as short-term investments, held by a nonprofit organization that can be easily converted to cash for use in the immediate or near future. In other words, an entity is thought to be liquid if it has ready access to cash to meet its needs. An entity

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LIQUIDITY

may be described as liquid because it holds cash directly or because it holds other liquid assets, such as money market accounts, certificates of deposit or other short-term investments that can readily be converted to cash. Some might describe an entity as liquid if it has ready access to cash, which can include borrowing power, lines of credit, etc. It's worth noting, though, that access to cash through borrowing may create liquidity, but it is more akin to the concept of financial flexibility and is not a liquid asset that can be communicated in the statement of financial position at the measurement date.

Liquidity hasn't historically been emphasized in nonprofit financial statements other than looking at how items are sequenced on the statement of financial position (balance sheet). Nonprofit finances have been akin to a black hole when it comes to liquidity because, to date, the FASB has not required that entities measure and report on liquidity. But that could all soon change for nonprofits. As the FASB Board redeliberates on its proposed Accounting Standards Update (ASU) on presentation and disclosure for Not-for-Profit Entities, it plans on looking at ways to provide meaningful and decision-useful information related to liquidity. Comments submitted on the proposed ASU have supported improving disclosures to provide decision-useful information for assessing liquidity, as well as other indicators of financial performance. Boards, lenders, creditors and, occasionally, big donors tend to be the biggest users of nonprofit financial statements. While mission and overhead typically face a great deal of scrutiny from all of these stakeholders, in our examination of failing nonprofit organizations, critical financial information around liquidity is opaque—or worse, not present at all.

In its redeliberations on the proposed ASU, the board discussed providing qualitative and quantitative information useful for assessing liquidity and potential alternatives and directed the staff to explore an alternative approach that would:

- require qualitative information about how the NFP manages its liquidity and liquidity risks, and
- allow for alternative ways of presenting quantitative information that would emphasize information about assets that are liquid and available at the balance sheet date.

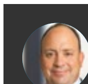
Currently, one of the biggest problems for readers of nonprofit financial statements is that nonprofit financial statements do not read like for-profit financial statements, which emphasize financial performance and return on investment for stockholders. Nonprofits, which have no stockholders, are prohibited by the FASB's Accounting Standards Codification from using phrases like "net income" or "operating income," so their statements don't provide much information on financial performance. This can have serious implications for stakeholders, internal and external, who are trying to glean information about the overall health and sustainability of the nonprofit organization. Additionally, nonprofits currently do not have standards or a framework to measure and report on key performance indicators (KPI) about financial performance. As part of its redeliberations, the board plans to look at how NFPs use operating measures and see if there is a way to improve disclosures for those NFPs that choose to present such a measure.

In 1989, FASB decided that it preferred the direct method to calculate cash flow, but still allowed nonprofits to use the indirect method, which is simpler to provide but gives little information about where cash comes from and where it goes. So far in its deliberations, the FASB has decided to allow nonprofits to use the direct method of measuring cash flow without having to present the reconciliation of change in net assets to cash provided or used in operating activities, which had previously been required if the NFP used the indirect method of cash flows.

Another recent redeliberation decision that FASB made is to require nonprofits to present better disclosures related to net assets with and without restrictions, in order to provide more meaningful information and a better understanding of the resources available to the organization versus resources that are set aside to meet a donor's intent. Without that distinction, most of an organization's net assets may be locked up in various ways-such as endowments, property and plant, or other restrictions or designations—which may lead stakeholders to falsely believe the funds are available for use when they are not.

While there are advantages to reporting on liquidity, there are also concerns nonprofits must address while FASB continues to fine-tune its requirements, including the effect this new information on cash flow could have on donors. An organization with faltering liquidity may either face skepticism from major donors or, conversely, it could see an influx of donations from supporters who see a dire need for resources. Moreover, a group flush with cash might have more trouble raising funds if donors start to direct donations toward organizations they perceive have a greater need. In any case, before any changes to financial reports become mandatory, nonprofit leaders should become keenly aware of their liquidity and cash flow situation and prepare to address their stakeholders accordingly.

Anytime there's a transition, organizations will face some costs associated with transitioning. Organizations would need to get up to speed with the new reporting requirements, which might involve an investment in new systems and/or training. Fortunately for organizations, the changes FASB is considering will not add any expense over the longer term once these initial costs even out. Rather, they are simple measures intended to encourage better measurement and communication of liquidity on the part of nonprofit organizations. And most importantly, they are designed to help the users and readers of statements better understand the financial results, which is something that should ultimately benefit the financial health of nonprofits.



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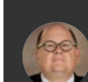

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2015 ACA IRS FILING REQUIREMENTS

By Kimberly Flett, CPA, QPA, QKA

Nonprofit organizations are subject to Affordable Care Act (ACA) requirements similar to those that apply to for-profit organizations. While there are some positive aspects of the ACA, there are also several challenges in complying with both the employer and individual mandates.

As there are no exceptions for tax-exempt organizations, nonprofits face the same opportunities and hurdles as for-profit companies. It is critical that nonprofit organizations are aware of both the benefits and potential pitfalls of ACA filing requirements.

THE PROS

One of the most beneficial aspects of the ACA is that many nonprofit employers are eligible for the Small Business Tax Credit if they employ 25 or fewer full-time equivalent employees and average wages are less than $50,000, along with certain other requirements. The credit is applied against payroll taxes for up to 35 percent of the cost of health payments made by the employer. For 2015, employers must have purchased insurance on the Small Business Health Options Program (SHOP) exchange in order to qualify.

THE PITFALLS

While this credit can be a boon to nonprofits, the calculations, filing and reporting requirements involved in claiming it are detailed and time consuming; it is important to involve an experienced tax advisor in this process.

The individual mandate of the ACA requires most taxpayers to have health insurance or pay a penalty, with some exceptions, such as income levels and minimal breaks in coverage. Known as Minimal Essential Coverage (MEC), these plans provide the necessary requirements under the ACA and can be obtained by plans purchased on the Health Insurance Marketplace, Medicare, Medicaid, CHIP, veteran plans and most employer-provided coverage. The Internal Revenue Service (IRS) relied on good faith when individual taxpayers verified they had minimum essential healthcare coverage on the 2014 Form 1040. However, beginning in 2015, in order to determine individual proof of coverage and satisfy the employer mandate, employers with more than 50 full-time equivalent employees, referred to as Applicable Large Employers (ALE), must submit informational reports to the IRS that summarize details about the healthcare benefits provided to employees. The appropriate information will demonstrate to the IRS not only whether an individual taxpayer has met the shared responsibility payment as part of the individual mandate, but also if the employer has met the requirements under the employer mandate.

