FINANCIAL ACCOUNTING SERIES

FASB ACCOUNTING STANDARDS UPDATE

No. 2016-14
August 2016

Not-for-Profit Entities (Topic 958)

Presentation of Financial Statements of Not-for-Profit Entities

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

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Summary

Why Is the FASB Issuing This Accounting Standards Update (Update)?

The FASB added a project to its agenda to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's (NFP's) liquidity, financial performance, and cash flows. The FASB's Not-for-Profit Advisory Committee (NAC) and other stakeholders indicated that existing standards for financial statements of NFPs are sound but could be improved to provide more useful information to donors, grantors, creditors, and other users of financial statements. This Update is the result of the FASB's efforts in the first of two phases of its project.

The amendments in this Update make certain improvements that address many, but not all, of the identified issues about the current financial reporting for NFPs. A second phase of the project is expected to address more protracted issues surrounding whether and how to define the term *operations* and align measures of operations (or financial performance) as presented in a statement of activities with measures of operations in a statement of cash flows. That will allow the Board to coordinate its Phase 2 considerations for NFPs with related research activities on financial performance reporting by business entities.

This Update makes several improvements to current reporting requirements that address, among others, the following problems:

1. Complexities about the use of the currently required three classes of net assets that focus on the absence or presence of donor-imposed restrictions and whether those restrictions are temporary or permanent
2. Deficiencies in the transparency and utility of information useful in assessing an entity's liquidity caused by potential misunderstandings and confusion about the term *unrestricted net assets* and how restrictions or limits imposed by donors, grantors, laws, contracts, and governing boards affect an entity's liquidity, classes of net assets, and financial performance
3. Inconsistencies in the type of information provided about expenses of the period—for example, some, but not all, NFPs provide information about expenses by both nature and function
4. Impediment of preparing the indirect method reconciliation if an NFP chooses to use the direct method of presenting operating cash flows.

Who Is Affected by the Amendments in This Update?

The amendments in this Update affect NFPs and the users of their general-purpose financial statements. NFPs generally receive significant contributed resources and operate to further a public purpose rather than to achieve a profit objective, and their stakeholders, unlike those of business entities, generally do not have ownership interests. Those NFPs typically include nongovernmental entities such as charities, foundations, colleges and universities, health care providers, cultural institutions, religious organizations, and trade associations, among others. They generally do not include investor-owned entities or entities that provide dividends, lower costs, or other economic benefits directly and proportionately to their owners, members, or participants, such as mutual insurance entities, credit unions, farm and rural electric cooperatives, and employee benefit plans. Rather, NFPs seek resources from lenders, bondholders, donors, and grantors, including foundations and governmental agencies, that seek financial information in making their decisions to lend, donate, or grant resources to an NFP.

What Are the Main Provisions?

The main provisions of this Update, which amend the requirements for financial statements and notes in Topic 958, Not-for-Profit Entities, require an NFP to:

1. Present on the face of the statement of financial position amounts for two classes of net assets at the end of the period, rather than for the currently required three classes. That is, an NFP will report amounts for *net assets with donor restrictions* and *net assets without donor restrictions,* as well as the currently required amount for total net assets.
2. Present on the face of the statement of activities the amount of the change in each of the two classes of net assets (noted in item 1) rather than that of the currently required three classes. An NFP would continue to report the currently required amount of the change in total net assets for the period.
3. Continue to present on the face of the statement of cash flows the net amount for operating cash flows using either the direct or indirect method of reporting but no longer require the presentation or disclosure of the indirect method (reconciliation) if using the direct method.
4. Provide the following enhanced disclosures about:
    a. Amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions as of the end of the period.
    b. Composition of net assets with donor restrictions at the end of the period and how the restrictions affect the use of resources.

c. Qualitative information that communicates how an NFP manages its liquid resources available to meet cash needs for general expenditures within one year of the balance sheet date.
d. Quantitative information, either on the face of the 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 balance sheet date to meet cash needs for general expenditures within one year of the balance sheet date. Availability of a financial asset may be affected by (1) its nature, (2) external limits imposed by donors, grantors, laws, and contracts with others, and (3) internal limits imposed by governing board decisions.
e. Amounts of expenses by both their natural classification and their functional classification. That analysis of expenses is to be provided in one location, which could be on the face of the statement of activities, as a separate statement, or in notes to financial statements.
f. Method(s) used to allocate costs among program and support functions.
g. Underwater endowment funds, which include required disclosures of (1) an NFP's policy, and any actions taken during the period, concerning appropriation from underwater endowment funds, (2) the aggregate fair value of such funds, (3) the aggregate of the original gift amounts (or level required by donor or law) to be maintained, and (4) the aggregate amount by which funds are underwater (deficiencies), which are to be classified as part of net assets with donor restrictions.

5. Report investment return net of external and direct internal investment expenses and no longer require disclosure of those netted expenses.
6. Use, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassify any amounts from *net assets with donor restrictions* to *net assets without donor restrictions* for such long-lived assets that have been placed in service as of the beginning of the period of adoption (thus eliminating the current option to release the donor-imposed restriction over the estimated useful life of the acquired asset).

How Do the Main Provisions Differ from Current Generally Accepted Accounting Principles (GAAP) and Why Are They an Improvement?

As discussed below, the main provisions of this Update change current GAAP in different ways. Some amendments in this Update will (1) improve the usefulness of information provided to donors, grantors, creditors, and other users of an NFP's financial statements, (2) reduce complexities or costs for preparers or users of financial statements, or (3) both improve usefulness and reduce complexities or costs. Some amendments make more significant improvements than others, and the Board believes that collectively the overall expected benefits of the improvements justify the expected costs that they may impose.

Eliminating the distinction between resources with permanent restrictions and those with temporary restrictions from the face of financial statements will reduce complexity. Enhanced disclosure in notes to financial statements will provide useful information about the nature, amounts, and effects of the various types of donor-imposed restrictions, which often include limits on the purposes for which the resources can be used as well as the time frame for their use. Simplifying the face of financial statements together with enhancing disclosures in notes will enable NFPs to continue to provide relevant and perhaps alternative breakouts that provide more useful information about an entity's resources and changes in those resources that will be helpful to donors, grantors, creditors, and others in assessing an NFP's:

1. Availability of resources to meet cash needs for general expenditures within one year of the date of the statement of financial position
2. Liquidity and financial flexibility
3. Financial performance during the period
4. Service efforts and ability to continue providing services
5. Execution of its stewardship responsibilities and other aspects of its management's performance.

The currently required distinction between permanent restrictions and temporary restrictions has become blurred by changes in state laws that diminished its relevance and rendered that distinction less useful on the face of financial statements. Reducing the number of classes of net assets that must be reported on the face of financial statements, especially the statement of activities, also helps to reduce complexity, increase understandability, and enable greater use of multiperiod comparative financial statements that can provide donors, grantors, creditors, and other stakeholders with information useful in identifying and assessing key trends.

Continuing to allow NFPs to present operating cash flows using either the direct method or the indirect method retains the current flexibility and freedom to choose the reporting method that best serves the informational needs of their particular types of users—creditors, donors, grantors, and others—in a way that strikes the right balance in improving the relevance and understandability of information without imposing undue costs. Moreover, no longer requiring an NFP to present or disclose those cash flows using the indirect (reconciliation) method if the direct method is chosen eliminates the costs to provide and explain information in two different ways.

Requiring enhanced disclosures of information (see item 4 of the main provisions) improves the decision usefulness of information helpful in assessing the following:

1. The effects, if any, of the limits on the use of resources imposed by an NFP's governing board, donors, grantors, laws, and contracts on an NFP's liquidity, financial flexibility, and allocation of resources
2. How an NFP manages its liquidity to meet short-term demands for cash
3. The types of resources used and how they are allocated in carrying out an NFP's activities
4. The effects, if any, of methods used for allocating costs among an NFP's program and supporting activities
5. The effects, if any, of underwater endowment funds on an NFP's spending policies and its financial flexibility.

Requiring an NFP to report its investment return net of external and direct internal investment expenses provides a more comparable measure of investment returns across all NFPs, regardless of whether their investment activities (1) are managed by internal staff, outside investment managers, volunteers, or a combination or (2) employ the use of mutual funds, hedge funds, or other vehicles for which management fees are embedded in the investment return of the vehicle. No longer requiring the disclosure of those netted expenses also eliminates the difficulties and related costs in identifying embedded fees and the resultant inconsistencies in the reported amounts of investment expenses.

Requiring an NFP to use the placed-in-service approach, absent specific donor restrictions stating otherwise, for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset (that is, eliminating the option to release the donor-imposed restriction over the estimated useful life of the acquired asset) improves comparability and, therefore, improves the usefulness of both the required measures for changes in the classes of net assets with and without donor restrictions and the required amounts for those classes of net assets at the end of the period.

When Will the Amendments Be Effective?

The amendments in this Update are effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Application to interim financial statements is permitted but not required in the initial year of application. Early application of the amendments in this Update is permitted. The amendments in this Update should be initially adopted only for an annual fiscal period or for the first interim period within the fiscal year of adoption.

The amendments in this Update should be applied on a retrospective basis in the year that the Update is first applied. However, if presenting comparative financial statements, an NFP has the option to omit the following information for any periods presented before the period of adoption:

1. Analysis of expenses by both natural classification and functional classification (the separate presentation of expenses by functional classification and expenses by natural classification is still required). NFPs that previously were required to present a statement of functional expenses do not have the option to omit this analysis; however, they may present the comparative period information in any of the formats permitted in this Update, consistent with the presentation in the period of adoption.
2. Disclosures about liquidity and availability of resources.

In the period that the amendments are first applied, an NFP should disclose the nature of any reclassifications or restatements and their effects, if any, on changes in the net asset classes for each period presented.

How Do the Provisions Compare with International Financial Reporting Standards (IFRS)?

There are no specific NFP accounting and reporting standards in IFRS. Therefore, the proposed amendments are not expected to create or eliminate any differences between GAAP and IFRS.

Amendments to the *FASB Accounting Standards Codification*®

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–96. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is <u>underlined</u>, and deleted text is ~~struck out~~.

Amendments to Master Glossary

2. Add the following new Master Glossary terms, with a link to transition paragraph 958-10-65-1, as follows:

<u>**Net Assets with Donor Restrictions**</u>

<u>The part of net assets of a not-for-profit entity that is subject to **donor-imposed restrictions** (donors include other types of contributors, including makers of certain grants).</u>

<u>**Net Assets without Donor Restrictions**</u>

<u>The part of net assets of a not-for-profit entity that is not subject to **donor-imposed restrictions** (donors include other types of contributors, including makers of certain grants).</u>

<u>**Programmatic Investing**</u>

<u>The activity of making loans or other investments that are directed at carrying out a not-for-profit entity's purpose for existence rather than investing in the general production of income or appreciation of an asset (for example, total return investing). An example of programmatic investing is a loan made to lower-income individuals to promote home ownership.</u>

<u>**Underwater Endowment Fund**</u>

<u>A **donor-restricted endowment fund** for which the fair value of the fund at the reporting date is less than either the original gift amount or the amount required to be maintained by the donor or by law that extends donor restrictions.</u>

3. Supersede the following Master Glossary terms, with a link to transition paragraph 958-10-65-1, as follows:

~~**Permanent Endowment**~~

~~An endowment fund established to provide a permanent source of income. See **Endowment Fund**.~~

~~**Permanently Restricted Net Assets**~~

~~The part of the net assets of a not-for-profit entity (NFP) resulting from the following:~~

a. ~~Contributions and other inflows of assets whose use by the NFP is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the NFP~~
b. ~~Other asset enhancements and diminishments subject to the same kinds of stipulations~~
c. ~~Reclassifications from or to other classes of net assets as a consequence of donor-imposed stipulations.~~

~~**Permanent Restriction**~~

~~A donor-imposed restriction that stipulates that resources be maintained permanently but permits the not-for-profit entity (NFP) to use up or expend part or all of the income or other economic benefits derived from the donated assets.~~

~~**Temporarily Restricted Net Assets**~~

~~The part of the net assets of a not-for-profit entity (NFP) resulting from the following:~~

a. ~~Contributions and other inflows of assets whose use by the NFP is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the NFP pursuant to those stipulations~~
b. ~~Other asset enhancements and diminishments subject to the same kinds of stipulations~~
c. ~~Reclassification from or to other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the NFP pursuant to those stipulations.~~

~~**Temporary Restriction**~~

~~A donor-imposed restriction that permits the donee to use up or expend the donated assets as specified and that is satisfied either by the passage of time or by actions of the donee.~~

~~**Unrestricted Net Assets**~~

~~The part of net assets of a not-for-profit entity (NFP) that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. The only limits~~

~~on the use of unrestricted net assets are the broad limits resulting from the following:~~

~~a. The nature of the NFP~~
~~b. The environment in which the NFP operates~~
~~c. The purposes specified in the NFP's articles of incorporation or bylaws~~
~~d. Limits resulting from contractual agreements with suppliers, creditors, and others entered into by the NFP in the course of its business.~~

~~Unrestricted net assets generally result from revenues from providing services, producing and delivering goods, receiving unrestricted contributions, and receiving dividends or interest from investing in income-producing assets, less expenses incurred in providing services, producing and delivering goods, raising contributions, and performing administrative functions.~~

~~**Unrestricted Support**~~

~~Revenues or gains from contributions that are not restricted by donors. See **Restricted Support**.~~

4. Amend the following Master Glossary terms, with a link to transition paragraph 958-10-65-1, as follows:

Board-Designated Endowment Fund

An endowment fund created by a not-for-profit entity's (NFP's) governing board by designating a portion of its **net assets without donor restrictions**~~unrestricted net assets~~ to be invested to provide income for a long but not necessarily specified~~unspecified~~ period (sometimes called **{add glossary link}**funds functioning as endowment**{add glossary link}** or quasi-endowment funds). In rare circumstances, a board-designated endowment fund also can include a portion of **net assets with donor restrictions**. For example, if an NFP is unable to spend donor-restricted contributions in the near term, then the board sometimes considers the long-term investment of these funds. See **Endowment Fund.**

Board-Designated Net Assets

Net assets without donor restrictions~~Unrestricted net assets~~ subject to self-imposed limits by action of the governing board. Board-designated~~Designated~~ net assets may be earmarked for future programs, investment, contingencies, purchase or construction of fixed assets, or other uses. Some governing boards may delegate designation decisions to internal management. Such designations are considered to be included in board-designated net assets.

Donor-Imposed Restriction

A donor stipulation (donors include other types of contributors, including makers of certain grants) that specifies a use for a contributed asset that is more specific than broad limits resulting from the following:

a. The nature of the not-for-profit entity (NFP)

b. The environment in which it operates
c. The purposes specified in its articles of incorporation or bylaws or comparable documents for an unincorporated association.

~~A donor-imposed restriction on an NFP’s use of the asset contributed may be temporary or permanent. Some donor-imposed restrictions impose limits that are permanent, for example, stipulating that resources be invested in perpetuity (not used up).~~Some donors impose restrictions that are temporary in nature~~Others are temporary~~, for example, stipulating that resources ~~may~~ be used ~~only~~ after a specified date, for particular programs or services, or to acquire buildings ~~and~~or equipment. Other donors impose restrictions that are perpetual in nature, for example, stipulating that resources be maintained in perpetuity. Laws may extend those limits to investment returns from those resources and to other enhancements (diminishments) of those resources. Thus, those laws extend donor-imposed restrictions.

Donor-Restricted Endowment Fund

An endowment fund that is created by a donor stipulation (donors include other types of contributors, including makers of certain grants) requiring investment of the gift in perpetuity or for a specified term. Some donors or laws may require that a portion of income, gains, or both be added to the gift and invested subject to similar restrictions. The term does not include a **Board-Designated Endowment Fund**. See **Endowment Fund**.

Donor-Restricted Support

Donor-restricted revenues or gains from contributions that increase **net assets with donor restrictions** (donors include other types of contributors, including makers of certain grants)~~either temporarily restricted net assets or permanently restricted net assets. See **Unrestricted Support**~~.

Economic Interest

A not-for-profit entity’s (NFP’s) interest in another entity that exists if any of the following criteria are met:

a. The other entity holds or utilizes significant resources that must be used for the ~~unrestricted or restricted~~ purposes of the NFP, either directly or indirectly by producing income or providing services.
b. The NFP is responsible for the liabilities of the other entity.

See paragraph 958-810-55-6 for examples of economic interests.

Endowment Fund

An established fund of cash, securities, or other assets to provide income for the maintenance of a not-for-profit entity (NFP). The use of the assets of the fund may be with or without donor-imposed restrictions~~permanently restricted, temporarily~~

~~restricted, or unrestricted~~. Endowment funds generally are established by donor-restricted gifts and bequests to provide a source of income~~either of the following:~~

~~a. A permanent endowment, which is to provide a permanent source of income~~ in perpetuity or
~~b. A term endowment, which is to provide income~~ for a specified period. See **Donor-Restricted Endowment Fund**.

Alternatively, an NFP's governing board may earmark a portion of its **net assets**~~unrestricted net assets~~ as a **Board-Designated Endowment Fund**. See **Funds Functioning as Endowment**.

Functional Expense Classification

A method of grouping expenses according to the purpose for which costs are incurred. The primary functional classifications of a not-for-profit entity are program services and supporting activities.

Funds Functioning as Endowment

Net assets without donor restrictions~~Unrestricted net assets~~ (donors include other types of contributors, including makers of certain grants) designated by an entity's governing board~~, rather than restricted by a donor or other outside agency,~~ to be invested to provide income for generally a long but not necessarily specified~~unspecified~~ period. A board-designated endowment, which results from an internal designation, is generally not donor-restricted and is classified as net assets without donor restrictions~~unrestricted net assets~~. The governing board has the right to decide at any time to expend ~~the principal of~~ such funds. In rare circumstances, funds functioning as endowment also can include a portion of **net assets with donor restrictions**. For example, if an NFP is unable to spend donor-restricted contributions in the near term, the board sometimes considers the long-term investment of these funds. (Sometimes referred to as quasi-endowment funds or **board-designated endowment funds**.)

Management and General Activities

Supporting activities~~Activities~~ that are not directly identifiable with ~~a single program, fundraising activity,~~one or more program, fundraising, or membership-development activities~~activity but that are indispensable to the conduct of those activities and to an entity's existence~~.

Natural Expense Classification

A method of grouping expenses according to the kinds of economic benefits received in incurring those expenses. Examples of natural expense classifications include salaries and wages, employee benefits, professional services, supplies, interest expense, rent, ~~and~~ utilities, and depreciation.

Net Assets

The excess or deficiency of assets over liabilities of a not-for-profit entity~~ (NFP)~~, which is ~~classified~~divided into ~~three~~two mutually exclusive classes according to the existence or absence of donor-imposed restrictions. See **Net Assets with Donor Restrictions** and **Net Assets without Donor Restrictions**~~**unrestricted net assets**, **temporarily restricted net assets**, and **permanently restricted net assets**~~.

Reclassification of Net Assets

Simultaneous increase of one class of net assets and decrease of ~~another,~~another. A reclassification of net assets usually ~~as a result~~results from a donor-imposed restriction (donors include other types of contributors, including makers of certain grants) being satisfied or otherwise lapsing~~of the release or lapsing of restrictions~~.

Amendments to Subtopic 958-10

5. Add paragraph 958-10-65-1 and its related heading as follows:

> Transition Related to Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*

958-10-65-1 The following represents the transition and effective date information related to Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities:*

a. The pending content that links to this paragraph shall be effective for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. Early application of the pending content that links to this paragraph is permitted. The pending content that links to this paragraph shall be initially adopted only for an annual fiscal period or for the first interim period within the fiscal year of adoption.
b. The pending content that links to this paragraph shall be applied on a retrospective basis. However, if presenting comparative financial statements, a **not-for-profit entity** (NFP) would have the option to omit the following information for any periods presented before the period of adoption:
    1. Analysis of expenses by both functional classification and natural classification as required by paragraph 958-720-45-15 (the separate presentation of expenses by functional classification and expenses by natural classification is still required). NFPs that previously were required to present a statement of functional expenses do not have the option to omit this analysis; however, they may present the

comparative period information in any of the formats permitted by paragraph 958-720-45-15, consistent with the presentation in the period of adoption.
2. Disclosures about liquidity and availability of resources as required by paragraphs 958-210-45-7(c) and 958-210-50-1A.
c. In the period that the pending content that links to this paragraph is first applied, an NFP shall disclose the nature of any reclassifications or restatements and their effects, if any, on changes in the net asset classes for each period presented.

Amendments to Subtopic 958-20

6. Amend paragraph 958-20-45-1 with a link to transition paragraph 958-10-65-1, as follows:

Not-for-Profit Entities—Financially Interrelated Entities

Other Presentation Matters

> Equity Transactions

958-20-45-1 A **recipient entity** shall report an equity transaction as a separate line item in its statement of activities. Paragraph 958-20-55-2B describes the difference between an equity transfer and an equity transaction. See paragraph 954-225-45-2 for guidance on how to present equity transfers for not-for-profit, business-oriented health care entities that present a **performance indicator**.

958-20-45-2 A resource provider shall report an equity transaction as a separate line in its statement of activities if it specifies an **affiliate** as beneficiary. See paragraph 958-20-25-4 for the conditions that determine if a transfer is an equity transaction.

7. Add paragraph 958-20-55-2B and amend paragraphs 958-20-55-5 through 55-6, 958-20-55-10 through 55-13, and 958-20-55-16 through 55-17, with a link to transition paragraph 958-10-65-1, as follows:

Implementation Guidance and Illustrations

> Implementation Guidance

958-20-55-2B An equity transaction differs from an **equity transfer** in that an equity transaction, as described in paragraph 958-20-25-4, involves a financially interrelated party either as a third party in a transfer from an entity to one of its affiliates or as a counterparty in a transfer from an entity to itself. In addition, an equity transaction, unlike an equity transfer, is reciprocal; the NFP~~health care entity~~ or its affiliate named as the beneficiary receives an ongoing economic interest in the assets held by the recipient entity. See paragraph 954-225-45-2 for guidance on how to present equity transfers for not-for-profit, business-oriented health care entities that present a **performance indicator**. **[Content amended as shown and moved from paragraph 954-225-55-1]**

> Illustrations

> > Example 1: Gift of Nonfinancial Assets to a Financially Interrelated Entity

958-20-55-3 This Example illustrates the guidance in paragraphs 958-20-15-2 and 958-20-25-1 through 958-20-25-2.

958-20-55-4 Corporation sends dental supplies to University Foundation to be used by students in University's dental clinic. University Foundation's bylaws state that it is organized for the purpose of stimulating voluntary financial support from alumni and other donors for the benefit of University, especially for addressing the long-term academic priorities of University. As with most gifts it receives, University Foundation can choose the timing of the distribution to University and can place additional limitations on the distribution if those limitations are consistent with Corporation's restrictions. University does not control University Foundation.

958-20-55-5 University Foundation recognizes the **fair value** of the dental supplies (**nonfinancial assets**) as an increase in assets and as **contribution** revenue that increases **net assets with donor restrictions**~~**temporarily restricted net assets**~~ because there are **donor-imposed restrictions** and because University and University Foundation are financially interrelated entities (see paragraph 958-20-25-1). University can influence the financial and operating decisions of University Foundation because the bylaws of University Foundation limit its activities to those that benefit University (see paragraph 958-20-15-2(a)). University has an ongoing economic interest in the net assets of University Foundation because the results of University Foundation's activities accrue to the benefit of University (see paragraph 958-20-15-2(b)). When University Foundation distributes the dental supplies to University, it reduces its assets and recognizes an expense and the expiration of the restriction.

958-20-55-6 Periodically, in conjunction with preparing its financial statements, University recognizes the change in its interest in the net assets of University Foundation, which would include the gift of nonfinancial assets received by the foundation (see paragraph 958-20-25-2). Because payments from University Foundation are due in future periods, the increase (or decrease) in University's interest would be classified as a change in net assets with donor restrictions to reflect the time restriction~~temporarily restricted net assets unless donors placed permanent restrictions on their gifts~~. When the dental supplies and other assets are distributed to it, University would recognize the assets received and decrease its interest in the net assets of University Foundation.

958-20-55-7 If, instead, University controlled University Foundation, University would be able to access at will any assets held by University Foundation. Implying a time restriction on the gifts held by University Foundation would be inappropriate. When recognizing the change in its interest in University Foundation, University would report the resulting net assets in the same net asset classifications as University Foundation.

> > Example 2: Cash Gift to a Recipient Entity that Supports Three Affiliated NFPs

958-20-55-8 This Example illustrates the guidance in paragraphs 958-20-15-2 and 958-20-25-1 through 25-2.

958-20-55-9 Corporation transfers cash to Healthcare Foundation and requests that Healthcare Foundation use the gift to provide healthcare benefits to the community. Healthcare Foundation's bylaws state that it is organized for the purpose of stimulating voluntary financial support from donors for the benefit of Hospital, Nursing Home, and Walk-in Clinic, all of which are located in the community. Hospital, Nursing Home, Walk-in Clinic, and Healthcare Foundation are affiliates that are controlled by Healthcare System.

958-20-55-10 Healthcare Foundation would recognize cash and **{add glossary link}**contribution**{add glossary link}** revenue that increases **net assets without donor restrictions**~~**unrestricted net assets**~~ because Corporation did not specify a beneficiary for its gift. Healthcare Foundation can choose how to distribute the gift among the three affiliates (see paragraphs 958-605-55-76 through 55-77).

958-20-55-11 Periodically, in conjunction with preparing their financial statements, Hospital, Nursing Home, and Walk-in Clinic recognize the changes in their interests in the net assets of Healthcare Foundation (see paragraph 958-20-25-2). When measuring its interest in Healthcare Foundation, each **affiliate** would include only the net assets of Healthcare Foundation that are restricted to that affiliate's use. None of them would include in their individual interest the net assets resulting from the gift received from Corporation because Healthcare Foundation can choose how to distribute the gift among the three affiliates. Healthcare ~~System~~System's financial statements would include the net assets resulting from the gift received from Corporation, as well as other changes in the net assets of Healthcare Foundation, in its interest in the net assets of the foundation. (An interest in the net assets of an affiliate would be eliminated if that affiliate were included in the consolidated financial statements of the interest holder.)

958-20-55-12 If Healthcare Foundation, Hospital, Nursing Home, and Walk-in Clinic entered into an agreement that specified how ~~unrestricted~~ gifts without donor restrictions to Healthcare Foundation should be divided, each affiliate would also include its share of Healthcare Foundation's net assets without donor restrictions~~unrestricted net assets~~, computed in accordance with that agreement, when it measured its interest in Healthcare Foundation. Similarly, if Healthcare System directed that ~~unrestricted~~ gifts without donor restrictions to Healthcare Foundation be distributed to the three affiliates in accordance with a specified formula, each affiliate would include its share of net assets without donor restrictions~~unrestricted net assets~~, computed in accordance with that formula, when it measured its interest in Healthcare Foundation.

958-20-55-13 If Corporation had specified that its gift be used for the benefit of Walk-in Clinic rather than giving without restriction, Healthcare Foundation would recognize contribution revenue that increases **net assets with donor restrictions**~~temporarily restricted net assets~~ because Hospital, Nursing Home, Walk-in Clinic, and Healthcare Foundation are financially interrelated entities (see paragraph 958-20-15-2). Their relationship meets both requirements of paragraph 958-20-25-1. Hospital, Nursing Home, and Walk-in Clinic can influence the financial and operating decisions of Healthcare Foundation because all four NFPs are under common control and the bylaws of Healthcare Foundation limit its activities to support of its three affiliates (see paragraph 958-20-15-2(a)). Hospital, Nursing Home, and Walk-in Clinic each have an ongoing economic interest in the net assets of Healthcare Foundation because their rights to the assets held by Healthcare Foundation are residual rights in an ongoing relationship (see paragraph 958-20-15-2(b)). Walk-in Clinic would include the net assets resulting from the gift received from Corporation in its interest in the net assets of Healthcare Foundation.

> > Example 3: Cash Gift to a Foundation That Supports Two Unaffiliated NFPs

958-20-55-14 This Example illustrates the guidance in paragraphs 958-20-15-2 and 958-20-25-1 through 25-2.

958-20-55-15 Individual transfers cash to Arts Foundation and specifies that the money be used to support the expenses of the ballet. Arts Foundation's bylaws state that it is organized for the purpose of stimulating voluntary financial support from donors for the benefit of Community Ballet and Community Theater. At the time Arts Foundation was created, the three NFPs entered into an agreement that specifies that if a donor does not specify the NFP to which the gift should be transferred, the gift will be split equally between Community Ballet and Community Theater. The agreement also specifies that representatives from the three NFPs will meet annually and determine campaign priorities for the next year and the costs of operating Arts Foundation will be equally split between Community Ballet and Community Theater. Arts Foundation is not controlled by Community Ballet, Community Theater, or Individual.

958-20-55-16 Arts Foundation would report assets and contribution revenue that increases net assets with donor restrictions~~temporarily restricted net assets~~ because there are donor-imposed restrictions and because Community Ballet and Arts Foundation are financially interrelated entities (see paragraph 958-20-25-1). Community Ballet has the ability to influence the operating and financial decisions of Arts Foundation because the agreement allows Community Ballet to participate in the policymaking processes of Arts Foundation (see paragraph 958-20-15-2(a)). The agreement also establishes Community Ballet's rights as residual rights because it specifies how the revenues and expenses of Arts Foundation will be shared (see paragraph 958-20-15-2(b)). When Arts Foundation distributes assets to Community Ballet, it reduces its assets and recognizes an expense.

958-20-55-17 Periodically, in conjunction with preparing their financial statements, Community Ballet and Community Theater recognize the changes in their interests in the net assets of Arts Foundation (see paragraph 958-20-25-2). Community Ballet would include the net assets resulting from the gift received from Individual in its interest in the net assets of Arts Foundation because Individual specified that the gift be used to support the ballet and Arts Foundation's bylaws limit it to supporting Community Ballet. Community Ballet would also include in its interest all other gifts restricted to its benefit and its share of net assets without donor restrictions because of the agreement among the three organizations that gifts to Arts Foundation that are not donor-restricted should be split equally between Community Ballet and Community Theater~~unrestricted net assets~~. Because payments from Arts Foundation are due in future periods, the increase (or decrease) in Community Ballet's interest would be classified as a change in net assets with donor restrictions to reflect the time restriction~~temporarily restricted net assets unless donors placed permanent restrictions on their gifts (see paragraph 958-20-25-2)~~. When assets are distributed to Community Ballet, it recognizes the assets received and decreases its interest in the net assets of Arts Foundation.

Amendments to Subtopic 958-30

8. Amend paragraphs 958-30-45-1 through 45-5 and 958-30-45-7 and supersede the heading before paragraph 958-30-45-5, with a link to transition paragraph 958-10-65-1, as follows:

Not-for-Profit Entities—Split-Interest Agreements

Other Presentation Matters

> Classification of Net Assets

> > Upon Recognition

958-30-45-1 Contribution revenues recognized under **{add glossary link}**split-interest agreements**{add glossary link}** shall be classified as increases in **net assets with donor restrictions**~~**temporarily restricted net assets**~~ unless the donor gives the **not-for-profit entity** (NFP) the immediate right to use, without restrictions, the assets it receives, in which case the contribution shall be classified as an increase in **net assets without donor restrictions**.~~either of the following conditions exist:~~

a. Subparagraph superseded by Accounting Standards Update No. 2016-14.~~The donor has permanently restricted the **not-for-profit entity's** (NFP's) use of its interest (lead or remainder) in the assets. If the donor has permanently restricted the NFP's use of its interest, the contribution shall be classified as an increase in **permanently restricted net assets**.~~
b. Subparagraph superseded by Accounting Standards Update No. 2016-14.~~The donor gives the NFP the immediate right to use without restrictions the assets it receives. If the NFP has the immediate right to use its interest without restrictions, the contribution shall be classified as an increase in **unrestricted net assets**.~~

958-30-45-2 Under many **charitable gift annuity** agreements, the assets received from the donor are held by the NFP as part of its general assets and are available for its ~~unrestricted~~general use. The contribution portion of a charitable gift annuity agreement shall be recognized as ~~**unrestricted support**~~revenue without donor restrictions if both of the following criteria are met:

a. The donor does not restrict the use of the assets contributed to the NFP.
b. Neither the agreement nor ~~state law requires~~laws and regulations require the assets received by the NFP to be invested until the income beneficiary's death. Additional annuity reserves required by state laws, as described in paragraph 958-30-50-2, do not create donor restrictions.

If either of those criteria is~~are~~ not met, the contribution shall be classified as ~~restricted~~**donor-restricted support** that increases net assets with donor restrictions and shall be reclassified as net assets without donor restrictions when **donor-imposed restrictions**~~**temporary restrictions**~~ or legal requirements are satisfied.

> > Upon Subsequent Measurement

958-30-45-3 During the term of the agreement, transactions and events that are recognized as changes in the value of split-interest agreements in a statement of activities shall be classified as ~~temporarily restricted, permanently restricted, or unrestricted net assets,~~**net assets with donor restrictions** or **net assets without donor restrictions** depending on the classification used when the **{add glossary link}**contribution**{add glossary link}** revenue was recognized initially.

958-30-45-4 Amounts shall be reclassified from net assets with donor restrictions~~temporarily restricted net assets~~ to net assets without donor restrictions~~unrestricted net assets~~ as distributions are received by the NFP under the terms of the **split-interest agreement** unless those assets are otherwise ~~temporarily~~further restricted by the donor. In that case, they shall be reclassified to net assets without donor restrictions~~unrestricted net assets~~ when the restrictions expire.

~~**> > At Derecognition**~~

958-30-45-5 If assets previously distributed to the NFP become available for its ~~unrestricted~~general use upon termination of the ~~agreement,~~split-interest agreement, a **reclassification of net assets** shall be made from net assets with donor restrictions to net assets without donor restrictions~~appropriate amounts shall be reclassified from temporarily restricted to unrestricted net assets~~.

> Presentation in the Statement of Financial Position

958-30-45-6 Assets and liabilities recognized under split-interest agreements shall be reported separately from other assets and liabilities in a statement of financial position if not disclosed in the related notes.

> Presentation in the Statement of Activities

958-30-45-7 {add glossary link}Contribution**{add glossary link}** revenue and changes in the value of split-interest agreements recognized under such agreements shall be reported as separate line items in a statement of activities if not disclosed in the related notes. Paragraph 958-225-45-6 states that the classification of **{remove glossary link}contributions{remove glossary link}** received as revenues or gains depends on whether the transactions are part of the NFP's ongoing major or central activities (revenues), or are peripheral or incidental to the NFP (gains).

9. Amend paragraphs 958-30-50-2 through 50-3, with a link to transition paragraph 958-10-65-1, as follows:

Disclosure

958-30-50-1 The notes to financial statements shall include all of the following disclosures related to **split-interest agreements**:

a. A description of the general terms of existing split-interest agreements
b. Assets and liabilities recognized under split-interest agreements, if not reported separately from other assets and liabilities in a statement of financial position

c. The basis used (for example, cost, lower of cost or fair value, **fair value**) for recognized assets
d. The discount rates and actuarial assumptions used, if present value techniques are used in reporting the assets and liabilities related to split-interest agreements
e. **Contribution** revenue recognized under such agreements, if not reported as a separate line item in a statement of activities
f. Changes in the value of split-interest agreements recognized, if not reported as a separate line item in a statement of activities
g. The disclosures required by the Fair Value Option Subsections of Subtopic 825-10, if a **not-for-profit entity** (NFP) elects the fair value option pursuant to paragraph 958-30-35-2(b) or 958-30-35-2(c)
h. The disclosures required by paragraphs 820-10-50-1 through 50-2 and 820-10-50-2B through 50-2E in the format described in paragraph 820-10-50-8, if the assets and liabilities of split-interest agreements are measured at fair value on a recurring basis in periods after initial recognition.

958-30-50-2 Additional annuity reserves may be required by the laws of the state where the NFP ~~not-for-profit entity (NFP)~~ is located or by the state where the donor resides. Legally mandated reserves shall be disclosed in the notes to financial statements. If state law imposes other limitations on the NFP, such as limitations on the manner in which some net assets are invested, those limitations also shall be disclosed in the notes to financial statements.

958-30-50-3 In addition, some NFPs voluntarily set aside additional reserves ~~as a cushion against~~for unexpected actuarial losses. Voluntary reserves shall be included as part of **net assets without donor restrictions**~~**unrestricted net assets**~~, but may be ~~disclosed~~presented as a separate component of **board-designated net assets** on the face of the statement of financial position~~, such as board-designated unrestricted net assets~~ (see paragraph 958-210-55-3). If not provided on the face of that statement, the reserves set aside by the NFP's governing board shall be disclosed in the notes in accordance with paragraph 958-210-50-3 to disclose information about the amounts and purposes of board designations of net assets without donor restrictions.

10. Amend paragraphs 958-30-55-4 and 958-30-55-30 and supersede paragraph 958-30-55-5, with a link to transition paragraph 958-10-65-1, as follows:

Implementation Guidance and Illustrations

958-30-55-1 This Section, which is an integral part of the requirements of this Subtopic, provides general guidance to be used in the recognition of **split-interest agreements**, particularly those with embedded derivatives.

> Illustrations

> > Example 1: Charitable Remainder Annuity Trust

958-30-55-2 This Example illustrates the guidance in Sections 958-30-25 and 958-30-30 for initial recognition and measurement of a **charitable remainder annuity trust**.

958-30-55-3 Not-for-Profit Entity A (NFP A) receives $100,000 in cash from a donor under a charitable remainder annuity trust agreement designating NFP A as the **trustee** and charitable remainder beneficiary—a donee. The terms of the trust agreement require that NFP A, as trustee, invest the trust assets and pay $5,000 each year to an annuitant (an income beneficiary specified by the donor) for the remainder of the annuitant's life. Upon death of the annuitant, NFP A may use its **remainder interest** for any purpose consistent with its mission.

958-30-55-4 NFP A, as a donee, would recognize the **contribution** received as revenue in the period the trust is established. The transfer is partially an exchange transaction—an agreement for annuity payments to a beneficiary over time—and partially a contribution. The contribution received by NFP A is the unconditional right to receive the remainder interest of the **annuity trust**. The amount of the contribution received by NFP A is the **fair value** of the trust assets ($100,000 cash transferred) less the fair value of the estimated annuity payments (which is the present value of $5,000 to be paid annually over the expected life of the annuitant if present value techniques are used to measure fair value). Because NFP A must invest the underlying donated assets until the annuitant's death, the revenue recognized for this type of contribution—~~temporarily~~ ~~**restricted support**~~**donor-restricted support**—should be distinguished from revenues from gifts that are reported in the **net assets without donor restrictions** category~~either unrestricted or permanently restricted~~ (see paragraph 958-605-45-3). The death of the annuitant determines when the required annuity payments cease and when the trust expires and effectively removes all restrictions on the net assets of NFP A (see paragraph 958-30-45-5).

958-30-55-5 Paragraph superseded by Accounting Standards Update No. 2016-14.~~If the terms of this agreement had specified that upon death of the annuitant NFP A is to use its remainder interest to establish a **permanent endowment**, the revenue would be recognized as permanently restricted support rather than temporarily restricted support.~~

> > Example 3: Sample Journal Entries

958-30-55-30 This Example provides the following journal entries related to the guidance in Sections 958-30-25, 958-30-35, and 958-30-40.

Creation of the Agreement

	Debit	Credit	Credit
Assets Held by a Third Party			
Charitable lead trust	Beneficial interest in lead trust		Contribution revenue [a]
Charitable remainder trust	Beneficial interest in remainder trust		Contribution revenue [a]
Assets Held by the NFP			Contribution revenue [a]
Charitable lead trust	Assets held in charitable lead trust	Liability for amounts held for others	Contribution revenue [a]
Charitable remainder trust	Assets held in charitable remainder trust	Liability under trust agreement	Contribution revenue [a]
Charitable gift annuity	Assets	Annuity payment liability	Contribution revenue [a]
Pooled income fund	Assets of pooled income fund	Discount for future interest (Deferred revenue)	Contribution revenue [a]

Investment Income and Changes in the Fair Value of Assets Held Under the Agreement [b]

	Debit	Credit
Assets Held by a Third Party		
Charitable lead trust	No entry	No entry
Charitable remainder trust	No entry	No entry
Assets Held by the NFP		
Charitable lead trust	Assets held in charitable lead trust	Liability for amounts held for others
Charitable remainder trust	Assets held in charitable remainder trust	Liability under trust agreement
Charitable gift annuity	Assets	Investment return [c]
Pooled income fund	Assets of pooled income fund	Liability to life beneficiary

Distribution to Holder of Lead Interest

	Debit	Credit
Assets Held by a Third Party		
Charitable lead trust	Cash	Beneficial interest in lead trust
Charitable remainder trust	No entry	No entry
Assets Held by the NFP		
Charitable lead trust	Cash	Assets held in charitable lead trust
Charitable remainder trust	Liability under trust agreement	Assets held in charitable remainder trust
Charitable gift annuity	Annuity payment liability	Cash
Pooled income fund	Liability to life beneficiary	Assets of pooled income fund

Reclassification of Amounts Distributed to Holder of Lead Interest When All Restrictions Are Met

	Debit	Credit
Assets Held by a Third Party		
Charitable lead trust	~~Temporarily restricted net assets—~~Net assets with donor restrictions—Reclassifications out	~~Unrestricted net assets—~~Net assets without donor restrictions—Reclassifications in
Charitable remainder trust	Not applicable	Not applicable
Assets Held by the NFP		
Charitable lead trust	~~Temporarily restricted net assets—~~Net assets with donor restrictions—Reclassifications out	~~Unrestricted net assets—~~Net assets without donor restrictions—Reclassifications in
Charitable remainder trust	Not applicable	Not applicable
Charitable gift annuity	Not applicable	Not applicable
Pooled income fund	Not applicable	Not applicable

[Because the remainder of this paragraph is unchanged, it is not shown here.]

Amendments to Subtopic 958-205

11. Amend paragraphs 958-205-05-5 through 05-6A and 958-205-05-8 through 05-10 and add paragraph 958-205-05-6B, with a link to transition paragraph 958-10-65-1, as follows:

Not-for-Profit Entities—Presentation of Financial Statements

Overview and Background

> A Complete Set of Financial Statements

958-205-05-5 General-purpose external financial statements provided by an NFP include a statement of financial position, a statement of activities, and a statement of cash flows. ~~In addition, voluntary health and welfare entities provide a statement of functional expenses, which is useful in associating expenses with service efforts and accomplishments of NFPs.~~ Individual financial statements provide different information, and the information each statement provides generally complements information in other financial statements.

958-205-05-6 General-purpose financial statements classify and report net assets in ~~three~~two groups—**net assets with donor restrictions** and **net assets without donor restrictions**~~permanently restricted, temporarily restricted, and unrestricted—~~based on the existence or absence of **{add glossary link}**donor-imposed restrictions**{add glossary link}**~~and the nature of those restrictions~~.

958-205-05-6A The guidance in the Not-for-Profit Entities Topic uses certain statement titles and the terms *net assets without donor restrictions* and *net assets with donor restrictions*~~*permanently restricted*, *temporarily restricted*, and *unrestricted net assets*~~. Other titles and other labels may also be used, as illustrated in~~pursuant to~~ paragraphs 958-205-55-2 and 958-210-55-3.

958-205-05-6B The two required net asset classes (with donor restrictions and without donor restrictions) are a minimum classification scheme, if they are applicable. An NFP can choose to further disaggregate the two net asset classes. For example, an NFP may wish to disaggregate net assets with donor restrictions between those expected to be maintained in perpetuity and those expected to be spent over time or for a particular purpose. However, paragraph 958-210-45-1 does require that the amounts for each of the two classes of net assets and the total of net assets be reported in a statement of financial position.

958-205-05-7 The Not-for-Profit Entities Topic does not use the terms fund balance or changes in fund balances because in current practice those terms are commonly used to refer to individual groups of assets and related liabilities rather than to an entity's net assets or changes in net assets taken as a whole. While reporting by fund groups is not a necessary part of external financial reporting, paragraph 958-205-45-3 does not preclude providing disaggregated information by fund groups.

> Reporting Endowment Funds

958-205-05-8 Laws concerning use of net appreciation of **endowment funds** that are donor-restricted may vary from jurisdiction to jurisdiction. For example, ~~some jurisdictions follow trust law, and others~~most jurisdictions follow ~~an~~ enacted ~~version~~versions of ~~either the Uniform Management of Institutional Funds Act or~~ the Uniform Prudent Management of Institutional Funds Act of 2006 or similar legal guidance (including interpretations of the law~~those laws~~ issued by state Attorneys General) and some jurisdictions follow trust law.

958-205-05-9 Because donor stipulations and laws vary, NFPs must assess the relevant facts and circumstances for their endowment gifts and their relevant laws to determine the classification of endowment funds within the NFP financial reporting model (see paragraph 958-205-45-2), including whether ~~net appreciation~~some or all of the investment return on endowments is available for spending ~~or is permanently restricted~~.

958-205-05-10 Subsection 4(a) of the Uniform Prudent Management of Institutional Funds Act of 2006 provides that, unless stated otherwise in the gift instrument, the assets in an endowment fund are donor-restricted assets until appropriated for expenditure by the institution. For related guidance, see paragraphs 958-205-45-13 through 45-13F~~paragraph 958-205-45-31~~.

12. Amend paragraphs 958-205-45-2, 958-205-45-4 through 45-6 and the related heading, and 958-205-45-9 through 45-13, add paragraphs 958-205-45-13A through 45-13J, and supersede paragraphs 958-205-45-14 through 45-19 and 958-205-45-21 through 45-35 and their related headings, with a link to transition paragraph 958-10-65-1, as follows:

Other Presentation Matters

958-205-45-1 This Subtopic specifies certain basic information to be reported in financial statements of **not-for-profit entities** (NFPs). The requirements generally are no more stringent than requirements for business entities. The degree of aggregation and order of presentation of items of assets and liabilities in statements of financial position or of items of revenues and expenses in statements of activities of NFPs, although not specified, generally should be similar to those required or permitted for business entities. Particular formats for a statement of financial position, a statement of activities, or a statement of cash flows, are neither prescribed nor prohibited in part because similar prescriptions and proscriptions do not exist for business entities.

