**Nonprofit Financial Statement Changes - an Opportunity for Clarity**

We previously talked about coming changes for nonprofit financial statements. A draft of the changes is out now, and while timing isn't certain, some very significant changes to nonprofit financial statements are. This will require some time on your part and probably for your independent CPAs as well.

The changes are intended to make nonprofit financial statements clearer. Going from the three types of net assets to "net assets with donor restrictions" and "net assets without donor restrictions" should help because there has always been confusion about restrictions that aren't donor restrictions.

As you are making revisions to your financials to comply with the new rules, consider additional opportunities to make your financial statements more understandable.

Improve clarity with a single column balance sheet (no separate columns for net asset classes. There is no loss of information, the statements are easier to prepare and don't require you to split assets and/or show interfund amounts to balance your balance sheet.

Gain additional clarity by splitting your activities statement into two parts. One part will be an appropriately and detailed statement of support, revenue, functional expenses, and changes in net assets for your net assets without donor restrictions, and have a second page with a summary of net assets without donor restrictions, with donor restrictions, and possibly with board designations. The first part of this matches income and expenses in a way most people understand. This eliminates the confusion that occurs when you receive a contribution or a contribution commitment in one year that will be used in a later year or years. This scenario can create a very confusing or misleading result with "profits" in one year and "losses" in another.

A third opportunity for clarity is a management discussion and analysis. This was being considered in the earlier versions of the proposed changes and was dropped, but it can still be valuable to have management's overview and interpretation of the financial statements.

The new direct method of reporting cash flows, showing where cash came from and where it went to (rather than the current method of reconciling surplus or deficit to changes in cash) will take some getting used to but again it should be helpful for understanding the differences between income and expenses versus cash transactions. It may also be helpful for budgeting.

If you would like to see an executive summary or full details of the proposed changes, the best way to find it is to Google "FASB in Focus Not-For-Profit Entities". This summary is clear and concise, but the complete document will consume a full inch of paper from your printer tray.