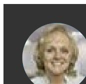
The compliance forms known as 1095-B or 1095-C (depending on the size of the employer and type of coverage offered) needed to be distributed to employees by **March 31, 2016**. (Note that this due date was previously Feb. 1, 2016, but an extension was granted under IRS Notice 2016-4). If you have missed this deadline, you should focus on completing and distributing these forms as soon as possible. ALEs must distribute Form 1095-C to all employees regardless of whether they offer fully insured or self-funded insurance plans. Form 1095-B is issued to employees by the health insurance carrier, regardless of the number of employees. Because the process is complicated by special coding, it is important that employers provide accurate information in order to avoid a penalty from the IRS.

Form 1094-B and Form 1094-C are the transmittal forms that employers need to submit to the IRS by May 31, 2016, or June 30 2016, if the electronic filing requirement is met. Additionally, Form 1095-A is issued by the government to taxpayers who purchased healthcare on the exchange.

As mentioned above, the reporting requirements under the Affordable Care Act are similar to those for not-for-profit employers with virtually no distinction. Full-time employees (defined as working 30 hours or more weekly under the ACA) must be reported on the 1095-B or 1095-C series forms whether or not insurance is offered or chosen by the employee. Variable-hour employees determined to be full-time during a measurement period and part-time employees with coverage must also be reported. In particular, it can be complicated when there are a number of employees who fluctuate between full- and part-time working hours and are not covered by insurance, a fairly common situation in the nonprofit sector. Missing an offer of coverage for an employee who should otherwise be covered can trigger a penalty for employers under the ACA.

Coverage information on dependents, type of coverage and costs are listed by month for these reports. This can get complicated for situations where employees are hired mid-year, have been terminated or have a qualified change in status such as marriage or divorce.

Ultimately, the responsibility is on the plan sponsor to ensure the insurance carrier is providing the necessary forms and completing the employer filing requirements. If employers have not prepared for the 2015 filing year, now is the time to take action. The BDO Compensation and Benefits team is prepared to assist clients with the form reporting and all aspects of ACA compliance and reporting.



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IF A PRODUCT OR SERVICE IS DELIVERED VIA THE INTERNET, IT'S NOT SUBJECT TO SALES TAX, RIGHT?

By Jeffrey Saltzberg, J.D.

As not-for-profit organizations try to meet the growing needs of members and non-members by selling products and services delivered via the Internet, they may not realize that such products and services are subject to sales and use tax in a number of states. If the organization has nexus in one or more of these states, it is required to collect sales tax on sales of these products and services.

These taxable products and services include information services, software as a service and digital goods.

Many not-for-profit organizations provide access to a database of information or documents that can be accessed by all subscribers. This service may be treated as a taxable "information service" in some states. For example, in a 2015 New York Technical Service Bulletin, TSB-A-15(5)S, the New York State Department of Taxation and Finance (the Department) determined that a not-for-profit organization's provision of a healthcare registry that provided healthcare providers and suppliers with access to a database that contained common standards to locate products and potential trading partners was an information service subject to New York state sales tax. The Department explained that the collecting, compiling and analyzing of information and reporting the information to others constituted a taxable information service under New York sales tax law. Furthermore, the Department stated that the service did not meet the statutory exclusion from the provision of information services because the information was not personal or individual in nature and could be substantially incorporated into reports furnished to others.

In addition to being subject to sales tax in New York, information services are taxable in a number of other states including, but not limited to, Ohio and Texas.

There is also a trend among not-for-profit organizations to provide cloud-based software that allows subscribers to analyze their own data. A growing number of states impose sales tax on such service as "software as a service." The following describes the typical software as a service situation.

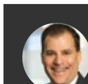
1. The seller owns and operates the software application.
2. The seller operates and maintains the server that hosts the software.
3. Subscribers access the software application through the Internet. The software is not transferred to the subscriber, and the subscriber does not have the right to download, copy or modify the software.
4. The seller bills subscribers for the use of the software.

The major factor in determining whether a service is software as a service or some other service for sales tax purposes is the amount of control that the subscriber has over the software's features. The more control the user has over the software, the more likely the service will be characterized as software as a service. Some of the states that impose sales tax on software as a service include Massachusetts, New York, Pennsylvania, Ohio and Texas.

Finally, providing information digitally rather than on paper or CD does not exempt the sale from sales tax in a number of states. These states impose sales tax on "specified digital products." These products include digital audio works, digital audiovisual works and digital books that are transferred electronically to a customer. Some of the states that impose sales tax on sales of digital goods include New Jersey, North Carolina, Ohio, Tennessee and Texas.

SUMMARY

In order to avoid potential sales tax exposure, in addition to focusing on where they have sales tax nexus and are selling tangible items such as CDs and periodicals, not-for-profit organizations need to also examine where they are providing products and services delivered via the Internet to determine if those products and services are taxable in the various states in which the organization conducts activities.



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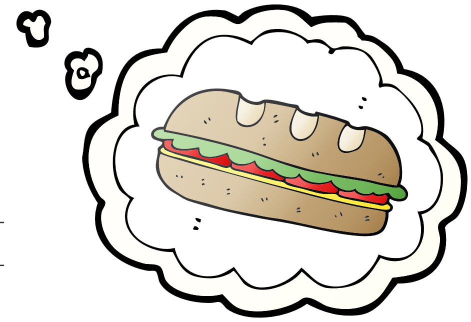
"ARE WE HAVING THOSE GOOD SEAFOOD SALAD SANDWICHES FOR LUNCH AGAIN?"

The (Real) Questions Committees Should Ask About Executive Compensation



By Michael Conover

That is an actual, and the only, question from a compensation committee member after an hour-long presentation of an analysis presented to highlight serious problems with a proposed compensation arrangement for the organization's CEO.

There were more attorneys in the room than board members as a controversial, sure-to-be-litigated, pay plan was considered. Detailed reports were circulated in advance and the issues were spotlighted in the presentation.

"Any questions?" I asked. That was it – the question about lunch was the only one asked. The proposal was approved and litigation commenced shortly thereafter.

Subsequent testimony revealed that the committee member in question claimed not to be an expert in compensation, relying instead on the CEO's endorsement of the proposal. When asked about the consultant report, the committee member admitted he thought he "glanced over it" prior to the meeting.

My point here?