958-205-45-2 The usefulness of information provided by financial statements of NFPs can be vastly improved if certain basic information is classified in comparable ways. ~~All~~ NFPs shall do ~~all of~~ the following:

a. Report assets and liabilities in reasonably homogeneous groups and sequence or classify them in ways that provide relevant information about their interrelationships, **liquidity**, and **financial flexibility**.
b. Classify and report net assets in ~~three~~two groups~~—permanently restricted, temporarily restricted, and unrestricted~~**net assets with donor restrictions** and **net assets without donor restrictions**—based on the existence or absence of **{add glossary link}**donor-imposed restrictions**{add glossary link}**~~and the nature of those restrictions~~. Information about~~ the nature and amount of~~ restrictions imposed by donors on the use of contributed assets, including their potential effects on specific assets and on liabilities or classes of net assets, shall be disclosed in accordance with paragraph 958-210-50-3, because it is helpful in assessing the financial flexibility of an NFP.
c. Aggregate items of revenues, expenses, gains, and losses into reasonably homogeneous groups and classify and report them as increases or decreases in net assets with donor restrictions or net assets without donor restrictions~~permanently restricted, temporarily restricted, or **unrestricted net assets**~~.
d. Classify and report cash receipts and cash payments as resulting from investing, financing, or operating activities.

958-205-45-3 Reporting by fund groups is not a necessary part of external financial reporting; however, this Subtopic does not preclude providing disaggregated information by fund groups.

> Complete Set of Financial Statements

958-205-45-4 A complete set of financial statements of an NFP shall include a statement of financial position as of the end of the reporting period, a statement of activities and a statement of cash flows for the reporting period, and accompanying notes to financial statements. ~~In addition, a **voluntary health and welfare entity** shall provide a statement of functional expenses.~~

958-205-45-5 A set of financial statements shall include, either in the body of financial statements or in the accompanying notes, ~~that~~ information required by generally accepted accounting principles (GAAP) or~~that do not specifically exempt NFPs and~~ required by applicable specialized accounting and reporting principles and practices unless NFPs are specifically exempt from providing that information.

> ~~Statement of Functional Expenses~~Reporting of Expenses by Nature and Function

958-205-45-6 ~~A statement of functional expenses~~Reporting expenses by nature and function is useful in associating expenses with service efforts and accomplishments of NFPs. All NFPs~~Voluntary health and welfare entities~~ shall report information about all expenses in one location—on the face of the statement of activities, as a schedule in the notes to financial statements, or in a separate financial statement—as required by paragraph 958-720-45-15. The relationship between functional classification and natural classification for all expenses shall be presented in an analysis that disaggregates **functional expense classifications**~~by their functional classes~~, such as major classes of **program services** and **supporting activities**,~~ as well as information about expenses~~ by their **natural expense classifications**~~natural classification (**natural expense classification**)~~, such as salaries, rent, electricity, supplies, interest expense, depreciation, awards and grants to others, and professional fees~~fees, in a matrix format in a separate financial statement—the statement of functional expenses. Pursuant to paragraph 958-720-45-16, other NFPs are encouraged but not required to provide information about expenses by their natural classification~~. To the extent that expenses are reported by other than their natural classification (such as salaries included in cost of goods sold or facility rental costs of special events reported as direct benefits to donors), they shall be reported by their natural classification in the functional expense analysis~~if a statement of functional expenses is presented~~. For example, salaries, wages, and fringe benefits that are included as part of the cost of goods sold on the statement of activities shall be included with other salaries, wages, and fringe benefits in the ~~statement of~~ functional ~~expenses~~expense analysis. External and direct internal investment expenses that have been netted against investment return shall not be included in the functional expense analysis. Certain items that are typically reported in other comprehensive income of for-profit entities, such as those items listed in paragraph 220-10-45-10A, are considered gains or losses and, like other gains and losses, shall not be included in the functional expense analysis. See Note F in paragraph 958-205-55-21 for an example that illustrates the reporting of expenses by nature and function.~~In addition, expenses that are netted against investment revenues shall be reported by their **functional classification** on the statement of functional expenses (if the NFP presents that statement).~~

> Expirations of Donor-Imposed Restrictions

958-205-45-9 An NFP shall recognize the expiration of a **donor-imposed restriction** on a **contribution** in the period in which the restriction expires. A restriction expires when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. If two or more ~~temporary~~donor-imposed restrictions that are temporary in nature are imposed on a contribution, the effect of the expiration of those restrictions shall be recognized in the period in which the last remaining restriction has expired.

958-205-45-10 For example, a gift of a **term endowment** that is to be invested for five years has two ~~temporary~~donor-imposed restrictions that are temporary in nature—a purpose restriction (to be invested) and a time restriction (for a period of five years). After five years of investing, the purpose restriction will be met and the time restriction will lapse. In Year 5, when that term endowment ~~becomes unrestricted~~is no longer donor-restricted, a **reclassification of net assets**~~**reclassification**~~ shall be reported to reflect the decrease in **net assets with donor restrictions**~~**temporarily restricted net assets**~~ and the increase in **net assets without donor restrictions**~~unrestricted net assets~~.

958-205-45-10A In determining when the last of two or more ~~temporary~~donor-imposed restrictions that are temporary in nature has expired, explicit donor stipulations generally carry more weight than implied restrictions. For example, assume in Year 1 that an entity receives an unconditional promise to give that is payable in two equal installments in Years 2 and 3 with an explicit donor stipulation that its gift is to cover purchases of new equipment for the new School of Chemistry, which is expected to be completed in Year 3. That gift would have a purpose restriction (to be used to acquire new equipment to be housed in the new building), and because the unconditional promise is payable in Years 2 and 3, an entity generally would imply a time restriction (see paragraph 958-605-45-5). If, however, the building was completed early and opened in Year 2 and all of the needed equipment was purchased in Year 2 and exceeded the promised amount, absent an explicit stipulation to the contrary, it would be reasonable to conclude that those purchases fulfilled the donor restriction on the promised gift. ~~Because the entity did not adopt a policy of implying time restrictions on long-lived assets in accordance with paragraph 958-205-45-12, the~~The restriction for the purchase of the equipment expires when the equipment is placed in service in accordance with paragraph 958-205-45-12. In addition, a ~~reclassification~~reclassification of net assets would be reported to reflect the decrease in net assets with donor restrictions~~temporarily restricted net assets~~ and the increase in net assets without donor restrictions~~unrestricted net assets~~ in Year 2.

958-205-45-11 If an expense is incurred for a purpose for which both net assets without donor restrictions~~unrestricted~~ and net assets with donor restrictions~~temporarily restricted net assets~~ are available, a donor-imposed restriction is fulfilled to the extent of the expense incurred unless the expense is for a purpose that is directly attributable to another specific external source of revenue. For example, an expense does not fulfill an existing donor restriction if that expense is incurred for a purpose that is directly attributable to and reimbursed by a sponsored exchange agreement or a conditional award from a government agency, private foundation, or others. ~~Temporarily restricted net assets with time restrictions are not available to support expenses until the time restrictions have expired.~~Explicit time restrictions, such as those discussed in paragraph 958-205-45-10, and implied time restrictions, such as those discussed in paragraph 958-605-45-5, make net assets unavailable to support expenses until the time restrictions have expired.

958-205-45-12 ~~Time restrictions implied on gifts of long-lived assets pursuant to paragraph 958-605-45-6 expire as the economic benefits of the acquired assets~~

~~are used up; that is, over their estimated useful lives. In the absence of donor stipulations specifying how long donated assets must be used or an NFP's policy of implying time restrictions,~~Unless donor stipulations limit the use of the assets for a period of time or for a particular purpose, donor restrictions on long-lived assets, if any, or cash to acquire or construct long-lived assets ~~expire~~are considered to have expired when the assets are placed in service.

> Reporting Endowment Funds

958-205-45-13 Endowment funds are established either by a donor or by a governing board and can be either with donor restrictions or without donor restrictions. Endowment funds with donor restrictions are referred to as **donor-restricted endowment funds**. A donor-restricted endowment fund results from a gift with a stipulation that the resources be invested either for a long, specified period of time or in perpetuity. Those without donor restrictions are referred to as **board-designated endowment funds** (sometimes called **funds functioning as endowment** or quasi-endowment funds). A board-designated endowment fund is created when a governing board designates or earmarks a portion of its **net assets without donor restrictions** to be invested, generally for a long but possibly unspecified period of time. ~~A donor's **stipulation** that requires a gift to be invested in perpetuity or for a specified term creates a **donor-restricted endowment fund**. Alternatively, an NFP's governing board may earmark a portion of its unrestricted net assets as a **board-designated endowment** (sometimes called **funds functioning as endowment** or **quasi-endowment funds**) to be invested to provide income for a long but unspecified period.~~

958-205-45-13A An NFP shall report the net assets of an endowment fund in a statement of financial position within the following two classes of net assets on the basis of the existence or absence of **donor-imposed restrictions**:

a. **Net assets with donor restrictions.** For example, a donor-restricted endowment would be classified as net assets with donor restrictions.
b. **Net assets without donor restrictions.** For example, a board-designated endowment fund, which generally results from an internal designation of net assets without donor restrictions, would thus generally be classified as net assets without donor restrictions.

In rare circumstances, a board-designated endowment fund also can include a portion of net assets with donor restrictions. For example, if an NFP is unable to spend donor-restricted contributions in the near term, then the board sometimes considers the long-term investment of these funds.

958-205-45-13B When classifying a donor-restricted endowment fund, consideration shall be given to both the donor's explicit stipulations and the applicable laws that extend donor restrictions. Investment return generally is considered free of donor restrictions unless its use is limited by a donor-imposed restriction or by law. In the United States, most donor-restricted endowment funds are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (**UPMIFA**) that extends a donor's restriction to use of the funds, including the investment return, until the funds are appropriated for expenditure by the governing board. Thus, if a donor or law imposes a restriction on the investment return, those returns shall be reported within net assets with donor restrictions until appropriated for expenditure. Conversely, for an endowment fund that is created by a governing board (board-designated endowment fund), assuming no other purpose-type restrictions exist on the use of those funds, that original fund and all investment returns are free of donor restrictions and shall be reported in net assets without donor restrictions.

958-205-45-13C Paragraphs 958-205-45-13D through 45-13F provide guidance for classification of net assets of donor-restricted endowment funds for NFPs that follow an enacted version of UPMIFA.

958-205-45-13D Donor-restricted endowment funds generally result from a donor's stipulation or by extension of a donor restriction imposed through UPMIFA that limits an NFP's use of an endowment fund. The original gifted amount, any additional gifts to that fund, and any resulting investment returns shall initially be classified as net assets with donor restrictions. Therefore, unless stated otherwise in the gift instrument, the assets in an endowment fund are donor-restricted assets until they are appropriated for expenditure by the NFP's governing board. Donors may provide specific instructions on spending from a donor-restricted endowment fund or from the components of investment return generated from the fund.

958-205-45-13E The amount of net assets with donor restrictions in the donor-restricted endowment fund is reduced when the governing board appropriates for expenditure funds from the endowment fund. Upon appropriation for expenditure, the restriction expires to the extent of the amount appropriated as long as all of the time restrictions have lapsed and all of the purpose restrictions have been met. At that time, the appropriated amount is reclassified from net assets with donor restrictions to net assets without donor restrictions in accordance with paragraph 958-205-45-9. However, if purpose restrictions from a donor have not yet been met, those funds shall remain in net assets with donor restrictions until those purpose restrictions have been satisfied.

958-205-45-13F In the absence of interpretation of the phrase *appropriated for expenditure* in subsection 4(a) of ~~the Uniform Prudent Management of Institutional Funds Act of 2006~~UPMIFA (see paragraph 958-205-05-10) by legal or regulatory authorities (for example, court decisions or interpretations by state attorneys general), for purposes of the guidance in this Subtopic, appropriation for expenditure is deemed to occur upon approval for expenditure, unless approval is for a future period, in which case appropriation is deemed to occur when that period is reached. Approval for expenditure may occur through different means within and across NFPs. For example, expenditures could be approved as part of a formal, annual budget. Expenditures also could be approved during the year as unexpected needs arise (such as for emergency relief efforts). ~~Upon appropriation for expenditure, the time restriction expires to the extent of the amount appropriated and, in the absence of any purpose restrictions, results in a reclassification of that amount to unrestricted net assets. If the fund is also subject to a purpose restriction, the reclassification of the appropriated amount to unrestricted net assets shall not occur until that purpose restriction also has been met, in accordance with the guidance beginning in paragraph 958-205-45-9.~~ **[Content amended as shown and moved from paragraph 958-205-45-31]**

958-205-45-13G As discussed in paragraph 958-205-05-8, some NFPs follow trust law. For donor-restricted endowment funds that are subject to trust law, typically at least, the amount of the original gift(s) and any gains or net appreciation of the fund are not considered to be available for expenditure. Generally, interest, dividends, rents, or other forms of ordinary income are available for spending and are classified as net assets without donor restrictions unless a purpose or other donor restriction exists on use of the investment income.

958-205-45-13H If a donor-restricted endowment fund is an **underwater endowment fund,** the accumulated losses shall be included together with that fund in net assets with donor restrictions. An NFP shall disclose the required information in accordance with paragraph 958-205-50-2.

958-205-45-13I See Note E of Example 1 (paragraph 958-205-55-21) for an ~~encouraged~~illustrative disclosure about endowment funds and investment management policies. **[Content amended as shown and moved from paragraph 958-205-45-26]**

958-205-45-13J See Example 1 (paragraph 958-205-55-2) for an illustration of a statement of activities, showing support from both a donor-restricted endowment fund and a board-designated endowment fund, along with a statement of financial position, statement of cash flows, and example notes for an NFP.

958-205-45-14 Paragraph superseded by Accounting Standards Update No. 2016-14.~~When classifying an **endowment fund**, each source—original gift, gains and losses, and interest and dividends—must be evaluated separately. Each source is unrestricted unless its use is temporarily or permanently restricted by explicit donor stipulations or by law. Thus, an endowment fund that is created by a governing board from unrestricted net assets is classified as unrestricted because all three sources are free of donor restrictions. If an endowment fund is created by a donor, the donor may have placed different restrictions on each of the three sources. Generally, classification of the original gifts and the income earned by endowments is straightforward because usually donors explicitly state any time or purpose restrictions on those two sources. Determining how to classify gains on endowments may not be as easy because agreements with donors often are silent on how gains should be used and whether losses must be restored immediately from future gains, or not at all. See paragraphs 958-205-45-16 through 45-21.~~

~~> > Net Assets of an Endowment Fund~~

958-205-45-15 Paragraph superseded by Accounting Standards Update No. 2016-14.~~Pursuant to paragraph 958-210-45-1, an NFP shall report the net assets of an endowment fund in a statement of financial position within the three classes of net assets based on the existence or absence of donor-imposed restrictions:~~

- ~~a. **Permanently restricted net assets**. For example, the portion of a **permanent endowment** that must be maintained permanently—not used up, expended, or otherwise exhausted—is classified as permanently restricted net assets.~~
- ~~b. Temporarily restricted net assets. For example, the portion of a term endowment that must be maintained for a specified term is classified as temporarily restricted net assets.~~
- ~~c. Unrestricted net assets. For example, a board-designated endowment fund, which results from an internal designation on unrestricted net assets, is not donor restricted and is classified as unrestricted net assets.~~

958-205-45-15A Paragraph superseded by Accounting Standards Update No. 2016-14.~~Paragraphs 958-205-45-16 through 45-27 provide guidance for classification of net assets of donor-restricted endowment funds. In addition, see paragraphs 958-205-45-28 through 45-32 for guidance on classification of donor-restricted endowment funds in states with law based on the Uniform Prudent Management of Institutional Funds Act of 2006 or paragraphs 958-205-45-33 through 45-36 in states with law based on trust law or the Uniform Management of Institutional Funds Act of 1972.~~

~~> > Net Appreciation (Net Gains) of Endowment Funds~~

958-205-45-16 Paragraph superseded by Accounting Standards Update No. 2016-14.~~Restricted net assets result only from a donor's stipulation that limits an NFP's use of net assets or from a law that extends the donor's stipulation to enhancements (including holding gains) and diminishments of those net assets.~~

958-205-45-17 Paragraph superseded by Accounting Standards Update No. 2016-14.~~Thus, unless gains and losses are temporarily or permanently restricted by a donor's explicit stipulation or by a law that extends a donor's restriction to them, gains and losses on investments of a donor-restricted endowment fund are changes in unrestricted net assets.~~

958-205-45-18 Paragraph superseded by Accounting Standards Update No. 2016-14.~~For example, if a donor stipulates that net gains be added to the principal of its gift until that endowed gift plus accumulated gains increases to a specified dollar level, the gains are permanently restricted. Similarly, if a donor states that a specific investment **security** must be held in perpetuity, the gains and losses on that security are subject to that same **permanent restriction** unless the donor specifies otherwise. However, if a donor allows the NFP to choose suitable~~

~~investments, the gains are not permanently restricted unless the donor or the law requires that an amount be retained permanently. Instead, those gains are unrestricted if the investment income is unrestricted or are temporarily restricted if the investment income is temporarily restricted by the donor.~~

958-205-45-19 <u>Paragraph superseded by Accounting Standards Update No. 2016-14.</u>~~If net gains are available for use by the NFP, those gains are not permanently restricted and classifying those gains as permanently restricted would be misleading.~~

958-205-45-20 Paragraph not used.

958-205-45-21 <u>Paragraph superseded by Accounting Standards Update No. 2016-14.</u>~~If the governing board determines that the relevant law requires the NFP to retain permanently some portion of gains on investment assets of endowment funds, that amount shall be reported as an increase in permanently restricted net assets.~~

958-205-45-21A <u>Paragraph superseded by Accounting Standards Update No. 2016-14.</u>~~If an NFP is subject to a law or regulation that its governing board interprets as requiring the maintenance of purchasing power for donor-restricted endowment funds, then the NFP shall periodically adjust the amount in permanently restricted net assets to reflect that interpretation. Under those circumstances, an NFP shall use the inflation (deflation) index (or indexes) that it deems most relevant for adjusting the permanently restricted net assets of the funds (for example, the Consumer Price Index or the Higher Education Price Index).~~ **[Content amended and moved to paragraph 958-205-50-1C]**

~~> > Losses and Other Accounting Disclosures of an Endowment Fund~~

958-205-45-22 <u>Paragraph superseded by Accounting Standards Update No. 2016-14.</u>~~In the absence of donor stipulations or law to the contrary, losses on the investments of a donor-restricted endowment fund shall reduce temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been met before the loss occurs. Any remaining loss shall reduce unrestricted net assets.~~

958-205-45-23 <u>Paragraph superseded by Accounting Standards Update No. 2016-14.</u>~~The classification of losses on investments of an endowment fund created by a board designation of unrestricted funds is straightforward; the losses are classified as reductions in unrestricted net assets because all sources of that endowment fund—original amount, gains and losses, and interest and dividends—are free of donor restrictions.~~

958-205-45-24 <u>Paragraph superseded by Accounting Standards Update No. 2016-14.</u>~~If losses reduce the assets of a donor-restricted endowment fund below the level required by the donor stipulations or law, gains that restore the~~ ~~**fair value**~~

~~of the assets of the endowment fund to the required level shall be classified as increases in unrestricted net assets.~~

958-205-45-25 Paragraph superseded by Accounting Standards Update No. 2016-14.~~See Example 2 (paragraph 958-205-55-22) for a four-year illustration showing the **contributions**, investment income, and investment gains and losses of a donor-restricted endowment fund.~~

958-205-45-26 Paragraph superseded by Accounting Standards Update No. 2016-14.~~See Note E of Example 1 (paragraph 958-205-55-21) for an encouraged disclosure about endowment funds and investment management.~~ **[Content amended and moved to paragraph 958-205-45-13I]**

958-205-45-27 Paragraph superseded by Accounting Standards Update No. 2016-14.~~See Example 1 (paragraph 958-320-55-4) for an illustration of a statement of activities and example notes for an NFP that separates investment return into operating and nonoperating amounts based on a **spending-rate** or **total return** policy for managing its endowment funds.~~

~~> > > Classification of Donor-Restricted Endowment Funds Subject to UPMIFA~~

958-205-45-28 Paragraph superseded by Accounting Standards Update No. 2016-14.~~An NFP that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (**UPMIFA**) shall classify a portion of a donor-restricted endowment fund of perpetual duration as permanently restricted net assets. The amount classified as permanently restricted shall be either:~~

- ~~a. The amount of the fund that must be retained permanently in accordance with explicit donor stipulations (see paragraphs 958-605-45-3 through 45-4)~~
- ~~b. The amount of the fund that, in the absence of explicit donor stipulations, the NFP's governing board determines must be retained (preserved) permanently consistent with the relevant law (see paragraph 958-205-45-21).~~

~~For implementation guidance on understanding legal requirements, see paragraph 958-205-55-1.~~

958-205-45-29 Paragraph superseded by Accounting Standards Update No. 2016-14.~~Consistent with the guidance in paragraphs 958-205-45-17 through 45-18 and paragraph 958-205-45-22, the portion of a donor-restricted endowment fund that is classified as permanently restricted net assets is not reduced by losses on the investments of the fund, except to the extent required by the donor, including losses related to specific investments that the donor requires the NFP to hold in~~

~~perpetuity. Likewise, the amount of permanently restricted net assets is not reduced by an NFP's appropriations from the fund.~~

958-205-45-30 Paragraph superseded by Accounting Standards Update No. 2016-14.~~For each donor-restricted endowment fund for which the restriction described in subsection 4(a) of the Uniform Prudent Management of Institutional Funds Act of 2006 applies (see paragraph 958-205-05-10), an NFP shall classify the portion of the fund that is not classified as permanently restricted net assets as temporarily restricted net assets (time restricted) until appropriated for expenditure by the NFP.~~

958-205-45-31 Paragraph superseded by Accounting Standards Update No. 2016-14.~~In the absence of interpretation of the phrase *appropriated for expenditure* in subsection 4(a) of the Uniform Prudent Management of Institutional Funds Act of 2006 (see paragraph 958-205-05-10) by legal or regulatory authorities (for example, court decisions or interpretations by state attorneys general), for purposes of the guidance in this Subtopic, appropriation for expenditure is deemed to occur upon approval for expenditure, unless approval is for a future period, in which case appropriation is deemed to occur when that period is reached. Approval for expenditure may occur through different means within and across NFPs. For example, expenditures could be approved as part of a formal, annual budget. Expenditures also could be approved during the year as unexpected needs arise (such as for emergency relief efforts). Upon appropriation for expenditure, the time restriction expires to the extent of the amount appropriated and, in the absence of any purpose restrictions, results in a reclassification of that amount to unrestricted net assets. If the fund is also subject to a purpose restriction, the reclassification of the appropriated amount to unrestricted net assets shall not occur until that purpose restriction also has been met, in accordance with the guidance beginning in paragraph 958-205-45-9.~~ **[Content amended and moved to paragraph 958-205-45-13F]**

~~> > > > Initial Application~~

958-205-45-32 Paragraph superseded by Accounting Standards Update No. 2016-14.~~In initially applying the guidance in this Subtopic to a donor-restricted endowment fund in existence when an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 is first effective:~~

- ~~a. The NFP shall report any resulting net asset reclassification in a separate line item within the NFP's statement of activities for that period, outside the performance indicator or other intermediate measure of operations, if one is presented.~~
- ~~b. Any amounts within a donor-restricted endowment fund that were previously considered available to meet a purpose restriction under the guidance in paragraph 958-205-45-11, but that have never been appropriated for expenditure, shall, like other unappropriated amounts in~~

~~that fund, be considered unavailable until appropriated, and, therefore, the purpose restriction previously considered fulfilled shall be considered reinstated.~~

~~> > Classification of Donor-Restricted Endowment Funds Subject to Trust Law or to Uniform Management Institutional Funds Act of 1972~~

958-205-45-33 <u>Paragraph superseded by Accounting Standards Update No. 2016-14.</u>~~In states that have enacted a version of the Uniform Management of Institutional Funds Act of 1972 (**UMIFA**) or states whose relevant law is based on trust law, it is generally understood that at least the amount of the original gift(s) and any required accumulations is not expendable, although the value of the investments purchased may occasionally fall below that amount. Future appreciation of the investments generally restores the value to the required level. In states that have enacted its provisions, the Uniform Management of Institutional Funds Act of 1972 describes "historic dollar value" as the amount that is not expendable.~~

958-205-45-34 <u>Paragraph superseded by Accounting Standards Update No. 2016-14.</u>~~In the absence of a law or a donor's explicit or clear implicit permanent restriction, net appreciation shall be reported as unrestricted if the endowment's income is unrestricted or temporarily restricted if the endowment's income is temporarily restricted by the donor. Decisions about when to spend resources generally do not bear on the issue, which is whether the resources are available for spending. A restriction expires when an expense is incurred for the restricted purpose, regardless of whether an amount is appropriated.~~

958-205-45-35 <u>Paragraph superseded by Accounting Standards Update No. 2016-14.</u>~~Legal limitations may require the governing board to act to appropriate net appreciation for expenditure under a statutorily prescribed standard of ordinary business care and prudence. Reference to a standard of ordinary business care and prudence does not extend a donor-imposed restriction to the net appreciation on investments of a donor restricted endowment fund. A requirement to exercise ordinary business care and prudence is not a limitation that is more specific than the broad limits of the environment in which charitable and other NFPs operate. Thus, a legal limitation that requires that a governing board exercise ordinary business care and prudence when appropriating net appreciation is not the equivalent of a law that extends a donor-imposed restriction and, therefore, by itself, does not result in classification of net appreciation as donor-restricted, either permanently or temporarily.~~

13. Amend paragraphs 958-205-50-1A through 50-2A and 958-205-50-4 and add paragraph 958-205-50-1C, with a link to transition paragraph 958-10-65-1, as follows:

Disclosure

> Nature of the Not-for-Profit Entity's Activities

958-205-50-1 The financial statements shall provide a description of the nature of the **not-for-profit entity's** (NFP's) activities, including a description of each of its major classes of programs. If not provided in the notes to financial statements, the description can be presented on the statement of activities (for example, using column headings).

> Reporting Endowment Funds

958-205-50-1A An NFP shall disclose information to enable users of financial statements to understand all of the following about its **endowment funds** (both donor restricted and board designated):

a. Net asset classification (for example, **net assets with donor restrictions** or **net assets without donor restrictions**)
b. Net asset composition (for example, **board-designated endowment funds** or **donor-restricted endowment funds**)
c. Changes in net asset composition
d. Spending policies
e. Related investment policies.

958-205-50-1B At a minimum, an NFP shall disclose all of the following information for each period for which it presents financial statements:

a. A description of the governing board's interpretation of the law or laws that underlie the NFP's net asset classification of donor-restricted endowment funds, including its interpretation of the ability to spend from **underwater endowment funds**.
b. A description of the NFP's policy or policies for the appropriation of endowment assets for expenditure (its endowment spending policy or policies), including its policy, and any actions taken during the period, concerning appropriation from underwater endowment funds.
c. A description of the NFP's endowment investment policies, including all of the following:
    1. Return objectives and risk parameters
    2. How return objectives relate to the NFP's endowment spending policy or policies
    3. The strategies employed for achieving return objectives.
d. The composition of the NFP's endowment by net asset class at the end of the period, in total and by type of endowment fund, showing donor-restricted endowment funds separately from board-designated endowment funds.
e. A reconciliation of the beginning and ending balance of the NFP's endowment, in total and by net asset class, including, at a minimum, all of the following line items that apply:

1. Investment return, net~~separated into both of the following:~~
   ~~i. Investment income (for example, interest, dividends, rents)~~
   ~~ii. Net appreciation or depreciation of investments.~~
2. **{add glossary link}**Contributions**{add glossary link}**
3. Amounts appropriated for expenditure that contain no purpose restrictions
4. Subparagraph superseded by Accounting Standards Update No. 2016-14.~~Reclassifications~~
5. Other changes.

958-205-50-1C If an NFP is subject to a donor restriction or applicable laws~~law or regulation~~ that its governing board interprets as requiring the maintenance of purchasing power for donor-restricted endowment funds,~~ then~~ the NFP shall periodically adjust the disclosed amount that is required to be maintained either by the donor or by law~~in permanently restricted net assets~~ to reflect that interpretation to maintain the purchasing power of the endowment fund in perpetuity. Under those circumstances, unless a donor provides an amount or an index, an NFP shall use the inflation (deflation) index (or indexes) that it deems most relevant for adjusting that amount~~the permanently restricted net assets of the funds~~ (for example, the Consumer Price Index or the Higher Education Price Index). **[Content amended as shown and moved from paragraph 958-205-45-21A]**

958-205-50-2 For each period for which a statement of financial position is presented, an NFP shall disclose each of the following, in the aggregate, for all underwater endowment funds:~~the aggregate amount of the deficiencies for all donor-restricted endowment funds for which the **fair value** of the assets at the reporting date is less than the level required by donor stipulations or law.~~

a. The fair value of the underwater endowment funds
b. The original endowment gift amount or level required to be maintained by donor stipulations or by law that extends donor restrictions
c. The amount of the deficiencies of the underwater endowment funds ((a) less (b)).

958-205-50-2A Example 3 (see paragraphs~~paragraph~~ 958-205-55-31 through 55-52) ~~and Example 4 (see paragraph 958-205-55-52) illustrate~~illustrates the application of the disclosure requirements in paragraphs 958-205-50-1A through 50-2.

> Ratio of Fundraising Expenses to Amounts Raised

958-205-50-3 If an NFP discloses in its financial statements a ratio of fundraising expenses to amounts raised, it also shall disclose how it computes that ratio.

> Comparative Financial Statements

958-205-50-4 If the prior year's financial information is summarized and does not include the minimum information required by the Not-for-Profit Entities Topic (for example, if the statement of activities does not present revenues, expenses, gains, and losses by **net asset** class), the nature of the prior-year information shall be described by the use of appropriate titles on the face of the financial statements and in a note to financial statements (see paragraph 958-205-45-8). ~~See Example 3 (paragraph 958-205-55-31) for an illustration of this disclosure requirement.~~

14. Amend paragraphs 958-205-55-1 through 55-2, 958-205-55-5 through 55-7, 958-205-55-9 through 55-21, 958-205-55-31 through 55-32, 958-205-55-36 through 55-39, 958-205-55-41, and 958-205-55-47 through 55-52 and supersede paragraphs 958-205-55-22 through 55-30 and the related heading, 958-205-55-33 through 55-35, 958-205-55-40, 958-205-55-42 through 55-46, and 958-205-55-53 and its related heading, with a link to transition paragraph 958-10-65-1, as follows:

Implementation Guidance and Illustrations

> Implementation Guidance

> > Understanding Legal Requirements

958-205-55-1 This paragraph provides implementation guidance on the application of ~~paragraph 958-205-45-28. How an enacted version of the~~paragraphs 958-205-45-13C through 45-13F. Enacted versions of the Uniform Prudent Management of Institutional Funds Act of 2006 ~~will be interpreted and enforced in a particular state will become clearer with the passage of time. Because the legislation is newly enacted, no case law currently exists for its interpretation. In the meantime, an NFP could look to other sources, such as the~~vary across jurisdictions, so a **not-for-profit entity** (NFP) would have to assess the specific law applicable to its operations for guidance. Other sources that may be helpful in that assessment could include discussion that occurred in the legislative committees leading to the law adopted in a particular state, announcements from the state attorney general, a consensus of learned lawyers in the state, or similar information~~, to help the NFP understand what the law requires~~. In the absence of new legislation, clarifying court decisions, additional guidance issued by the state attorney general, or similar developments, the governing board's interpretation of the relevant law shall be consistent from year to year.

> Illustrations

958-205-55-1A This Section, which is an integral part of the requirements of this Subtopic, provides general guidance to be used in the presentation of a full set of financial statements, including certain notes to the financial statements, by an NFP~~statement of financial position by a **not-for-profit entity** (NFP)~~.

> > Example 1: Illustrative Financial Statements

958-205-55-2 This Example provides illustrations of statements of financial position, statements of activities, ~~and~~ statements of cash flows, and selected notes to the financial statements for Not-for-Profit Entity A. The terms *statement of financial position* and *statement of activities* indicate the content and purpose of the respective statements and serve as possible titles for those statements. Other appropriately descriptive titles may also be used. ~~Similarly, a statement of functional expenses, which is not illustrated in this Example, might have another appropriately descriptive title.~~ For example, a statement reporting financial position could be called a balance sheet. Current practice and the statement's purpose suggest, however, that a statement of cash flows only be titled statement of cash flows. These illustrations are intended as examples only; they present only a few of the permissible formats. Other formats or levels of detail may be appropriate for certain circumstances. For example, a schedule of expenses by nature and function is illustrated in the notes to the financial statements but also may be presented on the face of the statement of activities or as a separate statement. Not-for-profit entities (NFPs) are encouraged to provide information in ways that are most relevant and understandable to donors, creditors, and other external users of financial statements. NFPs typically~~This Subtopic encourages an NFP to~~ provide comparative financial statements; however, for simplicity, the illustrative statements of activities and statements of cash flows provide information for a single period.

958-205-55-3 The illustrations also include certain notes to financial statements for matters discussed in Subtopics 958-210, 958-225, and 958-230. The illustrative notes are not intended to illustrate compliance with all generally accepted accounting principles (GAAP) and specialized accounting and reporting principles and practices.

958-205-55-4 Shading is used to highlight certain basic totals that must be reported in financial statements to comply with the provisions of Subtopics 958-210, 958-225, and 958-230. Together they require not only reporting those certain basic totals but also reporting components of those aggregates; for example, they require reporting information about the gross amounts of items of revenues and expenses and cash receipts and payments.

958-205-55-5 The following facts and transactions are reflected in the illustrative financial statements in Example 1. The transactions are presented by class of net assets to facilitate locating their effects in the statements and notes. The transactions in (a) through (hh)~~(h)~~ affect **net assets without donor restrictions**~~**unrestricted net assets**~~. The transactions in (i) through ~~(l)~~(n), (s), (t), and (w) affect **net assets with donor restrictions**~~**temporarily restricted net assets**. The transactions in (m) through (n) affect **permanently restricted net assets**~~. The transactions in (hhh), (o) through ~~(t)~~(r), and (u) affect both classes~~more than one class~~ of net assets.

a. Not-for-Profit Entity A invested cash in excess of daily requirements in short-term investment instruments. Interest earned on these investments totaled $850, which is included in the net investment return on the statement of activities. The governing board ~~has~~previously designated a portion of net assets without donor restrictions ~~unrestricted net assets~~ for long-term investment (quasi-endowment). Those assets earned ~~$2,000~~$5,800, comprising $2,000 of dividends, interest, and rents and $3,800 of realized and unrealized net gains.

b. Not-for-Profit Entity A received ~~unrestricted~~ **contributions** without donor restrictions of the following: cash, $5,120; recognizable contributed services, $300; other consumable assets, $1,410; equipment, $140; and **unconditional promises to give** to support activities of ~~19X1~~20X1, $1,020.

c. Equipment with an original cost of $660 and accumulated depreciation of $330 was destroyed in a fire. Insurance proceeds of $250 were received. The equipment was originally purchased with ~~unrestricted~~ assets without associated donor restrictions.

d. All conditions of a prior year's grant of $650 were substantially met. The grant proceeds were originally recorded as a refundable advance.

e. Not-for-Profit Entity A made a payment of $425 on its prior year unconditional grant to an unrelated agency.

f. Not-for-Profit Entity A repaid $1,140 of its notes payable. Interest of $32 was incurred and paid on these notes.

g. Not-for-Profit Entity A repaid $1,000 of its long-term debt. Interest of $350 was incurred and paid on the debt.

h. Depreciation amounted to $3,200.

hh. Not-for-Profit Entity A sold equipment that was fully depreciated for $200.

hhh. Not-for-Profit Entity A's financial assets consisted of cash and cash equivalents, short-term investments, accounts and interest receivable, contributions receivable, assets restricted to investment in land, buildings, and equipment, and long-term investments. The $193,490 of donor-restricted net assets included the net assets resulting from contributions receivable of $1,000, which were without purpose restrictions and were due within one year. The remaining amounts of contributions receivable were either purpose-restricted or due in greater than one year. In addition, amounts made unavailable by the governing board included $36,600 of board-designated long-term investments. The $1,300 liquidity reserve, created in a prior year when the governing board designated net assets without donor restrictions, was included as a reconciling item in Not-for-Profit Entity A's note on liquidity risk and the availability of resources because the intention of the designation was to support unanticipated liquidity needs and not general expenditures.

i. Not-for-Profit Entity A received ~~temporarily restricted~~ contributions with donor restrictions as follows.

Restricted to:	Cash	Consumable Assets	Promises to Give
Program purposes	$ 2,170	$ 960	$920 ~~990~~
Use in future periods	740		1,000 ~~930~~
Acquisition of land, buildings, and equipment	770		1,380

j. In addition, a donor transferred cash of $200 to set up an **annuity trust** having a related annuity obligation with a present value of $100. Upon the death of the beneficiary, the remaining interest will be used for a donor-~~stipulated~~restricted purpose.

k. In addition, a donor contributed cash of $70 to create a **term endowment**. At the end of 15 years the endowment assets can be used to support Not-for-Profit Entity A's operations.

l. Not-for-Profit Entity A made payments of $145 to beneficiaries of annuity trust agreements.

m. A donor contributed a paid-up life insurance policy with a cash surrender value of $80. Upon the death of the insured, the death benefit must be used to create a **donor-restricted endowment fund~~permanent endowment~~**. There was no change in the cash surrender value between the date of the gift and the end of the fiscal year.

n. A donor contributed cash of $200 to create a donor-restricted endowment fund~~permanent endowment fund~~. The income is restricted to use for Program A activities.

o. Not-for-Profit Entity A collected **promises to give** of $3,055: $980 of amounts for ~~unrestricted~~general purposes, $610 of amounts restricted to future periods, $1,025 of amounts restricted to program purposes, and $440 of amounts for acquisition of land, buildings, and equipment.

p. Not-for-Profit Entity A utilized all of the $1,410 consumable assets contributed for ~~unrestricted~~general purposes, and $350 of the $960 consumable assets contributed for program purposes.

q. A trust annuitant died and the $400 **remainder interest** became available for the ~~unrestricted~~general use of Not-for-Profit Entity A. Management decided to invest the remainder interest in short-term investments. The actuarial gain on death of the annuitant is included in the actuarial loss on annuity obligations.

r. Not-for-Profit Entity A acquired and placed in service $1,500 of equipment for Program A; net assets with donor restrictions~~temporarily restricted net assets~~ were available at the time the equipment was purchased.

s. Net investment return of $18,000 was earned from the pooled donor-restricted endowment. This comprised $12,000 of realized and unrealized net gains and $6,000 of interest and dividends. Additionally, $300 of interest and dividends was earned from separately invested donor-restricted endowment funds and annuity trust assets, which are required to be reinvested. The original endowment gift amount as adjusted to the level required by donor stipulations or by law that extends donor restrictions was $122,337.~~The net gain, unrealized and realized, on unrestricted net assets designated by the governing board for long-term investment of $3,800 was recognized. The net gain, unrealized and realized, on permanent endowments and the unappropriated net appreciation of those endowments of $12,000 was recognized. The governing board has interpreted the law in its jurisdiction as requiring preservation of purchasing power. The governing board has selected the Consumer Price Index as the measure of changes in purchasing power. The Consumer Price Index has changed by 3.5 percent over the year. The index-adjusted original gift amount of the endowment at the end of the previous year was $132,000.~~

t. Not-for-Profit Entity A reinvested the yield of $120 on a donor-restricted endowment fund~~permanent endowment~~ that requires income to be added to the original gift until the fund's value is $2,500.

u. Not-for-Profit Entity A's governing board appropriated for current operations $7,500 of net assets with donor restrictions from the donor-restricted endowment fund. The full amount appropriated was reclassified to net assets without donor restrictions in the current year because the purpose restrictions on $3,000 of the appropriated amount were met in the current year and there were no purpose restrictions on the remaining $4,500.

v. Not-for-Profit Entity A follows an enacted version of **UPMIFA**.

w. None of Not-for-Profit Entity A's endowment funds were underwater as of the date of the financial statements.

> > > Statement of Financial Position

958-205-55-6 The following illustrates the requirements of Subtopic 958-210. Comparative statements of financial position are provided to facilitate understanding of the statement of activities and the statement of cash flows.

958-205-55-7 A statement of financial position that sequences assets and liabilities based on their relative **liquidity** is presented. For instance, cash and cash equivalents of ~~permanent~~donor-restricted endowment funds held temporarily until suitable long-term investment opportunities are identified are included in the classification long-term investments. Similarly, cash and **{add glossary link}**contributions receivable**{add glossary link}** restricted by donors to investment in land, buildings, and equipment are not included with the line items cash and cash equivalents or contributions receivable. Rather, those items are reported as assets restricted to investment in land, buildings, and equipment and are sequenced closer to land, buildings, and equipment. (Pursuant to paragraph 958-210-50-3, the kind of asset is required to be described in the notes to financial statements because its nature is not clear from the description on the face of the statement of financial position. That note is not illustrated in this Example.) Assets and liabilities also may be arrayed by their relationship to net asset classes, classified as current and noncurrent, or arranged in other ways.

958-205-55-8 For an alternative presentation of the net asset section of a statement of financial position, see Example 1 (paragraph 958-210-55-3).

958-205-55-9 The following illustrates a statement of financial position for Not-for-Profit Entity A.

Not-for-Profit Entity A
Statements of Financial Position
June 30, 20X1~~19X1~~ and 20X0~~19X0~~
(in thousands)

	20X1~~19X1~~	20X0~~19X0~~
Assets:		
Cash and cash equivalents	$ 4,575 ~~75~~	$ 4,960 ~~460~~
Accounts and interest receivable	2,130	1,670
Inventories and prepaid expenses	610	1,000
Contributions receivable	3,025	2,700
Short-term investments	1,400	1,000
Assets restricted to investment in land, buildings, and equipment	5,210	4,560
Land, buildings, and equipment	61,700	63,590
Long-term investments	218,070	203,500
Total assets	$ 296,720 ~~292,220~~	$ 282,980 ~~278,480~~
Liabilities and net assets:		
Accounts payable	$ 2,570	$ 1,050
Refundable advance		650
Grants payable	875	1,300
Notes payable		1,140
Annuity trust obligations	1,685	1,700
Long-term debt	5,500	6,500
Total liabilities	10,630	12,340
Net assets:		
Without donor restrictions (Note DD)~~Unrestricted~~	92,600 ~~115,228~~	84,570 ~~103,670~~
With donor restrictions~~Temporarily restricted~~ (Note B)	193,490 ~~24,342~~	186,070 ~~25,470~~
~~Permanently restricted (Note C)~~	~~142,020~~	~~137,000~~
Total net assets	286,090 ~~281,590~~	270,640 ~~266,140~~
Total liabilities and net assets	$ 296,720 ~~292,220~~	$ 282,980 ~~278,480~~

Note: See paragraph 958-205-55-21 for the notes to financial statements.

> > > Statement of Activities

958-205-55-10 The following illustrates the requirements of Subtopic 958-225. Three formats of statements of activities are presented. To facilitate comparison of the formats, the same level of aggregation is used in each of the statements of activities. The guidance in Subtopic 958-225 permits flexibility to present information in a number of ways as long as the requirements are met. Each format has certain advantages, as follows:

a. Format A reports information in a single column. That format most easily accommodates presentation of multiyear comparative information.
b. Format B reports the same information in columnar (or multicolumn) format with a column for each class of net assets~~ and adds an optional total column~~. Use of a total column is optional as long as the change in total net assets is presented in accordance with paragraph 958-210-45-1. That format makes evident that the effects of expirations on donor restrictions result in **reclassification of net assets**~~**reclassifications** between classes of net assets~~. It also accommodates presentation of aggregated information about contributions and investment ~~income~~ return for the entity as a whole. However, care is needed for labels and headings to ensure that they clearly communicate all columns and subtotals.
c. Format C reports information in two statements with summary amounts from a statement of revenues, expenses, and other changes in net assets without donor restrictions~~unrestricted net assets~~ (Part 1 of 2) ~~articulating with~~and a statement of changes in net assets (Part 2 of 2). Alternative formats for the statement of changes in net assets—a single-column~~single column~~ and a multicolumn or columnar—are illustrated. The two-statement ~~approach of Format C~~ format focuses attention first on changes in net assets without donor restrictions~~unrestricted net assets~~. That format may be preferred by membership organizations and other NFPs that view certain transactions and events, including the~~their operating activities as excluding~~ receipts of donor-restricted revenues and gains from contributions and investment ~~income~~return, as incidental or insignificant to their daily operations.

958-205-55-11 The three illustrative statements of activities show items of revenues and gains first, then expenses, then losses; reclassification of net assets~~reclassifications~~, which must be shown separately, is~~are~~ reported with revenues and gains. Those items could be arranged in other ways and other subtotals may be included. For example, the items may be sequenced using either of the following sequences:

a. Revenues, expenses, gains and losses, and reclassification of net assets~~reclassifications~~ shown last
b. Certain revenues, less directly related expenses, followed by a subtotal, then other revenues, other expenses, gains and losses, and reclassification of net assets~~reclassifications.~~
c. Expenses followed by revenues, gains and losses, and the reclassification of net assets.

Although in the illustrative statements of activities, expenses are reported by nature in the single-column format example and by function in the multicolumn format example, ~~report expenses by function,~~ expenses may be reported in the statement of activities by either natural classification or~~classification in the statements with~~ **functional classification** or by both~~disclosed in the notes~~.

