

YOUR NONPROFIT'S FUTURE: WHEN YOU HAVE "SUBSTANTIAL" DOUBTS

U.S. Generally Accepted Accounting Principles (GAAP) require nonprofits to regularly evaluate whether there's "substantial doubt" about their ability to continue as a going concern. This means that the organization won't soon liquidate its assets and cease operations. What does your management team do if it determines substantial doubt?



TWO-STEP EVALUATION

Your nonprofit's management must perform a going-concern evaluation each time annual or interim financial statements are issued. There are two steps:

- Evaluate whether conditions and events exist that raise substantial doubt about your organization's ability to continue as a going concern.
- If so, consider whether plans intended to mitigate those conditions or events will alleviate the substantial doubt. If you decide that there's substantial doubt, you must make certain disclosures in your financial statement footnotes.

RELEVANT CONDITIONS

Substantial doubt exists when relevant conditions and events indicate that your organization likely won't meet financial obligations that come due within one year after the date financial statements are issued. Relevant factors include:

- Current financial conditions,
- Obligations due or anticipated within one year,
- Funds needed to maintain operations considering current financial condition, obligations and other expected cash flows, and
- Other conditions and events that may adversely affect your organization.

Adverse conditions and events that raise substantial doubt might include negative cash flows, a loan default, denial of credit by suppliers or litigation. To mitigate such conditions, you might, for instance, decide to dispose of an asset, borrow money or reduce or delay expenditures.

But, you can consider the mitigating effect only if it's likely that your plans will be effectively implemented. For example, do you have the necessary resources to carry out your plan? You also need to weigh the likelihood that your plan will be as effective as the situation requires. Can you actually alleviate the negative conditions within one year?

DON'T GO IT ALONE

Disclosures are required when substantial doubt exists, regardless of whether your plans will lessen the doubt. And if you're doubting your nonprofit's future, it's essential that you work with a financial advisor. We can help you evaluate your organization's condition and identify next steps. We can also help ensure that your financial statements include all required information about your status.

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