I regularly encounter situations with board/compensation committee members of tax-exempt organizations who appear to be just as "detached'" as the salad-loving committee member of the above-mentioned publicly traded company. These situations involve board members who failed to request independent compensation analyses, never thoroughly read those reports, and/or never asked a follow-up question. For example:

- Two different consulting firms prepared an analysis of the compensation for the organization's CEO over a four-year period. Neither report included comparable organizations from the human services field in the data used to develop their competitive compensation range for the CEO. Instead, data from trade associations (whose roles are demonstrably higher paid than human services) was used.
- An organization requested an independent analysis of competitive compensation for a newly created senior-level position. A consultant prepared the analysis based on the job title alone and the assumption that it would be the average of the top two or three positions reporting to competitor CEOs. Based on competitor pay data for positions almost certainly not similar to the newly created position (based solely on the title), a competitive compensation range was presented that could hardly be described as objective.
- A report prepared for a major, global NGO presented competitive compensation ranges for each of the organization's most senior-level executives. The report provided no names or information on any of the organizations included in the analysis, citing "confidentiality" concerns. Without any information on the size and scope of organizations included in the study, there was no basis for determining whether or not the compensation discussed in the report represented organizations that were comparable in terms of the IRS' rebuttable presumption of reasonableness.

In each of these instances, board members were provided with reports that never prompted a follow-up question, despite some rather questionable analyses and conclusions. For some reason, board members were unwilling or unable to ask a question that would determine whether the information was useful or useless as a context for the pay decisions facing the governing body.

Internal Revenue Service (IRS) Intermediate Sanctions make it clear that the board may rely on a qualified compensation advisor/valuation expert (Regs. § 53.4958-1(d)(4)(iii)). However, that does not relieve individuals of the responsibility to take the necessary steps to inform themselves about the decision before them as well as any information provided to them related to the topic at hand. Meetings of governing boards or their committees are not intended to be simply a chorus chanting "Do we have a motion?" "Is there a second to the motion?" or "All those in favor say 'aye'".

Any compensation analysis presented to the board for Intermediate Sanctions purposes should readily be able to satisfy the following criteria:

- The distinguishing characteristics of the subject organization and each of the positions included in the report are clearly identified. For example:
  - Type of organization/service area(s)
  - Size and scope of the organization (e.g., annual revenue, operating budget, assets, number of employees, other pertinent operational measures)
  - Key responsibilities/accountabilities of the study positions, not simply job titles, and any other pertinent information (e.g., special certifications, years of experience) along with any distinguishing characteristic(s) of a particular position that might distinguish it from a typical benchmark to which it might be compared (e.g., a responsibility added to the position not usually associated with it or responsibility missing from the position that is usually associated with it).
- The criteria used for selecting the organizations/types of organizations and positions that will be used for the competitive analysis. These criteria should be closely based upon and/

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EXECUTIVE COMPENSATION

or resemble the characteristics describing the above-mentioned subject organization and position(s) being studied, more specifically:

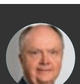
- Same or related types of organizations
- Appropriately "bracketed" by a group of somewhat smaller and larger sized organizations to obtain an adequate sample for a valid analysis
- Comparable position(s) based on job role rather than just position title
- Significant differences noted between subject and benchmark organization(s)/position(s) noted and the implications explained

- The data analysis should be presented and explained in sufficient detail to support the conclusions reached. Supporting information should be made available in appendix exhibits that present ample evidence of the scope of data supporting the conclusions.

Any report used for support of compensation decision making should be distributed well enough in advance of the meeting to allow it to be reviewed by committee members and for questions to be prepared for the meeting. It is hard to imagine that it would not be possible for each person to arrive with a prepared list of questions about the report and/or its implications on the compensation.

Finally, the individual chairing the meeting or phone call should make a point of asking if members have any questions about the report or the decision prior to proposing any specific proposal for action or a vote upon it. Everyone needs to make an informed decision.

No questions about lunch until business is finished!



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FORM 1023-EZ IS TOO EASY

By Laura Kalick, JD, LLM in Taxation

Fifty-five percent of organizations applying for 501(c)(3) status in fiscal year 2015 applied using the new Form 1023-EZ.

But the National Taxpayer Advocate, part of the Taxpayer Advocate Service (TAS), recently released a report to Congress indicating that the new form appears to have significant problems and that the Internal Revenue Service (IRS) went too far in reducing the amount of information required from a tax-exempt applicant. The statistics are even more daunting when one compares the number of 501(c)(3) applications in FY 2014 (100,032) to the number in FY 2013 (45,289).

The TAS is an *independent* organization within the IRS that helps taxpayers and protects taxpayer rights. The Taxpayer Advocate is appointed by and reports to the Commissioner of Internal Revenue and is responsible for identifying problems and proposing changes in the administrative practices of the IRS.

The new Form 1023-EZ was introduced in July 2014 to provide a simplified method for small organizations to apply for tax-exempt status as a section 501(c)(3) organization. While the Taxpayer Advocate had initially also recommended a simplified form for small organizations, it ultimately expressed concern that the new form lacks requirements that would prove whether an organization is eligible for tax exemption.

The Tax Advocate may have recommended a simplified form because of the severe backlog of applications for tax exemption that the IRS and the public were experiencing. At the time, thousands of organizations were reapplying for tax-exempt status after they failed to file Form 990 for three consecutive years and had their status revoked. As a result of the backlog, the applications were taking 18 months or more to be assigned to a reviewer, and nonprofits were waiting months or years for determinations from the IRS.

Initially, the new form was appealing as most small organizations (with gross receipts of $50,000 or less and assets of $250,000 or less) seemed to qualify and it significantly reduced the number of applicants using the full-blown process by implementing a digital solution. However, there has been some debate about whether this solution was the correct one.

PASSING (OR FAILING) THE ORGANIZATIONAL TEST

Organizations seeking tax exemption under Internal Revenue Code (IRC) section 501(c)(3) must pass organizational and operational tests. The organizational test requires that certain provisions be in the organizing documents (articles of incorporation and bylaws) that show the entity is organized for exclusively 501(c)(3) purposes (purposes clause) and that assets are dedicated in perpetuity to charitable purposes (the dissolution clause). Failing the organizational test means that the entity does not qualify as a charity.

The Taxpayer Advocate's study examined 408 organizations that had applied for section 501(c)(3) status using the shortened Form and found that 37 percent failed the organizational test because their articles of incorporation did not have an appropriate purposes clause or dissolution clause or had neither. The study was based on a review of organizations from states where the articles of incorporation could be found online. The report states, "It took the reviewers about three minutes on average to review an organization's articles and determine whether there were acceptable purpose and dissolution clauses."