958-205-55-12 The following provide additional illustrations of statements of activities:

a. Example 1 in Subtopic 958-225 (see paragraph 958-225-55-5) provides an illustration that shows how items may be sequenced to distinguish between operating and nonoperating activities or to make other distinctions, if desired.
b. Example 2 in Subtopic 958-225 (see paragraph 958-225-55-7) illustrates the display of an appropriately labeled subtotal for change in a class of net assets before the effects of a discontinued operation.
c. Example 3 in Subtopic 958-225 (see paragraph 958-225-55-8) provides three possible methods of displaying fundraising efforts in the revenue section of the statement of activities if an NFP acts as an **agent**, **trustee**, or **intermediary** in raising resources for another.
d. Example 1 in Subtopic 958-320 (see paragraph 958-320-55-4) provides an illustration of an NFP that ~~separates investment return into operating and nonoperating amounts based on a **spending-rate** or **total return** policy for managing its endowment funds~~presents:
   1. Net investment return
   2. Appropriation of funds from the quasi-endowment
   3. Appropriation of funds from a donor-restricted endowment fund in which the purpose restrictions on the appropriated amount have been met during the period.

958-205-55-13 Format A (a single-column format) is as follows.

~~Not-for-Profit Entity A~~
~~Statement of Activities~~
~~Year Ended June 30, 19X1~~
~~(in thousands)~~

~~Changes in unrestricted net assets:~~	
~~Revenues and gains:~~	
~~Contributions~~	~~$ 8,640~~
~~Fees~~	~~5,400~~
~~Income on long-term investments (Note E)~~	~~5,600~~
~~Other investment income (Note E)~~	~~850~~
~~Net unrealized and realized gains on long-term investments (Note E)~~	~~8,228~~
~~Other~~	~~150~~
~~Total unrestricted revenues and gains~~	~~$ 28,868~~
~~Net assets released from restrictions (Note D):~~	
~~Satisfaction of program restrictions~~	~~11,990~~
~~Satisfaction of equipment acquisition restrictions~~	~~1,500~~
~~Expiration of time restrictions~~	~~1,250~~
~~Total net assets released from restrictions~~	~~14,740~~
~~Total unrestricted revenues, gains, and other support~~	~~43,608~~
~~Expenses and losses:~~	
~~Program A~~	~~13,100~~
~~Program B~~	~~8,540~~
~~Program C~~	~~5,760~~
~~Management and general~~	~~2,420~~
~~Fund raising~~	~~2,150~~
~~Total expenses (Note F)~~	~~31,970~~
~~Fire loss~~	~~80~~
~~Total expenses and losses~~	~~32,050~~
~~Increase in unrestricted net assets~~	~~11,558~~
~~Changes in temporarily restricted net assets:~~	
~~Contributions~~	~~8,110~~
~~Income on long-term investments (Note E)~~	~~2,580~~
~~Net unrealized and realized gains on long-term investments (Note E)~~	~~2,952~~
~~Actuarial loss on annuity obligations~~	~~(30)~~
~~Net assets released from restrictions (Note D)~~	~~(14,740)~~
~~Decrease in temporarily restricted net assets~~	~~(1,128)~~
~~Changes in permanently restricted net assets:~~	
~~Contributions~~	~~280~~
~~Income on long-term investments (Note E)~~	~~120~~
~~Net unrealized and realized gains on long-term investments (Note E)~~	~~4,620~~
~~Increase in permanently restricted net assets~~	~~5,020~~
~~Increase in net assets~~	~~15,450~~
~~Net assets at beginning of year~~	~~266,140~~
~~Net assets at end of year~~	~~$ 281,590~~

~~Note:~~ ~~See paragraph 958-205-55-21 for the notes to financial statements.~~

[For ease of readability, the new illustration is not underlined.]

Not-for-Profit Entity A
Statement of Activities
Year Ended June 30, 20X1
(in thousands)

Changes in net assets without donor restrictions:	
Revenues and gains:	
Contributions	$ 8,640
Fees	5,200
Investment return, net	6,650
Gain on sale of equipment	200
Other	150
Total revenues and gains without donor restrictions	20,840
Net assets released from restrictions (Note D):	
Satisfaction of program restrictions	8,990
Satisfaction of equipment acquisition restrictions	1,500
Expiration of time restrictions	1,250
Appropriation from donor endowment and subsequent satisfaction of any related donor restrictions	7,500
Total net assets released from restrictions	19,240
Total revenues, gains, and other support without donor restrictions	40,080
Expenses and losses:	
Salaries and benefits	15,115
Grants to other organizations	4,750
Supplies and travel	3,155
Services and professional fees	2,840
Office and occupancy	2,528
Depreciation	3,200
Interest	382
Total expenses (Note F)	31,970
Fire loss on building	80
Total expenses and losses	32,050
Increase in net assets without donor restrictions	8,030
Changes in net assets with donor restrictions:	
Contributions	8,390
Investment return, net	18,300
Actuarial loss on annuity trust obligations	(30)
Net assets released from restrictions (Note D)	(19,240)
Increase in net assets with donor restrictions	7,420
Increase in total net assets	15,450
Net assets at beginning of year	270,640
Net assets at end of year	$ 286,090

Note: See paragraph 958-205-55-21 for the notes to financial statements.

958-205-55-14 Format B (a multicolumn format) is as follows.

~~**Not-for-Profit Entity A**~~
~~**Statement of Activities**~~
~~**Year Ended June 30, 19X1**~~
~~(in thousands)~~

	~~**Unrestricted**~~	~~**Temporarily Restricted**~~	~~**Permanently Restricted**~~	~~**Total**~~
~~Revenues, gains, and other support:~~				
~~Contributions~~	~~$ 8,640~~	~~$ 8,110~~	~~$ 280~~	~~$ 17,030~~
~~Fees~~	~~5,400~~			~~5,400~~
~~Income on long-term investments (Note E)~~	~~5,600~~	~~2,580~~	~~120~~	~~8,300~~
~~Other investment income (Note E)~~	~~850~~			~~850~~
~~Net unrealized and realized gains on long-term investments (Note E)~~	~~8,228~~	~~2,952~~	~~4,620~~	~~15,800~~
~~Other~~	~~150~~			~~150~~
~~Net assets released from restrictions (Note D):~~				
~~Satisfaction of program restrictions~~	~~11,990~~	~~(11,990)~~		
~~Satisfaction of equipment acquisition restrictions~~	~~1,500~~	~~(1,500)~~		
~~Expiration of time restrictions~~	~~1,250~~	~~(1,250)~~		
~~Total revenues, gains, and other support~~	~~43,608~~	~~(1,098)~~	~~5,020~~	~~47,530~~
~~Expenses and losses:~~				
~~Program A~~	~~13,100~~			~~13,100~~
~~Program B~~	~~8,540~~			~~8,540~~
~~Program C~~	~~5,760~~			~~5,760~~
~~Management and general~~	~~2,420~~			~~2,420~~
~~Fund raising~~	~~2,150~~			~~2,150~~
~~Total expenses (Note F)~~	~~31,970~~			~~31,970~~
~~Fire loss~~	~~80~~			~~80~~
~~Actuarial loss on annuity obligations~~		~~30~~		~~30~~
~~Total expenses and losses~~	~~32,050~~	~~30~~		~~32,080~~
~~Change in net assets~~	~~11,558~~	~~(1,128)~~	~~5,020~~	~~15,450~~
~~Net assets at beginning of year~~	~~103,670~~	~~25,470~~	~~137,000~~	~~266,140~~
~~Net assets at end of year~~	~~$ 115,228~~	~~$ 24,342~~	~~$ 142,020~~	~~$ 281,590~~

~~**Note:** See paragraph 958-205-55-21 for the notes to financial statements.~~

[For ease of readability, the new illustration is not underlined.]

Not-for-Profit Entity A
Statement of Activities
Year Ended June 30, 20X1
(in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support:			
Contributions	$ 8,640	$ 8,390	$ 17,030
Fees	5,200		5,200
Investment return, net	6,650	18,300	24,950
Gain on sale of equipment	200		200
Other	150		150
Net assets released from restrictions (Note D):			
Satisfaction of program restrictions	8,990	(8,990)	
Satisfaction of equipment acquisition restrictions	1,500	(1,500)	
Expiration of time restrictions	1,250	(1,250)	
Appropriation from donor endowment and subsequent satisfaction of any related donor restrictions	7,500	(7,500)	
Total net assets released from restrictions	19,240	(19,240)	-
Total revenues, gains, and other support	40,080	7,450	47,530
Expenses and losses:			
Program A	13,296		13,296
Program B	8,649		8,649
Program C	5,837		5,837
Management and general	2,038		2,038
Fundraising	2,150		2,150
Total expenses (Note F)	31,970		31,970
Fire loss on building	80		80
Actuarial loss on annuity trust obligations		30	30
Total expenses and losses	32,050	30	32,080
Change in net assets	8,030	7,420	15,450
Net assets at beginning of year	84,570	186,070	270,640
Net assets at end of year	$ 92,600	$ 193,490	$ 286,090

Note: See paragraph 958-205-55-21 for the notes to financial statements.

958-205-55-15 Format C, Part 1 of 2 is as follows.

~~Not-for-Profit Entity A~~

~~Statement of Unrestricted Revenues, Expenses, and~~

~~Other Changes in Unrestricted Net Assets~~

~~Year Ended June 30, 19X1~~

~~(in thousands)~~

~~Unrestricted revenues and gains:~~	
~~Contributions~~	~~$ 8,640~~
~~Fees~~	~~5,400~~
~~Income on long-term investments (Note E)~~	~~5,600~~
~~Other investment income (Note E)~~	~~850~~
~~Net unrealized and realized gains on long-term investments (Note E)~~	~~8,228~~
~~Other~~	~~150~~
~~Total unrestricted revenues and gains~~	~~28,868~~
~~Net assets released from restrictions (Note D):~~	
~~Satisfaction of program restrictions~~	~~11,990~~
~~Satisfaction of equipment acquisition restrictions~~	~~1,500~~
~~Expiration of time restrictions~~	~~1,250~~
~~Total net assets released from restrictions~~	~~14,740~~
~~Total unrestricted revenues, gains, and other support~~	~~43,608~~
~~Expenses and losses:~~	
~~Program A~~	~~13,100~~
~~Program B~~	~~8,540~~
~~Program C~~	~~5,760~~
~~Management and general~~	~~2,420~~
~~Fund raising~~	~~2,150~~
~~Total expenses (Note F)~~	~~31,970~~
~~Fire loss~~	~~80~~
~~Total unrestricted expenses and losses~~	~~32,050~~
~~Increase in unrestricted net assets~~	~~$ 11,558~~

~~**Note:** See paragraph 958-205-55-21 for the notes to financial statements.~~

[For ease of readability, the new illustration is not underlined.]

Not-for-Profit Entity A
Statement of Revenues, Expenses, and
Other Changes in Net Assets without Donor Restrictions
Year Ended June 30, 20X1
(in thousands)

Revenues and gains without donor restrictions:	
Contributions	$ 8,640
Fees	5,200
Investment return, net	6,650
Gain on sale of equipment	200
Other	150
Total revenues and gains without donor restrictions	20,840
Net assets released from restrictions (Note D):	
Satisfaction of program restrictions	8,990
Satisfaction of equipment acquisition restrictions	1,500
Expiration of time restrictions	1,250
Appropriation from donor endowment and subsequent satisfaction of any related donor restrictions	7,500
Total net assets released from restrictions	19,240
Total revenues, gains, and other support without donor restrictions	40,080
Expenses and losses:	
Program A	13,296
Program B	8,649
Program C	5,837
Management and general	2,038
Fundraising	2,150
Total expenses (Note F)	31,970
Fire loss on building	80
Total expenses and losses without donor restrictions	32,050
Increase in net assets without donor restrictions	$ 8,030

Note: See paragraph 958-205-55-21 for the notes to financial statements.

958-205-55-16 Format C, Part 2 of 2 is as follows.

~~**Not-for-Profit Entity A**~~

~~**Statement of Changes in Net Assets**~~

~~**Year Ended June 30, 19X1**~~

~~(in thousands)~~

~~Unrestricted net assets:~~	
~~Total unrestricted revenues and gains~~	~~$ 28,868~~
~~Net assets released from restrictions (Note D)~~	~~14,740~~
~~Total unrestricted expenses and losses~~	~~(32,050)~~
~~Increase in unrestricted net assets~~	~~11,558~~
~~Temporarily restricted net assets:~~	
~~Contributions~~	~~8,110~~
~~Income on long-term investments (Note E)~~	~~2,580~~
~~Net unrealized and realized gains on long-term investments (Note E)~~	~~2,952~~
~~Actuarial loss on annuity obligations~~	~~(30)~~
~~Net assets released from restrictions (Note D)~~	~~(14,740)~~
~~Decrease in temporarily restricted net assets~~	~~(1,128)~~
~~Permanently restricted net assets:~~	
~~Contributions~~	~~280~~
~~Income on long-term investments (Note E)~~	~~120~~
~~Net unrealized and realized gains on long-term investments (Note E)~~	~~4,620~~
~~Increase in permanently restricted net assets~~	~~5,020~~
~~Increase in net assets~~	~~15,450~~
~~Net assets at beginning of year~~	~~266,140~~
~~Net assets at end of year~~	~~$ 281,590~~

~~**Note:** See paragraph 958-205-55-21 for the notes to financial statements.~~

[For ease of readability, the new illustration is not underlined.]

Not-for-Profit Entity A
Statement of Changes in Net Assets
Year Ended June 30, 20X1
(in thousands)

Net assets without donor restrictions:	
Total revenues and gains	$ 20,840
Net assets released from restrictions (Note D)	19,240
Total expenses and losses	(32,050)
Increase in net assets without donor restrictions	8,030
Net assets with donor restrictions:	
Contributions	8,390
Investment return, net	18,300
Actuarial loss on annuity trust obligations	(30)
Net assets released from restrictions (Note D)	(19,240)
Increase in net assets with donor restrictions	7,420
Increase in net assets	15,450
Net assets at beginning of year	270,640
Net assets at end of year	$ 286,090

Note: See paragraph 958-205-55-21 for the notes to financial statements.

958-205-55-17 Format C, Part 2 of 2 (Alternate) is as follows.

~~**Not-for-Profit Entity A**~~

~~**Statement of Changes in Net Assets**~~

~~**Year Ended June 30, 19X1**~~

~~(in thousands)~~

	~~Unrestricted~~	~~Temporarily Restricted~~	~~Permanently Restricted~~	~~Total~~
~~Revenues, gains, and other support:~~				
~~Unrestricted revenues, gains, and other support~~	~~$ 28,868~~			~~$ 28,868~~
~~Restricted revenues, gains, and other support:~~				
~~Contributions~~		~~$ 8,110~~	~~$ 280~~	~~8,390~~
~~Income on long-term investments (Note E)~~		~~2,580~~	~~120~~	~~2,700~~
~~Net unrealized and realized gains on long-term investments (Note E)~~		~~2,952~~	~~4,620~~	~~7,572~~
~~Net assets released from restrictions (Note D)~~	~~14,740~~	~~(14,740)~~		
~~Total revenues, gains and other support~~	~~43,608~~	~~(1,098)~~	~~5,020~~	~~47,530~~
~~Expenses and losses:~~				
~~Unrestricted expenses and losses~~	~~32,050~~			~~32,050~~
~~Actuarial loss on annuity obligations~~		~~30~~		~~30~~
~~Total expenses and losses~~	~~32,050~~	~~30~~		~~32,080~~
~~Change in net assets~~	~~11,558~~	~~(1,128)~~	~~5,020~~	~~15,450~~
~~Net assets at beginning of year~~	~~103,670~~	~~25,470~~	~~137,000~~	~~266,140~~
~~Net assets at end of year~~	~~$ 115,228~~	~~$ 24,342~~	~~$ 142,020~~	~~$281,590~~

~~**Note:** See paragraph 958-205-55-21 for the notes to financial statements.~~

[For ease of readability, the new illustration is not underlined.]

Not-for-Profit Entity A
Statement of Changes in Net Assets
Year Ended June 30, 20X1
(in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support:			
Revenues and gains without donor restrictions	$ 20,840		$ 20,840
Revenues and gains with donor restrictions:			
Contributions		$ 8,390	8,390
Investment return, net		18,300	18,300
Net assets released from restrictions (Note D)	19,240	(19,240)	-
Total revenues, gains, and other support	40,080	7,450	47,530
Expenses and losses:			
Expenses and losses	32,050		32,050
Actuarial loss on annuity trust obligations		30	30
Total expenses and losses	32,050	30	32,080
Change in net assets	8,030	7,420	15,450
Net assets at beginning of year	84,570	186,070	270,640
Net assets at end of year	$ 92,600	$ 193,490	$286,090

Note: See paragraph 958-205-55-21 for the notes to financial statements.

> > > Statement of Cash Flows

958-205-55-18 The following illustrates the requirements of Subtopic 958-230. Statements of cash flows are illustrated using both the direct and indirect methods of reporting cash flow from operating activities. An NFP may choose either method of reporting cash flows from operating activities. If the direct method is used, a reconciliation to the indirect method (as illustrated in paragraph 230-10-55-10) may be reported but is not required.

958-205-55-19 The direct method is as follows.

~~Not-for-Profit Entity A~~
~~Statement of Cash Flows~~
~~Year Ended June 30, 19X1~~
~~(in thousands)~~

~~Cash flows from operating activities:~~		
~~Cash received from service recipients~~		~~$ 5,220~~
~~Cash received from contributors~~		~~8,030~~
~~Cash collected on contributions receivable~~		~~2,615~~
~~Interest and dividends received~~		~~8,570~~
~~Miscellaneous receipts~~		~~150~~
~~Interest paid~~		~~(382)~~
~~Cash paid to employees and suppliers~~		~~(23,808)~~
~~Grants paid~~		~~(425)~~
~~Net cash used by operating activities~~		~~(30)~~
~~Cash flows from investing activities:~~		
~~Insurance proceeds from fire loss on building~~		~~250~~
~~Purchase of equipment~~		~~(1,500)~~
~~Proceeds from sale of investments~~		~~76,100~~
~~Purchase of investments~~		~~(74,900)~~
~~Net cash used by investing activities~~		~~(50)~~
~~Cash flows from financing activities:~~		
~~Proceeds from contributions restricted for:~~		
~~Investment in endowment~~		~~200~~
~~Investment in term endowment~~		~~70~~
~~Investment in plant~~		~~1,210~~
~~Investment subject to annuity agreements~~		~~200~~
		~~1,680~~
~~Other financing activities:~~		
~~Interest and dividends restricted for reinvestment~~		~~300~~
~~Payments of annuity obligations~~		~~(145)~~
~~Payments on notes payable~~		~~(1,140)~~
~~Payments on long-term debt~~		~~(1,000)~~
		~~(1,985)~~
~~Net cash used by financing activities~~		~~(305)~~
~~Net decrease in cash and cash equivalents~~		~~(385)~~
~~Cash and cash equivalents at beginning of year~~		~~460~~
~~Cash and cash equivalents at end of year~~		~~$ 75~~
~~Reconciliation of change in net assets to net cash used by operating activities:~~		
~~Change in net assets~~		~~$ 15,450~~
~~Adjustments to reconcile change in net assets to net cash used by operating~~		
~~Depreciation~~		~~3,200~~
~~Fire loss~~		~~80~~
~~Actuarial loss on annuity obligations~~		~~30~~
~~Increase in accounts and interest receivable~~		~~(460)~~
~~Decrease in inventories and prepaid expenses~~		~~390~~
~~Increase in contributions receivable~~		~~(325)~~
~~Increase in accounts payable~~		~~1,520~~
~~Decrease in refundable advance~~		~~(650)~~
~~Decrease in grants payable~~		~~(425)~~
~~Contributions restricted for long-term investment~~		~~(2,740)~~
~~Interest and dividends restricted for long-term investment~~		~~(300)~~
~~Net unrealized and realized gains on long-term investments~~		~~(15,800)~~
~~Net cash used by operating activities~~		~~$ (30)~~
~~Supplemental data for noncash investing and financing activities:~~		
~~Gifts of equipment~~	~~$ 140~~	
~~Gift of paid-up life insurance, cash surrender value~~	~~80~~	

[For ease of readability, the new illustration is not underlined.]

Not-for-Profit Entity A
Statement of Cash Flows
Year Ended June 30, 20X1
(in thousands)

Cash flows from operating activities:		
Cash received from service recipients		$ 5,020
Cash received from contributors		8,030
Cash collected on promises to give		2,615
Interest and dividends received		8,570
Miscellaneous receipts		150
Cash paid to employees and retirees		(13,400)
Cash paid to suppliers		(5,658)
Interest paid		(382)
Grants paid		(5,175)
Net cash used by operating activities		(230)
Cash flows from investing activities:		
Purchase of equipment		(1,500)
Proceeds on sale of equipment		200
Insurance proceeds from fire loss on building		250
Proceeds from sale of investments		76,100
Purchase of investments		(74,900)
Net cash provided by investing activities		150
Cash flows from financing activities:		
Proceeds from contributions restricted for:		
Investment in perpetual endowment		200
Investment in term endowment		70
Investment in land, buildings, and equipment		1,210
Investment subject to annuity trust agreements		200
		1,680
Other financing activities:		
Interest and dividends restricted for reinvestment		300
Payments of annuity trust obligations		(145)
Payments on notes payable		(1,140)
Payments on long-term debt		(1,000)
		(1,985)
Net cash used by financing activities		(305)
Net decrease in cash and cash equivalents		(385)
Cash and cash equivalents at beginning of year		4,960
Cash and cash equivalents at end of year		$ 4,575
Supplemental data for noncash investing and financing activities:		
Gifts of equipment	$ 140	
Gift of paid-up life insurance, cash surrender value	80	

958-205-55-20 The indirect method is as follows.

~~**Not-for-Profit Entity A**~~
~~**Statement of Cash Flows**~~
~~**Year Ended June 30, 19X1**~~
~~(in thousands)~~

~~Cash flows from operating activities:~~		
~~Change in net assets~~		~~$ 15,450~~
~~Adjustments to reconcile change in net assets to net cash used by operating activities:~~		
~~Depreciation~~		~~3,200~~
~~Fire loss~~		~~80~~
~~Actuarial loss on annuity obligations~~		~~30~~
~~Increase in accounts and interest receivable~~		~~(460)~~
~~Decrease in inventories and prepaid expenses~~		~~390~~
~~Increase in contributions receivable~~		~~(325)~~
~~Increase in accounts payable~~		~~1,520~~
~~Decrease in refundable advance~~		~~(650)~~
~~Decrease in grants payable~~		~~(425)~~
~~Contributions restricted for long-term investment~~		~~(2,740)~~
~~Interest and dividends restricted for long-term investment~~		~~(300)~~
~~Net unrealized and realized gains long-term investments~~		~~(15,800)~~
~~Net cash used by operating activities~~		~~(30)~~
~~Cash flows from investing activities:~~		
~~Insurance proceeds from fire loss on building~~		~~250~~
~~Purchase of equipment~~		~~(1,500)~~
~~Proceeds from sale of investments~~		~~76,100~~
~~Purchase of investments~~		~~(74,900)~~
~~Net cash used by investing activities~~		~~(50)~~
~~Cash flows from financing activities:~~		
~~Proceeds from contributions restricted for:~~		
~~Investment in endowment~~		~~200~~
~~Investment in term endowment~~		~~70~~
~~Investment in plant~~		~~1,210~~
~~Investment subject to annuity agreements~~		~~200~~
		~~1,680~~
~~Other financing activities:~~		
~~Interest and dividends restricted for reinvestment~~		~~300~~
~~Payments of annuity obligations~~		~~(145)~~
~~Payments on notes payable~~		~~(1,140)~~
~~Payments on long-term debt~~		~~(1,000)~~
		~~(1,985)~~
~~Net cash used by financing activities~~		~~(305)~~
~~Net decrease in cash and cash equivalents~~		~~(385)~~
~~Cash and cash equivalents at beginning of year~~		~~460~~
~~Cash and cash equivalents at end of year~~		~~$ 75~~
~~Supplemental data:~~		
~~Noncash investing and financing activities:~~		
~~Gifts of equipment~~	~~$ 140~~	
~~Gift of paid-up life insurance, cash surrender value~~	~~80~~	
~~Interest paid~~	~~382~~	

[For ease of readability, the new illustration is not underlined.]

Not-for-Profit Entity A
Statement of Cash Flows
Year Ended June 30, 20X1
(in thousands)

Cash flows from operating activities:	
Change in net assets	$ 15,450
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation	3,200
Fire loss	80
Actuarial loss on annuity trust obligations	30
Gain on sale of equipment	(200)
Increase in accounts and interest receivable	(460)
Decrease in inventories and prepaid expenses	390
Increase in contributions receivable	(325)
Increase in accounts payable	1,520
Decrease in refundable advance	(650)
Decrease in grants payable	(425)
Contributions restricted for long-term investment	(2,740)
Realized and unrealized gains on investments	(15,800)
Interest and dividends restricted for reinvestment	(300)
Net cash used by operating activities	(230)
Cash flows from investing activities:	
Purchase of equipment	(1,500)
Proceeds on sale of equipment	200
Insurance proceeds from fire loss on building	250
Proceeds from sale of investments	76,100
Purchase of investments	(74,900)
Net cash provided by investing activities	150
Cash flows from financing activities:	
Proceeds from contributions restricted for:	
Investment in perpetual endowment	200
Investment in term endowment	70
Investment in land, buildings, and equipment	1,210
Investment subject to annuity trust agreements	200
	1,680
Other financing activities:	
Interest and dividends restricted for reinvestment	300
Payments of annuity trust obligations	(145)
Payments on notes payable	(1,140)
Payments on long-term debt	(1,000)
	(1,985)
Net cash used by financing activities	(305)
Net decrease in cash and cash equivalents	(385)
Cash and cash equivalents at beginning of year	4,960
Cash and cash equivalents at end of year	$ 4,575

Supplemental data:	
Noncash investing and financing activities:	
Gifts of equipment	$ 140
Gift of paid-up life insurance, cash surrender value	80
Interest paid	382

> > > Notes to Financial Statements

958-205-55-21 The following are illustrative notes to financial statements. ~~Illustrative Note A provides policy disclosures required by paragraph 958-605-50-2 that bear on the illustrated statements. Notes B and C provide~~Note B provides information required by paragraph 958-210-45-9. Note DD provides information required by paragraph 958-210-45-11. Note F provides information required by paragraph 958-720-45-15. Note G provides information required by paragraphs 958-210-45-7(c) and 958-210-50-1A. Note D and Note E provide information that is useful to users but is not explicitly required. Additional endowment disclosure requirements are illustrated in Example 3 included in this Section.~~Notes D through F provide information that NFPs are encouraged to disclose. However, paragraph 958-720-45-15 requires voluntary health and welfare entities to provide the information in Note F in a statement of functional expenses.~~ All amounts are in thousands.

> ~~Note A~~
>
> ~~Not-for-Profit Entity A reports gifts of cash and other assets as **restricted support** if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.~~
>
> ~~Not-for-Profit Entity A reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, Not-for-Profit Entity A reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.~~

Note B

Net assets with donor restrictions~~Temporarily restricted net assets~~ are restricted~~available~~ for the following purposes or periods.

~~Program A activities:~~	
~~Purchase of equipment~~	~~$ 3,060~~
~~Research~~	~~4,256~~
~~Educational seminars and publications~~	~~1,520~~
~~Program B activities:~~	
~~Disaster relief~~	~~2,240~~
~~Educational seminars and publications~~	~~2,158~~
~~Program C activities: general~~	~~2,968~~
~~Buildings and equipment~~	~~2,150~~
~~Annuity trust agreements~~	~~2,850~~
~~For periods after June 30, 19X1~~	~~3,140~~
	~~$ 24,342~~

[For ease of readability, the new illustration is not underlined.]

Subject to expenditure for specified purpose:	
Program A activities:	
Purchase of equipment	$ 3,060
Research	950
Educational seminars and publications	240
Program B activities:	
Disaster relief	745
Educational seminars and publications	280
Program C activities: general	210
Buildings and equipment	2,150
Annuity trust agreements for research	2,815
	10,450
Subject to the passage of time:	
For periods after June 30, 20X1	3,140
Subject to NFP spending policy and appropriation:	
Investment in perpetuity (including amounts above original gift amount of $122,337), which, once appropriated, is expendable to support:	
Program A activities	33,300
Program B activities	15,820
Program C activities	16,480
Any activities of the organization	109,100
	174,700
Subject to appropriation and expenditure when a specified event occurs:	
Endowment requiring income to be added to original gift until fund's value is $2,500	2,120
Paid-up life insurance policy that will provide proceeds upon death of insured for an endowment to support general activities	80
	2,200
Not subject to appropriation or expenditure:	
Land required to be used as a recreation area	3,000
Total net assets with donor restrictions	$ 193,490

~~Note C~~

~~Permanently restricted net assets are restricted to the following.~~

~~Investment in perpetuity, the income from which is expendable to support:~~	
~~Program A activities~~	~~$ 27,524~~
~~Program B activities~~	~~13,662~~
~~Program C activities~~	~~13,662~~
~~Any activities of the organization~~	~~81,972~~
	~~136,820~~
~~Endowment requiring income to be added to original gift until fund's value is $2,500~~	~~2,210~~
~~Paid-up life insurance policy that will provide proceeds upon death of insured for an endowment to support general activities~~	~~80~~
~~Land required to be used as a recreation area~~	~~3,000~~
	~~$ 142,020~~

Note D

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors.

Purpose restrictions accomplished:	
Program A expenses	~~$5,800~~ $4,350
Program B expenses	~~4,600~~ 3,450
Program C expenses	~~1,590~~ 1,190
	~~11,990~~ 8,990
Program A equipment acquired and placed in service	1,500
Time restrictions expired:	
Passage of specified time	850
Death of annuity beneficiary	400
	1,250
Release of appropriated endowment amounts without purpose restrictions	4,500
Release of appropriated endowment amounts with purpose restrictions	3,000
Total restrictions released	~~$14,740~~ $19,240

Note DD

Not-for-Profit Entity A's governing board has designated, from net assets without donor restrictions of $92,600, net assets for the following purposes as of June 30, 20X1.

Quasi-endowment	$ 36,600
Liquidity reserve	1,300
Total	$ 37,900

Note E

Investments are carried at fair value, and realized and unrealized gains and losses are reflected within investment return, net, in the statement of activities. Not-for-Profit Entity A invests cash in excess of daily requirements in short-term investments. At June 30, 20X1~~19X1~~, $1,400 was invested short term, and during the year short-term investments earned $850. Most long-term investments are held in two investment pools. Pool A is for ~~permanent~~donor-restricted endowments and the unappropriated net appreciation of those endowments. Pool B is for amounts designated by the board of trustees for long-term investment. Annuity trusts of $4,500, term endowments of $70, and certain ~~permanent~~donor-restricted endowments of $2,200 are separately invested. Long-term investment activity is reflected in the following table.

	Pool A	Pool B	Other	Total
Investments at beginning of year	$ 164,000	$ 32,800	$ 6,700	$ 203,500
Gifts available for investment:				
Gifts creating ~~permanent~~perpetual endowment	200		80	280
Gifts creating term endowments			70	70
Gifts creating annuity trusts			200	200
Amount withdrawn at death of annuitant			(400)	(400)
~~Investment returns (net of expenses of $375):~~				
~~Dividends, interest, and rents~~	~~6,000~~	~~2,000~~	~~300~~	~~8,300~~
~~Realized and unrealized gains~~	~~12,000~~	~~3,800~~		~~15,800~~
~~Total return on investments~~Investment return, net	18,000	5,800	300	24,100
Amounts appropriated for current operations	(7,500)	(2,000)		(9,500)
Annuity trust income for current and future payments			(180)	(180)
Investments at end of year	$ 174,700	$ 36,600	$ 6,770	$ 218,070

~~The participation in the pools and ownership of the other investments at June 30, 19X1 is shown in the following table.~~

	~~Pool A~~	~~Pool B~~	~~Other~~	~~Total~~
~~Permanently restricted net assets~~	~~$ 136,820~~		~~$ 2,200~~	~~$ 139,020~~
~~Temporarily restricted net assets~~	~~10,752~~		~~4,570~~	~~15,322~~
~~Unrestricted net assets~~	~~27,128~~	~~$ 36,600~~		~~63,728~~
	~~$ 174,700~~	~~$ 36,600~~	~~$ 6,770~~	~~$ 218,070~~

~~The board of trustees has interpreted state law as requiring the preservation of the purchasing power (real value) of the permanent endowment funds unless explicit donor stipulations specify how net appreciation must be used. To meet that objective, Not-for-Profit Entity A's endowment management policies require that net appreciation be retained permanently in an amount necessary to adjust the historic dollar value of original endowment gifts by the change in the Consumer Price Index. After maintaining the real value of the permanent endowment funds, any remainder of total return is available for appropriation. In 19X1, the total return on Pool A was $18,000 (10.6 percent), of which $4,620 was retained permanently to preserve the real value of the original gifts. The remaining $13,380 was available for appropriation by the board of trustees. State law allows~~Laws and regulations allow the governing board to appropriate so much of ~~net appreciation~~an endowment fund as is prudent considering the following relevant factors: the duration and preservation of the endowment fund, the purposes of Not-for-Profit Entity A and the endowment fund, general economic conditions, the possible effect of inflation or deflation, the expected total return from income and the appreciation of investments, Not-for-Profit Entity A's other resources, and Not-for-Profit Entity A's investment policy~~Not-for-Profit Entity A's long- and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions~~. Under Not-for-Profit Entity A's endowment spending policy, 5 percent of the average of the fair value at the end of the previous 3 years is appropriated, which was $7,500 for the year ended June 30, 20X1~~19X1~~.

Note F

~~Expenses incurred were as follows.~~The table below presents expenses by both their nature and their function for fiscal year 20X1.

	~~Total~~	~~Program A~~	~~Program B~~	~~Program C~~	~~Management and General~~	~~Fund Raising~~
~~Salaries, wages, and benefits~~	~~$ 15,115~~	~~$ 7,400~~	~~$ 3,900~~	~~$ 1,725~~	~~$ 1,130~~	~~$ 960~~
~~Grants to other organizations~~	~~4,750~~	~~2,075~~	~~750~~	~~1,925~~		
~~Supplies and travel~~	~~3,155~~	~~865~~	~~1,000~~	~~490~~	~~240~~	~~560~~
~~Services and professional fees~~	~~2,840~~	~~160~~	~~1,490~~	~~600~~	~~200~~	~~390~~
~~Office and occupancy~~	~~2,528~~	~~1,160~~	~~600~~	~~450~~	~~218~~	~~100~~
~~Depreciation~~	~~3,200~~	~~1,440~~	~~800~~	~~570~~	~~250~~	~~140~~
~~Interest~~	~~382~~				~~382~~	
~~Total expenses~~	~~$ 31,970~~	~~$ 13,100~~	~~$ 8,540~~	~~$ 5,760~~	~~$ 2,420~~	~~$ 2,150~~

[For ease of readability, the new illustration is not underlined.]

	Program Activities				Supporting Activities			
	A	B	C	Programs Subtotal	Management and General	Fund-Raising	Supporting Subtotal	Total Expenses
Salaries and benefits	$ 7,400	$3,900	$ 1,725	$ 13,025	$ 1,130	$ 960	$ 2,090	$ 15,115
Grants to other organizations	2,075	750	1,925	4,750				4,750
Supplies and travel	890	1,013	499	2,402	213	540	753	3,155
Services and professional fees	160	1,490	600	2,250	200	390	590	2,840
Office and occupancy	1,160	600	450	2,210	218	100	318	2,528
Depreciation	1,440	800	570	2,810	250	140	390	3,200
Interest	171	96	68	335	27	20	47	382
Total expenses	$13,296	$8,649	$ 5,837	$ 27,782	$ 2,038	$2,150	$ 4,188	$ 31,970

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, interest, and office and occupancy, which are allocated on a square-footage basis, as well as salaries and benefits, which are allocated on the basis of estimates of time and effort.

Note G

The following reflects Not-for-Profit Entity A's financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date. Amounts not available include amounts set aside for long-term investing in the quasi-endowment that could be drawn upon if the governing board approves that action. However, amounts already appropriated from either the donor-restricted endowment or quasi-endowment for general expenditure within one year of the balance sheet date have not been subtracted as unavailable.

[For ease of readability, the new illustration is not underlined.]

Financial assets, at year-end	$ 234,410
Less those unavailable for general expenditures within one year, due to:	
Contractual or donor-imposed restrictions:	
Restricted by donor with time or purpose restrictions	(11,940)
Subject to appropriation and satisfaction of donor restrictions	(174,700)
Investments held in annuity trust	(4,500)
Board designations:	
Quasi-endowment fund, primarily for long-term investing	(36,600)
Amounts set aside for liquidity reserve	(1,300)
Financial assets available to meet cash needs for general expenditures within one year	$ 5,370

Not-for-Profit Entity A is substantially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, Not-for-Profit Entity A must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of Not-for-Profit Entity A's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, Not-for-Profit Entity A invests cash in excess of daily requirements in short-term investments. Occasionally, the board designates a portion of any operating surplus to its liquidity reserve, which was $1,300 as of June 30, 20X1. There is a fund established by the governing board that may be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities. In the event of an unanticipated liquidity need, Not-for-Profit Entity A also could draw upon $10,000 of available lines of credit (as further discussed in Note XX) or its quasi-endowment fund.

~~> > Example 2: Donor-Restricted Endowment Fund~~

958-205-55-22 Paragraph superseded by Accounting Standards Update No, 2016-14.~~This Example illustrates the classification prescribed by paragraphs 958-205-45-13 through 45-27 and paragraphs 958-205-45-33 through 45-35 of a **donor-restricted endowment fund** subject to a version of the Uniform Management Institutional Funds Act of 1972.~~

958-205-55-23 Paragraph superseded by Accounting Standards Update No. 2016-14.~~At the beginning of Year 1, Not-for-Profit Entity B received a gift of~~

~~$1,000,000. The donor specified that the gift be used to create an endowment fund that will be invested in perpetuity with income to be used for the support of Program A. The investments purchased with the gift earned $30,000 of investment income. Not-for-Profit Entity B spent that income plus an additional $20,000 of unrestricted resources on Program A during the year. At the end of the year, the **fair value** of the investments was $1,047,000.~~

958-205-55-24 Paragraph superseded by Accounting Standards Update No. 2016-14.~~Transactions for Year 1 are classified as increases or decreases in permanently restricted net assets, temporarily restricted net assets, or unrestricted net assets as follows.~~

	Net Assets			
~~Transactions~~	~~Unrestricted~~	~~Temporarily Restricted~~	~~Permanently Restricted~~	~~Total~~
~~Activity of Program A~~				
~~Board-designated resources[(a)]~~	~~$ 20,000~~			~~$ 20,000~~
~~Investment income~~		~~$ 30,000~~		~~30,000~~
~~Expenses~~	~~(50,000)~~			~~(50,000)~~
~~Release restriction[(b)]~~	~~30,000~~	~~(30,000)~~		
~~Subtotal~~	~~-~~	~~-~~		~~-~~
~~Investments~~				
~~Gift~~			~~$ 1,000,000~~	~~1,000,000~~
~~Gains[(c)]~~		~~47,000~~		~~47,000~~
~~Release restriction[(b)]~~	~~20,000~~	~~(20,000)~~		
~~Subtotal~~	~~20,000~~	~~27,000~~	~~1,000,000~~	~~1,047,000~~
~~End of year~~	~~$ 20,000~~	~~$ 27,000~~	~~$ 1,000,000~~	~~$ 1,047,000~~

~~(a) The governing board designates $20,000 of unrestricted resources of Not-for-Profit Entity B to be spent in support of Program A.~~

~~(b) When $50,000 is spent in support of Program A, restrictions are released on the $30,000 of income and $20,000 of temporarily restricted gains according to the provisions of this Subtopic. The restrictions on the gains expire even though the governing board chose to use unrestricted resources rather than sell some investments and use the proceeds for Program A.~~

~~(c) The $47,000 gain is restricted to the same purpose as the income because state law permits appreciation to be appropriated for the uses and purposes for which the endowment fund was established.~~

958-205-55-25 Paragraph superseded by Accounting Standards Update No. 2016-14.~~On January 1 of Year 2, in accordance with its spending policy, the governing board of Not-for-Profit Entity B sold some investments for $25,000 and spent the proceeds on Program A. The remaining investments earned $30,000 of investment income, which Not-for-Profit Entity B also spent on Program A. At the end of the year, the fair value of the investments was $1,097,000.~~

958-205-55-26 Paragraph superseded by Accounting Standards Update No. 2016-14.~~Transactions for Year 2 are classified as follows.~~

	Net Assets			
Transactions	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Activity of Program A				
Spending policy[(a)]		$ 25,000		$ 25,000
Investment income		30,000		30,000
Expenses	$ (55,000)			(55,000)
Release restriction	55,000	(55,000)		-
Subtotal	-	-		-
Investments				
Spending policy[(a)]		(25,000)		(25,000)
Gains		75,000		75,000
Beginning of year	20,000	27,000	$ 1,000,000	$ 1,047,000
End of year	$ 20,000	$ 77,000	$ 1,000,000	$ 1,097,000

~~(a) When the governing board sells investments and uses the proceeds for the donor's specified purpose, the portion of the endowment fund that by law is not expendable (historic dollar value) does not change. Neither the decision by the governing board to appropriate net appreciation nor the sale of the investments changes the class of net assets in which the appropriated amount is reported. The $25,000 is classified as temporarily restricted net assets until the restriction is met by spending on Program A.~~

958-205-55-27 Paragraph superseded by Accounting Standards Update No. 2016-14.~~On January 1 of Year 3, in accordance with its spending policy, the governing board of Not-for-Profit Entity B sold some investments for $28,000 and spent the proceeds on Program A. The remaining investments earned $30,000 of investment income, which Not-for-Profit Entity B also spent on Program A. At the end of the year, the fair value of the investments was $975,000.~~

958-205-55-28 Paragraph superseded by Accounting Standards Update No. 2016-14.~~Transactions for Year 3 are classified as follows.~~

Transactions	Net Assets Unrestricted	Temporarily Restricted	Permanently Restricted	Total
~~**Activity of Program A**~~				
~~Spending policy~~		~~$ 28,000~~		~~$ 28,000~~
~~Investment income~~		~~30,000~~		~~30,000~~
~~Expenses~~	~~$ (58,000)~~			~~(58,000)~~
~~Release restriction~~	~~58,000~~	~~(58,000)~~		~~-~~
~~Subtotal~~	~~-~~	~~-~~		~~-~~
~~**Investments**~~				
~~Spending policy~~		~~(28,000)~~		~~(28,000)~~
~~Losses [(a)]~~	~~(45,000)~~	~~(49,000)~~		~~(94,000)~~
~~Beginning of year~~	~~20,000~~	~~77,000~~	~~$ 1,000,000~~	~~1,097,000~~
~~End of year [(b)]~~	~~$ (25,000)~~	~~$ -~~	~~$ 1,000,000~~	~~$ 975,000~~

~~(a) According to the provisions of paragraph 958-205-45-22, the decline in the fair value of the assets of the endowment fund reduces temporarily restricted net assets by $49,000. The remaining loss reduces unrestricted net assets.~~

~~(b) According to the provisions of paragraph 958-205-50-2, Not-for-Profit Entity B would disclose the $25,000 deficiency between the fair value of the investments of the endowment fund at the end of the year and the level required by donor stipulations or law. If Not-for-Profit Entity B had other donor-restricted endowment funds in deficit positions, it would disclose the aggregate amount of the deficiencies. It is generally understood that at least the amount of the original gift(s) and any required accumulations is not expendable, although the value of the investments purchased may occasionally fall below that amount. Future appreciation of the investments generally restores the value to the required level.~~

958-205-55-29 Paragraph superseded by Accounting Standards Update No. 2016-14.~~On January 1 of Year 4, the governing board of Not-for-Profit Entity B could not apply its spending policy because the fair value of the investments was less than the historic dollar value of the fund; thus, no appreciation was available for expenditure. The investments earned income of $27,000, which Not-for-Profit Entity B spent on Program A. At the end of the year, the fair value of the investments was $1,005,000.~~

958-205-55-30 Paragraph superseded by Accounting Standards Update No. 2016-14.~~Transactions for Year 4 are classified as follows.~~

		~~Net Assets~~		
~~Transactions~~	~~Unrestricted~~	~~Temporarily Restricted~~	~~Permanently Restricted~~	~~Total~~
~~**Activity of Program A**~~				
~~Investment income~~		~~$ 27,000~~		~~$ 27,000~~
~~Expenses~~	~~$ (27,000)~~			~~(27,000)~~
~~Release restriction~~	~~27,000~~	~~(27,000)~~		~~-~~
~~Subtotal~~	~~-~~	~~-~~		~~-~~
~~**Investments**~~				
~~Gains [(a)]~~	~~25,000~~	~~5,000~~		~~30,000~~
~~Beginning of year~~	~~(25,000)~~	~~-~~	~~$ 1,000,000~~	~~975,000~~
~~End of year~~	~~$ -~~	~~$ 5,000~~	~~$ 1,000,000~~	~~$ 1,005,000~~

~~(a) According to the provisions of paragraph 958-205-45-24, because losses have reduced the assets of a donor-restricted endowment fund below the level required by donor stipulations or law ($1,000,000), the gains ($25,000) that restore the fair value of the assets of the endowment fund to the required level are classified as increases in unrestricted net assets. The remaining gains ($5,000) are available to be spent on Program A. After the fair value of the assets of the endowment fund equals the required level, gains are again available for expenditure, and those gains that are restricted by the donor are classified as increases in temporarily restricted net assets.~~

> > Example 3: Endowment Disclosures

958-205-55-31 This Example illustrates application of the disclosure guidance in paragraphs 958-205-50-1A through 50-2 by an NFP (~~NFP A~~NFP B) subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 even though that disclosure guidance applies whether or not an NFP is subject to an enacted version of that law.