KEY DIFFERENCES BETWEEN THE FORMS

The organizational test is just one example of where the 1023-EZ may have gone too far in the direction of efficiency. While the full Form 1023 with additional schedules and attachments is 12 pages long, the 1023-EZ

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FORM 1023-EZ

is only two pages. Aside from the length, the 1023-EZ differs from the full Form 1023 in three significant ways:

- Articles of Incorporation and Bylaws are not required to be submitted.
- The applicant does not have to provide a narrative description of its activities.
- Only an attestation is required regarding private inurement or private benefit – not information such as financial details.

Newly formed organizations can use the simplified form as can some organizations that have had their exempt status revoked for failure to file a Form 990 for three consecutive years. However, not every organization is eligible to use the two-page Form 1023-EZ. The organization cannot have more than $250,000 in assets, nor can it have more than $50,000 of income for the past three years or project more than $50,000 for the next three years. Many organizations that qualify to file the Form 1023-EZ would also qualify to file the Form 990-N postcard, whereby an organization must attest that it normally has no more than $50,000 in gross receipts. Some of the other organizations that would not qualify to file the Form 1023-EZ include churches, schools, hospitals and supporting organizations. The instructions to Form 1023-EZ include an eligibility worksheet with 26 questions, wherein if any of them are answered "yes", it will cause the organization to be ineligible to use the Form 1023-EZ.

DOUBTS REMAIN ABOUT ORGANIZATIONS' CHARITABLE ACTIVITIES

In addition to deficient articles of incorporation, the study found that only about half of the organizations surveyed had websites that would allow the IRS to easily find information about the activities of the organizations. The study found eight organizations in the sample that had previously filed tax returns as taxable corporations and questioned whether those organizations had changed their operations to be charitable.

Because section 501(c)(3) organizations can receive tax deductible contributions, these organizations are, in essence, subsidized by public funds. Therefore, it is imperative that only organizations that deserve section 501(c)(3) status are granted such status.

The Taxpayer Advocate has provided the IRS Exempt Organizations division with the names of the organizations that failed the tests. The Taxpayer Advocate recommended that the Form 1023-EZ be modified to require applicants to submit organizing documents, a narrative description of activities and financial information.

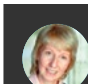
Although it appears that the IRS may still not require the articles of incorporation, it appears that it is taking steps to limit the risk of ineligible organizations being granted such status—steps such as pre-determination reviews, educational materials and clarifying instructions.

CONCLUSION

The IRS is taking many steps to make the exemption application process more efficient. In addition to the Form 1023-EZ, the IRS is employing additional requests for information during the regular application process to weed out ineligible applicants. If applicants do not provide the required information in a timely manner, the case will be closed and the applicant will have to re-file with a new user fee. Also, when the IRS now receives an application that is incomplete (for example, it does not have the proper signatures, taxpayer identification numbers, a narrative or other required information), it will be returned to the applicant with the applicable user fee, and applicants can decide whether they want to re-submit.

Facing limited resources, the IRS is attempting to be more efficient. The Form 1023-EZ was an attempt to increase efficiency and it appears that the IRS is starting to take additional steps to insure that small organizations meet the basic requirements.

Tax exemption is a privilege and not a right. Especially in the case of 501(c)(3) organizations where taxpayers can make deductible contributions, a lack of close monitoring leaves opportunities for abuse. The IRS' first bite at the apple of compliance is to test the organization before it grants the organization exemption. The Form 1023-EZ may be appropriate in situations in which the IRS had already previously vetted the organization with the full Form 1023 but revoked exempt status because Form 990 was not filed for three years. In that scenario, the IRS would already have important information and documents about the organization. However, in other situations, it appears that more information is needed so that the exempt organization community and the public are protected. For now, it appears that the IRS will keep the online application, but it will be taking additional steps to see if these organizations actually do qualify for exemption.



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THE NEW GASB ACCOUNTING AND FINANCIAL REPORTING STANDARDS FOR OTHER POSTEMPLOYMENT BENEFITS (OPEB)

By Kurt Miller, CPA

Public sector employers, get ready. First you recorded net pension liabilities, now net OPEB liabilities.

The Government Accounting Standards Board (GASB) Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, revises current guidance for financial reporting of most government OPEB plans. GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes new accounting and financial reporting requirements for most governments with other postemployment benefits (OPEB). GASB Statement No. 74, is effective for years ending June 30, 2017, and GASB Statement No. 75 is effective for years ending June 30, 2018. The new statements are intended to make accounting for OPEB, usually retiree health insurance, more transparent by moving the entire unfunded liability to the face of the financial statements.

These two standards provide the same fundamental improvements to accounting and financial reporting as we saw with the implementation of the pension standards. Together, the standards provide governments and the readers of their financial reports a more accurate reflection of the true costs promised to their employees and retirees.

GASB STATEMENT NO. 74 SUMMARY

GASB Statement No. 74 (Statement) establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB. The Statement covers OPEB plans, both defined benefit and defined contribution plans, that are administered through a trust. The OPEB plan must meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable;
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms; and
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities and the OPEB plan administrator.

OPEB PLANS

For OPEB plans administered through a trust, GASB Statement No. 74 requires the following financial reporting by the plan:

- Statement of fiduciary net position
- Statement of changes in fiduciary net position
- Notes to the financial statements that are required to include:
  - Descriptive information on the types of OPEB provided
  - Classes of plan members covered
  - Composition of the plan's board
  - Plan investments, investment policies, concentrations and monetary weighted rate of return
  - Contributions
  - Reserves
- Required Supplementary Information (RSI)
  - Defined benefit OPEB plans are required to present 10 years of plan information to include the annual money-weighted rate of return
  - Single-employer and cost-sharing OPEB plans are required to present 10 years of plan information to include:
    - Source of changes in the net OPEB liability
    - Information about the components of the net OPEB liability and related ratios, including the OPEB plan's fiduciary net position as a percentage of the total OPEB liability and the net OPEB liability as a percentage of covered-employee payroll.

MEASUREMENT OF THE NET OPEB LIABILITY

GASB Statement No. 74 requires the net OPEB liability to be measured as the total OPEB liability less the amount of the OPEB plan's fiduciary net position. The total OPEB liability generally is required to be determined though an actuarial valuation.

OPEB PLANS NOT ADMINISTERED THROUGH A TRUST

For OPEB plans not administered through a trust, the government is required to report assets accumulated in a fiduciary capacity in an agency fund.

GASB STATEMENT NO. 75 SUMMARY

GASB Statement No. 75 (Statement) establishes new accounting and reporting standards for most governments. Readers of the financial statements will note that information about the governments' commitments promised to employees and retirees related to OPEB are now on the face of the financial statements. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources and expenses/expenditures. This Statement replaces the requirements of GASB Statement No 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended* and GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB.

As in the pension standards, employers with defined benefit plans are classified in one of the following categories:

- Single employers – OPEB plans in which OPEB is provided to the employees of only one employer. A primary government and its component units are considered to be one employer.

Read more ▶

CONTINUED FROM PAGE 8

REPORTING STANDARDS

- Agent employer – OPEB plans in which assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay benefits of only its employees.
- Cost-sharing employers – OPEB plans in which the OPEB obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides OPEB through the plan.

TOTAL OPEB LIABILITY

As discussed above, the total OPEB liability is generally required to be determined though an actuarial valuation. Actuarial valuations must be updated within 30 months and 1 day of the employer's most recent fiscal year-end.

PENSION CALCULATION

TOTAL OPEB LIABILITY – PLAN NET POSITION = NET OPEB LIABILITY

SINGLE AND AGENT EMPLOYERS

Governments will record the net OPEB liability on the government-wide financial statements. The OPEB expense and deferred outflows of resources and deferred inflow of resources related to OPEB that are required to be reported by an employer, primarily result from changes in the components of the net OPEB liability. The Statement requires that most changes in the net OPEB liability be included in OPEB expense in the period of change. This includes changes resulting from current period service cost, interest on the total OPEB liability, changes in benefit terms and projected earnings.

REQUIRED NOTES TO THE FINANCIAL STATEMENTS

The notes to the financial statements would include the following descriptive information:

- Types of benefits provided and number and classes of employees covered
- Sources of changes in the net OPEB liability
- Significant assumptions used to calculate the total OPEB liability
- Date of the actuarial valuation

REQUIRED SUPPLEMENTARY INFORMATION

The government will be required to present the following information for each of the 10 most recent fiscal years:

- Sources of changes in the net OPEB liability
- Components of the net OPEB liability and related ratios, including the OPEB plan's fiduciary net position as a percentage of the total OPEB liability and the net OPEB liability as a percentage of covered payroll

COST-SHARING EMPLOYERS

Governments will recognize a liability for its proportionate share of the net OPEB liability. An employer's proportion is required to be determined on a basis that is consistent with the manner in which contributions to the OPEB plan are determined. OPEB expense and deferred outflow of resources and deferred inflow of resources relate to its proportionate share. In addition, the effects of (1) a change in the employer's proportion of the collective net OPEB liability and (2) differences during the measurement period between certain of the employer's contributions and its proportionate share of the total of certain contributions from employers included in the collective OPEB liability are required to be determined.

DEFINED CONTRIBUTION OPEB

This statement requires an employer to recognize OPEB expenses for the amount of contributions that are defined by the benefit terms as attributable to employee's services in the period of service.

IN SUMMARY

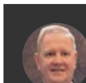
The new statements follow the same concepts of the recently implemented GASB pension statements. In 2017, all OPEB plans will implement GASB Statement No. 74, allowing for the information to be provided to government employers about the net OPEB liability. Governments will then recognize the net OPEB liabilities, deferred outflows of resources and deferred inflows of resources attributable to them in the statement of net position starting in 2018.

While all the OPEB information has previously been disclosed in the notes to the financial statements and required supplementary information, governments will now need to recognize the assets and liabilities attributable to OPEB in the face of their financial statements.

Will this affect your bond ratings? The rating agencies have indicated that there will be no adverse consequences from the implementation of these statements. The obligations have already been figured into the ratings.

DISTINGUISHED SERVICE AWARDS

We are pleased to announce that **Howard Blumstein** and **Rebekuh Eley** have both received distinguished service awards from the Illinois CPA Society in recognition of their significant contributions to the Not-for-Profit Organizations Committee and for Rebekuh's leadership on the Not-for-Profit Rosemont Conference Task Force. The Illinois CPA Society is presenting these individuals with this award in recognition of their commitment as outstanding leaders within the CPA community.



For more information, contact Kurt Miller, director, at kmiller@bdo.com.

Read more ▶

NEW TAX ACT HAS MUCH FOR NONPROFITS

By Mike Sorrells, CPA

The Protecting Americans From Tax Hikes Act of 2015 (the Act), which was signed by the president on Dec. 18, 2015, contains many provisions that directly affect tax-exempt organizations.

Many recent tax provisions have been so-called "extenders," which required passage of legislation annually in order for them to continue to remain in effect. These were typically passed at year-end for the applicable year, making planning for such provisions impossible. Now, the year-end panic is over, as the Act makes many of these provisions permanent.

This, along with several other provisions the Act introduces, will have tax implications for nonprofits going forward. Let's discuss several that nonprofits should be aware of.

THE EXTENDERS:

Tax-Free Distributions from Individual Retirement Accounts (IRAs) for Charitable Purposes:

This provision allows individuals over 70½ to make distributions directly from their IRA accounts to charities—*and* have them count as the distributions they are required to take (required minimum distributions). Otherwise, such distributions would first have to be taken into the individual's income as a distribution and then contributed by the individual and taken as a charitable deduction on the individual's personal income tax return. For wealthier persons who itemize deductions, this often results in a penalty due to limitations on itemized deductions based upon adjusted gross income. The direct distribution to a charity eliminates this penalty. This provision is now permanent for years beginning after Dec. 31, 2014.

Payments from Controlled Entities:

In general, certain passive income (such as rents, interest and royalty payments) is excluded from taxable unrelated business income (UBI) by statute. However, Internal Revenue Code (Code) Section 512(b)(13) provides that such payments received by a tax-exempt organization from entities that they control (more than 50 percent ownership) are generally taxed as UBI. An exception to the UBI treatment was made for payments made pursuant to a binding written contract in effect on Aug. 17, 2006 (or renewal of such contract under substantially similar terms). If such an agreement is in effect, the taxable income is limited to the amount of the payments in excess of fair market value. This exception had to be extended every year and now is made permanent for years beginning after Dec. 31, 2014.