958-205-55-32 This Example makes all of the following assumptions:

a. ~~NFP A~~NFP B is issuing a full set of financial statements for both the current fiscal year, 200Y, and the previous fiscal year, 200X. NFP B is required to disclose the information in paragraph 958-205-50-1B for each period for which it presents financial statements; however, for simplicity, the disclosures provide information for a single period, 200Y.
b. ~~NFP A~~NFP B has a sizable endowment.
c. ~~At the beginning of 200X,~~Before 200Y, an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 became effective for the State to whose law ~~NFP A~~NFP B is subject.
d. Subparagraph superseded by Accounting Standards Update No. 2016-14.~~The Board of Trustees has interpreted the new law as requiring the preservation of the original gift amount of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.~~
e. None of the funds have donor stipulations that override the restriction described in subsection 4(a) of the law, which the enacted version in the State included verbatim: “unless stated otherwise in the gift instrument,

the assets in an endowment fund are donor-restricted assets until appropriated for expenditure by the institution."

f. Subparagraph superseded by Accounting Standards Update No. 2016-14.~~The NFP had previously been operating under an enacted version of the Uniform Management of Institutional Funds Act.~~
g. Subparagraph superseded by Accounting Standards Update No. 2016-14.~~The change in law prompted a change in the net asset classification of NFP A's endowment, as depicted in the following paragraph.~~

958-205-55-33 Paragraph superseded by Accounting Standards Update No. 2016-14.~~The table in paragraph 958-205-55-34 makes all of the following assumptions about restrictions placed on the net assets represented in NFP A's endowment as of the beginning of the year 200X:~~

~~a. Item A represents the portion of donor-restricted perpetual endowment funds that is deemed to be permanently restricted either by explicit donor stipulation or by law.~~
~~b. Item B represents the portion of donor-restricted term endowment funds that is deemed to be restricted over the donor-specified period of the endowment either by explicit donor stipulation or by law.~~
~~c. Item C represents the remaining portion of the donor-restricted endowment funds that has not yet been appropriated for expenditure and is subject to the Uniform Prudent Management of Institutional Funds Act of 2006's time restriction with donor-imposed purpose restrictions that have not yet been met.~~
~~d. Item D represents the remaining portion of the donor-restricted endowment funds that has not yet been appropriated for expenditure and is subject to the Uniform Prudent Management of Institutional Funds Act of 2006's time restriction with donor-imposed purpose restrictions previously deemed to have been met under paragraph 958-205-45-11.~~
~~e. Item E represents the remaining portion of the donor-restricted endowment funds that has not yet been appropriated for expenditure and is subject to the Uniform Prudent Management of Institutional Funds Act of 2006's time restriction without donor-imposed purpose restrictions.~~
~~f. Item F represents board-designated endowment funds without donor-imposed purpose or time restrictions.~~

958-205-55-34 Paragraph superseded by Accounting Standards Update No. 2016-14.~~This Example's assumptions about restrictions—as categorized in the preceding paragraph—placed on the net assets represented in NFP A's endowment as of the beginning of the year 200X follow. Those assumptions are presented for two scenarios: One under which NFP A is not subject to enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 and the other under which NFP A is subject to an enacted version of that law.~~

~~**Net Assets in the Endowment as of**~~

~~**the Beginning of the Year 200X**~~

~~**Net Asset Classification**~~	~~**NFP A Is Not Subject to Enacted Version**~~		~~**NFP A Is Subject to Enacted Version**~~		
~~**Donor-restricted endowment funds**~~	~~**Description**~~	~~**Balance**~~	~~**Description**~~	~~**Balance**~~	~~**Reclassification Adjustment**~~
~~Permanently restricted~~	~~Item A~~	~~$ 93,398~~	~~Item A~~	~~$ 93,398~~	~~$ -~~
~~Temporarily restricted~~	~~Items B & C~~	~~14,369~~	~~Items B, C, D & E~~	~~43,107~~	~~28,738~~
~~Unrestricted~~	~~Items D & E~~	~~28,738~~	~~None~~	~~-~~	~~$ (28,738)~~
~~**Total donor-restricted funds**~~		~~136,505~~		~~136,505~~	
~~**Board-designated endowment funds**~~					
~~Unrestricted~~	~~Item F~~	~~7,184~~	~~Item F~~	~~7,184~~	~~$ -~~
~~Total board-designated funds~~		~~7,184~~		~~7,184~~	
~~Total endowment~~		~~$ 143,689~~		~~$ 143,689~~	

958-205-55-35 Paragraph superseded by Accounting Standards Update No. 2016-14.~~Assumptions about NFP A's endowment-related activities in the year 200X follow.~~

	~~Donor-Restricted Endowment Funds~~	~~Board-Designated Endowment Funds~~	~~Total~~
~~**Investment return**~~			
~~Investment income~~	~~$ 2,587~~	~~$ 287~~	~~$ 2,874~~
~~Net appreciation~~	~~7,786~~	~~835~~	~~8,621~~
~~Total investment return [(a)]~~	~~10,373~~	~~1,122~~	~~11,495~~
~~Contributions to perpetual endowment~~	~~2,000~~	~~-~~	~~2,000~~
~~Amounts appropriated for expenditure~~	~~(6,825)~~	~~(359)~~	~~(7,184)~~
~~Transfer to remove assets from board-designated endowment funds~~	~~-~~	~~(1,000)~~	~~(1,000)~~
~~Total change in endowment funds~~	~~$ 5,548~~	~~$ (237)~~	~~$ 5,311~~

~~(a) Of the 200X investment return from donor-restricted endowment funds, $275 must be retained permanently in accordance with explicit donor stipulations to maintain the purchasing power of those funds.~~

958-205-55-36 The following table contains assumptions~~Assumptions~~ about ~~NFP A's~~NFP B's endowment-related activities in the year ~~200Y follow.~~200Y.

	Donor-Restricted Endowment Funds	Board-Designated Endowment Funds	Total
~~**Investment return**~~			
~~Investment income~~	~~$ 2,682~~	~~$ 298~~	~~$ 2,980~~
~~Net depreciation [a]~~	~~(2,310)~~	~~(288)~~	~~(2,598)~~
~~Total investment~~Investment return, net[a]~~[b]~~	372	10	382
Contributions to donor-restricted endowment fund~~perpetual endowment~~	2,000	-	2,000
Amounts appropriated for expenditure[a]	(7,077)	(373)	(7,450)
Transfer to create board-designated endowment funds	-	500	500
Total change in endowment funds	$ (4,705)	$ 137	$ (4,568)

(a) Included within investment return, net is $125 of 200Y net depreciation that occurred in recent~~new~~ donor-restricted endowment funds, causing~~that caused~~ the fair value of those funds to be less than the original gift amount. In addition, so as not to suspend certain programs, ~~NFP A's~~NFP B's Board deemed it prudent to continue to appropriate $75 to those programs.

~~(b) Of the 200Y investment return from donor-restricted endowment funds, $286 must be retained permanently in accordance with explicit donor stipulations to maintain the purchasing power of those funds.~~

958-205-55-37 ~~NFP A's~~NFP B's disclosure of its endowment follows.

NOTE X: ENDOWMENT

~~NFP A's~~NFP B's endowment consists of approximately 100 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

958-205-55-38 ~~NFP A's~~NFP B's disclosure of its interpretation of the law or laws that underlie ~~NFP A's~~NFP B's net asset classification of donor-restricted endowment funds follows as required by paragraph 958-205-50-1B(a).

Interpretation of Relevant Law

~~The Board of Trustees of NFP A has interpreted~~NFP B is subject to the State Prudent Management of Institutional Funds Act (SPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the Board of Trustees appropriates such amounts for expenditure. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions~~as requiring the preservation of the original gift amount of the donor-restricted endowment funds absent explicit donor stipulations to the contrary~~. The Board of Trustees of NFP B has interpreted SPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, NFP B considers a fund to be underwater if the fair value of the fund is less than the sum of~~NFP A classifies as permanently restricted net assets~~ (a) the original value of initial and subsequent gift amounts~~gifts~~ donated to the fund~~permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c)~~ and (b) any accumulations to the fund that are required to be maintained in perpetuity~~permanent endowment made~~ in accordance with the direction of the applicable donor gift instrument~~ at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA~~. NFP B has interpreted SPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in~~In~~ accordance with SPMIFA, ~~NFP A~~NFP B considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the organization and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the organization
(7) The investment policies of ~~NFP A~~NFP B.

958-205-55-39 ~~NFP A's~~NFP B's disclosure of its endowment net asset composition by type of fund as of June 30, 200Y, follows as required by paragraph 958-205-50-1B(d).~~ Note that the $200 deficit in unrestricted assets represents the~~

~~amounts by which the fair value of certain donor-restricted endowment funds were below the amount required to be retained permanently.~~

~~200Y~~

~~Endowment Net Asset Composition by Type of Fund~~

~~as of June 30, 200Y~~

	~~Unrestricted~~	~~Temporarily Restricted~~	~~Permanently Restricted~~	~~Total~~
~~Donor-restricted endowment funds~~	~~$ (200)~~ [11]	~~$ 39,589~~	~~$ 97,959~~	~~$ 137,348~~
~~Board-designated endowment funds~~	~~7,084~~	~~-~~	~~-~~	~~7,084~~
~~Total funds~~	~~$ 6,884~~	~~$ 39,589~~	~~$ 97,959~~	~~$ 144,432~~

~~11 $(200) = (125) + (75)~~

[For ease of readability, the new illustration is not underlined.]

200Y

Endowment Net Asset Composition by Type of Fund as of June 30, 200Y

	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Board-designated endowment funds	$ 7,084	$ -	$ 7,084
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	97,759	97,759
Accumulated investment gains	-	35,201	35,201
Term endowment	-	4,388	4,388
Total funds	$ 7,084	$ 137,348	$ 144,432

958-205-55-40 Paragraph superseded by Accounting Standards Update No. 2016-14.~~For the purpose of illustration, the NFP in the example in paragraphs 958-205-55-34 through 55-39 is subject to a state law that its governing board has interpreted as requiring the preservation of the original gift amount of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. If, on the other hand, an NFP were subject to a state law that its governing board interpreted as requiring the maintenance of purchasing power for donor-restricted~~

~~endowment funds, then the NFP would apply the guidance in paragraph 958-205-45-21A.~~

958-205-55-41 ~~NFP A's~~NFP B's disclosure of ~~changes in endowment net assets~~a reconciliation of the beginning and ending balances of the endowment, in total and by net asset classes, for the fiscal year ended June 30, 200Y, follows as required by paragraph 958-205-50-1B(e).

~~**Changes in Endowment Net Assets**~~

~~**for the Fiscal Year Ended June 30, 200Y**~~

	~~**Unrestricted**~~	~~**Temporarily Restricted**~~	~~**Permanently Restricted**~~	~~**Total**~~
~~Endowment net assets, beginning of year~~	~~$ 6,947~~	~~$ 46,380~~	~~$ 95,673~~	~~$ 149,000~~
~~Investment return:~~				
~~Investment income~~	~~298~~	~~2,396~~	~~286~~	~~2,980~~
~~Net depreciation (realized and unrealized)~~	~~(413)~~ [12]	~~(2,185)~~ [13]	~~-~~	~~(2,598)~~
~~Total investment return~~	~~(115)~~	~~211~~	~~286~~	~~382~~
~~Contributions~~	~~-~~	~~-~~	~~2,000~~	~~2,000~~
~~Appropriation of endowment assets for expenditure~~	~~(448)~~ [14]	~~(7,002)~~ [15]	~~-~~	~~(7,450)~~
~~Other changes:~~				
~~Transfers to create board-designated endowment funds~~	~~500~~	~~-~~	~~-~~	~~500~~
~~Endowment net assets, end of year~~	~~$ 6,884~~	~~$ 39,589~~	~~$ 97,959~~	~~$ 144,432~~

~~12 $(413) = (288) + (125)~~

~~13 $(2,185) = (2,310) + 125~~

~~14 $(448) = (373) + (75)~~

~~15 $(7,002) = (7,077) + 75~~

[For ease of readability, the new illustration is not underlined.]

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 200Y

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 6,947	$ 142,053	$ 149,000
Investment return, net	10	372	382
Contributions	-	2,000	2,000
Appropriation of endowment assets for expenditure	(373)	(7,077)	(7,450)
Other changes:			
Transfers to create board-designated endowment funds	500	-	500
Endowment net assets, end of year	$ 7,084	$ 137,348	$ 144,432

958-205-55-42 Paragraph superseded by Accounting Standards Update No. 2016-14.~~In this Example the changes in unrestricted net assets included $125 of depreciation on investments and $75 of appropriations for expenditure for donor-restricted endowment funds in which there was a deficiency as of June 30, 200Y, with respect to the amount required to be retained in perpetuity.~~

958-205-55-43 Paragraph superseded by Accounting Standards Update No. 2016-14.~~Investment returns classified as changes in permanently restricted net assets in the illustrative table in paragraph 958-205-55-41 represent only those amounts required to be retained permanently as a result of explicit donor stipulations. To the extent that actual investment income attributable to funds with such stipulations was less than $286, NFP A would reclassify to permanently restricted net assets a portion of the temporarily restricted net assets associated with those funds and, to the extent there are insufficient temporarily restricted net assets, then unrestricted net assets. That reclassification would be displayed separately from investment return in the illustrative table. If unrestricted net assets are reclassified, this would result in a presentation in the endowment net asset composition table that is similar to that associated with the situation described in the preceding paragraph.~~

958-205-55-44 Paragraph superseded by Accounting Standards Update No. 2016-14.~~NFP A's disclosure of its endowment net asset composition by type of fund as of June 30, 200X, follows.~~

~~**200X**~~

~~**Endowment Net Asset Composition by Type of Fund**~~

~~**as of June 30, 200X**~~

	~~**Unrestricted**~~	~~**Temporarily Restricted**~~	~~**Permanently Restricted**~~	~~**Total**~~
~~Donor-restricted endowment funds~~	~~$ -~~	~~$ 46,380~~	~~$ 95,673~~	~~$ 142,053~~
~~Board-designated endowment funds~~	~~6,947~~	~~-~~	~~-~~	~~6,947~~
~~Total funds~~	~~$ 6,947~~	~~$ 46,380~~	~~$ 95,673~~	~~$ 149,000~~

958-205-55-45 Paragraph superseded by Accounting Standards Update No. 2016-14.~~NFP A's disclosure of changes in endowment net assets for the fiscal year ended June 30, 200X, follows.~~

~~**Change in Endowment Net Assets**~~
~~**for the Fiscal Year Ended June 30, 200X**~~

	~~**Unrestricted**~~	~~**Temporarily Restricted**~~	~~**Permanently Restricted**~~	~~**Total**~~
~~Endowment net assets, beginning of year~~	~~$ 35,922~~	~~$ 14,369~~	~~$ 93,398~~	~~$ 143,689~~
~~Net asset reclassification based on change in law~~	~~(28,738)~~	~~28,738~~	~~-~~	~~-~~
~~Endowment net assets after reclassification~~	~~7,184~~	~~43,107~~	~~93,398~~	~~143,689~~
~~Investment return:~~				
~~Investment income~~	~~287~~	~~2,587~~	~~-~~	~~2,874~~
~~Net appreciation (realized and unrealized)~~	~~835~~	~~7,511~~	~~275~~	~~8,621~~
~~Total investment return~~	~~1,122~~	~~10,098~~	~~275~~	~~11,495~~
~~Contributions~~	~~-~~	~~-~~	~~2,000~~	~~2,000~~
~~Appropriation of endowment assets for expenditure~~	~~(359)~~	~~(6,825)~~	~~-~~	~~(7,184)~~
~~Other changes:~~				
~~Transfers to remove board designated endowment funds~~	~~(1,000)~~	~~-~~	~~-~~	~~(1,000)~~
~~Endowment net assets, end of year~~	~~$ 6,947~~	~~$ 46,380~~	~~$ 95,673~~	~~$ 149,000~~

958-205-55-46 Paragraph superseded by Accounting Standards Update No. 2016-14.~~In the illustrative table in the preceding paragraph, investment returns classified as changes in permanently restricted net assets represent only those~~

~~amounts required to be retained permanently as a result of explicit donor stipulations.~~

958-205-55-47 ~~NFP A's~~NFP B's presentation under paragraphs 958-210-45-9 through 45-10 and disclosure under paragraph 958-210-50-3 follows.

Description of Amounts Classified as Net Assets with Donor Restrictions~~Permanently Restricted Net Assets and Temporarily Restricted Net Assets~~ (Endowment Only)

		200Y	~~200X~~
Net Assets with Donor Restrictions~~Permanently Restricted Net Assets~~			
~~(1)~~	Original donor-restricted endowment gift amount and amounts required to be retained by donor~~The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by SPMIFA~~	$ 97,759~~97,959~~	~~$ 95,673~~
	~~Total endowment funds classified as permanently restricted net assets~~	~~$ 97,959~~	~~$95,673~~
~~Temporarily Restricted Net Assets~~			
~~(1)~~	Term endowment funds	~~$~~ 4,388	~~$ 5,058~~
~~(2)~~	~~The portion of perpetual~~ Accumulated investment gains on endowment funds ~~subject to a time restriction under SPMIFA~~:		
	Without purpose restrictions	20,102	~~22,965~~
	With purpose restrictions	15,099	~~18,357~~
	Total endowment funds classified as net assets with donor restrictions~~temporarily restricted net assets~~	$137,348 ~~39,589~~	~~$46,380~~

958-205-55-48 The illustrative disclosure in the preceding paragraph includes only the ~~permanently and temporarily restricted net assets~~net assets with donor restrictions within ~~NFP A's~~NFP B's endowment. A typical disclosure would be presented outside an endowment note disclosure and include all of the net assets classified ~~in the permanently and temporarily restricted net asset classes~~within net assets with donor restrictions. ~~The amounts contained in the specific lines within the temporarily restricted section of that disclosure are purely for illustrative purposes; additional information beyond that assumed in paragraphs 958-205-55-34 through 55-37 would be needed to determine those amounts. In addition, in a typical presentation under paragraphs 958-210-45-9 through 45-10 and disclosure under paragraph 958-210-50-3, an NFP would provide a further breakdown of the types of purpose restrictions (for example, for scholarships, research, community service). The balances related to the description in paragraph 958-205-55-33(d) would be not only time restricted but also purpose restricted.~~

958-205-55-49 ~~NFP A's~~NFP B's disclosure under paragraph 958-205-50-2 follows.

Underwater Endowment Funds ~~with Deficiencies~~

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or

SPMIFA requires ~~NFP A~~NFP B to retain as a fund of perpetual duration. ~~In accordance with GAAP, deficiencies~~Deficiencies of this nature ~~that are reported in unrestricted net assets were $200 as of June 30, 200Y~~exist in 3 donor-restricted endowment funds, which together have an original gift value of $3,500, a current fair value of $3,300, and a deficiency of $200 as of June 30, 200Y. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new ~~permanently restricted~~ contributions for donor-restricted endowment funds and continued appropriation for certain programs that was deemed prudent by the Board of Trustees. ~~There were no such deficiencies as of June 30, 200X.~~

958-205-55-50 ~~NFP A's~~NFP B's disclosure under paragraph 958-205-50-1B(c)(1) follows.

Return Objectives and Risk Parameters

~~NFP A~~NFP B has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. ~~NFP A~~NFP B expects its endowment funds, over time, to provide an average rate of return of approximately ~~9 percent~~8 percent annually. Actual returns in any given year may vary from this amount.

958-205-55-51 ~~NFP A's~~NFP B's disclosure under paragraph 958-205-50-1B(c)(3) follows.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, ~~NFP A~~NFP B relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). ~~NFP A~~NFP B targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

958-205-55-52 ~~NFP A's~~NFP B's disclosure under paragraph ~~958-205-50-1B(c)(2)~~958-205-50-1B(b) and (c)(2) follows.

Spending Policy and How the Investment Objectives Relate to Spending Policy

~~NFP A~~NFP B has a policy of appropriating for distribution each year 5 percent of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, ~~NFP A~~NFP B considered the long-term expected return on its endowment. Accordingly, over the long term, ~~NFP A~~NFP B expects the current spending policy to allow its endowment to grow at an average of ~~4 percent~~3 percent annually. ~~This is consistent with NFP A's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.~~NFP B has a policy that permits spending from underwater endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations. The governing board appropriated for expenditure $75 from underwater endowment funds during the year, which represents 3 percent of the 12-quarter moving average, not the 5 percent it generally draws from its endowment.

~~> > Example 4: Endowment Fund Disclosures Variation~~

958-205-55-53 Paragraph superseded by Accounting Standards Update No. 2016-14.~~This Example makes the assumption that an NFP, NFP B, is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 that its governing board interpreted as requiring NFP B to maintain the purchasing power of its donor-restricted endowment funds. NFP B's disclosure under paragraph 958-205-50-1B follows.~~

~~Interpretation of Relevant Law~~

~~The Board of Trustees of NFP B has interpreted the State Prudent Management of Institutional Funds Act (the Act) as requiring the preservation of the purchasing power (real value) of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, NFP B classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, and (4) the portion of investment return added to the permanent endowment to maintain its purchasing power. For purposes of determining that portion, each year NFP B adjusts permanently restricted net assets by the change in the Consumer Price Index for that year. If the endowment assets earn investment returns beyond the amount necessary to maintain the endowment assets' real value, that excess is available for appropriation and, therefore, classified as temporarily restricted net assets until appropriated by the Board for expenditure. In accordance with the Act, NFP B considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:~~

~~(1) The duration and preservation of the fund~~
~~(2) The purposes of NFP B and the donor-restricted endowment fund~~
~~(3) General economic conditions~~
~~(4) The possible effect of inflation and deflation~~
~~(5) The expected total return from income and the appreciation of investments~~
~~(6) Other resources of NFP B~~
~~(7) The investment policies of NFP B.~~

Amendments to Subtopic 958-210

15. Amend paragraphs 958-210-45-1, 958-210-45-4, and 958-210-45-6 through 45-11 and supersede paragraph 958-210-45-12, with a link to transition paragraph 958-10-65-1, as follows: **[In addition, add paragraph 958-210-45-5A, with a link to transition paragraph 825-10-65-2.]**

Not-for-Profit Entities—Balance Sheet

Other Presentation Matters

> Totals and Format

958-210-45-1 A statement of financial position shall focus on the **not-for-profit entity** (NFP) as a whole and shall report all of the following amounts:

a. Total assets
b. Total liabilities
c. Total net assets
d. Total **net assets with donor restrictions**~~**Permanently restricted net assets**~~
e. Total **net assets without donor restrictions**~~**Temporarily restricted net assets**~~
f. Subparagraph superseded by Accounting Standards Update No. 2016-14.~~**Unrestricted net assets**.~~

958-210-45-2 This Subtopic does not preclude display of interfund items in a statement of financial position; rather, its requirement to display total assets and liabilities results in certain practical limits on how interfund items are displayed in a financial statement. For example, because receivables and payables between fund groups are not entity assets or liabilities, a statement of financial position shall clearly label and arrange those interfund items to eliminate their amounts when displaying total assets or liabilities.

958-210-45-3 This Subtopic does not emphasize or preclude specific statement formats. It permits a left-to-right or top-to-bottom balanced format as well as single-column, multicolumn, single-page, or multipage formats.

> Classification of Assets and Liabilities

958-210-45-4 A statement of financial position, including accompanying notes to financial statements, provides relevant information about **liquidity**, **financial flexibility**, and the interrelationship of an NFP's assets and liabilities. That information generally is provided by aggregating assets and liabilities that possess similar characteristics into reasonably homogeneous groups that include the effects of **{add glossary link}**donor-imposed restrictions**{add glossary link}** as well as other contractual restrictions.

958-210-45-5 Classifying and aggregating items with similar characteristics into reasonably homogeneous groups and separating items with differing characteristics is a basic reporting practice that increases the usefulness of information. For example, entities generally report individual items of assets in homogeneous groups, such as cash and cash equivalents; accounts and notes receivable from patients, students, members, and other recipients of services; inventories of materials and supplies; deposits and prepayments for rent, insurance, and other services; marketable securities and other investment assets held for long-term purposes; and land, buildings, equipment, and other long-lived assets used to provide goods and services. Likewise, cash collections of receivables from patients, students, or other service recipients may differ significantly in continuity, stability, and risk from cash collections of pledges made to a special-purpose fundraising campaign. Classifying and reporting those receivables and collections of receivables as separate groups of assets and of cash inflows facilitates financial statement analysis aimed at objectives such as predicting amounts, timing, and uncertainty of future cash flows.

<u>**958-210-45-5A**</u> As illustrated in paragraph 958-205-55-7, cash and cash equivalents of permanent endowment funds held temporarily until suitable long-term investment opportunities are identified may be included in the classification long-term investments. Likewise, cash held temporarily by a custodian for investment purposes may be included as part of investments in a statement of financial position rather than as cash. **[Content moved from paragraph 958-210-45-12]**

958-210-45-6 Assets may be restricted by donors. For example, land could be restricted to use as a public park. Generally, however, restrictions apply to net assets, not to specific assets. Assets need not be disaggregated on the basis of the presence of donor-imposed restrictions on their use; for example, cash available for ~~unrestricted~~ current use <u>and without donor restrictions</u> need not be reported separately from cash received with donor-imposed restrictions that is also available for current use. However, cash or other assets received with a **{remove**

glossary link}donor-imposed restriction{remove glossary link} that limits their use to long-term purposes shall not be classified with cash or other assets that are without donor restrictions~~unrestricted~~ and are available for current use. The kind of asset whose use is limited either by a donor-imposed restriction or by governing board designations shall be described in the notes to the financial statements if ~~its~~the nature of the restriction or designation (that is, amount and purpose) is not clear from the description on the face of the statement of financial position.

958-210-45-7 ~~If not disclosed in the notes to financial statements, the~~The following information shall be displayed either on the face of the statement of financial position or in the notes to financial statements, unless otherwise required on the face of the statement of financial position:

a. Relevant information about the nature and amount of limitations on the use of cash and cash equivalents (such as cash held on deposit as a compensating balance)
b. Contractual limitations on the use of particular assets. These include, for example, restricted cash or other assets set aside under debt agreements, assets set aside under self-insurance funding arrangements, assets set aside under collateral arrangements, or assets set aside to satisfy reserve requirements that states may impose under charitable gift annuity agreements.
c. Quantitative information, and additional qualitative information in the notes as necessary, about the availability of an NFP's financial assets at the balance sheet date to meet cash needs for general expenditures within one year of the balance sheet date (see paragraph 958-210-50-1A(b)).

958-210-45-8 Additional information~~Information~~ about liquidity shall be provided by any of the following:

a. Sequencing assets according to their nearness of conversion to cash and sequencing liabilities according to the nearness of their maturity and resulting use of cash
b. Classifying assets and liabilities as current and noncurrent, as defined by Subtopic 210-10 (required by paragraph 954-210-45-1 for statements of financial position prepared by not-for-profit, business-oriented health care entities)
c. Disclosing in notes to financial statements any additional relevant information about the liquidity or maturity of assets and liabilities, including restrictions on the use of particular assets.

> Classification of Net Assets

958-210-45-9 The amounts for each of the two~~three~~ classes of net assets—with donor restrictions and without donor restrictions~~permanently restricted, temporarily restricted, and unrestricted—~~are based on the existence or absence of **{add**

glossary link}donor-imposed restrictions**{add glossary link}**. Information about the nature and amounts of different types of donor-imposed restrictions~~permanent restrictions or~~ ~~**temporary restrictions**~~ shall be provided either by reporting their amounts on the face of the statement of financial position or by including relevant details in notes to financial statements. Additionally, separate~~Separate~~ line items may be reported within **net assets with donor restrictions**~~permanently restricted net assets~~ or in notes to financial statements to distinguish between various types of donor-imposed restrictions, such as~~permanent restrictions for both of~~ the following examples~~holdings~~:

a. Assets, such as land or works of art, donated with stipulations that they be used for a specified purpose, be preserved, and not be sold.
b. Assets donated with stipulations that they be invested to provide a permanent source of income. These result from gifts and bequests that create ~~**permanent endowment**~~ ~~funds~~a donor-restricted endowment that is perpetual in nature.
c. Support of particular operating activities.
d. Investment for a specified term.
e. Use in a specified future period.
f. Acquisition of long-lived assets.

958-210-45-10 ~~Similarly, separate line items may be reported within temporarily restricted net assets or in notes to financial statements to distinguish between the following temporary restrictions:~~

~~a. Support of particular operating activities~~
~~b. Investment for a specified term~~
~~c. Use in a specified future period~~
~~d. Acquisition of long-lived assets.~~

A **donor-imposed restriction**~~Donors' temporary restrictions~~ may require that resources be used in a later period or after a specified date (time restrictions), or that resources be used for a specified purpose (purpose restrictions), or both. For example, gifts of cash and other assets with stipulations that they be invested to provide a source of income for a specified term and that the income be used for a specified purpose are both time and purpose restricted. Those gifts often are called **{add glossary link}**term endowments**{add glossary link}**.

958-210-45-11 Information about self-imposed limits also is~~may be~~ useful, including information about voluntary resolutions by the governing board of an entity, such as resolutions to designate a portion of its **net assets without donor restrictions**~~unrestricted net assets~~ to function as an endowment (sometimes called a **{add glossary link}**board-designated endowment fund**{add glossary link}**) or to designate a portion for a specific future expenditure (called **board-designated net assets**~~**designated net assets**~~). Information about the amounts and purposes of board designations of net assets without donor restrictions shall be provided~~That information may be provided~~ in notes to or on the face of financial statements in accordance with paragraph 958-210-50-3. (See Example 1 [paragraph 958-210-55-3] for an illustration of this guidance.)

958-210-45-12 Paragraph superseded by Accounting Standards Update No. 2016-14.~~As illustrated in paragraph 958-205-55-7, cash and cash equivalents of permanent endowment funds held temporarily until suitable long-term investment opportunities are identified may be included in the classification long-term investments. Likewise, cash held temporarily by a custodian for investment purposes may be included as part of investments in a statement of financial position rather than as cash.~~ **[Content moved to paragraph 958-210-45-5A]**

16. Amend paragraphs 958-210-50-1 through 50-3 and add paragraph 958-210-50-1A, with a link to transition paragraph 958-10-65-1, as follows:

Disclosure

958-210-50-1 A **not-for-profit entity** (NFP) shall disclose in notes to financial statements relevant information about the **liquidity** or maturity of assets and liabilities, including restrictions and self-imposed limits on the use of particular items, in addition to information provided on the face of the statement of financial position, if shown, in accordance with paragraph 958-210-45-8~~unless that information is provided on the face of the statement of financial position (see paragraph 958-210-45-8)~~. Specific disclosure requirements to meet that objective include the requirements in this Subtopic.

958-210-50-1A An NFP shall disclose the following:

a. Qualitative information in the notes to financial statements that is useful in assessing an entity's liquidity and that communicates how an NFP manages its liquid resources available to meet cash needs for general expenditures within one year of the date of the statement of financial position
b. Quantitative information either on the face of the statement of financial position 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 date of the statement of financial position to meet cash needs for general expenditures within one year of the date of the statement of financial position (see paragraph 958-210-45-7(c)). Availability of a financial asset may be affected by:
   1. Its nature
   2. External limits imposed by donors, laws, and contracts with others
   3. Internal limits imposed by governing board decisions.

See example note disclosures in paragraphs 958-210-55-5 through 55-8 and 958-205-55-21.

958-210-50-2 An NFP shall disclose ~~all of~~ the following, if ~~present~~applicable, in the notes to financial statements and may include that information in qualitative disclosures on the availability of an NFP's financial assets in accordance with paragraph 958-210-50-1A(b):

a. Unusual circumstances, such as special borrowing arrangements, requirements imposed by resource providers that cash be held in separate accounts, and known significant liquidity problems
b. The fact that the NFP has not maintained appropriate amounts of cash and cash equivalents to comply with **{add glossary link}**donor-imposed restrictions**{add glossary link}** (see paragraph 958-450-50-3)
c. Information about significant limits resulting from contractual agreements with suppliers, creditors, and others, including the existence of loan covenants.

958-210-50-3 Section 958-210-45 discusses the following items that are required to be included in the notes to financial statements if they are not provided on the face of the statement of financial position:

a. A description of the kind of asset whose use is limited (see paragraph 958-210-45-6)
b. Information about the nature and amount of limitations on the use of cash and cash equivalents (see paragraph 958-210-45-7(a))
c. Contractual limitations on the use of particular assets (see paragraph 958-210-45-7(b))
d. Information about the nature and amounts of different types of ~~permanent~~ restrictions that affect how and when, if ever, the resources (net assets) can be used (see paragraph 958-210-45-9)
e. Subparagraph superseded by Accounting Standards Update No. 2016-14.~~Information about the nature and amounts of different types of temporary restrictions (see paragraph 958-210-45-10).~~
f. Information about additional limitations placed on net assets, such as information about the amounts and purposes of board designations of **net assets without donor restrictions** required in accordance with paragraph 958-210-45-11.

17. Amend paragraphs 958-210-55-2 through 55-4 and add paragraphs 958-210-55-5 through 55-8 and their related headings, with a link to transition paragraph 958-10-65-1, as follows:

Implementation Guidance and Illustrations

> Illustrations

958-210-55-2 In addition to the following Examples~~Example~~, guidance in paragraph 958-205-55-7 illustrates a statement of financial position and paragraph 958-205-55-5 provides the facts and transactions that are reflected in that illustrative statement.

> > Example 1: Format of the Net Asset Section

958-210-55-3 As illustrated in paragraph 958-205-55-9, this Subtopic encourages the use of the terms **net assets with donor restrictions** and **net assets without donor restrictions~~unrestricted~~**, ~~**temporarily restricted**, and **permanently restricted net assets**~~; however, other labels exist. For example, equity may be used for net assets, and other or not donor-restricted may be used with care to distinguish net assets with donor restrictions from net assets without donor restrictions~~unrestricted net assets from the temporarily and permanently restricted classes of net assets~~. For example, the net asset section might be arranged as follows.

With donor restrictions~~Donor restricted~~:		
Perpetual in nature~~Permanently~~	$XXX	~~$XXX~~
Purpose restricted~~Temporarily~~	XXX	~~XXX~~
Time-restricted only, for periods after 20X1	XXX	XXX
Without donor restrictions~~Other~~:		
Designated by the Board for [*purpose*]	$XXX	
Undesignated	XXX	XXX
Net assets		$XXX

958-210-55-4 At a minimum, paragraph 958-210-45-1 requires that the amounts for each of the two~~three~~ classes of net assets—net assets with donor restrictions and net assets without donor restrictions~~unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets—~~and the total of net assets be reported in a statement of financial position. The captions used to describe those amounts must correspond with their meanings.

> > Example 2: Disclosures on Liquidity and Availability

958-210-55-5 This Example illustrates disclosures on liquidity and availability of an NFP's financial assets as required by paragraph 958-210-50-1A. It provides two possible methods to meet the disclosure requirements, but there may be other ways for an NFP to meet the requirements. In this Example, Not-for-Profit Entity A (NFP A) has combined the disclosures about availability of its financial assets and liquidity into one note; however, these disclosures also may be presented in separate notes. Note G in paragraph 958-205-55-21 provides an additional example of the disclosures on liquidity and availability of an NFP's financial assets.

> > > Case A

958-210-55-6 The following is a statement of financial position and example disclosure for NFP A.

[For ease of readability, the new illustration is not underlined.]

Not-for-Profit Entity A
Statement of Financial Position
June 30, 20X1
(in thousands)

	20X1
Assets:	
Cash	$ 75,000
Contributions receivable	20,000
Prepaid expenses	5,000
Short-term investments	300,000
Total assets	$ 400,000
Liabilities:	
Accounts payable	$ 80,000
Total liabilities	80,000
Net assets:	
Without donor restrictions	300,000
With donor restrictions	20,000
Total net assets	320,000
Total liabilities and net assets	$ 400,000

958-210-55-7 NFP A has $395,000 of financial assets available within 1 year of the balance sheet date to meet cash needs for general expenditure consisting of cash of $75,000, contributions receivable of $20,000, and short-term investments of $300,000. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The contributions receivable are subject to implied time restrictions but are expected to be collected within one year. NFP A has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet 60 days of normal operating expenses, which are, on average, approximately $275,000. NFP A has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as part of its liquidity management, NFP A invests cash in excess of daily requirements in various short-term investments, including certificate of deposits and short-term treasury instruments. As more fully described in Note XX, NFP A also has committed lines of credit in the amount of $20,000, which it could draw upon in the event of an unanticipated liquidity need.

> > > Case B

958-210-55-8 NFP A presents a classified statement of financial position with additional qualitative information about availability of resources and liquidity in Note T.

[For ease of readability, the new illustration is not underlined.]

Not-for-Profit Entity A
Statements of Financial Position
June 30, 20X1 and 20X0
(in thousands)

	20X1	20X0
Assets:		
Current assets		
Cash and cash equivalents	$ 4,575	$ 4,960
Accounts and interest receivable	2,130	1,670
Inventories and prepaid expenses	610	1,000
Contributions receivable	1,825	1,200
Short-term investments	1,400	1,000
Long-term investments appropriated for current use	10,804	10,075
Total current assets	21,344	19,905
Noncurrent assets		
Contributions receivable	1,200	1,500
Assets restricted to investment in land, buildings, and equipment	5,210	4,560
Land, buildings, and equipment	61,700	63,590
Long-term investments, net of amounts appropriated	207,266	193,425
Total noncurrent assets	275,376	263,075
Total assets	$296,720	$ 282,980
Liabilities and net assets:		
Current liabilities		
Accounts payable	$ 2,570	$ 1,050
Refundable advance		550
Grants payable	550	600
Notes payable		140
Annuity trust obligations	985	1,050
Total current liabilities	4,105	3,390
Noncurrent liabilities		
Refundable advance		100
Grants payable	325	700
Notes payable		1,000
Annuity obligations	700	650
Long-term debt	5,500	6,500
Total noncurrent liabilities	6,525	8,950
Total liabilities	10,630	12,340
Net assets:		
Without donor restrictions	92,677	73,619
With donor restrictions	193,413	197,021
Total net assets	286,090	270,640
Total liabilities and net assets	$296,720	$ 282,980

Note T

NFP A's financial assets available within one year of the balance sheet date for general expenditure are as follows.

Cash and cash equivalents	$ 4,575
Accounts and interest receivable	2,130
Contributions receivable	1,825
Short-term investments	1,400
Other investments appropriated for current use	10,804
	$ 20,734

NFP A's endowment funds consist of donor-restricted endowments and a quasi-endowment. Income from donor-restricted endowments is restricted for specific purposes and, therefore, is not available for general expenditure. As described in Note Y, the quasi-endowment has a spending rate of 5 percent. $1.65 million of appropriations from the quasi-endowment will be available within the next 12 months.

As part of NFP A's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, NFP A invests cash in excess of daily requirements in short-term investments. To help manage unanticipated liquidity needs, NFP A has committed lines of credit in the amount of $20 million, which it could draw upon. Additionally, NFP A has a quasi-endowment of $33 million. Although NFP A does not intend to spend from its quasi-endowment other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from its quasi-endowment could be made available if necessary. However, both the quasi-endowment and donor-restricted endowments contain investments with lock-up provisions that would reduce the total investments that could be made available (see Note X for disclosures about investments).

Amendments to Subtopic 958-225

18. Amend paragraphs 958-225-45-1, 958-225-45-3 through 45-8 and the related pending content, 958-225-45-10 through 45-14, and 958-225-45-17, add paragraphs 958-225-45-14A through 45-14B and 958-225-45-17A through 45-17B and their related heading, and supersede paragraph 958-225-45-19, with a link to transition paragraph 958-10-65-1, as follows**: [In addition, amend paragraphs 958-225-45-18, 958-225-45-20 through 45-22, and 958-225-45-25, with no additional link to transition.]**

Not-for-Profit Entities—Income Statement

Other Presentation Matters

> Totals and Format

958-225-45-1 A statement of activities provided by a **not-for-profit entity** (NFP) shall focus on the entity as a whole and shall report the following amounts for the period:

a. The change in net assets
b. The change in **net assets with donor restrictions**~~**permanently restricted net assets**~~
c. The change in **net assets without donor restrictions**~~**temporarily restricted net assets**~~
d. Subparagraph superseded by Accounting Standards Update No. 2016-14.~~The change in **unrestricted net assets.**~~

958-225-45-2 The change in net assets shall articulate to the net assets or equity reported in the statement of financial position and it shall be referred to using a descriptive term such as change in net assets or change in equity.

958-225-45-3 Revenues, expenses, gains, and losses increase or decrease net assets and shall be classified as provided in paragraphs 958-225-45-4 through 45-12~~45-8~~. **Reclassification of net assets**~~**Reclassifications**~~, such as expirations of **{add glossary link}**donor-imposed restrictions**{add glossary link}**, shall be reported as separate items.

> Classification of Revenues, Expenses, Gains, and Losses

958-225-45-4 Information about revenues, expenses, gains, losses, and **reclassification of net assets**~~reclassifications~~ generally is provided by aggregating items that possess similar characteristics into reasonably homogeneous groups.

958-225-45-5 A statement of activities shall report revenues as increases in **net assets without donor restrictions**~~unrestricted net assets~~ unless the use of the assets received is limited by **{add glossary link}**donor-imposed restrictions**{add glossary link}**. For example, fees from rendering services and income from investments generally are without donor restrictions~~unrestricted~~; however, income from donor-restricted ~~permanent~~perpetual or term endowments ~~may be donor restricted and~~ generally would increase **net assets with donor restrictions**~~either temporarily restricted net assets or permanently restricted net assets~~.

958-225-45-6 Pursuant to the Contributions Received Subsections of Subtopic 958-605, in the absence of a donor's explicit **stipulation** or circumstances surrounding the receipt of the **contribution** that make clear the donor's implicit restriction on use, contributions are reported as ~~unrestricted~~ revenues or gains without donor restrictions~~(**unrestricted support**)~~, which increase net assets without donor restrictions~~unrestricted net assets~~. The classification of contributions received as revenues or gains depends on whether the transactions are part of the NFP's ongoing major or central activities (revenues), or are peripheral or incidental to the NFP (gains). Donor-restricted contributions are reported as restricted revenues or gains (**donor-restricted support**~~**restricted support**~~), which increase net assets with donor restrictions~~temporarily restricted net assets or permanently restricted net assets depending on the type of restriction~~. However, donor-restricted contributions whose restrictions are met in the same reporting period may be reported as ~~unrestricted~~ support in net assets without donor restrictions, provided that an NFP has a similar policy for reporting investment gains and income, reports consistently from period to period, and discloses its accounting policy.

958-225-45-7 A statement of activities shall report expenses as decreases in net assets without donor restrictions, with the exception of investment expenses, which shall be netted against investment return and reported in the net asset category in which the net investment return is reported~~unrestricted net assets~~ (see Subtopic 958-720).

958-225-45-8 A statement of activities shall report gains and losses recognized on investments and other assets (or liabilities) as increases or decreases in net assets without donor restrictions~~unrestricted net assets~~ unless their use is ~~temporarily or permanently~~ restricted by explicit donor stipulations or by law that extends donor restrictions. For example, net gains on investment assets, to the extent recognized in financial statements, are reported as increases in net assets without donor restrictions~~unrestricted net assets~~ unless their use is restricted by a donor to a specified purpose or future period or by law that extends donor restrictions. See Section 958-320-45 for additional guidance about reporting investment gains and losses, and paragraphs 958-205-45-13 through 45-13H~~45-27~~ for additional guidance about reporting gains and losses on endowment funds. See paragraph 958-310-45-3 for additional guidance about bad debt expenses and losses.

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 825-10-65-2

A statement of activities shall report gains and losses recognized on investments and other assets (or liabilities) as increases or decreases in net assets without donor restrictions~~unrestricted net assets~~ unless their use is ~~temporarily or permanently~~ restricted by explicit donor stipulations or by law that extends donor restrictions. For example, net gains on investment assets, to the extent recognized in financial statements, are reported as increases in net assets without donor restrictions~~unrestricted net assets~~ unless their use is restricted by a donor to a specified purpose or future period or by law that extends donor restrictions. See paragraphs 958-225-45-18 through 45-26 for additional guidance about reporting investment gains and losses, and paragraphs 958-205-45-13 through 45-13H~~45-27~~ for additional guidance about reporting gains and losses on endowment funds. See paragraph 958-310-45-3 for additional guidance about bad debt expenses and losses.

> Measure of Operations

958-225-45-9 Classifying revenues, expenses, gains, and losses within classes of net assets does not preclude incorporating additional classifications within a statement of activities. For example, within a class or classes of changes in net assets, an NFP may classify items as follows:

a. Operating and nonoperating
b. Expendable and nonexpendable
c. Earned and unearned
d. Recurring and nonrecurring
e. In other ways.

Pending Content:
Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 606-10-65-1

Classifying revenues, expenses, gains, and losses within classes of net assets does not preclude incorporating additional classifications within a statement of activities. For example, within a class or classes of changes in net assets, an NFP may classify items as follows:

a. Operating and nonoperating
b. Expendable and nonexpendable
c. Recognized and unrecognized
d. Recurring and nonrecurring
e. In other ways.

958-225-45-10 This Subtopic neither encourages nor discourages those further classifications. However, because terms such as operating income, operating profit, operating surplus, operating deficit, and results of operations are used with different meanings, if an intermediate measure of operations (for example, excess or deficit of operating revenues over expenses) is reported, it shall be in a financial statement that, at a minimum, reports the change in **net assets without donor restrictions**~~unrestricted net assets~~ for the period. Example 1 (see paragraph 958-225-55-5) illustrates a statement of ~~unrestricted~~ revenues, expenses, and other changes in net assets without donor restrictions~~unrestricted net assets~~ that subdivides all transactions and other events and circumstances to make an operating and nonoperating distinction.