Qualified Conservation Contributions:

For most contributions, taxpayer deductions of capital gain property to public charities are limited to 30 percent of adjusted gross income (AGI) before any net operating loss deduction. Under this extender, individuals can deduct qualified conservation contributions up to an amount equal to 50 percent of their AGI, as long as additional charitable contributions plus the conservation contributions do not exceed the 50 percent limitation. There is a 15-year carryforward allowed for conservation contributions not utilized in the current year (as opposed to a five-year carryforward for other charitable contributions). Qualified farmers and ranchers, under this provision, are allowed to take a deduction of up to 50 percent of AGI even if total contributions are in excess of 50 percent of AGI. This provision is now permanent for years beginning after Dec. 31, 2014. There are special rules for contributions by Native Corporations for years beginning after Dec. 31, 2015.

Contributions of Food Inventory:

This extender allowed taxpayers, other than C corporations, to take an enhanced deduction for donations of "apparently wholesome" food inventory that was previously only available to C corporations. This provision makes the deduction the lesser of basis plus one-half of fair market value in excess of basis or two times basis. This also limits the percentage of the deduction for various types of entities. This provision is now permanent and effective for years beginning after Dec. 31, 2014. For years beginning after Dec. 31, 2015, the charitable percentage limitation is increased for such donations.

NEW (NON-EXTENDER) LEGISLATIVE PROVISIONS:

Charitable Contributions to Agricultural Research Organizations and Public Charity Status:

This new provision allows contributions to agricultural research organizations to qualify for the 50 percent AGI charitable deduction limitation and treats such organizations as public charities (not private foundations) regardless of their sources of financial support (i.e., not subject to the public support test). The provision is effective on Dec. 18, 2015, for contributions made on or after that date.

Administrative Appeals Procedures Relating to Adverse Determinations of Tax-Exempt Status of Certain Organizations:

This provision codifies the May 19, 2014, interim guidance requiring the Secretary of the Treasury to describe procedures under which any 501(c) organization may request an administrative appeal (including a conference, if requested) to the Internal Office of Appeals in the case of an adverse determination. This provision is effective for determinations made on or after May 19, 2014.

Section 501(c)(4) Social Welfare Organization Notice of Formation and New Exemption Application:

Section 501(c)(4) organizations have been under increased scrutiny because of the proliferation and publicity of their political activities. These organizations are not required to file an exemption application Form 1024 in order to operate as a tax-exempt entity. However, many such organizations do file an exemption application in order to obtain the additional

Read more ▶

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NEW TAX ACT

assurance of a favorable determination from the IRS.

Under a new provision, all new 501(c)(4) organizations must provide notice of formation and intent to operate as a 501(c)(4) organization no later than 60 days after formation. The notice must include name, address, taxpayer identification number, date on which (and the state under the laws of which) the organization was organized, and a statement of purpose of the organization. There will also be a user fee required with this notice. This required notice and user fee does not grant the organization a favorable determination.

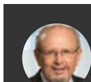
Organizations that do want the additional assurance of a favorable determination must still complete an exemption application and submit to the IRS with the user fee. The exemption application will be made on a new form (not the existing Form 1024) which will be only for Section 501(c)(4) organizations. This provision is effective for organizations organized after Dec. 18, 2015.

Declaratory Judgments for Section 501(c)(4) and Other Exempt Organizations:
Under present law, only organizations seeking Section 501(c)(3) status that have been denied such status by the IRS may go to court to seek a declaratory judgment to obtain such status under Section 7428 of the Code. Under a new provision, the Section 7428 declaratory judgment procedure is extended to any organization exempt under any subsection of Section 501(c) including Section 501(c)(4) and 501(c)(6) organizations. This provision is effective for pleadings filed after Dec. 18, 2015.

Gift Tax on Gifts to Certain Exempt Organizations:
It has long been a question as to whether the gift tax was applicable to gifts made to non-charitable organizations such as 501(c)(4), (5) or (6) entities. The IRS has not enforced the gift tax in this situation but has also not ruled that it is not applicable. This provision makes it clear that gifts to 501(c)(4), (5) or (6) organizations are exempt from the gift tax. The effective date of this provision is for gifts made after Dec. 18, 2015.

Please consult a qualified nonprofit tax advisor for more information and details on these provisions.

Article reprinted from BDO Nonprofit Standard blog.



For more information, contact Mike Sorrells, national director, Nonprofit Tax Services, at msorrells@bdo.com.

BDO PROFESSIONALS IN THE NEWS

BDO professionals are regularly asked to speak at various conferences and other venues due to their recognized experience in the industry. You can hear BDO professionals speak at these upcoming events:

APRIL

Rebekuh Eley will be presenting a session entitled “Charitable Giving Tax Law Update” on April 20 at the Suburban Chicago Planned Giving Council in Lisle, Ill.

Jeffrey Schragg will be presenting a session entitled “Financial Challenges Surrounding Innovative Fundraising: Venture Philanthropy, Cause Marketing, Gaming, etc.” on April 21 at the Kentucky Society of CPAs’ 2016 Nonprofit Conference in Louisville, Ky.

Mike Sorrells will be presenting a session entitled “Current Hot Nonprofit Tax Issues” on April 29 at the Maryland Association of CPAs’ Nonprofit Conference in College Park, Md.

MAY

Gerry Zack will be presenting a session entitled “Fraud Risk Assessment Best Practices” at the Central Regional Conference of the Institute for Internal Auditors on May 2 in Nashville, Tenn.

Sam Thompson will be presenting a GASB update session at the Alaska Government Finance Officers Association 2016 Spring Conference being held May 11-13 in Denali, Alaska.

JUNE

Schragg will be hosting a webinar entitled “Top Emerging Tax Issues for Exempt Entities” for the AICPA on June 1.

Sorrells will be presenting a session entitled “Public Support for Charitable Organizations” at the Higher Education Tax Institute on June 5 in Austin, Texas.

BDO is hosting several nonprofit seminars in the Florida area in June. These events will highlight nonprofit-specific issues and will feature numerous speakers from BDO including various members of the BDO Institute for Nonprofit Excellence including **Pat Duperron, Laura Kalick** and **Lee Klumpp**. These seminars are being held in Orlando on June 21, in Fort Lauderdale on June 22 and in Miami on June 23.

Zack will be presenting a half-day course entitled “Using Financial and Ratio Analysis in Fraud Examinations” on June 12 as a preconference session for the Association of Certified Fraud Examiners 27th Annual ACFE Global Fraud Conference in Las Vegas, Nev.

Zack will also be presenting a breakout session entitled “The Return of the Tone at the Top” at the ACFE Conference being held June 13-15 in Las Vegas, Nev.

Several professionals are scheduled to speak at the 2016 AICPA Not-for-Profit Industry Conference being held June 27-29 in National Harbor, Md. Here is a summary of the BDO speakers:

Schragg will be presenting a session entitled “Bumping into Foreign Issues” on June 28.

Marc Berger and **Mike Sorrells** will be presenting a session entitled “Tax Exempt Bonds and Schedule K” on June 28. They will also be part of the panel conducting the Q&A session related to this topic.

Schragg will also be presenting a session entitled “Acknowledging Charitable Contributions” on June 29.

Read more

RISING TO THE CHALLENGE OF NONPROFIT RECRUITING

By Donna Bernardi Paul, SPHR, SHRM-SCP

It's common knowledge that with limited resources, recruiting for nonprofit roles can be especially challenging. But it's important that nonprofit executives don't overlook best practices for effective recruiting, as it's people who are behind an organization's mission, and are critical to its success.

While the challenge is great, the cultural, productivity and financial costs of recruiting missteps provide ample motivation to get the process right. Consider that the cost of turnover averages 150 percent of the departing employee's compensation. That expense can prove to be particularly troublesome for mission-based organizations like nonprofits. So, what can nonprofit leaders and managers do to prepare themselves for the task of recruiting?

TIPS FOR RECRUITING SUCCESS

Successful recruiting requires nonprofit leaders to be adept at: (a) finding qualified candidates who are committed to the mission of the organization and its work; (b) finding the right compensation mix (pay/benefits) due to tight budget constraints; (c) pushing people to do more for less or asking individual employees to work harder because they cannot always afford the staffing they might need; and (d) properly onboarding the new employees, once hired, and setting them up for success.

While bringing on the right people can be tedious and difficult, and doing it well takes time, energy and training, nonprofit leaders should adhere to these four best hiring practices to ensure they're on the right track when it comes to recruiting:

- Identify the responsibilities, performance outcomes and core competencies required in order for the individual to excel in the position, and document them in the form of a results-based job description.
- Communicate what a job well done looks like throughout the entire search process, and prepare interview questions in advance based on the desired results outlined in the job description.
- Screen resumes with a lens focused on what the candidates have done or can do vs. what credentials they have. It's the "doing," not the "having," that is important.
- When interviewing/evaluating candidates, ask all candidates the same interview questions and avoid common rater pitfalls; such as:
  - **Similar to me** – they went to the same school as you, lived in the same area, etc.
  - **Halo Effect** – One positive thing about the candidate outshines everything else and inordinately tips the scale to the positive side.
  - **Horn Effect** – One negative thing about the candidate overshadows everything else, and inordinately tips the scale to the negative side.

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NONPROFIT RECRUITING

BUILDING ONBOARDING SKILLS

Once the offer is made and the candidate has accepted, nonprofit executives should consider how much time is spent ensuring that the individual is successful in the job. Is s/he being engaged to the point where s/he is as productive as possible as quickly as possible and remains so? Is there a process for making that happen easily?

Here are five onboarding best practices:

1. **Be present on the employee's first day:** Employees want to believe that they are an important part of an organization's mission and important to you. Showing a brand new employee how happy you are that they've joined includes actually meeting them in person when they arrive for work on their first day, or using technology to meet them if they are not within close proximity.

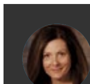
2. **Be prepared for their arrival:** Is the workspace prepared and ready for the new employee to begin working? Is someone waiting for him/her in order to show him/her around, make introductions, provide keys, etc.?

3. **Have tasks for new employees to do:** Are work assignments lined up for the new employee so s/he can begin working right away? This could include training.

4. **Ensure they have a lunch meet and greet:** Have lunch appointments been arranged for the new employee for at least the first day?

5. **Clearly communicate expectations and follow–up:** This is a critical step. Provide the new employee with information regarding expectations for the first week, month, quarter and year; and make sure feedback is being provided on a regular basis. Set the pattern for honest and direct feedback early in the relationship. Do it in a helpful way, as opposed to focusing on the negative.

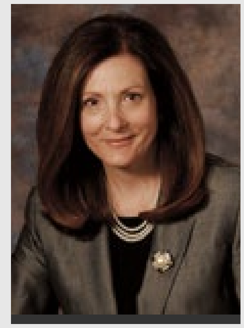
Over time, the process of recruiting and onboarding great candidates becomes less burdensome and more productive, but nonprofit organizations must not overlook the value of proper training to prepare their leaders for the task ahead of them – a task that can significantly alter the talent won and the future path of the organization.



For more information, contact Donna Bernardi Paul, senior director, Business Services & Outsourcing, at dpaul@bdo.com.

AUTHOR PROFILE

DONNA BERNARDI PAUL



Donna is a senior director with the Business Services and Outsourcing practice in BDO's McLean, Va office. Donna specializes in providing Human Capital Services to clients. Donna has more than 25 years of experience in human resources with an emphasis in talent management and organizational development. Donna has served in senior human resources positions providing leadership and direction to HR staff members serving employee populations of up to 10,000. She has been instrumental in designing, developing, implementing and monitoring regional and national employment policies and programs, as well as the development and delivery of leadership and employee enrichment courses.

Donna is committed to helping organizations in a wide variety of industries, including nonprofits, to thrive in today's demanding environment. She is recognized for her success in developing and implementing organizational improvement and talent management strategies including:

- Executive coaching
- Management training
- Mentoring programs and partnerships
- Building teamwork and collaboration
- Designing total reward strategies
- Conducting organizational assessments, including policy design and risk mitigation

Donna is a member of several human resource professional organizations, including SHRM. She is a certified senior professional in human resources (SPHR) since 1996 and certified as a SHRM Senior Certified Professional (SHRM-SCP) since 2015.

Donna received a M.S. in Personnel and Human Resource Management from The American University in Washington, D.C.

OTHER ITEMS TO NOTE

FASB Issues Leasing Standard

On Feb. 25, 2016, the Financial Accounting Standards Board (FASB) issued its highly anticipated leasing standard for both lessees and lessors. Under its core principle, a lessee will recognize leased assets and liabilities on their statement of financial position/balance sheet for all arrangements with terms longer than 12 months. Lessor accounting remains largely consistent with existing U.S. GAAP. The new standard takes effect in 2019 for public business entities and 2020 for all other entities. Entities may adopt the provisions of this standard early. The ASU is available here.

The new standard applies a right-of-use (ROU) model that requires a lessee to record, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments. The lease term is the noncancellable period of the lease, and includes both periods covered by an option to extend the lease, if the lessee is reasonably certain to exercise that option, and periods covered by an option to terminate the lease, if the lessee is reasonably certain not to exercise that termination option.