958-225-45-11 Some limitations on an NFP's use of an intermediate measure of operations are imposed by other Subtopics. If a subtotal such as income from operations is presented, it shall include the following amounts:

a. An impairment loss recognized for a long-lived asset (asset group) to be held and used, pursuant to paragraph 360-10-45-4
b. Costs associated with an exit or disposal activity that does not involve a discontinued operation, pursuant to paragraph 420-10-45-3
c. A gain or loss recognized on the sale of a long-lived asset (**disposal group**) that is not a component of an ~~entity,~~entity that qualifies for discontinued operations treatment, as defined in Subtopic 205-20, and pursuant to paragraph 360-10-45-5.

958-225-45-12 Pursuant to paragraph 958-225-50-1, if an NFP's use of the term *operations* is not apparent from the details provided on the face of the statement, a note to financial statements shall describe the nature of the reported measure of operations or the items excluded from operations. If an NFP presents internal board designations, appropriations, and similar actions on the face of the financial statements, a note to financial statements shall provide an appropriate disaggregation and description by type of these actions if not provided on the face of the financial statements.

> Reclassifications

958-225-45-13 {add glossary link}Reclassifications of net assets**{add glossary link}**—that is, simultaneous increases in one net asset class and decreases in another—shall be made if any of the following events occur:

a. The NFP fulfills the purposes for which the net assets were restricted.
b. **{add glossary link}**Donor-imposed restrictions**{add glossary link}** expire with the passage of time or with the death of a **split-interest agreement** beneficiary (if the net assets are not otherwise restricted).
c. A donor withdraws, or court action removes, previously imposed restrictions.
d. A donor imposes restrictions on **net assets without donor restrictions**~~otherwise unrestricted net assets~~. For example, a donor may make a restricted **{add glossary link}**contribution**{add glossary link}** that is conditioned on the NFP restricting a stated amount of its net assets without donor restrictions~~unrestricted net assets~~. Such restrictions that are not reversible without donors' consent result in a reclassification of net assets without donor restrictions~~unrestricted net assets~~ to **net assets with donor restrictions**~~restricted net assets~~.

See paragraphs 958-205-45-9 through 45-12 for additional information about the expiration of donor-imposed restrictions.

> Gross versus Net Reporting of Amounts

958-225-45-14 To help explain the relationships of an NFP's ongoing major or central operations and activities, a statement of activities generally shall report the gross amounts of revenues and expenses. However, investment return (related to total return investing and not **programmatic investing**) shall~~revenues may~~ be reported net of ~~related expenses,~~ external and direct internal~~such as custodial fees and internal and external~~ investment expenses~~advisory costs, provided that the amount of the expenses is disclosed either on the face of the statement of activities or in notes to financial statements~~. An NFP may present the amounts of net investment return from portfolios that are managed differently or derived from different sources as separate, appropriately labeled line items on the statement of activities. For example, if an NFP has net investment return generated from operating cash, it may present that return separately from net investment return generated from its endowment. In addition, if appropriately labeled, an NFP may present the amounts of net investment return appropriated for spending separate from net investment return in excess of amounts appropriated for spending.

958-225-45-14A Direct internal investment expenses involve the direct conduct or direct supervision of the strategic and tactical activities involved in generating investment return. These include, but are not limited to, both of the following:

a. Salaries, benefits, travel, and other costs associated with the officer and staff responsible for the development and execution of investment strategy
b. Allocable costs associated with internal investment management and supervising, selecting, and monitoring of external investment management firms.

958-225-45-14B Direct internal investment expenses do not include items that are not associated with generating investment return. For example, the costs associated with unitization and other such aspects of endowment management would not be allocated.

958-225-45-15 A statement of activities may report gains and losses as net amounts if they result from peripheral or incidental transactions or from other events and circumstances that may be largely beyond the control of the NFP and its management. Information about their net amounts generally is adequate to understand the NFP's activities. For example, an entity that sells land and buildings no longer needed for its ongoing activities commonly reports that transaction as a net gain or loss, rather than as gross revenues for the sales value and expense for the carrying value of the land and buildings sold. The net amount of those peripheral transactions, used with information in a statement of cash flows, usually is adequate to help assess how an entity uses its resources and how managers discharge their stewardship responsibilities.

958-225-45-16 The frequency of the events and the significance of the gross revenues and expenses distinguish major or central events from peripheral or incidental events. Events are ongoing major and central activities if they are normally part of an NFP's strategy and it normally carries on such activities or if the event's gross revenues or expenses are significant in relation to the NFP's annual budget. Events are peripheral or incidental if they are not an integral part of an NFP's usual activities or if their gross revenues or expenses are not significant in relation to the NFP's annual budget. Accordingly, similar events may be reported differently by different NFPs based on the NFP's overall activities.

958-225-45-17 An NFP may report net amounts for its special events if they result from peripheral or incidental transactions. However, so-called special events ~~often are~~can be ongoing and major activities; if so, an NFP shall report the gross revenues and expenses of those activities. Costs netted against receipts from peripheral or incidental special events shall be limited to direct costs. See Example 4 (paragraph 958-225-55-11~~958-225-55-10~~) for three possible methods of complying with this requirement.

> Equity Transfers

958-225-45-17A Equity transfers are reported separately as changes in net assets and do not result in any step-up in basis of the underlying assets transferred. However, a service received from personnel of an **affiliate** that directly benefits the recipient NFP and for which the affiliate does not charge the recipient NFP may be recorded at the fair value of that service in the circumstances indicated in paragraph 958-720-30-3. Paragraph 958-20-55-2B describes the difference between an equity transfer and an equity transaction. Paragraph 954-225-45-2 provides additional guidance on the reporting of equity transfers for not-for-profit, business-oriented health care entities.

958-225-45-17B The increase in net assets associated with services received from personnel of an affiliate that directly benefit the recipient NFP and for which the affiliate does not charge the recipient NFP shall be reported as an equity transfer, regardless of whether those services are received from personnel of a not-for-profit affiliate or any other affiliate. The corresponding decrease in net assets or the creation or enhancement of an asset resulting from the use of services received from personnel of an affiliate shall be reported similar to how other such expenses or assets are reported. Paragraphs 954-225-45-2 through 45-2A provide additional guidance for not-for-profit, business-oriented health care entities.

> Reporting Investment Gains, Losses, and Income

958-225-45-18

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 825-10-65-2

Pursuant to paragraph 958-225-45-8, gains and losses on investments and dividends, interest, and other investment income shall be reported in the statement of activities as increases or decreases in **net assets without donor restrictions**~~**unrestricted net assets**~~ unless their use is limited by **donor-imposed restrictions** or by law that extends donor restrictions, in which case those amounts shall be reported as increases or decreases in **net assets with donor restrictions**~~temporarily or permanently restricted by explicit donor stipulations or by law~~.

958-225-45-19 Paragraph superseded by Accounting Standards Update No. 2016-14.~~Pursuant to paragraph 958-225-45-5, dividend, interest, and other investment income shall be reported in the period earned as increases in unrestricted net assets unless the use of the assets received is limited by donor-imposed restrictions. Donor-restricted investment income shall be reported as an increase in **temporarily restricted net assets** or **permanently restricted net assets**, depending on the type of restriction.~~

958-225-45-20

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 825-10-65-2

Gains and investment income that are limited to specific uses by **{add glossary link}**donor-imposed restrictions**{add glossary link}** may be reported as increases in net assets without donor restrictions~~unrestricted net assets~~ if the restrictions are met in the same reporting period as the gains and income are recognized, provided that the **not-for-profit entity** (NFP) has a similar policy for reporting **contributions** received (see paragraphs 958-605-45-3 through 45-5), reports consistently from period to period, and discloses its accounting policy.

958-225-45-21

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 825-10-65-2

Pursuant to paragraphs 958-225-45-14 through 45-14B,~~and 958-225-50-1, investment revenues may~~investment return, other than that which is programmatic in nature, shall be reported net of ~~related~~external and direct internal investment expenses~~, such as custodial fees and investment advisory fees, provided that the amount of the expenses is disclosed either on the face of the statement of activities or in notes to financial statements~~.

958-225-45-22

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 825-10-65-2

Gains and losses on the investments of a **donor-restricted endowment fund** are classified in accordance with paragraphs 958-205-45-13 through ~~45-35~~45-13H.

> Presentation in a Statement of Activities with an Operating Measure

958-225-45-23

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 825-10-65-2

Some NFPs, primarily health care entities, would like to compare their results to business entities in the same industry. An NFP with those comparability concerns may report in a manner similar to business entities by classifying debt securities as available for sale or held to maturity as described in paragraphs 320-10-25-1 through 25-6 and excluding the unrealized gains and losses on those securities (which are recognized in accordance with Subtopic 958-320) from an operating measure within the statement of activities. Not-for-profit, business-oriented health care entities, however, are required to exclude certain gains and losses from a performance measure (see paragraph 954-225-45-8).

958-225-45-24

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 825-10-65-2

In general, amounts reported in an NFP's financial statements shall be based on the nature of the underlying transactions rather than on budgetary designations.

958-225-45-25

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 825-10-65-2

Amounts of investment return based on budgetary designations may be ~~displayed~~displayed. However, in accordance with paragraph 958-225-45-14, investment return, other than that which is programmatic in nature, shall be displayed net of external and direct internal investment expenses. Paragraph 958-320-55-7 provides an example of how an NFP could present net investment return. ~~because the necessary constraints are provided by the disclosures required by paragraph 958-320-50-1 and paragraphs 958-225-45-9 through 45-12 (including the requirement that an operating measure, if reported, must appear in a financial statement that, at a minimum, reports the change in unrestricted net assets for the period).~~

958-225-45-26

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 825-10-65-2

Some NFPs, in managing their endowment funds, use a **spending-rate** or **total return** policy. Those policies consider total investment return—investment income (interest, dividends, rents, and so forth) plus net realized and unrealized gains (or minus net losses). Typically, spending-rate or total return policies emphasize the use of prudence and a rational and systematic formula to determine the portion of cumulative investment return that can be used to support operations of the current period and the protection of endowment gifts from a loss of purchasing power as a consideration in determining the formula to be used. Example 1 (see paragraph 958-320-55-4) illustrates a statement of activities and example disclosures of an NFP that uses a spending-rate policy to include only a portion of its investment return in its operating measure.

19. Amend paragraph 958-225-50-1, with a link to transition paragraph 958-10-65-1, as follows:

Disclosure

958-225-50-1 A **not-for-profit entity** (NFP) shall disclose the following information in the notes to financial statements:

a. If an NFP's use of the term *operations* is not apparent from the details provided on the face of the statement of activities, a description of the nature of the reported measure of operations or the items excluded from operations (see Example 5 in paragraph 958-225-55-16 for a case in which this information is apparent on the face of the statement of activities and a case in which this information is disclosed in the notes to the financial statements).

aa. If an NFP presents internal board designations, appropriations, and similar actions on the face of the financial statements, an appropriate disaggregation and description by type of these actions if not provided on the face of the financial statements (see Example 5 in paragraph 958-225-55-16 for a case in which this information is apparent on the face of the financial statements and a case in which this information is disclosed in the notes to the financial statements).

b. Subparagraph superseded by Accounting Standards Update No. 2016-14.~~The amount of investment-related expenses, such as custodial fees and investment advisory fees, netted against investment revenues if that amount is not disclosed on the face of the statement of activities pursuant to paragraph 958-225-45-14.~~

c. If not provided on the face of the statement of activities or as a separate statement, all expenses in one location. The relationship between functional and natural classification for all expenses shall be presented in an analysis that disaggregates **functional expense classifications** by their **natural expense classifications**. Investment expenses that are netted against investment return shall not be included (see paragraph 958-720-45-15).

d. A qualitative description of the methods used to allocate costs among program and support functions (see paragraph 958-720-50-1).

20. Amend paragraphs 958-225-55-2, 958-225-55-5 through 55-7, 958-225-55-9, and 958-225-55-12 through 55-15 and add paragraphs 958-225-55-16 through 55-20 and their related headings, with a link to transition paragraph 958-10-65-1, as follows:

Implementation Guidance and Illustrations

958-225-55-1 This Section, which is an integral part of the requirements of this Subtopic, provides general guidance to be used in the presentation of a statement of activities by a **not-for-profit entity** (NFP).

> Implementation Guidance

> > Entitywide Totals versus Disaggregated Information

958-225-55-2 Entitywide totals are not necessary for individual line items of revenues, expenses, gains, or losses. Information about reasonably homogeneous components of revenues, such as ~~unrestricted~~ **contributions** without donor restrictions that are available to support current expenses and ~~restricted~~donor-restricted contributions that are restricted to acquiring~~to be used to acquire~~ land and buildings, generally is more meaningful than the aggregated total of those components.

958-225-55-3 Disaggregated information that permits users of financial information to relate components of revenues to components of expenses also is often preferable to information provided by their aggregated amounts. For example, information that permits analysis of the levels of revenues from tuition in relation to expenses for instruction and other academic services and of revenues from room and board fees in relation to expenses for housing and food services generally is more meaningful than totals of aggregated items of revenues, such as student tuition and fees, or aggregated items of expenses, such as salaries, heat, electricity, or supplies. Those who prepare financial statements generally are best able to make judgments about the extent to which financial statements or notes to financial statements should provide disaggregated information about various items of revenues or expenses and this Subtopic need not limit those judgments.

> Illustrations

958-225-55-4 In addition to the following illustrations, guidance in paragraphs 958-205-55-10 through 55-17 illustrates three formats of statements of activities. Paragraph 958-205-55-5 provides the facts and transactions that are reflected in those illustrative statements.

> > Example 1: Intermediate Measure of Operations

958-225-55-5 This Example illustrates a statement of ~~unrestricted~~ revenues, expenses, and other changes in **net assets without donor restrictions**~~**unrestricted net assets**~~ that subdivides all transactions and other events and circumstances to make an operating and nonoperating distinction pursuant to ~~paragraph~~paragraphs 958-225-45-9 through 45-12. This Example uses part 1 of 2 of Format C in paragraph 958-205-55-15 to show a measure of operations—change in net assets without donor restrictions~~unrestricted net assets~~ from operations.

958-225-55-6 The shaded areas depict the constraints imposed by this Subtopic and by generally accepted accounting principles (GAAP) to report appropriately labeled subtotals for changes in classes of net assets before the effects of discontinued operating segments, if any. The unshaded areas depict areas within the statement for which there is latitude to sequence and classify items of revenues and expenses. Other formats also may be used. For example, the single-statement Format B approach of paragraph 958-205-55-14 may be helpful in describing an NFP’s ongoing major or central operations if that NFP’s view of operating activities includes receiving donor-restricted revenues from contributions and investment income.

Other Not-for-Profit Organization
Statement of ~~Unrestricted~~ Revenues, Expenses, and
Other Changes in ~~Unrestricted Net Assets~~Net Assets without Donor Restrictions
Year Ended June 30, 20X1~~19X1~~
(in thousands)

Operating revenues and support:	
Fees from providing services	$ X,XXX
Operating support	X,XXX
Net assets released from restrictions	X,XXX
Total operating revenues and support	XX,XXX
Operating expenses:	
Programs	XX,XXX
Management and general	X,XXX
Fund raising	X,XXX
Total operating expenses	XX,XXX
Change in ~~unrestricted~~ net assets from operations	X,XXX
Other changes:	
[*Items considered to be nonoperating*]	X,XXX
Change in net assets before effects of discontinued operating segments	XX,XXX
Discontinued operations	X,XXX
Change in net assets	XX,XXX
Net assets at beginning of year	XXX,XXX
Net assets at end of year	$XXX,XXX

> > Example 2: Discontinued Operations

958-225-55-7 This Example illustrates the application of paragraph 958-205-45-5, as generally accepted accounting principles (GAAP) requires the display of an appropriately labeled subtotal for change in a class of net assets before the effects of a discontinued operation (see paragraph~~paragraphs~~ 205-20-45-1A~~ through 45-1D~~). For instance, using the columnar format, a statement of activities would report the effects of a discontinued operation as follows.~~Format B of paragraph 958-205-55-14, a statement of activities would report the effects of a discontinued operation as follows.~~

	~~Unrestricted~~	~~Temporarily Restricted~~	~~Permanently Restricted~~	~~Total~~
~~Change in net assets before discontinued operations~~	~~$ 11,558~~	~~$ (1,128)~~	~~$ 5,020~~	~~$ 15,450~~
~~Discontinued operations (Note X)~~	~~XXX~~	~~XXX~~	~~XXX~~	~~XXX~~
~~Change in net assets~~	~~$ XX,XXX~~	~~$ (X,XXX)~~	~~$ X,XXX~~	~~$ XX,XXX~~

[For ease of readability, the new illustration is not underlined.]

	Without Donor Restrictions	With Donor Restrictions	Total
Change in net assets before discontinued operations	$ 11,558	$ 3,892	$ 15,450
Discontinued operations (Note X)	XXX	XXX	XXX
Change in net assets	$ XX,XXX	$ X,XXX	$ XX,XXX

> > Example 3: Displaying Fundraising Efforts

958-225-55-8 This Example provides three possible methods of displaying fundraising efforts in the revenue section of the statement of activities, while still conforming to the requirements of paragraph 958-605-45-10. Methods 2 and 3 display the total amounts raised.

958-225-55-9 Entity A raises $6,000 of **{add glossary link}**contributions**{add glossary link}**, $100 of other support, and $4,000 accounted for as **agent**, **trustee**, or **intermediary** transactions because donors have specified beneficiaries without granting **variance power**. Of the $4,000 accounted for as agent, trustee, or intermediary transactions, Entity A pays out $3,600 to specified beneficiaries and retains $400 as its administrative fee.

958-225-55-10 Each of the methods reports Entity A’s revenues ($6,500) in a way that is both easily understood by users of the financial statements and representationally faithful.

Method 1

Contributions		$ 6,000
Other support		100
Total support		6,100
Administrative fees retained on amounts designated by donors for specific organizations		400
Total support and revenue		$ 6,500

Method 2

Contributions		$ 6,000
Other support		100
Total support		6,100
Other revenue:		
Amounts designated by donors for specific organizations	$ 4,000	
Less: Amounts held for or remitted to those organizations	3,600	
Administrative fees retained on amounts designated by donors for specific organizations		400
Total support and revenue		$ 6,500

Method 3

Total amounts raised [(a)]	$ 10,000
Less: Amounts designated by donors for specific organizations	4,000
Total contributions	6,000
Other revenue:	
Other support	100
Administrative fees retained on amounts designated by donors for specific organizations	400
Total support and revenue	$ 6,500

(a) Other terms, such as *campaign results* or *campaign efforts,* may be used.

> > Example 4: Displaying Special Events

958-225-55-11 This Example illustrates the guidance in paragraph 958-225-45-17. It provides three possible methods to display in the statement of activities a special event that is an ongoing and major activity.

958-225-55-12 Cases A, B, and C share the following assumptions:

a. Not-for-Profit Entity B (NFP B) has a special event that is an ongoing and major activity with ticket revenue of $100.
b. The activity does not meet the audience criterion in paragraphs 958-720-45-48 through 45-49, and, therefore, all costs of the activity, other than the direct donor benefits, should be reported as fundraising.
c. The event includes a dinner that costs NFP B $25 and that has a fair value of $30.
d. In addition, NFP B incurs other direct costs of the event of $15 in connection with promoting and conducting the event, including incremental direct costs incurred in transactions with independent third parties and the payroll and payroll-related costs for the activities of employees who are directly associated with, and devote time to, the event. These other direct costs have been included in fundraising expenses. The other direct costs are unrelated to the direct benefits to donors and, accordingly, should not be included as costs of benefits to donors. The other direct costs include $5 that otherwise might be considered management and general costs if they had been incurred in a different activity, and fundraising costs of $10.
e. In addition, NFP B has all of the following transactions, which are unrelated to the special event:
   1. ~~Unrestricted contributions~~**Contributions** without donor restrictions of $200
   2. Program expenses of $60
   3. Management and general expenses of $20
   4. Fundraising expenses of $20.

> > > Case A: Direct Benefits to Donors Displayed on a Line below Gross Revenue from the Special Event

958-225-55-13 NFP B may report the gross revenues of special events and other fundraising activities with the cost of direct benefits to donors (meals and facilities rental) displayed as a line item deducted from the special event revenues, as follows:

Changes in net assets without donor restrictions:~~unrestricted net assets:~~		
Contributions		$200
Special event revenue	100	
Less: Costs of direct benefits to donors	(25)	
Net revenues from special events		75
Contributions and net revenues from special events		275
Other expenses:		
Program		60
Management and general		20
Fundraising		35
Total other expenses		115
Increase in net assets without donor restrictions~~unrestricted net assets~~		$160

> > > Case B: Direct Benefits to Donors Displayed as a Line with Other Expenses

958-225-55-14 NFP B may report the gross revenues of special events and other fundraising activities with the cost of direct benefits to donors (meals and facilities rental) displayed in the same section of the statement of activities as are other programs or supporting services and allocated, if necessary, among those various functions, as follows:

Changes in net assets without donor restrictions:~~unrestricted net assets:~~	
Revenues:	
Contributions	$ 200
Special event revenue	100
Total revenues	300
Expenses:	
Program	60
Costs of direct benefits to donors	25
Management and general	20
Fundraising	35
Total other expenses	140
Increase in net assets without donor restrictions~~unrestricted net assets~~	$ 160

> > > Case C: Special Event Revenues Reported as Part Exchange and Part Contribution

958-225-55-15 NFP B may report the gross revenue from special events and other fundraising activities as part exchange (for the fair value the participant received) and part contribution (for the excess of the payment over that fair value), as follows:

Changes in net assets without donor restrictions:~~unrestricted net assets:~~		
Contributions		$270
Dinner sales	30	
Less: Costs of direct benefits to donors	(25)	
Gross profit on special events		5
Contributions and net revenues from special events		275
Other expenses:		
Program		60
Management and general		20
Fundraising		35
Total other expenses		115
Increase in net assets without donor restrictions~~unrestricted net assets~~		$160

> > Example 5: Disclosure on Measure of Operations

958-225-55-16 This Example illustrates the disclosures required in accordance with paragraph 958-225-50-1(a) through (aa) if an entity elects to present a measure of operations. It provides a case in which the disclosures are apparent on the face of the statement of activities and a case in which the disclosures are provided in the notes to the financial statements. There are multiple ways in which an NFP could present this information. The cases provided are two alternatives presented for illustration purposes.

> > > Case A: Disclosures on Measure of Operations Apparent on the Face of the Statement of Activities

958-225-55-17 The following Case is an example of a statement of activities of Not-for-Profit Entity A (NFP A) in which the disclosures required in paragraph 958-225-50-1(a) through (aa) are apparent from the details provided on the face of the statement of activities. This Case illustrates one way in which an NFP can present governing board actions on a statement of activities and is not meant to be prescriptive of a specific format.

[For ease of readability, the new illustration is not underlined.]

Not-for-Profit Entity A
Statement of Activities
Year Ended June 30, 20X1

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues, gains, and other support:			
Contributions	$X,XXX	$ X,XXX	$XX,XXX
Less:			
Contributions designated by board for capital projects	(3,000)		(3,000)
Contributions and bequests designated by board for quasi-endowment	(5,000)		(5,000)
Investment returns appropriated from quasi-endowment	1,025		1,025
Programmatic investing return	XX		XX
Other	XXX		XXX
Net assets released from restrictions			
Investment return appropriated and released for current operations from donor-restricted endowment	X,XXX	(X,XXX)	
[Other net assets released from restrictions]	X,XXX	(X,XXX)	
Total operating revenues, gains, and other support	XX,XXX	X,XXX	XX,XXX
Operating expenses:			
Program A	XX,XXX		
Program B	X,XXX		
Program C	X,XXX		
Management and general	X,XXX		
Fundraising	X,XXX		
Total operating expenses	XX,XXX		XX,XXX
Operating revenues and support in excess of operating expenses	XX,XXX	X,XXX	X,XXX
Investment return, net	X,XXX	XX,XXX	XX,XXX
[Other items considered to be nonoperating]	X,XXX	X,XXX	X,XXX
Investment returns appropriated for current operations from quasi-endowment	(1,025)		(1,025)
Contributions designated by board for capital projects	3,000		3,000
Contributions and bequests designated by board for quasi-endowment	5,000		5,000
Loss on extinguishment of debt	(X,XXX)		(X,XXX)
Change in fair value of interest rate swap	X,XXX		X,XXX
Change in net assets	$XX,XXX	$ X,XXX	$XX,XXX

> > > Case B: Disclosures on Measure of Operations Provided in the Notes to the Financial Statements

958-225-55-18 The following Case is an example of a statement of activities of NFP A in which the disclosures required in paragraph 958-225-50-1(a) through (aa) are not apparent from the details provided on the face of the statement of activities.

[For ease of readability, the new illustration is not underlined.]

Not-for-Profit Entity A
Statement of Activities
Year Ended June 30, 20X1

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues, gains, and other support:			
Contributions	$X,XXX	$ X,XXX	$XX,XXX
Fees	X,XXX		X,XXX
Programmatic investing return	XX		XX
Other	XXX		XXX
Net assets released from restrictions			
Investment return appropriated and released for current operations from donor-restricted endowment	X,XXX	(X,XXX)	
[Other net assets released from restrictions]	X,XXX	(X,XXX)	
Total operating revenues, gains, and other support	XX,XXX	X,XXX	XX,XXX
Operating expenses:			
Program A	XX,XXX		
Program B	X,XXX		
Program C	X,XXX		
Management and general	X,XXX		
Fundraising	X,XXX		
Total operating expenses	XX,XXX		XX,XXX
Net transfer of funds from operations	(6,975)		(6,975)
Operating revenues in excess of operating expenses and transfers	XX,XXX	X,XXX	XX,XXX
Other changes:			
Investment return, net	X,XXX	X,XXX	X,XXX
Contributions	X,XXX		X,XXX
Other	X,XXX		X,XXX
Net transfer of funds to operations	6,975		6,975
Change in net assets	$XX,XXX	$ X,XXX	$XX,XXX

958-225-55-19 NFP A would add the following illustrative text to its note to financial statements that describes the nature of the reported measure of operations or the items excluded from operations and provides an appropriate disaggregation and description by type of internal board designations, appropriations, and similar actions.

Measure of Operations

NFP A's operating revenues in excess of expenses and transfers include all operating revenues and expenses that are an integral part of its programs and supporting activities, net assets released from donor restrictions to support operating expenditures, and transfers from Board-designated and other nonoperating funds to support current operating activities. The measure of operations includes support for operating activities from both donor-restricted net assets and net assets without donor restrictions designated for long-term investment (the donor-restricted and quasi-endowment) according to NFP A's spending policy, which is detailed in Note X. The measure of operations excludes investment return in excess of (less than) amounts made available for current support, gains and losses on extinguishment of debt, and changes in fair value of the interest rate swap. Included in the line items *net transfer of funds to operations* and *net transfer of funds from operations* is investment return appropriated from quasi-endowment to operations of $1,025, contributions designated by the Board of Trustees for capital projects from operations of $3,000, and contributions and bequests designated by the Board of Trustees for quasi-endowment from operations of $5,000.

> > Example 6: Presentation of Net Investment Return in Separate Line Items

958-225-55-20 The following is an Example of a statement of activities in which NFP A presents net investment return in separate, appropriately labeled line items in accordance with paragraph 958-225-45-14. In this Example, NFP A presents net investment return in two separate line items to distinguish net investment return appropriated for current operations from net investment return for use in future periods. There may be other cases in which an NFP may present net investment return in separate line items in accordance with paragraph 958-225-45-14.

[For ease of readability, the new illustration is not underlined.]

Not-for-Profit Entity A
Statement of Activities
Year Ended June 30, 20X1

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues, gains, and other support:			
Contributions	$X,XXX	$ X,XXX	$XX,XXX
Other	XXX		XXX
Investment return, net, appropriated for spending	X,XXX	X,XXX	X,XXX
Net assets released from restrictions	X,XXX	(X,XXX)	
Total operating revenues, gains, and other support	XX,XXX	X,XXX	XX,XXX
Operating expenses	XX,XXX		XX,XXX
Total operating revenues, gains, and other support in excess of operating expenses	XX,XXX	X,XXX	XX,XXX
Other changes:			
Investment return, net, in excess of amounts appropriated for spending	X,XXX	X,XXX	X,XXX
Other	X,XXX		X,XXX
Change in net assets	$XX,XXX	$ X,XXX	$XX,XXX

Amendments to Subtopic 958-310

21. Amend paragraphs 958-310-45-2 through 45-3, with a link to transition paragraph 958-10-65-1, as follows:

Not-for-Profit Entities—Receivables

Other Presentation Matters

> Contributions Receivable—Statement of Financial Position

958-310-45-1 Contributions receivable shall be reported net of the discount that arises if measuring a **promise to give** at present value. The discount shall be separately disclosed by reporting it as a deduction from contributions receivable either on the face of a statement of financial position or in the notes to financial statements.

> Contributions Receivable—Statement of Activities

958-310-45-2 If an **unconditional promise to give** is measured using present value techniques, a **not-for-profit entity** (NFP) shall report the subsequent accrual of the interest element recognized under paragraph 958-310-35-6 as an increase in **net assets with donor restrictions**~~either temporarily or **permanently restricted net assets**~~ if the underlying promise to give is donor restricted.

958-310-45-3 Decreases recognized under paragraph 958-310-35-7 shall be reported as expenses or losses (bad debt) in the net asset class in which the net assets are represented. Because all expenses are reported in the ~~unrestricted net asset~~**net asset without donor restrictions** class, those decreases shall be reported as losses if they are decreases in net assets with donor restrictions~~**temporarily restricted net assets** or permanently restricted net assets~~.

Amendments to Subtopic 958-320

22. Amend paragraphs 958-320-45-1, 958-320-45-3 through 45-5, and 958-320-45-8 and supersede paragraph 958-320-45-2, with a link to transition paragraph 958-10-65-1, as follows:

Not-for-Profit Entities—Investments—Debt and Equity Securities

Other Presentation Matters

> Reporting Investment Gains, Losses, and Income

958-320-45-1 Pursuant to paragraph 958-225-45-8, gains and losses on investments and dividends, interest, and other investment income shall be reported in the statement of activities as increases or decreases in **net assets without donor restrictions**~~**unrestricted net assets**~~ unless their use is limited by **donor-imposed restrictions** or by law that extends donor restrictions, in which case those amounts shall be reported as increases or decreases in **net assets with donor restrictions**~~temporarily or permanently restricted by explicit donor stipulations or by law~~.

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 825-10-65-2

Editor's Note*: The content of paragraph 958-320-45-1 will be superseded upon transition, together with its heading.*
> **Reporting Investment Gains, Losses, and Income**

Paragraph superseded by Accounting Standards Update No. 2016-01.

958-320-45-2 Paragraph superseded by Accounting Standards Update No. 2016-14.~~Pursuant to paragraph 958-225-45-5, dividend, interest, and other investment income shall be reported in the period earned as increases in unrestricted net assets unless the use of the assets received is limited by donor-imposed restrictions. Donor-restricted investment income shall be reported as an increase in **temporarily restricted net assets** or **permanently restricted net assets**, depending on the type of restriction.~~

[In addition, remove the following pending content immediately.]

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 825-10-65-2

Paragraph superseded by Accounting Standards Update No. 2016-01.

958-320-45-3 Gains and investment income that are limited to specific uses by donor-imposed restrictions may be reported as increases in net assets without donor restrictions~~unrestricted net assets~~ if the restrictions are met in the same reporting period as the gains and income are recognized, provided that the **not-for-profit entity** (NFP) has a similar policy for reporting **contributions** received (see paragraphs 958-605-45-3 through 45-5), reports consistently from period to period, and discloses its accounting policy.

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 825-10-65-2

Paragraph superseded by Accounting Standards Update No. 2016-01.

958-320-45-4 Pursuant to paragraphs 958-225-45-14 through 45-14B, investment return, other than that which is programmatic in nature, shall~~and 958-225-50-1, investment revenues may~~ be reported net of related external and direct internal investment expenses~~expenses, such as custodial fees and investment advisory fees, provided that the amount of the expenses is disclosed either on the face of the statement of activities or in notes to financial statements~~.

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 825-10-65-2

Paragraph superseded by Accounting Standards Update No. 2016-01.

958-320-45-5 Gains and losses on the investments of a **donor-restricted endowment fund** are classified in accordance with paragraphs 958-205-45-13 through ~~45-35~~45-13H.

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 825-10-65-2

Paragraph superseded by Accounting Standards Update No. 2016-01.

> Presentation in a Statement of Activities with an Operating Measure

958-320-45-6 Some NFPs, primarily health care entities, would like to compare their results to business entities in the same industry. An NFP with those comparability concerns may report in a manner similar to business entities by classifying securities as available for sale or held to maturity as described in paragraphs 320-10-25-1 through 25-6 and excluding the unrealized gains and losses on those securities (which are recognized in accordance with Subtopic 958-320) from an operating measure within the statement of activities. Not-for-profit, business-oriented health care entities, however, are required to exclude certain gains and losses from a performance measure (see paragraph 954-320-45-1).

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 825-10-65-2

***Editor's Note**: The content of paragraph 958-320-45-6 will be superseded upon transition, together with its heading.*
> **Presentation in a Statement of Activities with an Operating Measure**

Paragraph superseded by Accounting Standards Update No. 2016-01.

958-320-45-7 In general, amounts reported in an NFP's financial statements shall be based on the nature of the underlying transactions rather than on budgetary designations.

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 825-10-65-2

Paragraph superseded by Accounting Standards Update No. 2016-01.

958-320-45-8 Amounts of investment return based on budgetary designations may be displayed. However, in accordance with paragraph 958-225-45-14, investment return, other than that which is programmatic in nature, must be displayed net of related external and direct internal investment expenses. Paragraph 958-320-55-7 provides an example of how an NFP could present net investment return. ~~because the necessary constraints are provided by the disclosures required by paragraph 958-320-50-1 and paragraphs 958-225-45-9 through 45-12 (including~~

~~the requirement that an operating measure, if reported, must appear in a financial statement that, at a minimum, reports the change in unrestricted net assets for the period).~~

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 825-10-65-2

Paragraph superseded by Accounting Standards Update No. 2016-01.

958-320-45-9 Some NFPs, in managing their endowment funds, use a **spending-rate** or **total return** policy. Those policies consider total investment return—investment income (interest, dividends, rents, and so forth) plus net realized and unrealized gains (or minus net losses). Typically, spending-rate or total return policies emphasize the use of prudence and a rational and systematic formula to determine the portion of cumulative investment return that can be used to support operations of the current period and the protection of endowment gifts from a loss of purchasing power as a consideration in determining the formula to be used. Example 1 (see paragraph 958-320-55-4) illustrates a statement of activities and example disclosures of an NFP that uses a spending-rate policy to include only a portion of its investment return in its operating measure.

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 825-10-65-2

Paragraph superseded by Accounting Standards Update No. 2016-01.

23. Supersede paragraph 958-320-50-1, with a link to transition paragraph 958-10-65-1, as follows:

Disclosure

958-320-50-1 Paragraph superseded by Accounting Standards Update No. 2016-14.~~For each period for which a statement of activities is presented, a **not-for-profit entity** (NFP) shall disclose the following information:~~

- ~~a. The composition of investment return including, at a minimum, investment income, net realized gains or losses on investments reported at other than **fair value**, and net gains or losses on investments reported at fair value.~~
- ~~b. A reconciliation of investment return to amounts reported in the statement of activities if investment return is separated into operating and nonoperating amounts, together with a description of the policy used to determine the amount that is included in the measure of operations and a discussion of circumstances leading to a change, if any, in that policy.~~

~~The reconciliation need not be provided if an NFP includes all investment return in its measure of operations or excludes it from that measure entirely.~~

~~c. Pursuant to paragraphs 958-225-45-14 and 958-225-50-1, investment revenues may be reported net of related expenses, such as custodial fees and investment advisory fees, provided that the amount of the expenses is disclosed either on the face of the statement of activities or in notes to financial statements.~~

~~See Example 1 (paragraph 958-320-55-9) for an illustration of the disclosures required by this paragraph.~~

24. Amend paragraphs 958-320-55-4 and its related heading, and 958-320-55-6 through 55-8, supersede paragraphs 958-320-55-5 and 958-320-55-9 through 55-10, and add paragraph 958-320-55-11, with a link to transition paragraph 958-10-65-1, as follows:

Implementation Guidance and Illustrations

> Illustrations

> > Example 1: ~~An NFP that Separates Investment Return into Operating and Nonoperating Amounts~~Reporting of Investment Return

958-320-55-4 This Example illustrates the disclosures required by paragraph ~~958-320-50-1~~958-320-50-2 and a statement of activities that reports ~~a portion of~~ investment return ~~within a measure of operations~~in accordance with paragraphs 958-320-45-1 through 45-5.

[In addition, add the following pending content with a link to transition paragraph 825-10-65-2.]

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 825-10-65-2

This Example illustrates the disclosures required by paragraph 958-320-50-2 and a statement of activities that reports investment return in accordance with paragraphs 958-225-45-18 through 45-22.

958-320-55-5 Paragraph superseded by Accounting Standards Update No. 2016-14.~~This Example is illustrative only; it does not indicate a preferred method of reporting investment return or defining operations (see paragraph 958-225-45-9). An NFP may separate investment return into operating and nonoperating amounts~~

~~in ways that it believes will provide meaningful information to users of its financial statements. Distinctions may be based on any of the following:~~

- ~~a. The nature of the underlying transactions, such as classifying realized amounts as operating and unrealized amounts as nonoperating~~
- ~~b. Budgetary designations, such as classifying amounts computed under a **spending-rate** or **total return** policy as operating and the remainder of investment return as nonoperating~~
- ~~c. The reporting requirements for categories of investments used in Topic 320, such as classifying investment income, realized gains and losses, unrealized gains and losses on trading securities, and other-than-temporary impairment losses on securities (that is, all items included in net income of a business entity) as operating and classifying the remainder of investment return as nonoperating~~
- ~~d. Other characteristics that provide information that is relevant and understandable to donors, creditors, and other users of financial statements.~~

[In addition, remove the following pending content immediately.]

Pending Content:

Transition Date: *(P) December 15, 2019; (N) December 15, 2020* | **Transition Guidance:** 326-10-65-1

~~This Example is illustrative only; it does not indicate a preferred method of reporting investment return or defining operations (see paragraph 958-225-45-9). An NFP may separate investment return into operating and nonoperating amounts in ways that it believes will provide meaningful information to users of its financial statements. Distinctions may be based on any of the following:~~

- ~~a. The nature of the underlying transactions, such as classifying realized amounts as operating and unrealized amounts as nonoperating~~
- ~~b. Budgetary designations, such as classifying amounts computed under a spending-rate or total return policy as operating and the remainder of investment return as nonoperating~~
- ~~c. The reporting requirements for categories of investments used in Topic 320 on investments in debt securities, such as classifying investment income, realized gains and losses, unrealized gains and losses on trading securities, and credit losses on financial assets under Topic 326 (that is, all 210 items included in net income of a business entity) as operating and classifying the remainder of investment return as nonoperating~~
- ~~d. Other characteristics that provide information that is relevant and understandable to donors, creditors, and other users of financial statements.~~

958-320-55-6 This Example has the following assumptions:

a. Not-for-Profit Entity A (NFP A) invests cash in excess of daily requirements in short-term investments; during the year, those investments earned $1,275.
b. Most long-term investments of NFP A's endowments are held in an investment pool, which earned income of $11,270 and had net gains of $15,450.
c. Certain endowments are separately invested because of donors' requirements. The investments of those endowments earned income of $1,000 and increased in value by $1,500.
d. Subparagraph superseded by Accounting Standards Update No. 2016-14.~~One donor required that the net gains be added to the original endowment gift; that endowment's investment in the pool increased in value by $180.~~
e. NFP A released from restrictions the full amount of **net assets with donor restrictions** that were appropriated from the **donor-restricted endowment fund** ($4,500) because the entity spent the funds for the required purpose.
f. NFP A's governing board appropriated for expenditure $1,025 from its short-term investments.
g. NFP A had $25 of gross **programmatic investing** income. The expenses related to the programmatic activity are included in operating expenses.

958-320-55-7 A statement of activities of NFP A is illustrated as follows.

~~Not-for-Profit Entity A~~
~~Statement of Activities~~
~~Year Ended June 30, 19X1~~

	~~Unrestricted~~	~~Temporarily Restricted~~	~~Permanently Restricted~~	~~Total~~
~~Operating revenues, gains, and other support:~~				
~~Contributions~~	~~$X,XXX~~	~~$ X,XXX~~		~~$XX,XXX~~
~~Fees~~	~~X,XXX~~			~~X,XXX~~
~~Investment return designated for current operations~~	~~11,025~~	~~4,500~~		~~15,525~~
~~Other~~	~~XXX~~			~~XXX~~
~~Net assets released from restrictions~~	~~XX,XXX~~	~~(XX,XXX)~~		
~~Total operating revenues, gains, and other support~~	~~XX,XXX~~	~~(X,XXX)~~		~~XX,XXX~~
~~Operating expenses and losses:~~				
~~Program A~~	~~XX,XXX~~			~~XX,XXX~~
~~Program B~~	~~X,XXX~~			~~X,XXX~~
~~Program C~~	~~X,XXX~~			~~X,XXX~~
~~Management and general~~	~~X,XXX~~			~~X,XXX~~
~~Fundraising~~	~~X,XXX~~			~~X,XXX~~
~~Total operating expenses~~	~~XX,XXX~~			~~XX,XXX~~
~~Change in net assets from operations~~	~~X,XXX~~	~~(X,XXX)~~		~~X,XXX~~
~~Other changes:~~				
~~Investment return in excess of amounts designated for current operations~~	~~10,992~~	~~3,798~~	~~$ 180~~	~~14,970~~
~~[Other items considered to~~	~~X,XXX~~	~~X,XXX~~		~~X,XXX~~
~~be nonoperating]~~	~~XXX~~	~~XXX~~	~~XXX~~	~~XXX~~
~~Change in net assets~~	~~$XX,XXX~~	~~$ X,XXX~~	~~$ XXX~~	~~$XX,XXX~~

[For ease of readability, the new illustration is not underlined.]

Not-for-Profit Entity A
Statement of Activities
Year Ended June 30, 20X1

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support:			
Contributions	$X,XXX	$ X,XXX	$XX,XXX
Investment return appropriated from short-term investments	1,025		
Fees	X,XXX		X,XXX
Programmatic investing return	25		
Other	XXX		XXX
Net assets released from restrictions			
Investment return appropriated and released for current operations from donor-restricted endowment	4,500	(4,500)	
[Other net assets released from restrictions]	X,XXX	(X,XXX)	
Total operating revenues, gains, and other support	XX,XXX		XX,XXX
Expenses:			
Program A	XX,XXX		
Program B	X,XXX		
Program C	X,XXX		
Management and general	X,XXX		
Fundraising	X,XXX		
Total operating expenses	XX,XXX		
Operating revenues in excess of expenses	XX,XXX		
Other changes:			
Investment return, net	1,275	29,220	30,495
Investment return appropriated for current operations from short-term investments	(1,025)		
[Other items considered to be nonoperating]	X,XXX	X,XXX	X,XXX
Change in net assets	$XX,XXX	$ X,XXX	$XX,XXX

958-320-55-8 NFP A would add the following illustrative text to its note to financial statements that describes the measure of operations.

> The board of trustees designates only a portion of NFP A's cumulative investment return for support of current operations; the remainder is retained to support operations of future years and to offset potential market declines. The amount computed and appropriated under the endowment spending policy of the investment pool and the amount appropriated from the

investment return associated with the short-term investments~~all investment income earned by investing cash in excess of daily requirements~~ are used to support current operations.

958-320-55-9 Paragraph superseded by Accounting Standards Update No. 2016-14.~~The following illustrative text and schedule would be added to a note to financial statements about investments to provide the information about the composition of return and the reconciliation of investment return required by paragraph 958-320-50-1.~~

~~State law allows the board to appropriate so much of the net appreciation as is prudent considering NFP A's long- and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions. Under NFP A's endowment spending policy, 5 percent of the average of the **fair value** at the end of the previous 3 years is appropriated to support current operations. The following schedule summarizes the investment return and its classification in the statement of activities.~~

	~~Unrestricted~~	~~Temporarily Restricted~~	~~Permanently Restricted~~	~~Total~~
~~Dividends, interest, and rents (net of expenses of $565)~~	~~$ 8,400~~	~~$ 3,870~~		~~$ 12,270~~
~~Net realized and unrealized gains~~	~~12,342~~	~~4,428~~	~~$ 180~~	~~16,950~~
~~Return on long-term investments~~	~~20,742~~	~~8,298~~	~~180~~	~~29,220~~
~~Interest on short-term investments~~	~~1,275~~			~~1,275~~
~~Total return on investments~~	~~22,017~~	~~8,298~~	~~180~~	~~30,495~~
~~Investment return designated for current operations~~	~~(11,025)~~	~~(4,500)~~		~~(15,525)~~
~~Investment return in excess of amounts designated for current operations~~	~~$ 10,992~~	~~$ 3,798~~	~~$ 180~~	~~$ 14,970~~

958-320-55-10 Paragraph superseded by Accounting Standards Update No. 2016-14.~~Often, as in the preceding schedule, the amount of investment return designated for current operations is less than the total return on investments for the year. An NFP may be able to designate an amount for the support of operations even if the total investment return for the year is less than the amount computed under a spending-rate policy; for example, when the NFP designates part of its cumulative investment return from prior years to support its current operations. In that case, the operating and nonoperating amounts should be labeled to faithfully represent their natures. For example, the amount excluded from operations, which is negative, might be labeled investment return reduced by the portion of cumulative net appreciation designated for current operations.~~

958-320-55-11 In accordance with the requirements in paragraph 958-320-50-2, an NFP would disclose the aggregate carrying amount of investments by major types and may choose to combine these disclosure requirements with disclosures about the level in the fair value hierarchy as required in Topic 820 on fair value measurement.