For leases with a lease term of 12 months or less, a practical expedient is available whereby a lessee may elect, by class of underlying asset, not to recognize an ROU asset or lease liability. A lessee making this accounting policy election would recognize lease expense over the term of the lease, generally in a straight-line pattern.

At inception, lessees must classify all leases as either finance or operating. Balance sheet recognition of finance and operating leases is similar, but the pattern of expense recognition in the income statement will differ depending on the lease classification. A *finance lease* is a lease arrangement in which the lessee effectively obtains control of the underlying asset. In an *operating lease*, the lessee does not effectively obtain control of the underlying asset.

The new standard requires a lessor to classify leases as either sales-type, direct financing or operating, similar to existing U.S. GAAP.

In transition, a lessee and a lessor will recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients. These practical expedients relate to identifying and classifying leases that commenced before the effective date, initial direct costs for leases that commenced before the effective date and the ability to use hindsight in evaluating lessee options to extend or terminate a lease or to purchase the underlying asset.

An entity that elects to apply the practical expedients would, in effect, continue to account for leases that commenced prior to the effective date in accordance with previous guidance unless the lease is modified, except that lessees would recognize an ROU asset and a lease liability for all operating leases at each reporting date based on the present value of the minimum rental payments that were determined under previous guidance.

All entities should review this new standard and familiarize themselves with the content and determine the effect that the implementation will have on their financial statements.

Update on FASB's Not-for-Profit Financial Reporting Exposure Draft

The FASB met several times during the month of March to continue its redeliberation on the proposed Accounting Standards Update, *Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954): Presentation of Financial Statements of Not-for-Profit Entities*. At these meetings, the board focused on the following topics.

▶ ***Operating measures and liquidity***

1. Disclosures about operating measures by those not-for-profit entities (NFPs) that choose to present such a measure

2. Information useful in assessing liquidity and availability of resources

The board decided to enhance the current reporting requirements for those NFPs that present a self-defined measure in a statement of activities (or change in net assets) that also presents internal board designations, appropriations and similar actions on the face of the financial statements affecting that measure. Those NFPs would be required to report these types of internal transfers appropriately disaggregated and described by type, either on the face of the financial statements or in the notes. The board directed the staff to provide illustrations in the final standard that would assist NFPs in reporting this information.

The board decided to modify the proposal to clarify the objectives of providing information useful in assessing an NFP's liquidity and the type of information that financial statements are capable of providing for that purpose. The board decided to require that NFPs provide the following information:

1. Qualitative information in the notes that communicates how an NFP manages its liquid resources available to meet cash needs for general expenditures within one year of the statement of financial position (SOFP) (balance sheet) date

Read more ▶

OTHER ITEMS TO NOTE (cont'd)

2. Quantitative information either on the face of the SOFP (balance sheet) or in the notes, and additional qualitative information in the notes as necessary, that communicates the availability of an NFP's financial assets at the SOFP date to meet cash needs for general expenditures within one year of the SOFP. Availability of a financial asset may be affected by (a) its nature; (b) external limits imposed by donors, laws and contracts with others; and (c) internal limits imposed by governing board decisions

The board directed the staff to include illustrations in the standard to assist NFPs with the presentation of these items as well.

Expense presentation

1. Current requirement for NFPs to report expenses by their functional classification

2. Proposed requirement for NFPs to report all expenses in one location, with an analysis of operating expenses by their function and nature

The board decided to retain the current requirement for NFPs to report expenses by their functional classification either on the statement of activities or in the notes to the financial statements.

The board decided to require NFPs to report all expenses (other than netted investment expenses) by function and nature in one location. The NFP can report this information on the face of the statement of activities, in a separate statement, or in the notes to the financial statements. An NFP will be required to show the relationship between its functional and natural classification by disaggregating its functional categories by their natural classification. The board directed the FASB staff to explore whether business-oriented health care NFPs should provide disaggregated information by segments. This will be addressed either in Phase 2 of the project or in a future project.

Transition method and effective date

The board decided that NFPs should apply the amendments on a retrospective basis for all years presented. However, if presenting comparative financial statements, NFPs would have the option to omit the following information for any years presented before the year of adoption:

1. Analysis of expenses by both functional and natural classification

2. Disclosures around liquidity and availability of resources

The board decided that the amendments would be effective for financial statements for fiscal years beginning after December 15, 2017 and for interim financial statements for periods after that date. The Board also decided to permit early adoption subject to the transition method above.

VIDEO SERIES

Lee Klumpp on the FASB's Nonprofit Accounting Standards Updates – and How You Can be Prepared

Recently, our own **LEE KLUMPP** sat down with *Accounting Today* to discuss the latest development in the FASB's Not-For-Profit Financial Statement Reporting Project and the resulting changes to nonprofit accounting standards that are rapidly coming down the pipeline. In this four-part video series, Lee shares the key provisions in the standards and what they mean for the financial reporting for nonprofits of all sizes. He also provides helpful advice on how nonprofit leaders can be prepared for these new standards, and offers an insider look into how the industry is reacting to the proposed changes.

Part 1: FASB's Upcoming Changes in Nonprofit Accounting Standards

Part 2: Trifecta of Accounting Standards Hitting Nonprofits

Part 3: Preparing for Upcoming Nonprofit Accounting Standards

Part 4: Reaction to FASB Nonprofit Accounting Changes

For more on the FASB's Not-For-Profit Financial Statement Reporting Project, contact Lee Klumpp, director, at lklumpp@bdo.com.

Read more

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BDO NONPROFIT & EDUCATION PRACTICE

For 100 years, BDO has provided services to the nonprofit community. Through decades of working in this sector, we have developed a significant capability and fluency in the general and specific business issues that may face these organizations.

With more than 2,000 clients in the nonprofit sector, BDO's team of professionals offers the hands-on experience and technical skill to serve the distinctive needs of our nonprofit clients—and help them fulfill their missions. We supplement our technical approach by analyzing and advising our clients on the many elements of running a successful nonprofit organization.

In addition, BDO's Institute for Nonprofit Excellence℠ (the Institute) has the skills and knowledge to provide high quality services and address the needs of the nation's nonprofit sector. Based in our Greater Washington, DC Metro office, the Institute supports and collaborates with BDO offices around the country and the BDO International network to develop innovative and practical accounting and operational strategies for the tax-exempt organizations they serve. The Institute also serves as a resource, studying and disseminating information pertaining to nonprofit accounting and business management.

The Institute offers both live and local seminars, as well as webinars, on a variety of topics of interest to nonprofit organizations and educational institutions. Please check BDO's web site at www.bdo.com for upcoming local events and webinars.

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