[For ease of readability, the new illustration is not underlined.]

	20X1				
	Quoted Prices in Active Markets (Level I)	**Significant Other Observable Inputs (Level II)**	**Significant Unobservable Inputs (Level III)**	**Measured at Net Asset Value**	**20X1 Total**
Investments					
Cash equivalents held by investment managers	$ 19,366				$ 19,366
U.S. common and preferred stocks	61,190				61,190
International common and preferred stocks	71,973				71,973
Fixed income		$ 40,920			40,920
Equity funds	20,210		$ 10,093	$ 10,068	40,371
Hedge funds				26,248	26,248
Private equity				39,090	39,090
Real estate			33,520		33,520
Pooled endowment	172,739	40,920	43,613	75,406	332,678
Split-interest agreements					
U.S. common and preferred stocks	12,970				12,970
Fixed income		6,635			6,635
Total investments	$ 185,709	$ 47,555	$ 43,613	$ 75,406	$ 352,283

Amendments to Subtopic 958-321

25. Amend paragraph 958-321-50-2, with a link to transition paragraph 958-10-65-1, as follows:

Not-for-Profit Entities—Investments—Equity Securities

Disclosure

958-321-50-2 The disclosure guidance in Section 321-10-50, except for paragraph 321-10-50-4, applies to investments in equity securities held by NFPs.

Amendments to Subtopic 958-325

26. Supersede paragraph 958-325-45-2 and its related heading, with a link to transition paragraph 958-10-65-1, as follows:

Not-for-Profit Entities—Investments—Other

Other Presentation Matters

958-325-45-1 The reporting standards of Section 958-320-45 apply to other investments and the investment return generated by other investments held by **not-for-profit entities** (NFPs).

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 825-10-65-2

The reporting standards of Section 958-225-45 apply to other investments and the investment return generated by other investments held by **not-for-profit entities** (NFPs).

~~**> Institutions of Higher Education**~~

958-325-45-2 Paragraph superseded by Accounting Standards Update No. 2016-14.~~The statement of activities of an institution of higher education shall set forth the total performance (that is, investment income and realized and unrealized gains and losses) of the other investment portfolio unless that information is disclosed in the notes.~~

27. Supersede paragraph 958-325-50-6 and its related heading, with a link to transition paragraph 958-10-65-1, as follows:

Disclosure

~~**> Institutions of Higher Education**~~

958-325-50-6 Paragraph superseded by Accounting Standards Update No. 2016-14.~~Pursuant to paragraph 958-325-45-2, institutions of higher education shall disclose the total performance (that is, investment income and realized and unrealized gains and losses) of the other investment portfolio if that information is not presented on the face of the statement of activities.~~

Amendments to Subtopic 958-360

28. Amend paragraph 958-360-35-8, with a link to transition paragraph 958-10-65-1, as follows:

Not-for-Profit Entities—Property, Plant, and Equipment

Subsequent Measurement

> Impairment

958-360-35-8 When grouping assets for impairment testing as described in paragraphs 360-10-35-23 through 35-28, an NFP that relies in part on **contributions** to maintain its assets may need to consider those contributions in determining the appropriate cash flows to compare with the carrying amount of an asset. If future ~~unrestricted~~ contributions without donor restrictions to the entity as a whole are not considered, the sum of the expected future cash flows may be negative or positive but less than the carrying amount of the asset. For example, the costs of administering a museum may exceed the admission fees charged, but the museum may fund the cash flow deficit with contributions without donor restrictions~~unrestricted contributions~~.

29. Supersede paragraph 958-360-40-1 and its related heading, with a link to transition paragraph 958-10-65-1, as follows:

Derecognition

~~**> Disposal of a Long-Lived Asset before the End of Its Useful Life**~~

958-360-40-1 Paragraph superseded by Accounting Standards Update No. 2016-14.~~A long-lived asset that is subject to an accounting policy implying time restrictions on the use of contributed long-lived assets might be disposed of before the end of its useful life. In those situations, the gain or loss on the disposal of that asset shall be reported as a change in **unrestricted net assets** and a **reclassification** shall be reported for any remaining **temporarily restricted net assets.**~~

30. Amend paragraphs 958-360-45-1 and 958-360-45-6, add paragraphs 958-360-45-1A and 958-360-45-7, and supersede paragraph 958-360-45-2, with a link to transition paragraph 958-10-65-1, as follows:

Other Presentation Matters

> Reclassification upon Expiration of Donor-Imposed Restrictions

958-360-45-1 If the property, plant, and equipment item being depreciated was contributed to the **not-for-profit entity** (NFP) with an explicit~~a~~ **donor-imposed restriction** on the length of time of the item's use, **net assets with donor restrictions**~~**temporarily restricted net assets**~~ shall~~, over time,~~ be reclassified as **net assets without donor restrictions**~~**unrestricted net assets**~~ in a statement of activities as those restrictions expire. (For how to report a **reclassification of net assets**~~**reclassification**~~, see paragraph 958-225-45-3.) The amount reclassified may or may not be equal to the amount of the related depreciation. The amount to be reclassified shall be based on the length of time indicated by the donor-imposed restrictions, if restrictions exist, while the amount of depreciation shall be based on the useful economic life of the asset. For example, a computer with an estimated useful economic life of five years may be contributed by a donor and restricted for a specific use by the NFP for three years. Absent donor stipulations specifying how long such donated assets or assets constructed or acquired with cash restricted for such acquisition or construction must be used, restrictions on long-lived assets, if any, expire when the assets are placed in service as required by paragraph 958-205-45-12.

958-360-45-1A The following **contributions** shall be reclassified from net assets with donor restrictions to net assets without donor restrictions when the acquired or constructed property, plant, or equipment is placed in service:

a. Purpose-restricted contributions of property, plant, or equipment that are without donor-imposed stipulations specifying how long the donated asset must be used
b. Contributions of cash restricted for the acquisition or construction of property, plant, or equipment.

The entire amount of the contribution of property, plant, or equipment or cash shall be reclassified at the time the asset is placed in service. There may be circumstances in which a donor restriction might extend beyond the point at which the property, plant, or equipment is placed in service. For example, a donor might specify that a donation restricted for the acquisition of property, plant, or equipment must continue to be used for a specified period of time. In such circumstances, the restriction would expire over the period of time that the asset is to be used.

958-360-45-2 Paragraph superseded by Accounting Standards Update No. 2016-14.~~Reclassifications are also necessary if an NFP has adopted an accounting policy that implies a time restriction on **contributions** of property, plant, and equipment that expires over the useful life of the contributed assets. (See paragraph 958-605-45-6.)~~

> Works of Art, Historical Treasures, and Similar Assets

> > Statement of Financial Position

958-360-45-3 If an NFP does not recognize and capitalize its **collections** or capitalizes its collections prospectively, a line item shall be shown on the face of the statement of financial position that refers to the disclosures about collections required by paragraph 958-360-50-6. That line item shall be dated if collections are capitalized prospectively, for example, collections acquired since January 1, 20X1 (Note X). If an NFP adopts a policy of capitalizing collections, a statement of financial position shall include the total amount capitalized on a separate line item, entitled collections or collection items.

958-360-45-4 The amount capitalized for works of art, historical treasures, and similar assets that do not meet the definition of a collection shall be disclosed separately on the face of the statement of financial position or in the notes.

> > Statement of Activities

958-360-45-5 An NFP that does not recognize and capitalize its collections shall report all of the following on the face of its statement of activities, separately from revenues, expenses, gains, and losses:

a. Costs of collection items purchased as a decrease in the appropriate class of net assets
b. Proceeds from sale of collection items as an increase in the appropriate class of net assets
c. Proceeds from insurance recoveries of lost or destroyed collection items as an increase in the appropriate class of net assets.

Similarly, an entity that capitalizes its collections prospectively shall report proceeds from sales and insurance recoveries of items not previously capitalized separately from revenues, expenses, gains, and losses.

958-360-45-6 Example 1 (see paragraph 958-360-55-2) illustrates a statement of activities that satisfies ~~these requirements~~the requirements in paragraph 958-360-45-5.

958-360-45-7 Purpose-restricted **contributions** of works of art, historical treasures, and similar assets and contributions of cash restricted for the acquisition or construction of such assets are reclassified when the restrictions are met in accordance with paragraph 958-360-45-1.

31. Amend paragraph 958-360-50-1, with a link to transition paragraph 958-10-65-1, as follows:

Disclosure

> Accounting Policies

958-360-50-1 A **not-for-profit entity** (NFP) shall disclose the following accounting policies:

a. That the entity reports **donor-restricted support**~~donor-restricted~~ ~~**contributions**~~ whose restrictions are met in the same reporting period as support within **net assets without donor restrictions**~~**unrestricted support**~~ pursuant to paragraph 958-605-45-4 if that policy is adopted
b. Subparagraph superseded by Accounting Standards Update No. 2016-14.~~Whether or not the entity implies a time restriction that expires over the useful life of the donated assets if those long-lived assets are received~~

~~without stipulations about how long the donated asset must be used or are acquired with gifts of cash or other assets restricted for those acquisitions~~

c. The capitalization policy adopted
d. The capitalization policy for **collections** (capitalization, prospective capitalization, or no capitalization)
e. The basis of valuation of property, plant, and equipment—for example, cost for purchased items and **fair value** for contributed items.

32. Amend paragraph 958-360-55-2, with a link to transition paragraph 958-10-65-1, as follows:

Implementation Guidance and Illustrations

958-360-55-1 This Section, which is an integral part of the requirements of this Subtopic, provides general guidance to be used by a **not-for-profit entity** (NFP) in reporting property, plant, and equipment.

> Illustrations

> > Example 1: Statement of Activities for Collection Items Not Capitalized

958-360-55-2 Certain transactions involving collection items are required by paragraph 958-360-45-5 to be reported separately from items of revenues, gains, expenses, and losses. The following illustrates one possible format that may be used to satisfy those financial disclosure provisions. Additionally, paragraph 958-205-55-10 contains illustrations of several formats of statements of activities that might be adapted to comply with those provisions.

~~Organization M~~

~~Statement of Activities~~

~~For the Year Ended June 30, 19XX~~

	~~Unrestricted~~	~~Temporarily Restricted~~	~~Permanently Restricted~~	~~Total~~
~~Revenues and other support~~	~~XXX~~	~~XXX~~	~~XXX~~	~~XXX~~
~~Gain on sale of art that is not held in a collection~~	~~1~~			~~1~~
~~Net assets released from restrictions~~	~~XXX~~	~~(XXX)~~		
~~Total revenues, gains, and other support~~	~~XXX~~	~~XX~~	~~XXX~~	~~XXX~~
~~Expenses~~	~~XXX~~			~~XXX~~
~~Change in net assets before changes related to collection items not capitalized~~	~~XX~~	~~XX~~	~~XXX~~	~~XXX~~
~~Change in net assets related to collection items not capitalized:~~				
~~Proceeds from sale of collection items~~	~~5~~		~~10~~	~~15~~
~~Proceeds from insurance recoveries on destroyed collection items~~			~~1~~	~~1~~
~~Collection items purchased but not capitalized~~			~~(25)~~	~~(25)~~
	~~5~~		~~(14)~~	~~(9)~~
~~Change in net assets~~	~~XX~~	~~XX~~	~~XXX~~	~~XXX~~

[For ease of readability, the new illustration is not underlined.]

Organization M
Statement of Activities
For the Year Ended June 30, 20X1

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support	XXX	XXX	XXX
Gain on sale of art that is not held in a collection	1		1
Net assets released from restrictions	XXX	(XXX)	
Total revenues, gains, and other support	XXX	XX	XXX
Expenses	XXX		XXX
Change in net assets before changes related to collection items not capitalized	XX	XX	XXX
Change in net assets related to collection items not capitalized:			
Proceeds from sale of collection items	5	10	15
Proceeds from insurance recoveries on destroyed collection items		1	1
Collection items purchased but not capitalized	(12)	(25)	(37)
	(7)	(14)	(21)
Change in net assets	XX	XX	XXX

Amendments to Subtopic 958-405

33. Amend paragraph 958-405-45-1, with a link to transition paragraph 958-10-65-1, as follows:

Not-for-Profit Entities—Liabilities

Other Presentation Matters

> Liability for Promises to Give

958-405-45-1 The amortization of any discount related to **unconditional promises to give** shall be reported in the same **functional expense classification**~~**functional classification** of expenses~~ in which the **promise to give** was initially reported.

Amendments to Subtopic 958-605

34. Amend paragraphs 958-605-25-23 through 25-24, with a link to transition paragraph 958-10-65-1, as follows:

Not-for-Profit Entities—Revenue Recognition

Recognition

Transfers of Assets to a Not-for-Profit Entity or Charitable Trust That Raises or Holds Contributions for Others

> Intermediary

958-605-25-23 If an **intermediary** receives cash or other **financial assets,** it shall recognize its liability to the specified beneficiary concurrent with its recognition of the assets received from the donor. If an intermediary receives **nonfinancial assets**, it is permitted, but not required, to recognize its liability and those assets provided that the intermediary reports consistently from period to period and discloses its accounting policy. While not required, a **not-for-profit entity** (NFP) may choose to present its individual assets and liabilities by net asset class, in which case those assets and liabilities attributable to the agency transaction would be reported in the **net assets without donor restrictions** class.

> Agent

958-605-25-24 Except as described in ~~the following paragraph~~paragraphs 958-605-25-25 and ~~paragraph~~ 958-605-25-27, a **recipient entity** that accepts assets from a donor and agrees to use those assets on behalf of or transfer those assets, the return on investment of those assets, or both to a specified beneficiary is not a donee. It shall recognize its liability to the specified beneficiary concurrent with its recognition of cash or other financial assets received from the donor. Except as described in those paragraphs, a recipient entity that receives nonfinancial assets is permitted, but not required, to recognize its liability and those assets provided that the recipient entity reports consistently from period to period and discloses its accounting policy. Similar to the guidance in paragraph 958-605-25-23, those assets and liabilities would be reported in the net assets without donor restrictions class.

35. Amend paragraphs 958-605-45-1 and 958-605-45-3 through 45-8 and the related pending content, with a link to transition paragraph 958-10-65-1, as follows:

Other Presentation Matters

General

958-605-45-1 Resources received in exchange transactions shall be classified as ~~unrestricted~~ revenues in the **net assets without donor restrictions** class~~and net assets~~, even in circumstances in which resource providers place limitations on the use of the resources. For example, resources received from governments in exchange transactions in which those governments have placed limitations on the use of the resources shall be reported as ~~unrestricted~~ revenues in the net assets without donor restrictions class~~and net assets~~, because those limitations are not **{add glossary link}**donor-imposed restrictions**{add glossary link}** on **contributions**. See paragraph 958-210-50-2 for additional information about significant contractual limitations.

958-605-45-2 If the **not-for-profit entity** (NFP) regularly provides discounts (such as financial aid for students that is not reported as an expense, reduced fees for services, or free services) to certain recipients of its goods or services, revenues shall be reported net of those discounts (see also paragraphs 958-720-25-7 and 958-720-45-23). Net revenue may be reported as a single line item in a statement of activities, or the gross revenue is permitted to be reported less the related discount, provided that the discount is displayed immediately beneath the revenue.

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 606-10-65-1

Paragraph superseded by Accounting Standards Update No. 2014-09.

Contributions Received

958-605-45-3 ~~**Contributions** received by **not-for-profit entities** (NFPs) shall be reported as **restricted support** or **unrestricted support**. An NFP~~A **not-for-profit entity** (NFP) shall distinguish between **{add glossary link}**contributions**{add glossary link}** received with **donor-imposed restrictions** and those received without donor-imposed restrictions. The former shall be reported as **donor-restricted support** that increases **net assets with donor restrictions**. The latter shall be reported as support that increases **net assets without donor restrictions**~~permanent restrictions, those received with temporary restrictions, and those received without **donor-imposed restrictions**. Contributions without donor-imposed restrictions shall be reported as unrestricted support that increases **unrestricted net assets**~~.

958-605-45-4 ~~Restricted support increases **permanently restricted net assets** or **temporarily restricted net assets**.~~ A restriction on an NFP's use of the assets contributed results either from a donor's explicit **stipulation** or from circumstances surrounding the receipt of the contribution that make clear the donor's implicit restriction on use. ~~Contributions with donor-imposed restrictions shall be reported as restricted support; however, donor-restricted~~Donor-restricted contributions whose restrictions are met in the same reporting period may be reported as support within net assets without donor restrictions~~unrestricted support~~ provided that an NFP has a similar policy for reporting investment gains and income (see paragraph 958-320-45-3), reports consistently from period to period, and discloses its accounting policy.

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 825-10-65-2

~~Restricted support increases **permanently restricted net assets** or **temporarily restricted net assets**.~~ A restriction on an NFP's use of the assets contributed results either from a donor's explicit **stipulation** or from circumstances surrounding the receipt of the contribution that make clear the donor's implicit restriction on use. ~~Contributions with donor-imposed restrictions shall be reported as restricted support; however, donor-restricted~~Donor-restricted contributions whose restrictions are met in the same reporting period may be reported as support within net assets without donor restrictions~~unrestricted support~~ provided that an NFP has a similar policy for reporting investment gains and income (see paragraph 958-225-45-20), reports consistently from period to period, and discloses its accounting policy.

958-605-45-5 Receipts of **unconditional promises to give** with payments due in future periods shall be reported as donor-restricted support~~restricted support~~ unless explicit donor stipulations or circumstances surrounding the receipt of a promise make clear that the donor intended it to be used to support activities of the current period. It is reasonable to assume that by specifying future payment dates, donors indicate that their gifts are to support activities in each period in which a payment is scheduled. For example, receipts of unconditional promises to give cash in future years generally increase net assets with donor restrictions~~temporarily restricted net assets~~.

958-605-45-6 Gifts of long-lived assets received without stipulations about how long the donated asset must be used shall be reported as revenue without donor restrictions. Gifts~~restricted support if it is an NFP's accounting policy to imply a time restriction that expires over the useful life of the donated assets. NFPs that adopt a policy of implying time restrictions also shall imply a time restriction on long-lived assets acquired with gifts~~ of cash or other assets restricted ~~for those acquisitions~~to acquire long-lived assets shall initially be reported as donor-restricted support and shall be released from restrictions by reclassifying net assets with donor restrictions to **net assets without donor restrictions** when the asset is acquired and placed in service in accordance with paragraph 958-360-45-1A, unless the donor also has placed a time restriction on the use of the long-lived asset, in which case the release occurs over the life of the time restriction. ~~In the absence of that policy and other donor-imposed restrictions on use of the asset, gifts of long-lived assets shall be reported as unrestricted support.~~ (Pursuant to paragraph ~~954-205-45-9, not-for-profit health care entities~~958-205-45-12, all NFPs are not permitted to imply a time restriction that expires over the useful life of a long-lived asset.)

958-605-45-7 Pursuant to paragraph 958-225-45-3, **reclassifications of net assets**~~**reclassifications**~~ for expirations of donor-imposed restrictions are reported separately from other transactions.

Transfers of Assets to a Not-for-Profit Entity or Charitable Trust That Raises or Holds Contributions for Others

> Interest in a Perpetual Trust

958-605-45-8 A specified beneficiary shall classify the **contribution** of a perpetual interest in a trust held by a third party as ~~permanently~~ ~~**restricted support**~~**donor-restricted support** that is perpetual in nature, because the trust is similar to a donor-restricted ~~**permanent endowment**~~endowment that is perpetual in nature that the **not-for-profit entity** (NFP) does not control, rather than a multiyear **promise to give**. Any distributions from the trust that are free of purpose or time restrictions shall be reported as **net assets without donor restrictions**. Any distributions from the trust that are restricted for a particular time or purpose shall be reported as **net assets with donor restrictions** and released from restrictions when the time has elapsed or the purpose has been met by the NFP.

36. Amend paragraph 958-605-50-2 and supersede paragraph 958-605-50-3, with a link to transition paragraph 958-10-65-1, as follows:

Disclosure

Contributions Received

> Contributed Services

958-605-50-1 An entity that receives contributed services shall describe the programs or activities for which those services were used, including the nature and extent of contributed services received for the period and the amount recognized as revenues for the period. Entities are encouraged to disclose the **fair value** of contributed services received but not recognized as revenues if that is practicable. The nature and extent of contributed services received can be described by nonmonetary information, such as the number and trends of donated hours received or service outputs provided by volunteer efforts, or other monetary information, such as the dollar amount of **contributions** raised by volunteers.

Disclosure of contributed services is required regardless of whether the services received are recognized as revenue in the financial statements.

> Accounting Policies

958-605-50-2 When a **not-for-profit entity** (NFP) chooses to report donor-restricted~~reports~~ **{add glossary link}**contributions**{add glossary link}** whose restrictions are met in the same reporting period~~with donor-imposed restrictions~~ as support within **net assets without donor restrictions**~~**unrestricted support**~~ in accordance with paragraph 958-605-45-4, it shall disclose its accounting policy.

958-605-50-3 Paragraph superseded by Accounting Standards Update No. 2016-14.~~Pursuant to paragraph 958-360-50-1, an entity shall disclose its accounting policy for implying time restrictions on gifts of long-lived assets and cash to acquire long-lived assets.~~

37. Amend paragraphs 958-605-55-21 through 55-24, 958-605-55-34, 958-605-55-37 through 55-38, 958-605-55-48, 958-605-55-85 through 55-87, 958-605-55-98, 958-605-55-100, 958-605-55-105, 958-605-55-107, and 958-605-55-110, with a link to transition paragraph 958-10-65-1, as follows:

Implementation Guidance and Illustrations

Contributions Received

> Implementation Guidance

> > Promises to Give

958-605-55-18 A promise to give is a written or oral agreement to contribute cash or other assets to another entity. The Contributions Received Subsections of this Subtopic avoid using the term *pledge* because that term is used to describe not only promises to give but also plans or intentions to give that are not promises. There are other terms used to describe promises to give such as *subscriptions*, *awards*, *appropriations*, or *grants*. A communication received from a potential donor must be carefully evaluated to determine if it is a promise to give, since a communication that clearly is not a promise is not recognized in the financial statements.

958-605-55-19 Pursuant to paragraph 958-605-25-8, to be recognized in financial statements there must be sufficient evidence in the form of verifiable documentation that a promise to give was made and received. That requirement does not preclude recognition of verifiable oral promises, such as those documented by tape recordings, written registers, or other means that permit subsequent verification.

958-605-55-20 Promises to give services generally involve personal services that, if not explicitly conditional, are often implicitly conditioned upon the future and uncertain availability of specific individuals whose services have been promised.

958-605-55-21 Certain promises become unconditional in stages because they are dependent on several or a series of conditions—milestones—rather than on a single future and uncertain event and are recognized in increments as each of the conditions is met. Similarly, other promises are conditioned on promisees' incurring certain qualifying expenses (or costs). Those promises become unconditional and are recognized to the extent that the expenses are incurred. A portion of those **{add glossary link}**contributions**{add glossary link}** shall be recognized as revenue as each of those stages is met.

958-605-55-22 The present value of the future cash flows is one valuation technique for measuring the **fair value** of contributions arising from unconditional promises to give cash; other valuation techniques also are available, as described in Topic 820. The following table illustrates the use of present value techniques for initial recognition and measurement of unconditional promises to give cash that are expected to be collected one year or more after the financial statement date.

Initial Recognition of Unconditional Promises to Give Cash

Facts

Assume that a not-for-profit entity receives a promise (or promises from a group of homogeneous donors) to give $100 in five years, that the anticipated future cash flows from the promise(s) are $70, and that the present value of the future cash flows is $50.

Solution

dr.	Contributions Receivable	$ 70	
cr.	Contribution Revenue—Donor-Restricted Support~~Temporarily Restricted~~		$ 50
cr.	Discount on Contributions Receivable		$ 20

(To report contributions receivable and revenue using a present value technique to measure fair value.)

Note: Some entities may use a subsidiary ledger to retain information concerning the $100 face amount of contributions promised in order to monitor collections of contributions promised.

> > Contributions of Use of Property, Utilities, or Advertising Time

958-605-55-23 The use of property, utilities, or advertising time are considered to be forms of contributed assets, rather than contributed services. Pursuant to paragraph 958-605-25-2, an NFP would recognize the fair value of the use of property, utilities, or advertising time as both revenue and expense in the period received and used. Fair value could be estimated by using billing rates normally charged to other customers under similar circumstances. Whether those **{add glossary link}**contributions**{add glossary link}** should be reported is unaffected by whether the NFP could afford to purchase the utilities or facilities at their fair value. If the transaction is an unconditional promise to give electric, telephone, or other utilities for a specified number of periods, the promise should be reported as a **{add glossary link}**contribution receivable**{add glossary link}** and as **donor-restricted support**~~restricted support~~ that increases **net assets with donor restrictions**~~temporarily restricted net assets~~, pursuant to paragraph 958-605-25-8.

958-605-55-24 Unconditional promises to give the use of long-lived assets (such as a building or other facilities) for a specified number of periods in which the donor retains legal title to the long-lived asset may be received in connection with leases or may be similar to leases but have no lease payments. For example, an NFP may use facilities under a lease agreement that calls for lease payments at amounts below the fair rental value of the property. In circumstances in which an NFP receives an unconditional promise to give for a specified number of periods, the promise should be reported as revenue and as a contribution receivable for the difference between the fair rental value of the property and the stated amount of the lease payments. In other words, if a donor promises that the NFP can use a facility for 10 years, the NFP has received a multiyear promise to give and should report the fair value of that promise as a contribution with a **donor-imposed restriction**~~contribution revenue~~ in Year 1. Amounts reported as contributions shall not exceed the fair value of the long-lived asset at the time the NFP receives the unconditional promise to give. The contribution receivable may be described in the financial statements based on the item whose use is being contributed, such as a building, rather than as contributions receivable.

958-605-55-25 Property and equipment used in exchange transactions (other than lease transactions), such as federal contracts, in which the resource provider retains legal title during the term of the arrangement should be reported as a contribution at fair value at the date received by the NFP only if it is probable that the NFP will be permitted to keep the assets when the arrangement terminates.

> Illustrations

> > Example 1: Contribution of Real Property

958-605-55-32 This Example illustrates the application of the recognition and measurement principles of paragraphs 958-605-25-2 and 958-605-30-2.

958-605-55-33 Mission A, a religious NFP, receives a building (including the land on which it was constructed) as a gift from a local corporation with the understanding that the building will be used principally as an education and training center for Mission A's members or for any other purpose consistent with Mission A's plans.

958-605-55-34 Mission A would recognize the contributed property as an asset and as support and measure that property at its fair value (see paragraph 958-605-30-2). Information necessary to estimate the fair value of that property could be obtained from various sources, including amounts recently paid for similar properties in the locality, and estimates of its replacement cost adjusted to reflect the price that would be received for the contributed property. This **{add glossary link}**contribution**{add glossary link}** is revenue without donor restrictions~~**unrestricted support**~~ because the donated assets may be used for any purpose and the donor did not impose a time restriction~~and Mission A does not have a policy of implying time restrictions on gifts of long-lived assets (see paragraph 958-605-45-6). If Mission A's policy is to imply a time restriction, the contribution is temporarily **restricted support** and the restriction expires over the useful life of the building~~.

> > Example 2: Contribution of Work of Art

958-605-55-35 This Example illustrates the application of the recognition and measurement principles of paragraph 958-605-25-19.

958-605-55-36 Museum B, which preserves its collections as described in paragraph 958-605-25-19, receives a gift of a valuable painting from a donor. The donor obtained an independent appraisal of the fair value of the painting for tax purposes and furnished a copy to the museum. The museum staff evaluated the painting to determine its authenticity and worthiness for addition to the museum's collection. The staff recommended that the gift be accepted, adding that it was not aware of any evidence contradicting the fair value provided by the donor and the donor's appraiser.

958-605-55-37 If Museum B capitalizes its collections, Museum B would recognize the fair value of the contributed work of art received as revenue and capitalize it as an asset at its fair value (see paragraph 958-605-25-19). If Museum B does not capitalize its collections, Museum B is precluded from recognizing the **{add glossary link}**contribution**{add glossary link}** (see that paragraph) and would provide the information required by paragraphs 958-360-45-3 and 958-360-45-5.

958-605-55-38 If Museum B accepted the painting with the donor's understanding that it would be sold rather than added to its collection, Museum B would recognize the contribution of the painting received as revenue without donor restrictions~~unrestricted revenue~~ and as an asset at its fair value (see paragraphs 958-605-30-2 and 958-605-45-6).

> > Example 5: Contribution of Use of Property

958-605-55-45 This Example illustrates the application of the recognition and measurement principles of paragraphs 958-605-25-2 and 958-605-30-2.

958-605-55-46 Charity E receives the free use of 10,000 square feet of prime office space provided by a local entity. The local entity has informed Charity E that it intends to continue providing the space as long as it is available, and although it expects it would be able to give the charity 30 days advance notice, it may discontinue providing the space at any time. The local entity normally rents similar space for $14 to $16 annually per square foot, the going market rate for office space in the area. Charity E decides to accept this gift—the free use of office space—to conduct its daily central administrative activities.

958-605-55-47 The simultaneous receipt and use of facilities is a form of contributed assets and not services. Charity E would recognize the fair value of the contributed use of facilities as both revenue and expense in the period it is received and used (see paragraph 958-605-30-2).

958-605-55-48 If the local entity explicitly and unconditionally promises the use of the facility for a specified period of time (for example, five years), the promise would be an unconditional promise to give. In that case, Charity E would recognize the receipt of the unconditional promise as a receivable and as **donor-restricted support**~~restricted support~~ at its fair value. The donor would recognize the unconditional promise when made as a payable and an expense at its fair value (see paragraph 720-25-25-1).

Transfers of Assets to a Not-for-Profit Entity or Charitable Trust That Raises or Holds Contributions for Others

> Illustrations

> > Example 4: Recipient Entity Is a Federated Fundraising Organization

958-605-55-83 This Example illustrates the guidance in paragraphs 958-605-25-24 through 25-25.

958-605-55-84 Federated Fundraising Organization D provides three choices to donors in its annual workplace campaign. Donors can give without restriction, direct their gifts to one of four community needs identified by Federated Fundraising Organization D, or specify that their gifts be transferred to an NFP of their choice. The campaign literature informs donors that if they choose to specify an NFP to which their gift should be transferred, the NFP must be a social welfare organization within the community that has tax-exempt status under Internal Revenue Code Section 501(c)(3). The campaign literature also provides a schedule of the administrative fees that will be deducted from all gifts that are to be transferred to the donor's chosen beneficiary.

958-605-55-85 Federated Fundraising Organization D would recognize the following transactions:

a. It would recognize the fair values of the ~~unrestricted~~ gifts without donor restrictions as **{add glossary link}**contribution**{add glossary link}** revenue that increases **net assets without donor restrictions~~unrestricted net assets~~.**
b. It would recognize the fair values of the gifts targeted to the four specified community needs as contribution revenue that increases **net assets with donor restrictions~~temporarily restricted net assets~~**.
c. It would recognize the fair values of gifts that are to be transferred to beneficiaries chosen by the donors as increases in its assets and as liabilities to those specified beneficiaries (see paragraph 958-605-25-24).
d. It would recognize as revenue the administrative fees withheld from amounts to be transferred to the donors' chosen beneficiary.

However, if some of the gifts that are intended for specified beneficiaries are gifts of nonfinancial assets, Federated Fundraising Organization D would recognize those nonfinancial assets and its liability to transfer them to the specified beneficiaries if that were its policy; otherwise, it would recognize neither the nonfinancial assets nor a liability (see paragraph 958-605-25-24).

958-605-55-86 The beneficiaries chosen by the donors would recognize the **fair value** of the transferred assets as contribution revenue in accordance with the provisions of paragraph 958-605-45-6 for **unconditional promises to give**. Thus, the revenue would increase ~~temporarily restricted net assets unless the donor specified a **permanent restriction** or it was clear that the donor intended the gift to support activities of the current period~~net assets with donor restrictions or net assets without donor restrictions, depending on the existence or absence of **donor-imposed restrictions.** For example, if a donor specified that the transferred assets must be maintained in perpetuity, the revenue would increase net assets with donor restrictions. However, if the donor specified that the transferred assets are for current-period use, the revenue would increase net assets without donor restrictions. In accordance with paragraph 958-225-45-14, the beneficiaries would report the gross amounts of the gifts as contribution revenue and the administrative fees withheld by Federated Fundraising Organization D as expenses. The net amount would be recognized as a receivable (see paragraph 958-605-25-28).

958-605-55-87 Instead of conducting the campaign as described in this Example, Federated Fundraising Organization D's campaign literature, including the form that donors use to specify a beneficiary, clearly states that if donors choose to give and specify a beneficiary, the allocation committee has the authority to redirect their gifts if the committee perceives needs elsewhere in the community that are greater. By giving under those terms, donors explicitly grant Federated Fundraising Organization D variance power. Thus, Federated Fundraising Organization D would recognize ~~an unrestricted~~as contribution revenue without donor-imposed restrictions (see paragraph 958-605-25-25), and the specified beneficiaries would be precluded from recognizing their potential for future distributions from the assets (see paragraph 958-605-25-31).

> > Example 7: Donor Establishes a Charitable Trust

958-605-55-96 This Example illustrates the guidance in paragraph 958-605-15-9.

958-605-55-97 Individual transfers assets to National Bank J to establish an irrevocable charitable trust for the sole benefit of Museum I. National Bank J will serve as trustee. Individual sets forth in the trust agreement the policies that direct the economic activities of the trust. The trust term is five years. Each year, the income received on the investments of the trust will be distributed to Museum I. At the end of Year 5, the corpus of the trust (original assets and net appreciation on those assets) will be paid to Museum I.

958-605-55-98 The Contribution Received Subsections of this Subtopic do not establish standards for the trustee, National Bank J (see paragraph 958-605-15-9). Because Museum I is unable to influence the operating or financial decisions of the trustee, Museum I and National Bank are not financially interrelated entities. Therefore, Museum I would recognize its asset (a beneficial interest in the trust) and contribution revenue that increases **net assets with donor restrictions**~~temporarily restricted net assets~~ (see paragraph 958-605-35-3). Museum I would measure its beneficial interest at fair value. That value generally can be measured by the fair value of the assets contributed to the trust.

> > Example 8: Specified Beneficiary Is a Member Organization

958-605-55-99 This Example illustrates the guidance in paragraph 958-20-15-2.

958-605-55-100 Some foundations and associations raise **{add glossary link}**contributions**{add glossary link}** for a large number of unaffiliated NFPs, often referred to as member organizations. By virtue of their numbers, those member organizations generally do not individually influence the operating and financial decisions of the foundation (or association). Thus, any one member organization and the foundation (or association) are not financially interrelated entities (see paragraph 958-20-15-2[a]). Because the entities are not financially interrelated, the foundation (or association) recognizes a liability if a donor to the foundation (or association) specifies that the gift should be transferred to a particular member organization (see paragraph 958-605-25-4). The specified member organization would recognize a receivable and contribution revenue that increases **net assets with donor restrictions** or **net assets without donor restrictions**, depending on the existence or absence of **donor-imposed restrictions**~~temporarily restricted net assets unless the donor specified a permanent restriction or it was clear that the donor intended the gift to support activities of the current period~~.

> > Example 9: Transfer of a Nonfinancial Asset

958-605-55-101 This Example illustrates the guidance in paragraph 958-605-25-4.

958-605-55-102 Individual transfers a car to Federated Fundraising Organization K and requests that the car be transferred to Local Daycare Center L. Individual specifies that Federated Fundraising Organization K may use the car for one year before transferring it to Local Daycare Center L. Local Daycare Center L is a member organization of Federated Fundraising Organization K, but that status does not confer any ability to actively participate in the policymaking processes of Federated Fundraising Organization K.

958-605-55-103 Because Federated Fundraising Organization K and Local Daycare Center L are not financially interrelated entities, Federated Fundraising Organization K would recognize the car as an asset and a liability to Local Daycare Center L if its policy were to recognize nonfinancial assets; otherwise, it would recognize neither the nonfinancial assets nor a liability (see paragraph 958-605-25-24).

958-605-55-104 If, instead of refusing the gift of the use of the car, Federated Fundraising Organization K decides to use it for a year before transferring it to Local Daycare Center L, Federated Fundraising Organization K would recognize the fair value of the gift of one-year's use of the car in accordance with paragraph 958-605-30-2. The use of a car is a contributed asset and not a contributed service.

958-605-55-105 Local Daycare Center L would recognize a receivable and **{add glossary link}**contribution**{add glossary link}** revenue that increases **net assets with donor restrictions**~~temporarily restricted net assets~~ (see paragraph 958-605-25-30). It would measure the contribution received at the fair value of the car; however, if Federated Fundraising Organization L chooses to use the car for a year before transferring it, the fair value would be reduced accordingly.

> > Example 10: Resource Provider Names Itself As the Specified Beneficiary

958-605-55-106 This Example illustrates the guidance in paragraph 958-605-25-33.

958-605-55-107 Symphony Orchestra M receives a large ~~unrestricted~~ gift without donor restrictions of securities from Individual. Because it has no investment expertise, Symphony Orchestra M transfers the securities to Community Foundation N to establish an **endowment fund**. The agreement between Symphony Orchestra M and Community Foundation N states that the transfer is irrevocable and that the transferred assets will not be returned to Symphony Orchestra M. However, Community Foundation N will make annual distributions of the income earned on the endowment fund, subject to Community Foundation N's spending policy. The agreement also permits Community Foundation N to substitute another beneficiary in the place of Symphony Orchestra M if Symphony Orchestra M ceases to exist or if the governing board of Community Foundation N votes that support of Symphony Orchestra M either is no longer necessary or is inconsistent with the needs of the community. (That is, Symphony Orchestra M explicitly grants variance power to Community Foundation N.) The agreement does not permit either entity to appoint members to the other entity's governing board or otherwise participate in the policymaking processes of the other.

958-605-55-108 Community Foundation N would recognize the fair value of the transferred securities as an increase in investments and a liability to Symphony Orchestra M because Symphony Orchestra M transferred assets to Community Foundation N and specified itself as beneficiary (see paragraph 958-605-25-33(d)). The transfer is not an equity transaction because Community Foundation N and Symphony Orchestra M are not financially interrelated entities (see paragraph 958-20-25-4(b)). Symphony Orchestra M is unable to influence the operating or financial decisions of Community Foundation N (see paragraph 958-20-15-2(a)).

958-605-55-109 Symphony Orchestra M would recognize the fair value of the gift of securities from Individual as contribution revenue. When it transfers the securities to Community Foundation N, it would recognize the transfer as a decrease in investments and an increase in an asset, for example, as a beneficial interest in assets held by Community Foundation N (see paragraph 958-605-25-33(d)). Also, Symphony Orchestra M would disclose in its financial statements the identity of Community Foundation N, the terms under which Community Foundation N will distribute amounts to Symphony Orchestra M, a description of the variance power granted to Community Foundation N, and the aggregate amount reported in the statement of financial position and how that amount is described (see paragraph 958-605-50-6).

958-605-55-110 If a resource provider transfers assets to a recipient entity and specifies itself or its **affiliate** as the beneficiary, a presumption that the transfer is reciprocal, and therefore not a **{add glossary link}**contribution**{add glossary link}**, is necessary even if the resource provider explicitly grants the recipient entity variance power. Thus, Symphony Orchestra M would recognize an asset and Community Foundation N would recognize a liability because the transaction is deemed to be reciprocal. Symphony Orchestra M transfers its securities to Community Foundation N in exchange for future distributions. Community Foundation N, by its acceptance of the transfer, agrees that at the time of the transfer distributions to Symphony Orchestra M are capable of fulfillment and consistent with the foundation's mission. Although the fair value of those future distributions may not be commensurate with the fair value of the securities given up (because Symphony Orchestra M is at risk of cessation of the distributions), the transaction is accounted for as though those values are commensurate. In comparison, the donors to Community Foundation F in Example 5 (see paragraph 958-605-55-88) explicitly grant variance power to Community Foundation F in a

nonreciprocal transfer. In that Example, it is clear that the donors have made a contribution because they retain no beneficial interests in the transferred assets. Because the donors in that Example explicitly grant variance power to Community Foundation F, it, rather than City Botanical Society E, is the recipient of that contribution.

Amendments to Subtopic 958-715

38. Amend paragraph 958-715-25-1, with a link to transition paragraph 958-10-65-1, as follows:

Not-for-Profit Entities—Compensation—Retirement Benefits

Recognition

958-715-25-1 When a **not-for-profit entity** (NFP) applies the recognition provisions of the following paragraph, the references to net gains or losses, prior service costs or credits, and transition asset or obligation in accumulated other comprehensive income shall instead be to the gains or losses, the prior service costs or credits, and the transition asset or obligation that have been recognized as changes in **net assets without donor restrictions**~~**unrestricted net assets**~~ arising from a defined benefit plan (or a postretirement benefit plan) but not yet reclassified as components of net periodic pension cost (or net periodic postretirement benefit cost):

a. Paragraph 715-30-25-4.

39. Amend paragraphs 958-715-35-1 through 35-5, with a link to transition paragraph 958-10-65-1, as follows:

Subsequent Measurement

958-715-35-1 When a **not-for-profit entity** (NFP) applies the subsequent measurement provisions of the following Sections, the references to the prior service costs or credits included in accumulated other comprehensive income shall instead be to the prior service costs or credits that have been recognized as changes in **net assets without donor restrictions**~~**unrestricted net assets**~~ arising from a defined benefit plan (or a postretirement benefit plan) but not yet reclassified as components of net periodic pension cost (or net periodic postretirement benefit cost):

a. Section 715-30-35
b. Section 715-60-35.

958-715-35-2 When an NFP applies the subsequent measurement guidance in the following Sections, the references to gains and/or losses included in accumulated other comprehensive income shall instead be to the gains and/or losses that have been recognized as changes in net assets without donor restrictions~~unrestricted net assets~~ arising from a defined benefit plan (or a postretirement benefit plan) but not yet reclassified as components of net periodic pension cost (or net periodic postretirement benefit cost):

a. Section 715-30-35
b. Section 715-60-35.

958-715-35-3 When an NFP applies the subsequent measurement provisions of the following Sections, the references to the transition obligation or asset remaining in accumulated other comprehensive income shall instead be to the transition obligation or asset that has been recognized as a change in net assets without donor restrictions~~unrestricted net assets~~ arising from a defined benefit plan (or a postretirement benefit plan) but not yet reclassified as a component of net periodic pension cost (or net periodic postretirement benefit cost):

a. Section 715-30-35
b. Section 715-60-35.

958-715-35-4 When an NFP applies the subsequent measurement provisions of the following paragraphs, references to amounts previously recognized in other comprehensive income shall be instead to amounts that have been recognized as a change in net assets without donor restrictions~~unrestricted net assets~~ arising from a defined benefit plan (or a postretirement benefit plan) but not yet reclassified as components of net periodic pension cost (or net periodic postretirement benefit cost):

a. Paragraph 715-30-35-65
b. Paragraph 715-60-35-127.

958-715-35-5 When an NFP applies the subsequent measurement provisions of paragraph 715-30-35-25(a), references to the net balance included in accumulated other comprehensive income shall be instead to the net balance that has been recognized as a change in net assets without donor restrictions~~unrestricted net assets~~ arising from a defined benefit plan but not yet reclassified as components of net periodic pension cost.

958-715-35-6 When an NFP applies the subsequent measurement guidance in paragraph 715-30-35-21, the gains and losses that are not recognized immediately as a component of net periodic pension cost shall be recognized in accordance with paragraph 958-715-45-1.

958-715-35-7 Not-for-profit employers that do not report other comprehensive income in accordance with the provisions of Topic 220, shall apply the provisions of paragraphs 715-30-35-79 through 35-91 and 715-30-35-92 through 35-96 in an analogous manner that is appropriate for their method of reporting financial performance and financial position.

40. Amend paragraphs 958-715-45-1 through 45-2, with a link to transition paragraph 958-10-65-1, as follows:

Other Presentation Matters

958-715-45-1 A **not-for-profit entity** (NFP) shall recognize as a separate line item or items within changes in **net assets without donor restrictions**~~**unrestricted net assets**~~, apart from expenses, the gains or losses and the prior service costs or credits that would be recognized in other comprehensive income pursuant to the following Sections:

a. Section 715-30-35
b. Section 715-60-35.

Consistent with paragraphs 958-225-45-9 through 45-12, this Subtopic does not prescribe whether the separate line item or items shall be included within or outside an intermediate measure of operations or performance indicator, if one is presented.

958-715-45-2 An NFP shall reclassify a portion of the net gain or loss and prior service costs or credits previously recognized in a separate line item or items and a portion of the transition asset or obligation remaining from the initial application of Topic 715 as follows:

a. To net periodic pension cost, pursuant to the recognition and amortization provisions of paragraphs 715-30-35-3 through 35-28
b. To net period postretirement benefit cost, pursuant to the recognition and amortization provisions of paragraphs 715-60-35-7 through 35-40.

The contra adjustment or adjustments shall be reported in the same line item or items within changes in net assets without donor restrictions~~unrestricted net assets~~, apart from expenses, as the initially recognized amounts. Net periodic postretirement benefit cost and net periodic pension cost shall be reported by **functional expense classification**~~**functional classification**~~ pursuant to paragraph 958-720-45-2.

41. Amend paragraph 958-715-50-1, with a link to transition paragraph 958-10-65-1, as follows:

Disclosure

958-715-50-1 Not-for-profit entities (NFPs) shall make the following substitutions when applying the disclosure requirements of Section 715-20-50:

a. The references to the net gain or loss, net prior service cost or credit, and net transition asset or obligation recognized in other comprehensive income in paragraphs 715-20-50-1(i) and 715-20-50-5(h) shall instead be to such amounts recognized as changes in **net assets without donor restrictions**~~**unrestricted net assets**~~ arising from a defined benefit plan but not yet included in net periodic benefit cost.
b. The references to reclassification adjustments of other comprehensive income in paragraphs 715-20-50-1(i) and 715-20-50-5(h) shall instead be to reclassifications to net periodic benefit cost of amounts previously recognized as changes in net assets without donor restrictions~~unrestricted net assets~~ arising from a defined benefit plan but not included in net periodic benefit cost when they arose.
c. The references to the net gain or loss, net prior service cost or credit, and net transition asset or obligation recognized in accumulated other comprehensive income in the following paragraphs shall instead be to such amounts that have been recognized as changes in net assets without donor restrictions~~unrestricted net assets~~ arising from a defined benefit plan but not yet reclassified as components of net periodic benefit cost:
    1. Paragraph 715-20-50-5(i)
    2. Paragraph 715-20-50-1(j)
    3. Paragraph 715-20-50-5(n)
    4. Paragraph 715-20-50-1(s).
d. The references to results of operations (including items of other comprehensive income) in paragraphs 715-20-50-1 and 715-20-50-5 shall instead be to changes in net assets without donor restrictions~~unrestricted net assets~~ and the references to a statement of income in those paragraphs shall instead be to a statement of activities.

42. Amend paragraphs 958-715-55-4 through 55-8, with a link to transition paragraph 958-10-65-1, as follows:

Implementation Guidance and Illustrations

> Illustrations

> > Example 1: Reporting Net Periodic Pension Cost and Changes in a Plan's Funded Status

958-715-55-3 This Example illustrates the guidance in Sections 958-715-35 and 958-715-45.

958-715-55-4 Not-for-Profit Entity A's (NFP A's) actuary prepares a 12-month projection of net periodic pension cost for July 1, 20X7~~2007~~, to June 30, 20X8~~2008~~. The funded status of NFP A's defined benefit pension plan as of June 30, 20X7~~2007~~, and June 30, 20X8~~2008~~, and amounts to be recognized as components of net periodic pension cost are shown in the following paragraph. The cumulative net loss not yet recognized as a component of net periodic pension cost is less than 10 percent of the greater of the projected benefit obligation and the market-related value of plan assets. No plan amendments affect the period from July 1, 20X7~~2007~~, to June 30, 20X8~~2008~~. Assumptions about benefit payments and **contributions** made by NFP A have not been included in this Example. During the fiscal year ending June 30, 20X8~~2008~~, NFP A does the following:

a. Recognizes the additional net loss as a change in **net assets without donor restrictions**~~unrestricted net assets~~ and a change in the liability that reflects the underfunded status of the plan
b. Recognizes the amortization of the transition obligation as a component of net periodic pension cost
c. Recognizes the amortization of prior service cost as a component of net periodic pension cost
d. Recognizes net periodic pension cost for 20X8~~2008~~, reported within the appropriate functional expense categories.

958-715-55-5 These facts are illustrated in the following table.

	~~6/30/07~~6/30/X7	~~6/30/08~~6/30/X8
	(in thousands)	
Projected benefit obligation	$ (3,670)	$ (3,600)
Plan assets at fair value	2,510	2,385
Funded status	$ (1,160)	$ (1,215)
Items not yet recognized as a component of net periodic pension cost:		
Transition obligation	$ 240	$ 200
Prior service cost	275	175
Net loss	315	365
	$ 830	$ 740
Components of projected 12 months' net periodic pension cost for fiscal year 20X8~~2008~~:		
Service cost	$ 110	
Interest cost	120	
Expected return on plan assets	(125)	
Amortization of prior service cost	100	
Amortization of net (gain) loss	-	
Amortization of transition obligation	40	
Net periodic pension cost	$ 245	

958-715-55-6 For the year ending June 30, 20X8~~2008~~, NFP A recognizes the amortizations of the transition obligation and prior service cost as components of net periodic pension cost and recognizes the additional loss arising during the year. The journal entries are as follows:

a. Recognize the additional loss in net assets without donor restrictions~~unrestricted net assets~~.

Net loss not yet recognized in net periodic pension cost	50	
Liability for pension benefits		50

b. Recognize the amortization of the transition obligation in net periodic pension cost.

Net periodic pension cost (functionalized)	40	
Transition obligation not yet recognized in net periodic pension cost		40

c. Recognize the amortization of prior service cost in net periodic pension cost.

Net periodic pension cost (functionalized)	100	
Prior service cost not yet recognized in net periodic pension cost		100

d. Recognize service cost, interest cost, and the expected return on plan assets in net periodic pension cost.

Net periodic pension cost (functionalized)	105 (a)	
Liability for pension benefits		105

(a) Equals $110 service cost + $120 interest cost – $125 expected return on plan assets.

In its statement of activities, NFP A chooses to present one combined separate line item within changes in net assets without donor restrictions (encompassing the net loss arising during the year and the amortizations of the transition obligation and prior service cost) apart from expenses. NFP A would disclose the components of that combined line item in the notes to financial statements, pursuant to paragraph 958-715-50-1(i).

958-715-55-7 The following statement of activities reflects the presentation of the combined line item if NFP A chooses to present it outside its intermediate measure of operations.

Not-for-Profit Entity A
Statement of Activities
Year Ended June 30, ~~2008~~20X8
(in thousands)

	Without Donor Restrictions ~~Unrestricted~~	With Donor Restrictions ~~Temporarily Restricted~~	~~Permanently Restricted~~	Total
Operating:				
Revenues, gains, and other support:				
Private contributions, other than bequests	$ 60,000	$ 14,200		$ 74,200
Bequests	17,000			17,000
Government grants		9,000		9,000
~~Investment income used for operating activities~~Investment return appropriated by the governing board for operations	11,500	1,000		12,500
Sales of educational materials	2,000			2,000
Other	2,000			2,000
Net assets released from restrictions	17,000	(17,000)		-
Total revenues, gains, and other support	109,500	7,200		116,700
Expenses:				
Program services:				
Research and medical support	58,000			58,000
Public education	9,000			9,000
Community service	15,000			15,000
Total program services	82,000			82,000
Supporting services:				
Fund raising	15,000			15,000
Management and general	9,000			9,000
Total supporting services	24,000			24,000
Total expenses	106,000			106,000
Increase in net assets from operating activities	3,500	7,200		10,700
Nonoperating:				
Investment return, net	13,000	1,100		14,100
~~Investment income in excess of amount used for operating activities~~Investment return appropriated by the governing board for operations	~~1,500~~ (11,500)	(1,000)		~~1,500~~ (12,500)
Contributions for endowment funds		15,000	~~$ 15,000~~	15,000
Pension-related changes other than net periodic pension cost	90 (a)			90
Increase in net assets	5,090	22,300 ~~7,200~~	~~15,000~~	~~27,290~~ 27,390
Net assets, beginning of year	147,110	78,800 ~~48,800~~	~~30,000~~	225,910
Net assets, end of year	$ 152,200	$ 101,100 ~~56,000~~	~~$ 45,000~~	$ ~~253,200~~ 253,300

(a) Equals $40 amortization of transition obligation + $100 amortization of prior service cost - $50 net loss.

958-715-55-8 The following statement of activities reflects the presentation of the combined separate line item if, alternatively, NFP A chooses to present it within its intermediate measure of operations. This alternative would not be available to NFP A if it were within the scope of Topic 954, and presented a performance indicator pursuant to the provisions of paragraphs 954-225-45-4 through 45-7.

Not-for-Profit Entity A
Statement of Activities
Year Ended June 30, ~~2008~~20X8
(in thousands)

	Without Donor Restrictions ~~Unrestricted~~	With Donor Restrictions ~~Temporarily Restricted~~	~~Permanently Restricted~~	Total
Operating:				
Revenues, gains, and other support:				
Private contributions, other than bequests	$ 60,000	$ 14,200		$ 74,200
Bequests	17,000			17,000
Government grants		9,000		9,000
~~Investment income used for operating activities~~ Investment return appropriated by the governing board for operations	11,500	1,000		12,500
Sales of educational materials	2,000			2,000
Other	2,000			2,000
Net assets released from restrictions	17,000	(17,000)		-
Total revenues, gains, and other support	109,500	7,200		116,700
Expenses:				
Program services:				
Research and medical support	58,000			58,000
Public education	9,000			9,000
Community service	15,000			15,000
Total program services	82,000			82,000
Supporting services:				
Fund raising	15,000			15,000
Management and general	9,000			9,000
Total supporting services	24,000			24,000
Total expenses	106,000			106,000
Pension-related changes other than net periodic pension cost	90 (a)			90
Increase in net assets from operating activities	3,590	7,200		~~10,610~~ 10,790
Nonoperating:				
Investment return, net	13,000	1,100		14,100
~~Investment income in excess of amount used for operating activities~~ Investment return appropriated by the governing board for operations	~~1,500~~ (11,500)	(1,000)		~~1,500~~ (12,500)
Contributions for endowment funds		15,000	~~$ 15,000~~	15,000
Increase in net assets	5,090	22,300 ~~7,200~~	~~15,000~~	~~27,290~~ 27,390
Net assets, beginning of year	147,110	78,800 ~~48,800~~	~~30,000~~	225,910
Net assets, end of year	$ 152,200	$ 101,100 ~~56,000~~	~~$ 45,000~~	$ ~~253,200~~ 253,300

(a) Equals \$40 amortization of transition obligation + \$100 amortization of prior service cost - \$50 net loss.

Amendments to Subtopic 958-720

43. Amend paragraphs 958-720-45-1 through 45-3, 958-720-45-7 through 45-8, and 958-720-45-15 and its related heading, add paragraph 958-720-45-2A, and supersede paragraph 958-720-45-16, with a link to transition paragraph 958-10-65-1, as follows:

Not-for-Profit Entities—Other Expenses

Other Presentation Matters

958-720-45-1 This Subsection provides guidance on the reporting of expenses incurred by **not-for-profit entities** (NFPs) as follows~~using the following classifications~~:

a. Functional classification of expenses
b. Analysis of expenses by their nature and function~~Natural classification of expenses~~
c. Classification of particular costs.

For additional guidance on reporting under these classifications see Section 958-205-45.

> Functional Classification of Expenses

958-720-45-2 To help donors, creditors, and others in assessing an NFP's service efforts, including the costs of its services and how it uses resources, a statement of **activities** or notes to financial statements shall provide information about expenses reported by their **functional expense classification~~functional classification~~**, such as major classes of **program services** and **supporting activities**, for example:

a. Program services
b. Supporting activities, which often include one or more of the following:
   1. **{add glossary link}**Management and general activities**{add glossary link}**
   2. **{add glossary link}**Fundraising activities**{add glossary link}**
   3. **{add glossary link}**Membership development activities**{add glossary link}**.

958-720-45-2A Activities that represent direct conduct or direct supervision of program or other supporting activities require allocation from management and general activities. Additionally, certain costs benefit more than one function and, therefore, shall be allocated. For example, information technology generally can be identified as benefiting various functions, such as management and general (for example, accounting and financial reporting and human resources), fundraising, and program delivery. Therefore, information technology costs generally would be allocated among the functions receiving direct benefit.

> > Program Services

958-720-45-3 Program services are the activities that result in goods and services being distributed to beneficiaries, customers, or members that fulfill the purposes or mission for which the NFP exists. Those services are the major purpose for and the major output of the NFP and often relate to several major programs. For example, a large university may have programs for student instruction, research, and patient care, among others. Similarly, a health and welfare entity may have programs for health or family services, research, disaster relief, and public education, among others. A federated fundraising entity's programs may include making **{add glossary link}**contributions**{add glossary link}** to NFPs supported by the federated fundraising entity. Paragraphs 280-10-50-1 through 50-19, although not required of NFPs, may be helpful in determining what constitutes major classes of programs and supporting activities.

958-720-45-4 Information about an NFP's major programs (or segments) can be enhanced by reporting the interrelationships of program expenses and program revenues. For example, a university might report expenses for its instruction and other academic services with related revenues from student tuition and expenses for its housing and food services with related revenues from room and board **fees**. Related nonmonetary information about program inputs, outputs, and results also is helpful; for example, information about applications, acceptances, admissions, enrollment and occupancy rates, and degrees granted. Generally, reporting that kind of information is feasible only in supplementary information or management explanations or by other methods of financial reporting.

958-720-45-5 The components of total program expenses shall be evident from the details provided on the face of the statement of activities, unless the notes to financial statements provide the information in paragraph 958-720-50-1(b).

> > Supporting Activities

958-720-45-6 Supporting activities are all activities of an NFP other than program services. Generally, supporting activities include the following activities:

a. **Management and general activities**
b. **Fundraising activities**
c. **Membership development activities**.

> > > Management and General Activities

958-720-45-7 Management and general activities include the following:

a. Oversight
b. Business management
c. General recordkeeping and payroll
d. Budgeting
e. Financing, including unallocated interest costs pursuant to paragraph 958-720-45-24
f. Soliciting funds other than **contributions** and membership dues, for example, the costs associated with:

1. Promoting the sale of goods or services to customers, including advertising costs
2. Responding to government, foundation, and other requests for proposals for customer-sponsored contracts for goods and services
3. ~~Administering government, foundation, and similar customer-sponsored contracts, including billing and collecting fees~~.

ff. Administering government, foundation, and similar customer-sponsored contracts, including billing and collecting fees and grant and contract financial reporting

g. Disseminating information to inform the public of the NFP's stewardship of contributed funds

h Making announcements concerning appointments

i. Producing and disseminating the annual report

j. Subparagraph superseded by Accounting Standards Update No. 2012-04.

jj. Employee benefits management and oversight (human resources)

k. All other management and administration except for direct conduct of program services (see paragraphs 958-720-45-3 through 45-5), fundraising activities (see paragraphs 958-720-45-9 through 45-10), or membership development activities (see paragraphs 958-720-45-11 through 45-14). See paragraphs 958-720-55-171 through 55-176 for examples on which activities would constitute direct conduct or supervision of program or support functions and an example footnote disclosure on the cost allocation method used to allocate costs among functions.

958-720-45-8 The costs of oversight and management usually include the salaries and expenses of the governing board, the chief executive officer of the NFP, and the supporting staff. If such staff spend a portion of their time directly conducting or supervising program services or categories of other supporting services, however, their salaries and expenses shall be allocated among those functions (see paragraph 958-720-45-2A). See paragraphs 958-720-55-171 through 55-176 for examples on which activities would constitute direct conduct or supervision of program or support functions and an example note disclosure on the method used to allocate costs among functions.

> Analysis of Expenses by Their Nature and Function~~Natural Classification of Expenses~~

958-720-45-15 ~~Voluntary health and welfare entities~~All NFPs shall report information about all expenses in one location on the face of the statement of activities, as a schedule in the notes to financial statements, or in a separate financial statement, as discussed in paragraph 958-205-45-6. The relationship between functional classification and natural classification for all expenses shall be presented in an analysis that disaggregates **functional expense classifications**, such as major classes of **program services** and **supporting**

activities, by their **natural expense classifications**~~functional classification as well as information about expenses by their **natural expense classification**~~, such as salaries, rent, electricity, interest expense, supplies, depreciation, awards and grants to others, and professional fees~~, in a matrix format in a separate financial statement—the statement of functional expenses (see paragraph 958-205-45-6)~~. To the extent that expenses are reported by other than their natural classification (such as salaries included in cost of goods sold or facility rental costs of special events reported as direct benefits to donors), they shall be reported by their natural classification in the analysis of expenses by nature and function. For example, salaries, wages, and fringe benefits that are included as part of the cost of goods sold on the statement of activities shall be included with other salaries, wages, and fringe benefits in the analysis of expenses by nature and function. External and direct internal investment expenses that have been netted against investment return shall not be included in the analysis of expenses by nature and function. Certain items that are typically excluded from net income of for-profit entities and that do not follow Topic 958, such as those items listed in paragraph 220-10-45-10A, are considered gains or losses and, like other gains and losses, shall not be included in the analysis of expenses by nature and function. See Note F in paragraph 958-205-55-21 for an example of how to report expenses by nature and function.

958-720-45-16 Paragraph superseded by Accounting Standards Update No. 2016-14.~~Other NFPs are encouraged, but not required, to provide information about expenses by their natural expense classification.~~

44. Amend paragraph 958-720-50-1, with a link to transition paragraph 958-10-65-1, as follows:

Disclosure

958-720-50-1 The financial statements of a **not-for-profit entity** (NFP) shall disclose ~~all of~~ the following information:

a. Total fundraising expenses.
b. Total program expenses and information about why total program expenses disclosed in the notes do not articulate with the statement of activities. Pursuant to paragraph 958-720-45-5, this disclosure is only required if the components of total program expenses are not evident from the details provided on the face of the statement of activities (for example, if cost of sales is not identified as either program or supporting services).
bb. The relationship between functional classification and natural classification for all expenses in an analysis that disaggregates functional expense classifications by their natural expense classifications in accordance with paragraph 958-720-45-15.

c. The amount of income tax expense and the nature of the activities that generated the taxes, which is only required if the NFP incurs income tax expense.
d. A description of the methods used to allocate costs among program and support functions. See paragraph 958-720-55-176 or Note F in paragraph 958-205-55-21 for examples of note disclosures on the cost allocation methods used.

45. Amend the heading preceding paragraph 958-720-55-166 and paragraph 958-720-55-169 and add paragraphs 958-720-55-171 through 55-176 and their related headings, with a link to transition paragraph 958-10-65-1, as follows:

Implementation Guidance and Illustrations

Accounting for Costs of Activities that Include Fundraising

> Illustrations

> > Example 9: Distribution of the Annual Report

958-720-55-104 Not-for-Profit Entity I (NFP I) is a university that distributes its annual report, which includes reports on mission accomplishments, to those who have made significant contributions over the previous year, its board of trustees, and its employees. The annual report is primarily prepared by management and general personnel, such as the accounting department and executive staff. The activity is coordinated by the public relations department. Internal management memoranda indicate that the purpose of the annual report is to report on how management discharged its stewardship responsibilities, including the university's overall performance, goals, financial position, cash flows, and results of operations. Included in the package containing the annual report are requests for contributions and donor reply cards.

> > Example 20: Illustrative Disclosures for the Allocation of Joint Costs

958-720-55-166 The disclosures discussed in paragraph 958-720-50-2 are illustrated in the following Cases:

a. Narrative format (Case A)
b. Tabular format (Case B).

> > > Case A: Narrative Format

958-720-55-167 The following shows the required and encouraged information in narrative format.

Note X. Allocation of Joint Costs

In 19XX, Not-for-Profit Entity T conducted activities that included requests for contributions, as well as program and management and general components. Those activities included direct mail campaigns, special events, and a telethon. The costs of conducting those activities included a total of $310,000 of joint costs, which are not specifically attributable to particular components of the activities (joint costs). [Joint costs for each kind of activity were $50,000, $150,000, and $110,000 respectively.] These joint costs were allocated as follows.

Fundraising	$ 180,000
Program A	80,000
Program B	40,000
Management and general	10,000
Total	$ 310,000

958-720-55-168 Note that the bracketed sentence is a disclosure that is encouraged but not required.

> > > Case B: Tabular Format

958-720-55-169 The following reports that information in tabular format, as well as information concerning joint costs incurred for each kind of activity by **<u>functional expense classification</u>**~~functional classification~~, which is neither required nor encouraged, but which is not prohibited.

Note X. Allocation of Joint Costs

In 19XX, Not-for-Profit Entity T conducted activities that included appeals for contributions and incurred joint costs of $310,000. These activities included direct mail campaigns, special events, and a telethon. Joint costs were allocated as follows.

	Direct Mail	Special Events	Telethon	Total
Fund raising	$ 40,000	$ 50,000	$ 90,000	$ 180,000
Program A	10,000	65,000	5,000	80,000
Program B		25,000	15,000	40,000
Management and general		10,000		10,000
Total	$ 50,000	$ 150,000	$ 110,000	$ 310,000

958-720-55-170 Note that shading is used to highlight information that is neither required nor encouraged, but which is not prohibited. However, NFPs may prefer to disclose it. Disclosing the total joint costs for each kind of activity ($50,000, $150,000, and $110,000) is encouraged but not required.

> > Accounting for Allocable Costs for Direct Conduct or Direct Supervision

> > > Example 21: Illustrative Disclosures of Methods Used for the Allocation of Expenses from Management and General

958-720-55-171 The following Cases represent certain activities to illustrate direct conduct and direct supervision of program or support activities and, therefore, should be allocated to the program or support function or functions that receive a benefit in accordance with paragraph 958-720-45-7(k).

> > > > Case A: Chief Executive Officer Allocation

958-720-55-172 The broad responsibilities of a chief executive officer generally include administrative and programmatic oversight. At Not-for-Profit Entity A (NFP A), the chief executive officer spends a portion of time directly overseeing the research program. Additionally, a portion of time is spent with current and potential donors on fundraising cultivation activities. A portion of the chief executive officer's compensation and benefits and other expenses would be allocated to the research program and to the fundraising function representing the portion of time spent on those activities because they reflect direct conduct or direct supervision. If the remainder of the chief executive officer's time is spent indirectly supervising the other areas of NFP A, including the administrative areas, those activities would not constitute direct conduct or direct supervision, and the ratable portion of compensation and benefit amounts would remain in management and general activities.

> > > > Case B: Chief Financial Officer Allocation

958-720-55-173 The chief financial officer at Not-for-Profit Entity B (NFP B) has primary responsibility for (a) accounting and reporting, (b) short-term budgeting and long-term financial planning, (c) cash management, and (d) direct oversight of NFP B's endowment. A portion of the chief financial officer's compensation and benefits and other expenses would be allocated to management and general activities for the accounting and reporting, the short-term budgeting and long-term financial planning, and cash management functions because they benefit the overall organization. A portion also would be allocated to investment expenses for management of the investment strategy of the endowment and would be netted against investment return. However, any portion of time spent supervising the accounting for investments or other fiduciary oversight would not be allocated to investment expenses because that time is related to an accounting and general management activity that benefits the overall organization and should be allocated to management and general activities.

> > > > Case C: Human Resources Department Allocation

958-720-55-174 The human resources department at Not-for-Profit Entity C (NFP C) generally is involved in the benefits administration for all personnel of NFP C.

The human resources department's related costs would not be allocated to any specific program. Rather, those costs would remain a component of management and general activities because benefits administration is a supporting activity for the entire entity.

> > > > Case D: Grant Accounting and Reporting Allocation

958-720-55-175 Not-for-Profit Entity D (NFP D) receives federal grants and employs an accountant who is responsible for grant accounting and reporting. In some cases, under the terms of the grant agreement, a fiscal report is required to be filed that details expenses incurred and charged against the grant. The fiscal report is not part of the direct conduct or direct supervision of the grant but rather is an accounting function. Therefore, the grant accountant's compensation and benefits would not be allocated to the programmatic area. However, a scientific report prepared by a principal investigator who is responsible for the research activity would be indicative of direct conduct and/or direct supervision of the grant activity, and the principal investigator's compensation and benefits would be allocated to the grant.

> > > > Required Disclosure

958-720-55-176 In accordance with the Cases presented in paragraphs 958-720-55-172 through 55-175, an NFP would be required to assess which activities constitute direct conduct or direct supervision of a program or support function and, therefore, would require allocation of costs. The information required to be disclosed by paragraph 958-720-50-1(d) would be the cost allocation method used to allocate costs of activities identifiable with one or more program, fundraising, or membership-development activities, an example of which is illustrated as follows.

> Note X. Methods Used for Allocation of Expenses from Management and General Activities
>
> The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Organization. Those expenses include depreciation and amortization, the president's office, communications department, and information technology department. Depreciation is allocated based on square footage, the president's office is allocated based on estimates of time and effort, certain costs of the communications department are allocated based on estimates of time and effort, and the information technology department is allocated based on estimates of time and costs of specific technology utilized.

Amendments to Subtopic 958-805

46. Amend paragraph 958-805-25-27, with a link to transition paragraph 958-10-65-1, as follows:

Not-for-Profit Entities—Business Combinations

Recognition

Acquisition by a Not-for-Profit Entity

> Recognizing Goodwill Acquired or a Contribution Received, Including Consideration Transferred

958-805-25-27 An NFP acquirer applies the guidance in this Subsection instead of Subtopic 805-30 for the recognition of the following items:

a. Goodwill acquired, whether recognized as an asset or as an immediate charge to the statement of activities
b. A **{add glossary link}**contribution**{add glossary link}** received in an acquisition
c. Consideration transferred, including **contingent consideration**.

47. Amend paragraphs 958-805-45-6 through 45-7 and 958-805-45-10, with a link to transition paragraph 958-10-65-1, as follows:

Other Presentation Matters

Acquisition by a Not-for-Profit Entity

958-805-45-3 The financial statements of an acquirer **(the combined entity) shall report an** acquisition by a not-for-profit entity **as activity of the period in which it occurs.**

> Statement of Activities

958-805-45-4 A **not-for-profit entity** (NFP) acquirer shall report the excess amount recognized in accordance with the guidance in paragraph 958-805-25-29 as a separate line item on the face of its statement of activities. The separate line item shall be appropriately described, for example, as *excess of consideration paid over net assets acquired in acquisition of Entity AB* (or as *excess of liabilities assumed over assets acquired in acquisition of Entity AB*). Example 5 (see paragraphs 958-805-55-59 through 55-61) illustrates one way an acquirer might present that amount in its statement of activities.

958-805-45-5 An NFP acquirer shall report the **inherent contribution** recognized in accordance with paragraph 958-805-25-31 as a separate line item on the face of the statement of activities. The separate line item shall be appropriately described, for example, as *excess of assets acquired over liabilities assumed in donation of Entity XY* or as *contribution received in donation of Entity XY*. In another situation, that excess might be described as *excess of fair value of net assets acquired over consideration paid in acquisition of Entity XY*.

958-805-45-6 An NFP acquirer shall classify the inherent contribution received presented in accordance with the preceding paragraph on the basis of the ~~type of~~ donor restrictions imposed on the related net assets. In classifying those net assets, an acquirer shall do both of the following:

a. Include restrictions imposed on the net assets of the **acquiree** by a donor before the acquisition and those imposed by the donor of the **business** or **nonprofit activity** acquired, if any, in accordance with Section 958-605-45.
b. Report donor-restricted **{add glossary link}**contributions**{add glossary link}** as **donor-restricted support**~~restricted support~~ even if the restrictions are met in the same reporting period in which the acquisition occurs. That is, the acquirer shall not apply the reporting exception in paragraph 958-605-45-4 to **net assets with donor restrictions**~~restricted net assets~~ acquired in an acquisition.

958-805-45-7 Thus, the inherent contribution received may increase ~~**permanently restricted net assets**, **temporarily restricted net assets**, **unrestricted net assets**~~net assets with donor restrictions, **net assets without donor restrictions**, or some combination of those items. Example 6 (see paragraphs 958-805-55-62 through 55-67) illustrates the application of the preceding paragraph's guidance on reporting **donor-imposed restrictions** on an inherent contribution received.

958-805-45-8 An NFP acquirer that transfers assets as consideration for an acquired nonprofit activity or business shall assess whether that transaction satisfies a donor-imposed restriction (see the following paragraph) or otherwise results in a change in its net asset classifications (see paragraph 958-805-45-10).

958-805-45-9 For example, transferring consideration in an acquisition might satisfy a donor-imposed restriction on the acquirer's net assets that were restricted for acquisition of land, buildings, works of art, or other long-lived assets if the acquiree has the qualifying assets. If so, the acquirer may either report the expiration of those restrictions separately or aggregate and report them together with other similar expirations of donor-imposed restrictions during the period in which the acquisition occurs.

958-805-45-10 If transferring consideration results in changes in net asset classifications other than those described in the preceding paragraph, an NFP acquirer shall report those changes separately from both any other **reclassification of net assets**~~**reclassifications**~~ and any expiration of those restrictions during the period in which the acquisition occurs. For example, an acquirer that transfers as consideration its ~~unrestricted~~ assets with no associated donor restrictions and acquires assets from the acquiree that have associated~~permanent or temporary~~ donor restrictions shall recognize a reclassification of net assets in its statement of activities.

48. Amend paragraphs 958-805-50-3 and 958-805-50-8, with a link to transition paragraph 958-10-65-1, as follows:

Disclosure

Merger of Not-for-Profit Entities

958-805-50-1 The new not-for-profit entity **(NFP) shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of the** merger of not-for-profit entities **that resulted in its formation.**

958-805-50-2 To meet the objective in the preceding paragraph, the new NFP shall disclose the following information for the merger that resulted in its formation:

a. The name and a description of each merging entity
b. The **merger date**
c. The primary reasons for the merger
d. Both of the following for each merging entity:
    1. The amounts recognized as of the merger date for each major class of assets and liabilities and each class of net assets
    2. The nature and amounts, if applicable, of any significant assets (for example, conditional promises receivable or collections) or liabilities (for example, conditional promises payable) not otherwise required to be recognized under generally accepted accounting principles (GAAP).
e. The nature and amount of any significant adjustments made to conform the individual accounting policies of the merging entities or to eliminate intra-entity balances.

958-805-50-3 If the new NFP is a **public entity** and the merger occurs at other than the beginning of an annual reporting period (that is, if its initial financial statements thus cover less than an annual reporting period), the new NFP shall disclose ~~all of~~ the following supplemental pro forma information:

a. Revenue for the current reporting period as though the merger date had been the beginning of the annual reporting period
b. Changes in **net assets without donor restrictions** and changes in **net assets with donor restrictions**~~**unrestricted net assets**, changes in **temporarily restricted net assets**, and changes in **permanently restricted net assets**~~ for the current reporting period as though the merger date had been the beginning of the annual reporting period.

958-805-50-4 If the new NFP is a public entity and it presents comparative financial information in the annual reporting period following the year in which the merger occurs, it shall disclose the supplemental pro forma information in the preceding paragraph for the comparable prior reporting period as though the merger date had been the beginning of that prior annual reporting period.

958-805-50-5 If disclosure of any of the information required by paragraphs 958-805-50-3 through 50-4 is impracticable, the new NFP shall disclose that fact and explain why the disclosure is impracticable. The term *impracticable* has the same meaning as *impracticability* in paragraph 250-10-45-9.

958-805-50-6 If the specific disclosures required by this Subsection do not meet the objective in paragraph 958-805-50-1, the new NFP shall disclose whatever additional information is necessary to meet that objective.

Acquisition by a Not-for-Profit Entity

958-805-50-7 To meet the objective in the paragraph 805-10-50-1, an NFP acquirer shall disclose the information required by paragraph 805-10-50-2(a) through (g).

958-805-50-8 Instead of disclosing the information in paragraph 805-10-50-2(h), an NFP acquirer that is a **public entity** shall disclose ~~all of~~ the following information for each acquisition that occurs during the reporting period:

a. Revenues attributable to the acquiree since the **acquisition date** that are included in the statement of activities for the reporting period
b. Changes in **net assets without donor restrictions** and changes in **net assets with donor restrictions**~~**unrestricted net assets**, changes in **temporarily restricted net assets**, and changes in **permanently restricted net assets**~~ attributable to the **acquiree** since the acquisition date that are included in the statement of activities for the reporting period
c. The revenues of the combined entity as though the acquisition date for all acquisitions that occurred during the current year had been at the beginning of the annual reporting period (supplemental pro forma information)
d. Changes in net assets without donor restrictions and changes in net assets with donor restrictions~~unrestricted net assets, changes in temporarily restricted net assets, and changes in permanently restricted net assets~~ as though the acquisition date for all acquisitions that occurred during the current year had been at the beginning of the annual reporting period (supplemental pro forma information)
e. The nature and amount of any material, nonrecurring pro forma adjustments directly attributable to the acquisition(s) included in the reported pro forma revenues and changes in net assets without donor restrictions and changes in net assets with donor restrictions~~unrestricted net assets, changes in temporarily restricted net assets, and changes in permanently restricted net assets~~ (supplemental pro forma information).

49. Amend paragraphs 958-805-55-36 through 55-38, 958-805-55-60, and 958-805-55-64 through 55-67, with a link to transition paragraph 958-10-65-1, as follows:

Implementation Guidance and Illustrations

Merger of Not-for-Profit Entities

> Illustrations

> > Example 1: Disclosures for a Merger

958-805-55-32 This Example illustrates some of the disclosures required for a **merger of not-for-profit entities** in paragraphs 958-805-50-1 through 50-6. The Example assumes that three **not-for-profit entities** (NFPs) merge to create a new NFP. NFP F, NFP G, and NFP H merge to create NFP I, which is a **public entity**.

958-805-55-33 Although this Example presents the illustrative notes separately, NFP I might present the disclosures illustrated in a single note. The required supplemental information is presented in a separate schedule outside the notes. This Example illustrates the following disclosures:

a. Description of the merger
b. Significant asset not required to be recognized
c. Conforming accounting policies
d. Major classes of assets, liabilities, and net assets
e. Required supplemental information.

> > > Description of the Merger

958-805-55-34 The following note illustrates the disclosures required by paragraphs 958-805-50-2(a) through (c).

> NFP I was formed on June 15, 20X1, as the result of a merger of three local not-for-profit entities—NFP F, NFP G, and NFP H. All three entities shared the common mission of supporting youth education. Through their merger, the entities seek to further their common mission by substantially improving their after-school youth programs in the region and their capability to assist youth in need. They also seek to achieve economies of scale and other synergies through integrating their services.

> > > Significant Asset Not Required to Be Recognized

958-805-55-35 The following note illustrates the disclosures required by paragraph 958-805-50-2(d)(2).

> At June 15, 20X1, NFP F had a conditional promise receivable of $1.4 million from a donor to be used to construct a new after-school youth facility. The promise is conditioned upon NFP F raising an equivalent amount from others by the end of 20X4 to be used for construction of the facility. At the merger date, NFP F had raised $420,000. NFP I expects to successfully raise the remaining amount by the end of 20X4

> > > Conforming Accounting Policies

958-805-55-36 The following note illustrates the disclosure required by paragraph 958-805-50-2(e).

> ~~Of NFP F's temporarily restricted net assets at the merger date, $789,000 related to its accounting policy of implying a time restriction on gifts of long-lived assets over the useful life of the donated assets. NFP G and NFP H had elected not to imply a time restriction on those types of gifts, and NFP I has conformed its policy to that of NFP G and NFP H. Thus, the time restriction on NFP F's donated long-lived assets was removed, which increased the opening balance of NFP I's unrestricted net assets by $789,000.~~NFP G and NFP H have a policy to report donor-restricted contributions whose restrictions are met in the same reporting period as support within net assets without donor restrictions. NFP F reports donor-restricted contributions whose restrictions are met in the same reporting period as donor-restricted support and subsequently releases the donor-restricted net assets when the restrictions are met. NFP I has conformed its policy to that of NFP G and NFP H. The accounting policy difference affects only the statement of activities; thus, no adjustment to the opening balance of NFP I's net asset classes is necessary.

> > > Major Classes of Assets, Liabilities, and Net Assets

958-805-55-37 The following note illustrates the disclosures required by paragraph 958-805-50-2(d)~~, and also shows the reclassification discussed in the note illustrated in the preceding paragraph~~.

Major Classes of Assets
June 15, 20X1
(amounts in thousands)

				Adjustments		
	NFP F	**NFP G**	**NFP H**	**Debit**	**Credit**	**Total (NFP I)**
Assets						
Cash and short-term investments	$ 4,127	$ 7,213	$ 3,179	-	-	$ 14,519
Contributions receivable	3,053	5,102	2,696	-	-	10,851
Allowance for uncollectibles	(295) ~~295~~	(524) ~~524~~	(157) ~~157~~	-	-	(976) ~~976~~
Contributions receivable, net	2,758	4,578	2,539	-	-	9,875
Land, buildings, and equipment	43,337	59,021	15,875	-	-	118,233
Accumulated depreciation	(8,458)	(9,935)	(1,990)	-	-	(20,383)
Land, buildings, and equipment, net	34,879	49,086	13,885	-	-	97,850
Long-term investments	54,987	108,234	42,004	-	-	205,225
Liabilities				-	-	
Accounts payable and accrued expenses	3,128	6,412	3,333	-	-	12,873
Grants payable	2,893	3,765	2,232	-	-	8,890
Long-term debt	32,980	45,190	18,556	-	-	96,726
Net assets						
With donor restrictions~~Permanently restricted~~	48,834 ~~37,987~~	86,409 ~~58,209~~	28,895 ~~12,929~~	-	-	164,138 ~~109,125~~
~~Temporarily restricted~~	~~10,847~~	~~28,200~~	~~15,966~~	~~789~~	-	~~54,224~~
Without donor restrictions~~Unrestricted~~	8,916	27,335	8,591	-	~~789~~	44,842 ~~45,631~~
Total net assets	$ 57,750	$ 113,744	$ 37,486	-	-	$ 208,980

> > > Case E: Required Supplemental Information

958-805-55-38 The following supplemental information is required by paragraph 958-805-50-3. If NFP I presents comparative financial information in the annual reporting period following the year in which the merger occurs, the supplemental pro forma information would be presented in the financial report of that year as well.

~~Required~~ **Supplementary Pro Forma Information (Unaudited)**

The following information is not audited.

NFP I's revenue and changes in net assets without donor restrictions and net assets with donor restrictions~~unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets~~ for the year ending December 31, 20X1, as if the merger had occurred at January 1, 20X1, are:

	Revenue	Change in Net Assets without Donor Restrictions ~~Unrestricted Net Assets~~	Change in Net Assets with Donor Restrictions ~~Temporarily Restricted Net Assets~~	~~Change in Permanently Restricted Net Assets~~
Supplemental pro forma information for 1/1/20X1–12/31/20X1	$ 17,139	$ 5,715	$ (2,575) ~~(2,922)~~	~~$ 347~~

Acquisition by a Not-for-Profit Entity

> Illustrations

> > Example 5: Acquiree Expected in the Combined Entity to Be Predominantly Supported by Contributions and Returns on Investment

958-805-55-59 This Example illustrates one way in which a not-for-profit entity (NFP) might implement the requirements of paragraphs 958-805-25-29 and 958-805-45-4. On February 10, 20X0, NFP G, a religious not-for-profit entity, purchases 100 percent of the ownership interests in Restaurant H for consideration of $525,000. On the acquisition date, the amount of the net identifiable assets of Restaurant H recognized and measured in accordance with this Subtopic was $410,000. NFP G acquired Restaurant H for the purpose of converting it to a soup kitchen.

958-805-55-60 Management of NFP G expects the soup kitchen resulting from the conversion of Restaurant H to be predominantly supported by **{add glossary link}**contributions**{add glossary link}** and returns on investments. Specifically, the operating costs of the soup kitchen are expected to be funded by NFP G's existing contribution base. The following table illustrates how NFP G might satisfy the requirements of paragraph 958-805-45-4 for presenting the separate charge to the statement of activities at the acquisition date.

NFP G
Statement of Activities
For the Year Ended December 31, 20X0
(presented in thousands)

	Without Donor Restrictions ~~Unrestricted~~	With Donor Restrictions ~~Temporarily Restricted~~	~~Permanently Restricted~~	Total
Revenue, gains, and other support	$ 8,640	$6,790 ~~6,510~~	~~$ 280~~	$ 15,430
Net assets released from restrictions	5,820	(5,820)		-
Total revenues, gains, and other support	14,460	970 ~~690~~	~~280~~	15,430
Expenses	(13,115)	-		(13,115)
Change in net assets before changes related to acquisition of Restaurant H	1,345	970 ~~690~~	~~280~~	2,315
Excess of consideration transferred over net assets acquired in acquisition of Restaurant H (Note X)	(115)	-	~~-~~	(115)
Change in net assets	$ 1,230	$ 970 ~~690~~	~~$ 280~~	$ 2,200

958-805-55-61 NFP G might satisfy the requirements of paragraphs 805-10-50-2(a) through (d) and paragraph 958-805-50-11(a) as shown in the illustrative note below.

Note X: Acquisition of Restaurant H

On February 10, 20X0, NFP G acquired Restaurant H, a local restaurant, which it converted into a soup kitchen. NFP G acquired Restaurant H as part of furthering its mission to care for the needy. The acquisition was effected by purchasing 100 percent of the ownership interests in Restaurant H.

Because the operations of the soup kitchen are expected to be predominantly supported by contributions and returns on investments, NFP G has recognized the excess of the consideration transferred over the net assets acquired as a separate charge in its statement of activities rather than as goodwill. NFP G paid consideration of $525,000 for Restaurant H. On the acquisition date, the net identifiable assets of Restaurant H were $410,000. The excess of the amount paid over the net identifiable assets acquired represents the value of Restaurant H's assembled workforce, which is not recognized as a separate intangible asset, and the value of Restaurant H's earnings potential as a restaurant to other potential buyers.

> > Example 6: Donor Restriction on a Contribution Received

958-805-55-62 This Example illustrates application of the guidance in paragraphs 958-805-25-31, 958-805-30-8 through 30-9, and 958-805-45-5 through 45-7. The Example has the following Cases:

a. The **inherent contribution** is not subject to additional restrictions (Case A)
b. The inherent contribution is subject to additional restrictions (Case B).

958-805-55-63 Cases A and B share the following assumptions.

958-805-55-64 Charity I acquires Charity J. Charity I transfers no consideration in exchange for Charity J. The acquisition was achieved by, in effect, a gift of Charity J to Charity I. The fair values of Charity J's assets and liabilities, including **{add glossary link}**donor-imposed restrictions**{add glossary link}**, at the acquisition date follow.

Cash	$ 75	Net assets without donor restrictions~~Unrestricted net assets~~	$ 550
Contributions receivable	225	Net assets with donor restrictions~~Temporarily restricted net assets~~	450 ~~250~~
Long-term investments	500	~~Permanently restricted net assets~~	~~200~~
Plant, property, and equipment	430	Total net assets	$ 1,000
Total assets	1,230		
Accounts payable	(65)		
Mortgage	(165)		
Total liabilities	(230)		
Total net assets	$ 1,000		

958-805-55-65 Charity I recognizes a $1,000 **{add glossary link}**contribution**{add glossary link}** received in the acquisition (the excess of the acquisition date values of the identifiable assets acquired over the acquisition date values of the liabilities assumed). Charity I classifies the inherent contribution received according to the type of donor-imposed restrictions, including any imposed by the donor of the business or nonprofit activity acquired.

> > > Case A: The Inherent Contribution Is Not Subject to Additional Restrictions

958-805-55-66 Based on donor restrictions on Charity J's net assets at the acquisition date, net assets with a fair value of ~~$250 and $200~~$450 were classified as with donor restrictions~~temporarily restricted and permanently restricted net assets, respectively~~. In this Example, Charity J is, in effect, the donor of the acquired nonprofit activity, and it imposes no additional donor restrictions. To recognize the fiduciary responsibilities to the donors of Charity J that are assumed when Charity J's assets and liabilities are acquired, Charity I would classify changes to its net assets as follows.

Increase in net assets without donor restrictions~~unrestricted net assets~~:	
Contribution received in the acquisition of Charity J	$ 550
Increase in net assets with donor restrictions~~temporarily restricted net assets~~:	
Contribution received in the acquisition of Charity J	$450 ~~250~~
~~Increase in permanently restricted net assets:~~	
~~Contribution received in the acquisition of Charity J~~	~~$ 200~~

> > > Case B: The Inherent Contribution Is Subject to Additional Restrictions

958-805-55-67 Charity J is a subsidiary of Parent before the acquisition by Charity I. As a condition of the acquisition, Parent's governing board requires that Charity I use $175 of **net assets without donor restrictions**~~unrestricted net assets~~ for future capital improvements to the facility acquired. The requirement is irrevocable and is not self-imposed. To recognize the fiduciary responsibilities to the donors of Charity J that are assumed when Charity J's assets and liabilities are acquired, Charity I would classify changes to its net assets as follows.

Increase in net assets without donor restrictions~~unrestricted net assets~~:	
Contribution received in the acquisition of Charity J	$ 375
Increase in net assets with donor restrictions~~temporarily restricted net assets~~:	
Contribution received in the acquisition of Charity J	$625 ~~425~~
~~Increase in permanently restricted net assets:~~	
~~Contribution received in the acquisition of Charity J~~	~~$ 200~~

Amendments to Subtopic 958-810

50. Amend paragraph 958-810-50-5, with a link to transition paragraph 958-10-65-1, as follows:

Not-for-Profit Entities—Consolidation

Disclosure

> Disclosures for Noncontrolling Interests

958-810-50-4 An NFP (parent) that has one or more consolidated subsidiaries with a **noncontrolling interest** shall provide a schedule of changes in consolidated net assets attributable to the parent and the noncontrolling interest either in notes to the consolidated financial statements or on the face of financial statements, if practicable. That schedule shall reconcile beginning and ending balances of the parent's controlling interest and the noncontrolling interests for each class of net assets for which a noncontrolling interest exists during the reporting period.

958-810-50-5 The schedule required by the preceding paragraph shall, at a minimum, include:

a. A performance indicator, if the entity is a not-for-profit, business-oriented health care entity (see Section 954-10-15)
b. Amounts of discontinued operations
c. Subparagraph superseded by Accounting Standards Update 2015-01.
d. Changes in ownership interests in a subsidiary, including investments by and distributions to noncontrolling interests acting in their capacity as owners, which shall be reported separate from any revenues, expenses, gains, or losses and outside any measure of operations, if reported
e. An aggregate amount of all other changes in <u>**net assets without donor restrictions**</u> and <u>**net assets with donor restrictions**</u>~~unrestricted net assets (or other net asset classes, if restricted)~~ for the period.

958-810-50-6 Paragraph 958-810-55-25 illustrates the required disclosures using a reconciling schedule in notes to the consolidated financial statements.

51. Amend paragraphs 958-810-55-18 through 55-19 and 958-810-55-21 through 55-25 and the related pending content and headings, with a link to transition paragraph 958-10-65-1, as follows:

Implementation Guidance and Illustrations

> Illustrations

> > Example 1: Subsidiary with a Noncontrolling Interest

958-810-55-17 This Example illustrates one way in which the consolidated financial statements of an NFP might satisfy the presentation and disclosure requirements for noncontrolling interests in a consolidated subsidiary and subsequent changes in ownership interests of that subsidiary. This Example uses simplified assumptions and highly aggregated amounts to illustrate how to apply the provisions of Topic 810 and Subtopic 958-810.

958-810-55-18 For example, the consolidated statement of financial position in paragraph 958-810-55-23 shows relatively few highly aggregated amounts of assets and liabilities, and the consolidated statement of operations and other changes in <u>**net assets without donor restrictions**</u>~~unrestricted net assets~~ in paragraph 958-810-55-24 shows relatively few highly aggregated amounts of revenues and expenses rather than details such as expenses by function or nature. The consolidated statement of financial position also does not classify assets and liabilities, which is required for a not-for-profit, business-oriented health care entity by paragraph 954-210-45-1. This Example also omits a statement of cash flows, which does not bear on the presentation and disclosure requirements for noncontrolling interests.

958-810-55-19 Formats or levels of detail other than those presented in this Example may be appropriate for other situations. For example, the related net assets and noncontrolling interest would be presented in **net assets with donor restrictions**~~temporarily or permanently restricted net assets~~ if **donor-imposed restrictions** on the use of the subsidiary's net assets existed in this Example (see paragraph 958-810-45-1).

> > > Assumptions

958-810-55-20 The following assumptions are applicable to all years:

a. Hospital A, a tax-exempt NFP has one subsidiary, Subsidiary A. That ownership interest in Subsidiary A was purchased; there are no donor-imposed restrictions on the use of Subsidiary A's net assets.
b. Subsidiary A is an investor-owned entity that is subject to income taxes. The tax rate for all years is 40 percent.
c. Subsidiary A has 10,000 shares of common stock outstanding and does not pay dividends.

958-810-55-21 The following assumptions are applicable to 20X2:

a. On January 1, 20X2, Hospital A sells 2,000 of its 10,000 shares in Subsidiary A to an unrelated entity for $50,000 in cash, reducing its ownership interest from 100 percent to 80 percent. Immediately before the sale, Subsidiary A's equity was as follows.

	Subsidiary A
Common stock	$ 25,000
Paid-in capital	50,000
Retained earnings	125,000
Accumulated other comprehensive income	5,000
Total equity	$ 205,000

b. The accumulated other comprehensive income balance of $5,000 represents an unrealized gain on a portfolio of securities purchased by Subsidiary A for $100,000, which it classifies as available-for-sale securities at the carrying amount of $105,000 and are the only investment securities of the consolidated group.

c. The sale of Subsidiary A's shares is accounted for as an equity transaction (within **net assets without donor restrictions**~~unrestricted net assets~~) in the consolidated financial statements of Hospital A, as follows:
   1. A noncontrolling interest is recognized in net assets without donor restrictions~~unrestricted net assets~~ in the amount of $41,000 ($205,000 × 20 percent).
   2. Net assets without donor restrictions~~Unrestricted net assets~~ attributable to Hospital A are increased by $9,000, calculated as the difference between the cash received ($50,000) and the carrying amount of the noncontrolling interest ($41,000).
   3. The top-level (consolidated) journal entry to record the sale of Subsidiary A's shares to the noncontrolling shareholder is as follows:

Cash	$ 50,000	
Net assets without donor restrictions~~Unrestricted net assets~~ (noncontrolling interest)		$ 41,000
Net assets without donor restrictions~~Unrestricted net assets~~ (Hospital A)		9,000

d. For the year ended December 31, 20X2, the amount of Subsidiary A's net income included in the consolidated financial statements is $20,000, which included a net loss for discontinued operations of $7,000.

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 825-10-65-2

The following assumptions are applicable to 20X2:

a. On January 1, 20X2, Hospital A sells 2,000 of its 10,000 shares in Subsidiary A to an unrelated entity for $50,000 in cash, reducing its ownership interest from 100 percent to 80 percent. Immediately before the sale, Subsidiary A's equity was as follows.

	Subsidiary A
Common stock	$ 25,000
Paid-in capital	50,000
Retained earnings	125,000
Accumulated other comprehensive income	5,000
Total equity	$ 205,000

b. The accumulated other comprehensive income balance of $5,000 represents an unrealized gain on a portfolio of debt securities purchased by Subsidiary A for $100,000, which it classifies as available-for-sale debt securities at the carrying amount of $105,000 and are the only investment securities of the consolidated group.

c. The sale of Subsidiary A's shares is accounted for as an equity transaction (within **net assets without donor restrictions**~~unrestricted net assets~~) in the consolidated financial statements of Hospital A, as follows:

   1. A noncontrolling interest is recognized in net assets without donor restrictions~~unrestricted net assets~~ in the amount of $41,000 ($205,000 × 20 percent).
   2. Net assets without donor restrictions~~Unrestricted net assets~~ attributable to Hospital A are increased by $9,000, calculated as the difference between the cash received ($50,000) and the carrying amount of the noncontrolling interest ($41,000).
   3. The top-level (consolidated) journal entry to record the sale of Subsidiary A's shares to the noncontrolling shareholder is as follows:

Cash	$ 50,000	
Net assets without donor restrictions~~Unrestricted net assets~~ (noncontrolling interest)		$ 41,000
Net assets without donor restrictions~~Unrestricted net assets~~ (Hospital A)		9,000

d. For the year ended December 31, 20X2, the amount of Subsidiary A's net income included in the consolidated financial statements is $20,000, which included a net loss for discontinued operations of $7,000.

958-810-55-22 The following assumptions are applicable to 20X3:

a. On January 1, 20X3, Hospital A purchases 1,000 shares in Subsidiary A from the noncontrolling shareholders (50 percent of the noncontrolling interest) for $30,000 cash, increasing its ownership interest from 80 percent to 90 percent. Immediately before that purchase, the carrying amount of the noncontrolling interest in Subsidiary A was $48,000. The purchase of shares from the noncontrolling shareholders is accounted for as an equity transaction in the consolidated financial statements, as follows:

   1. The noncontrolling interest balance within net assets without donor restrictions~~unrestricted net assets~~ is reduced by $24,000 ($48,000 × 50 percent interest acquired by Hospital A).
   2. Net assets without donor restrictions~~Unrestricted net assets~~ attributable to Hospital A are decreased by $6,000, calculated as the difference between the cash paid ($30,000) and the adjustment to the carrying amount of the noncontrolling interest ($24,000).

3. The top-level (consolidated) journal entry to record that purchase of Subsidiary A's shares from the noncontrolling shareholders is as follows:

Net assets without donor restrictions~~Unrestricted net assets~~ (noncontrolling interest)	$ 24,000	
Net assets without donor restrictions~~Unrestricted net assets~~ (Hospital A)	6,000	
Cash		$30,000

b. For the year ended December 31, 20X3, the amount of Subsidiary A's net income included in the consolidated financial statements is $15,000.

> > > Consolidated Statement of Financial Position

958-810-55-23 The following consolidated statement of financial position illustrates the requirement in paragraph 958-810-45-1 that Hospital A present the noncontrolling interest in the consolidated statement of financial position within net assets, but separately from the parent's net assets.

Hospital A
Consolidated Statement of Financial Position
As of December 31

	20X3	**20X2**
Assets:		
Cash	$ 570,000	$ 475,000
Accounts receivable	125,000	110,000
Investment securities	125,000	120,000
Plant and equipment	220,000	235,000
Total assets	$ 1,040,000	$ 940,000
Liabilities:		
Total liabilities	$ 555,000	$ 459,000
Net assets without donor restrictions~~Unrestricted net assets~~:		
Hospital A	459,000	433,000
Noncontrolling interests in Subsidiary A	26,000	48,000
Total net assets without donor restrictions~~unrestricted net assets~~	485,000	481,000
Total liabilities and net assets	$ 1,040,000	$ 940,000

> > > Consolidated Statement of Operations and Other Changes in Net Assets without Donor Restrictions~~Unrestricted Net Assets~~

958-810-55-24 The following consolidated statement of operations and other changes in **net assets without donor restrictions**~~unrestricted net assets~~ illustrates how the requirements in paragraph 958-810-50-5(a) for disclosure of the amounts of a performance indicator of a health care entity for an excess of revenues over expenses from continuing operations and in paragraph 958-810-50-5(b) for discontinued operations might be presented on the face of a consolidated statement of operations and other changes in net assets.

Hospital A
Consolidated Statement of Operations and Other
Changes in Net Assets without Donor Restrictions~~Unrestricted Net Assets~~
Year Ended December 31

	20X3	20X2
~~Unrestricted revenues,~~ Revenues, gains, and other support without donor restrictions:		
Net patient service revenue	$ 390,000	$ 355,000
Contributions	5,000	5,000
Net assets released from donors' restrictions used for operations	-	-
Total revenues, gains, and other support	395,000	360,000
Patient care and other operating expenses	366,000	337,000
Excess of revenues over expenses (from continuing operations)	29,000	23,000
Discontinued operations of Subsidiary A, net	-	(7,000)
Change in net unrealized gains and losses on other than trading securities	5,000	15,000
Sale of Subsidiary A shares to noncontrolling shareholders	-	50,000
Purchase of Subsidiary A shares from noncontrolling shareholders	(30,000)	-
Increase in net assets without donor restrictions~~unrestricted net assets~~	$ 4,000	$ 81,000

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 825-10-65-2

The following consolidated statement of operations and other changes in **net assets without donor restrictions**~~unrestricted net assets~~ illustrates how the requirements in paragraph 958-810-50-5(a) for disclosure of the amounts of a performance indicator of a health care entity for an excess of revenues over expenses from continuing operations and in paragraph 958-810-50-5(b) for discontinued operations might be presented on the face of a consolidated statement of operations and other changes in net assets.

Hospital A
Consolidated Statement of Operations and Other
Changes in Net Assets without Donor Restrictions~~Unrestricted Net Assets~~
Year Ended December 31

	20X3	20X2
~~Unrestricted revenues,~~ Revenues, gains, and other support without donor restrictions:		
Net patient service revenue	$ 390,000	$ 355,000
Contributions	5,000	5,000
Net assets released from donors' restrictions used for operations	-	-
Total revenues, gains, and other support	395,000	360,000
Patient care and other operating expenses	366,000	337,000
Excess of revenues over expenses (from continuing operations)	29,000	23,000
Discontinued operations of Subsidiary A, net	-	(7,000)
Change in net unrealized gains and losses on other than trading debt securities	5,000	15,000
Sale of Subsidiary A shares to noncontrolling shareholders	-	50,000
Purchase of Subsidiary A shares from noncontrolling shareholders	(30,000)	-
Increase in net assets without donor restrictions~~unrestricted net assets~~	$ 4,000	$ 81,000

> > > Notes to Consolidated Financial Statements: Changes in Consolidated Net Assets without Donor Restrictions~~Unrestricted Net Assets~~ Attributable to the Parent's Controlling Financial Interest and to Noncontrolling Interests in Subsidiaries

958-810-55-25 The following note depicts the changes in consolidated net assets attributable to the controlling financial interest of Hospital A (parent) and the noncontrolling interests. It illustrates the requirements in paragraph 958-810-50-4 that an NFP present a schedule that reconciles the beginning and the end of the period carrying amounts of the parent's controlling interest and the noncontrolling interests for each class of net assets for which a noncontrolling interest exists. This note also illustrates the disclosure requirements in ~~paragraphs~~paragraph 958-810-50-5(a) through (b)~~, 958-810-50-5(b),~~ and (d) through (e)~~958-810-50-5(d)~~ for the amounts of a performance indicator of a health care entity (which is equivalent to income from continuing operations), for the amounts of discontinued operations, ~~and other~~ changes in ownership interests in a ~~subsidiary~~subsidiary, and the aggregate amount of all other changes in **net assets without donor restrictions** and **net assets with donor restrictions** for the period.

Hospital A
Notes to Consolidated Financial Statements
Changes in Consolidated Net Assets without Donor Restrictions~~Unrestricted Net Assets~~ Attributable to Hospital A and Transfers (to) from the Noncontrolling Interest
Year Ended December 31

	Total	Controlling Interest	Noncontrolling Interest
Balance January 1, 20X2	$ 400,000	$ 400,000	$ -
Excess of revenues over expenses (from continuing operations)	23,000	17,600	5,400
Discontinued operations, net of tax	(7,000)	(5,600)	(1,400)
Change in net unrealized gains and losses on other than trading securities	15,000	12,000	3,000
Sale of Subsidiary A shares to noncontrolling shareholders	50,000	9,000	41,000
Change in net assets	81,000	33,000	48,000
Balance December 31, 20X2	$ 481,000	$ 433,000	$ 48,000
Excess of revenues over expenses from continuing operations	29,000	27,500	1,500
Change in net unrealized gains and losses on other than trading securities	5,000	4,500	500
Purchase of Subsidiary A shares from noncontrolling shareholders	(30,000)	(6,000)	(24,000)
Change in net assets	4,000	26,000	(22,000)
Balance December 31, 20X3	$ 485,000	$ 459,000	$ 26,000

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 825-10-65-2

The following note depicts the changes in consolidated net assets attributable to the controlling financial interest of Hospital A (parent) and the noncontrolling interests. It illustrates the requirements in paragraph 958-810-50-4 that an NFP present a schedule that reconciles the beginning and the end of the period carrying amounts of the parent's controlling interest and the noncontrolling interests for each class of net assets for which a noncontrolling interest exists. This note also illustrates the disclosure requirements in ~~paragraphs~~paragraph 958-810-50-5(a) through (b)~~, 958-810-50-5(b),~~ and (d) through (e)~~958-810-50-5(d)~~ for the amounts of a performance indicator of a health care entity (which is equivalent to income from continuing operations), for the amounts of discontinued operations, ~~and other~~ changes in ownership interests in a ~~subsidiary.~~subsidiary, and the aggregate amount of all other changes in **net assets without donor restrictions** and **net assets with donor restrictions** for the period.

Hospital A
Notes to Consolidated Financial Statements
Changes in Consolidated Net Assets without Donor Restrictions~~Unrestricted Net Assets~~ Attributable to Hospital A and Transfers (to) from the Noncontrolling Interest
Year Ended December 31

	Total	Controlling Interest	Noncontrolling Interest
Balance January 1, 20X2	$ 400,000	$ 400,000	$ -
Excess of revenues over expenses (from continuing operations)	23,000	17,600	5,400
Discontinued operations, net of tax	(7,000)	(5,600)	(1,400)
Change in net unrealized gains and losses on other than trading debt securities	15,000	12,000	3,000
Sale of Subsidiary A shares to noncontrolling shareholders	50,000	9,000	41,000
Change in net assets	81,000	33,000	48,000
Balance December 31, 20X2	$ 481,000	$ 433,000	$ 48,000
Excess of revenues over expenses from continuing operations	29,000	27,500	1,500
Change in net unrealized gains and losses on other than trading debt securities	5,000	4,500	500
Purchase of Subsidiary A shares from noncontrolling shareholders	(30,000)	(6,000)	(24,000)
Change in net assets	4,000	26,000	(22,000)
Balance December 31, 20X3	$ 485,000	$ 459,000	$ 26,000

Amendments to Subtopic 954-205

52. Supersede paragraphs 954-205-45-8 through 45-9 and their related heading, with a link to transition paragraph 958-10-65-1, as follows:

Health Care Entities—Presentation of Financial Statements

Other Presentation Matters

~~> Expirations of Donor-Imposed Restrictions~~

954-205-45-8 Paragraph superseded by Accounting Standards Update No. 2016-14.~~A not-for-profit, business-oriented health care entity shall recognize the expiration of a donor-imposed restriction on a **contribution** in the period in which the restriction expires, as described in paragraphs 958-205-45-9 through 45-12, with the exception described in the following paragraph.~~

954-205-45-9 Paragraph superseded by Accounting Standards Update No. 2016-14.~~The expiration of donor-imposed restrictions on long-lived assets shall be recognized when the asset is placed in service (rather than as depreciated as permitted by paragraph 958-205-45-12). Thus, if contributions of long-lived assets~~

~~with explicit donor restrictions are reported as temporarily restricted support an NFP provider reports expirations of those donor restrictions when the stipulation is fulfilled and the assets are placed in service. Similarly, donations of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted support in the period received, and expirations of those donor restrictions are reported when the acquired long-lived assets are placed in service and donor-imposed restrictions are satisfied.~~

Amendments to Subtopic 954-210

53. Amend paragraphs 954-210-45-2 and its related heading and 954-210-45-4, with a link to transition paragraph 958-10-65-1, as follows:

Health Care Entities—Balance Sheet

Other Presentation Matters

954-210-45-1 Health care entities, including not-for-profit, business-oriented health care entities, shall classify assets and liabilities as current and noncurrent as discussed in Section 210-10-45. However, rather than presenting a classified balance sheet, a continuing care retirement community instead may sequence assets according to their nearness of conversion to cash and may sequence liabilities according to the nearness of the maturity and resulting use of cash.

> Net Assets without Donor Restrictions~~Unrestricted Net Assets~~

954-210-45-2 Net assets without donor restrictions~~Unrestricted net assets~~ of not-for-profit, business-oriented health care entities include assets whose use is contractually limited, such as the following:

a. Proceeds of debt issues and funds of the not-for-profit, business-oriented health care entity deposited with a trustee and limited to use in accordance with the requirements of an indenture or a similar agreement.
b. Other assets limited to use for identified purposes through an agreement between the not-for-profit, business-oriented health care entity and an outside party other than a donor or grantor. Examples include assets set aside under debt agreements, assets set aside under self-insurance (risk-retention) funding arrangements, and assets set aside to meet statutory reserve requirements (such as those required under state ~~law~~laws and regulations for many **health maintenance organizations**). (See paragraph 954-810-45-4.)

> Assets Limited as to Use

954-210-45-4 Internally designated funds shall be reported separately from externally ~~designated~~restricted funds either on the face of the balance sheet or in the notes to the financial statements.

54. Supersede paragraph 954-210-50-1 and its related heading and amend paragraph 954-210-50-2, with a link to transition paragraph 958-10-65-1, as follows:

Disclosure

~~> Expirations of Donor-Imposed Restrictions~~

954-210-50-1 Paragraph superseded by Accounting Standards Update No. 2016-14.~~Not-for-profit, business oriented health care entities are not required to make the disclosure required by paragraph 958-605-50-3 because, pursuant to paragraph 954-205-45-9, health care entities are prohibited from implying a time restriction that expires over the useful life of a donated long-lived asset.~~

> Assets Limited as to Use

954-210-50-2 When internally designated funds are reported separately from externally ~~designated~~restricted funds in accordance with paragraph 958-210-45-4, if the form of the assets is not evident from the description on the balance sheet, the form of the assets shall be disclosed in the notes to the financial statements.

Amendments to Subtopic 954-225

55. Amend paragraphs 954-225-45-2, 954-225-45-3 through 45-4 and the related pending content, and 954-225-45-6 through 45-7 and the related pending content, with a link to transition paragraph 958-10-65-1, as follows: **[In addition, amend paragraphs 954-225-45-8 through 45-9, with no additional links to transition.]**

Health Care Entities—Income Statement

Other Presentation Matters

> Equity Transfers

954-225-45-2 Equity transfers are reported separately as changes in net assets, are excluded from the **performance indicator**, and do not result in any step-up in basis of the underlying assets transferred. However, a service received from personnel of an **affiliate** that directly benefits the recipient not-for-profit, business-oriented health care entity and for which the affiliate does not charge the recipient entity may be recorded at the fair value of that service in the circumstances indicated in paragraph 958-720-30-3. Paragraph 958-20-55-2B~~954-225-55-1~~ describes the difference between an equity transfer and an equity transaction.

954-225-45-2A The increase in net assets associated with services received from personnel of an affiliate that directly benefit the recipient not-for-profit, business-oriented health care entity and for which the affiliate does not charge the recipient entity shall be reported as an equity transfer, regardless of whether those services are received from personnel of a not-for-profit affiliate or any other affiliate. The corresponding decrease in net assets or the creation or enhancement of an asset resulting from the use of services received from personnel of an affiliate shall be reported similar to how other such expenses or assets are reported.

> Functional Allocations

954-225-45-3 **Functional expense classification**~~Functional classification~~ is a method of grouping expenses according to the purpose for which costs are incurred. The primary functional expense classifications~~functional classifications~~ are program services and supporting activities. The extent of classification and subclassification of expenses depends on many factors, such as the nature and complexity of the health care entity. For example, in complying with the requirements of paragraphs 958-205-45-6, 958-720-05-4, and 958-720-45-2, some not-for-profit health care entities may present only two categories: health services (including inpatient services, outpatient procedures, home health services, and so forth) and general and administrative. Others may present additional distinctions such as physician services, research, and teaching. Functional allocations shall be based on full cost allocations.

> Performance Indicator and Intermediate Operating Measures

954-225-45-4 The statement of operations for not-for-profit, business-oriented health care entities shall include a performance indicator. Because of the importance of the performance indicator, it shall be clearly labeled with a descriptive term such as revenues over expenses, revenues and gains over expenses and losses, earned income, or performance earnings. Not-for-profit, business-oriented health care entities shall report the performance indicator in a statement that also presents the total changes in **net assets without donor restrictions**~~unrestricted net assets~~. Other changes in net assets may be presented separately or in the same statement.

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 606-10-65-1

The statement of operations for not-for-profit, business-oriented health care entities shall include a performance indicator. Because of the importance of the performance indicator, it shall be clearly labeled with a descriptive term such as revenues over expenses, revenues and gains over expenses and losses, recognized income, or performance earnings. Not-for-profit, business-oriented health care entities shall report the performance indicator in a statement that also presents the total changes in **net assets without donor restrictions**~~unrestricted net assets~~. Other changes in net assets may be presented separately or in the same statement.

954-225-45-5 Classifying revenues, expenses, gains, and losses within classes of net assets does not preclude incorporating additional classifications within the performance indicator. For example, within a class or classes of changes in net assets, an NFP may classify items as operating and nonoperating, expendable and nonexpendable, earned and unearned, recurring and nonrecurring, or in other ways.

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 606-10-65-1

Classifying revenues, expenses, gains, and losses within classes of net assets does not preclude incorporating additional classifications within the performance indicator. For example, within a class or classes of changes in net assets, an NFP may classify items as operating and nonoperating, expendable and nonexpendable, recognized and unrecognized, recurring and nonrecurring, or in other ways.

954-225-45-6 This guidance neither requires nor precludes reporting such intermediate measures or subtotals. Guidance on the use of an intermediate measure of operations is discussed in paragraphs 958-225-45-11 through 45-12.

954-225-45-7 Health care entities shall report the following items separately from the performance indicator:

a. Transactions with owners acting in that capacity.
b. Equity transfers involving other entities that control the reporting entity, are controlled by the reporting entity, or are under common control with the reporting entity.
c. Receipt of ~~restricted~~donor-restricted **contributions**~~, including temporary restrictions, such as time or purpose, or permanent restrictions~~.
d. Contributions of, and assets released from donor restrictions related to, long-lived assets.

e. Items that are required to be reported in or reclassified from other comprehensive income, such as gains or losses, prior service costs or credits, and transition assets or obligations recognized in accordance with Topic 715; foreign currency translation adjustments; and the effective portion of the gain or loss on derivative instruments designated and qualifying as cash flow hedging instruments.
f. Items that are required to be reported separately under specialized not-for-profit standards.~~ These include the effect of discontinued operations, as discussed in paragraph 958-225-55-6.~~
g. Unrealized gains and losses on investments on other than trading securities, in accordance with paragraph 954-320-45-1(b).
h. Investment returns restricted by donors or by law.
i. Subparagraph superseded by Accounting Standards Update No. 2016-14.~~Investment losses that decrease unrestricted net assets if those losses reduce the assets of a donor-restricted endowment fund below the required level, as described in paragraph 958-205-45-22.~~
j. Subparagraph superseded by Accounting Standards Update No. 2016-14.~~Investment gains that increase unrestricted net assets if those gains restore the fair value of the assets of a donor-restricted endowment fund to the required level, as described in paragraph 958-205-45-22.~~
k. An **inherent contribution** (see paragraph 958-805-25-31) that increases **net assets with donor restrictions**~~temporarily restricted or permanently restricted net assets~~, as described in paragraph 954-805-45-2.

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 825-10-65-2

Health care entities shall report the following items separately from the performance indicator:

a. Transactions with owners acting in that capacity.
b. Equity transfers involving other entities that control the reporting entity, are controlled by the reporting entity, or are under common control with the reporting entity.
c. Receipt of ~~restricted~~donor-restricted **contributions**~~, including temporary restrictions, such as time or purpose, or permanent restrictions~~.
d. Contributions of, and assets released from donor restrictions related to, long-lived assets.
e. Items that are required to be reported in or reclassified from other comprehensive income, such as gains or losses, prior service costs or credits, and transition assets or obligations recognized in accordance with Topic 715; foreign currency translation adjustments; and the effective portion of the gain or loss on derivative instruments designated and qualifying as cash flow hedging instruments.

f. Items that are required to be reported separately under specialized not-for-profit standards.~~ These include the effect of discontinued operations, as discussed in paragraph 958-225-55-6.~~
g. Unrealized gains and losses on investments on other than trading debt securities, in accordance with paragraph 954-225-45-8.
h. Investment returns restricted by donors or by law.
i. Subparagraph superseded by Accounting Standards Update No. 2016-14.~~Investment losses that decrease unrestricted net assets if those losses reduce the assets of a donor-restricted endowment fund below the required level, as described in paragraph 958-205-45-22.~~
j. Subparagraph superseded by Accounting Standards Update No. 2016-14.~~Investment gains that increase unrestricted net assets if those gains restore the fair value of the assets of a donor-restricted endowment fund to the required level, as described in paragraph 958-205-45-22.~~
k. An **inherent contribution** (see paragraph 958-805-25-31) that increases **net assets with donor restrictions**~~temporarily restricted or permanently restricted net assets~~, as described in paragraph 954-805-45-2.
l. The portion of the total change in the fair value of the liability resulting from a change in the instrument-specific credit risk, in accordance with paragraph 825-10-45-5.

954-225-45-8

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 825-10-65-2

Investment return (including realized and unrealized gains and losses) not restricted by donors or by law shall be classified as changes in net assets without donor restrictions~~unrestricted net assets~~ as follows:

a. Included in the performance indicator are:
    1. Dividend, interest, and other similar investment income
    2. Realized gains and losses
    3. Unrealized gains and losses on trading debt securities (trading securities are defined in Topic 320)
    4. Other than temporary impairment losses.
    5. Unrealized gains and losses and impairments on equity investments accounted for under Topic 321.
b. Excluded from the performance indicator are unrealized gains and losses on debt securities, unless the debt security is a trading debt security.

Pending Content:

Transition Date: *(P) December 16, 2019; (N) December 16, 2020* | **Transition Guidance:** 326-10-65-1

Investment return (including realized and unrealized gains and losses) not restricted by donors or by law shall be classified as changes in net assets without donor restrictions~~unrestricted net assets~~ as follows:

a. Included in the performance indicator are:
   1. Dividend, interest, and other similar investment income
   2. Realized gains and losses
   3. Unrealized gains and losses on trading debt securities (trading securities are defined in Topic 320)
   4. Credit loss expense (see Topic 326)
   5. Unrealized gains and losses and impairments on equity investments accounted for under Topic 321.
b. Excluded from the performance indicator are unrealized gains and losses on debt securities, unless the debt security is a trading debt security.

954-225-45-9

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 825-10-65-2

If gains and investment income that are limited to specific uses by donor-imposed restrictions are reported as increases in net assets without donor restrictions~~unrestricted net assets~~ in accordance with paragraph 958-225-45-6, classification of those gains and investment income should be consistent with the previous paragraph.

954-225-45-10

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 825-10-65-2

See paragraphs 958-225-45-19 through 45-20 for additional guidance on reporting investment gains, losses, and income.

56. Supersede paragraph 954-225-55-1 and its related headings, with a link to transition paragraph 958-10-65-1, as follows: **[In addition, amend paragraph 954-225-55-5, with no additional link to transition. Also, add paragraph 954-225-55-6, with a link to transition paragraph 825-10-65-2.]**

Implementation Guidance and Illustrations

~~> Implementation Guidance~~

~~**> > Difference between Equity Transfers and Equity Transactions**~~

954-225-55-1 Paragraph superseded by Accounting Standards Update No. 2016-14.~~An equity transaction differs from an **equity transfer** in that an equity transaction, as described in paragraph 958-20-25-4, involves a financially interrelated party either as a third party in a transfer from an entity to one of its affiliates or as a counterparty in a transfer from an entity to itself. In addition, an equity transaction is reciprocal; the health care entity or its affiliate named as the beneficiary receives an ongoing economic interest in the assets held by the recipient entity.~~ **[Content amended and moved to paragraph 958-20-55-2B]**

> Illustrations

> > Example 1: Other-than-Trading Debt Securities

954-225-55-2

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 825-10-65-2

This Example illustrates the accounting treatment and financial statement presentation for other-than-trading debt securities of a not-for-profit health care entity.

954-225-55-3

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 825-10-65-2

Other-than-trading debt securities are purchased in Year 1 at a cost of $100. At the end of Year 1, the fair value of the securities is $300. In Year 2, the securities are sold for $400.

954-225-55-4

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 825-10-65-2

The journal entries are as follows:

Entry at the end of Year 1 to adjust the recorded value of the securities to fair value.

Investments	$ 200	
Change in net unrealized gains and losses on investments		$ 200

Entry at the end of Year 2 to record the sale of the securities.

Cash	$ 400	
Realized gain		$ 300
Investments		100
Change in net unrealized gains and losses on investments	200	
Investments		200

954-225-55-5

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 825-10-65-2

As discussed in paragraph 954-225-45-8, unrealized gains and losses on debt securities (except for trading debt securities) are reported in the statement of operations outside of~~below~~ the **performance indicator** and realized gains and losses are reported in the statement of operations within~~above~~ the performance indicator.

954-225-55-6

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 825-10-65-2

Two possible presentations of net investment return on the statement of operations of a not-for-profit health care entity that presents a performance indicator in accordance with the information and illustration in paragraphs 954-225-55-3 through 55-5 are as follows.

[For ease of readability, the new illustrations are not underlined.]

Format 1: Year 1 Presentation of Net Investment Return

Revenue	$ X,XXX
Expenses	XXX
Excess of revenues over expenses	XXX
Investment return, net	XXX
Less:	
Unrealized gains (losses) on other than trading debt securities excluded from performance indicator	(200)
Performance indicator	XXX
Add:	
Unrealized gains (losses) on other than trading debt securities excluded from performance indicator	200
Change in net assets without donor restrictions	$ XXX

Format 2: Year 1 Presentation of Net Investment Return

Revenue	$ X,XXX
Expenses	XXX
Excess of revenues over expenses	XXX
Investment return, net, excluding unrealized gains (losses) on debt securities (other than trading)	XXX
Performance indicator	XXX
Unrealized gains (losses) on other than trading debt securities excluded from performance indicator	200
Change in net assets without donor restrictions	$ XXX

Amendments to Subtopic 954-305

57. Amend paragraphs 954-305-45-1 and 954-305-45-3 and supersede paragraph 954-305-45-4 and its related heading, with a link to transition paragraph 958-10-65-1, as follows:

Health Care Entities—Cash and Cash Equivalents

Other Presentation Matters

954-305-45-1 Cash and claims to cash that meet any of the following conditions shall be reported separately and shall be excluded from current assets:

a. They are restricted as to withdrawal or use for other than current operations.
b. They are designated for expenditure in the acquisition or construction of noncurrent assets.
c. They are required to be segregated for the liquidation of long-term debts.
d. They are limited to use for long-term purposes by a **{add glossary link}**donor-imposed restriction**{add glossary link}**.

954-305-45-2 Paragraph not used.

> Guidance Applicable to Not-for-Profit, Business-Oriented Health Care Entities Only

954-305-45-3 For fiduciary purposes, separate checking or savings accounts may be maintained for ~~restricted~~ donations with donor restrictions. However, unless required by paragraph 954-305-45-1, such accounts are not reported on a line separate from other cash and cash equivalents because donor restrictions generally relate to limitations on the use of net assets rather than on the use of specific assets. A columnar presentation that highlights the ~~three~~two classes of net assets (that is, without donor restrictions and with donor restrictions~~permanently restricted, temporarily restricted, and unrestricted~~) is not precluded if the totals for the reporting entity as a whole are displayed.

~~**> Agency Funds**~~

954-305-45-4 Paragraph superseded by Accounting Standards Update No. 2016-14.~~Health care entities may receive and hold assets owned by others under agency relationships; for example, they may perform billing and collection services for physicians. In accepting responsibility for those assets, an entity incurs a~~

~~liability to the principal under the agency relationship to return the assets in the future or, if authorized, to disburse them to another party on behalf of the principal. If held by not-for-profit, business-oriented healthcare entities, such agency funds shall be reported as unrestricted assets.~~

Amendments to Subtopic 954-320

58. Amend paragraphs 954-320-45-1 through 45-2, with a link to transition paragraph 958-10-65-1, as follows:

Health Care Entities—Investments—Debt and Equity Securities

Other Presentation Matters

954-320-45-1 Investment return (including realized and unrealized gains and losses) not restricted by donors or by law shall be classified as changes in **net assets without donor restrictions**~~unrestricted net assets~~ as follows:

a. Included in the **performance indicator** are:
   1. Dividend, interest, and other similar investment income
   2. Realized gains and losses
   3. Unrealized gains and losses on trading securities (trading securities are defined in Topic 320)
   4. Other than temporary impairment losses.
b. Excluded from the performance indicator are unrealized gains and losses on other than trading securities.

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 825-10-65-2

Paragraph superseded by Accounting Standards Update No. 2016-01.

954-320-45-2 If gains and investment income that are limited to specific uses by donor-imposed restrictions are reported as increases in net assets without donor restrictions~~unrestricted net assets~~ in accordance with paragraph 958-225-45-6, classification of those gains and investment income should be consistent with the previous paragraph.

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 825-10-65-2

Paragraph superseded by Accounting Standards Update No. 2016-01.

954-320-45-3 See paragraphs 958-320-45-2 through 45-3 for additional guidance on reporting investment gains, losses, and income.

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 825-10-65-2

Paragraph superseded by Accounting Standards Update No. 2016-01.

59. Amend paragraph 954-320-55-4 and add paragraph 954-320-55-5, with a link to transition paragraph 958-10-65-1, as follows:

Implementation Guidance and Illustrations

> Illustrations

> > Example 1: Other-than-Trading Securities

954-320-55-1 This Example illustrates the accounting treatment and financial statement presentation for other-than-trading securities of a not-for-profit health care entity.

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 825-10-65-2

***Editor's Note**: The content of paragraph 954-320-55-1 will be superseded upon transition, together with its headings.*
> **Illustrations**
> > **Example 1: Other-than-Trading Securities**

Paragraph superseded by Accounting Standards Update No. 2016-01.

954-320-55-2 Other-than-trading securities are purchased in Year 1 at a cost of $100. At the end of Year 1, the fair value of the securities is $300. In Year 2, the securities are sold for $400.

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 825-10-65-2

Paragraph superseded by Accounting Standards Update No. 2016-01.

954-320-55-3 The journal entries are as follows:

Entry at the end of Year 1 to adjust the recorded value of the securities to fair value.

Valuation allowance	$ 200	
Change in net unrealized gains and losses on investments		$ 200

Entry at the end of Year 2 to record the sale of the securities.

Cash	$ 400	
Realized gain		$ 300
Investments		100
Change in net unrealized gains and losses on investments	200	
Valuation allowance		200

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 825-10-65-2

Paragraph superseded by Accounting Standards Update No. 2016-01.

954-320-55-4 As discussed in paragraph 954-320-45-1, unrealized gains and losses on other than trading securities are reported in the statement of operations outside of~~below~~ the **performance indicator** and realized gains and losses are reported in the statement of operations within~~above~~ the performance indicator.

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 825-10-65-2

Paragraph superseded by Accounting Standards Update No. 2016-01.

954-320-55-5 Two possible presentations of net investment return on the statement of operations of a not-for-profit health care entity that presents a performance indicator in accordance with the information in paragraphs 954-320-55-2 through 55-3 are as follows:

[For ease of readability, the new illustrations are not underlined.]

Format 1: Year 1 Presentation of Net Investment Return

Revenue	$ X,XXX
Expenses	XXX
Excess of revenues over expenses	XXX
Investment return, net	XXX
Less:	
Unrealized gains (losses) on other than trading securities excluded from performance indicator	(200)
Performance indicator	XXX
Add:	
Unrealized gains (losses) on other than trading securities excluded from performance indicator	200
Change in net assets without donor restrictions	$ XXX

Format 2: Year 1 Presentation of Net Investment Return

Revenue	$ X,XXX
Expenses	XXX
Excess of revenues over expenses	XXX
Investment return, net, excluding unrealized gains (losses) on other than trading securities	XXX
Performance indicator	XXX
Unrealized gains (losses) on other than trading securities excluded from performance indicator	200
Change in net assets without donor restrictions	$ XXX

[In addition, supersede paragraph 954-320-55-5 with a link to transition paragraph 825-10-65-2.]

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 825-10-65-2

954-320-55-5 Paragraph superseded by Accounting Standards Update No. 2016-01.~~Two possible presentations of net investment return on the statement of operations of a not-for-profit health care entity that presents a performance indicator in accordance with the information in paragraphs 954-320-55-2 through 55-3 are as follows:~~

~~**Format 1: Year 1 Presentation of Net Investment Return**~~

~~Revenue~~	~~$ X,XXX~~
~~Expenses~~	~~XXX~~
~~Excess of revenues over expenses~~	~~XXX~~
~~Investment return, net~~	~~XXX~~
~~Less:~~	
~~Unrealized gains (losses) on other than trading securities excluded from performance indicator~~	~~(200)~~
~~Performance indicator~~	~~XXX~~
~~Add:~~	
~~Unrealized gains (losses) on other than trading securities excluded from performance indicator~~	~~200~~
~~Change in net assets without donor restrictions~~	~~$ XXX~~

~~**Format 2: Year 1 Presentation of Net Investment Return**~~

~~Revenue~~	~~$ X,XXX~~
~~Expenses~~	~~XXX~~
~~Excess of revenues over expenses~~	~~XXX~~
~~Investment return, net, excluding unrealized gains (losses) on other than trading securities~~	~~XXX~~
~~Performance indicator~~	~~XXX~~
~~Unrealized gains (losses) on other than trading securities excluded from performance indicator~~	~~200~~
~~Change in net assets without donor restrictions~~	~~$ XXX~~

Amendments to Subtopic 954-805

60. Amend paragraph 954-805-45-2, with a link to transition paragraph 958-10-65-1, as follows:

Health Care Entities—Business Combinations

Other Presentation Matters

954-805-45-1 If an **acquirer** is a not-for-profit, business-oriented health care entity and a separate charge is recognized in accordance with paragraph 958-805-25-29, it shall be presented within the **performance indicator**.

954-805-45-2 If an acquirer is a not-for-profit, business-oriented health care entity, whether the **inherent contribution** received recognized in accordance with paragraph 958-805-25-31 is presented within or outside of the performance indicator depends on whether the contribution is without donor restrictions~~unrestricted~~ or with donor restrictions~~restricted~~. A contribution without donor restrictions~~An unrestricted contribution~~ shall be presented within the performance indicator. A contribution with donor restrictions~~that is either temporarily restricted or permanently restricted~~ shall be presented outside of the performance indicator.

954-805-45-3 In an acquisition achieved in stages (see paragraphs 805-10-25-9 through 25-10), an acquirer that is a not-for-profit, business-oriented health care entity shall include in its performance indicator the gain or loss resulting from remeasuring its previously held equity interest in the acquiree. In prior reporting periods, that acquirer may have recognized changes in the value of its equity interest in the acquiree outside the performance indicator (for example, because the investment was classified as other than trading). If so, the amount that was recognized outside the performance indicator shall be reclassified and included in the calculation of gain or loss on the previously held equity interest as of the acquisition date.

Amendments to Subtopic 230-10

61. Amend paragraphs 230-10-45-14 and the related pending content and 230-10-45-29 through 45-30, with a link to transition paragraph 958-10-65-1, as follows: **[In addition, amend the pending content for paragraph 230-10-45-17, with no additional link to transition.]**

Statement of Cash Flows—Overall

Other Presentation Matters

> > Cash Flows from Financing Activities

230-10-45-14 All of the following are cash inflows from financing activities:

a. Proceeds from issuing equity instruments
b. Proceeds from issuing bonds, mortgages, notes, and from other short- or long-term borrowing
c. Receipts from **{add glossary link}**contributions**{add glossary link}** and investment income that by donor stipulation are restricted for the purposes of acquiring, constructing, or improving property, plant, equipment, or other long-lived assets or establishing or increasing a **donor-restricted endowment fund**~~permanent endowment or term endowment~~
d. Proceeds received from derivative instruments that include financing elements at inception, whether the proceeds were received at inception or over the term of the derivative instrument, other than a financing element inherently included in an at-the-market derivative instrument with no prepayments
e. Cash retained as a result of the tax deductibility of increases in the value of equity instruments issued under share-based payment arrangements that are not included in the cost of goods or services that is recognizable for financial reporting purposes. For this purpose, excess tax benefits shall be determined on an individual award (or portion thereof) basis.

Pending Content:

Transition Date: *(P) December 16, 2016; (N) December 16, 2017* | **Transition Guidance:** 718-10-65-5

All of the following are cash inflows from financing activities:

a. Proceeds from issuing equity instruments
b. Proceeds from issuing bonds, mortgages, notes, and from other short- or long-term borrowing
c. Receipts from **{add glossary link}**contributions**{add glossary link}** and investment income that by donor stipulation are restricted for the purposes of acquiring, constructing, or improving property, plant, equipment, or other long-lived assets or establishing or increasing a **donor-restricted endowment fund**~~permanent endowment or term endowment~~
d. Proceeds received from derivative instruments that include financing elements at inception, whether the proceeds were received at inception or over the term of the derivative instrument, other than a financing element inherently included in an at-the-market derivative instrument with no prepayments

e. Subparagraph superseded by Accounting Standards Update No. 2016-09.

230-10-45-15 All of the following are cash outflows for financing activities:

a. Payments of dividends or other distributions to owners, including outlays to reacquire the entity's equity instruments.
b. Repayments of amounts borrowed.
c. Other principal payments to creditors who have extended long-term credit. See paragraph 230-10-45-13(c), which indicates that most principal payments on seller-financed debt directly related to a purchase of property, plant, and equipment or other productive assets are financing cash outflows.
d. Distributions to counterparties of derivative instruments that include financing elements at inception, other than a financing element inherently included in an at-the-market derivative instrument with no prepayments. The distributions may be either at inception or over the term of the derivative instrument.
e. Payments for debt issue costs.

Pending Content:

Transition Date: *(P) December 16, 2016; (N) December 16, 2017* | **Transition Guidance:** 718-10-65-8

All of the following are cash outflows for financing activities:

a. Payments of dividends or other distributions to owners, including outlays to reacquire the entity's equity instruments. Cash paid to a tax authority by an employer when withholding shares from an employee's award for tax-withholding purposes shall be considered an outlay to reacquire the entity's equity instruments.
b. Repayments of amounts borrowed.
c. Other principal payments to creditors who have extended long-term credit. See paragraph 230-10-45-13(c), which indicates that most principal payments on seller-financed debt directly related to a purchase of property, plant, and equipment or other productive assets are financing cash outflows.
d. Distributions to counterparties of derivative instruments that include financing elements at inception, other than a financing element inherently included in an at-the-market derivative instrument with no prepayments. The distributions may be either at inception or over the term of the derivative instrument.
e. Payments for debt issue costs.

> > Cash Flows from Operating Activities

230-10-45-16 All of the following are cash inflows from operating activities:

a. Cash receipts from sales of goods or services, including receipts from collection or sale of accounts and both short- and long-term notes receivable from customers arising from those sales. The term *goods* includes certain loans and other debt and equity instruments of other entities that are acquired specifically for resale, as discussed in paragraph 230-10-45-21.
b. Cash receipts from returns on loans, other debt instruments of other entities, and equity securities—interest and dividends.
c. All other cash receipts that do not stem from transactions defined as investing or financing activities, such as amounts received to settle lawsuits; proceeds of insurance settlements except for those that are directly related to investing or financing activities, such as from destruction of a building; and refunds from suppliers.

230-10-45-17 All of the following are cash outflows for operating activities:

a. Cash payments to acquire materials for manufacture or goods for resale, including principal payments on accounts and both short- and long-term notes payable to suppliers for those materials or goods. The term *goods* includes certain loans and other debt and equity instruments of other entities that are acquired specifically for resale, as discussed in paragraph 230-10-45-21.
b. Cash payments to other suppliers and employees for other goods or services.
c. Cash payments to governments for taxes, duties, fines, and other fees or penalties and the cash that would have been paid for income taxes if increases in the value of equity instruments issued under share-based payment arrangements that are not included in the cost of goods or services recognizable for financial reporting purposes also had not been deductible in determining taxable income. (This is the same amount reported as a financing cash inflow pursuant to paragraph 230-10-45-14(e).)
d. Cash payments to lenders and other creditors for interest.
e. Cash payment made to settle an asset retirement obligation.
f. All other cash payments that do not stem from transactions defined as investing or financing activities, such as payments to settle lawsuits, cash contributions to charities, and cash refunds to customers.

Pending Content:

Transition Date: *(P) December 16, 2016; (N) December 16, 2017* | **Transition Guidance:** 718-10-65-5

All of the following are cash outflows for operating activities:

a. Cash payments to acquire materials for manufacture or goods for resale, including principal payments on accounts and both short- and long-term notes payable to suppliers for those materials or goods. The term *goods* includes certain loans and other debt and equity instruments of other entities that are acquired specifically for resale, as discussed in paragraph 230-10-45-21.
b. Cash payments to other suppliers and employees for other goods or services.
c. Cash payments to governments for taxes, duties, fines, and other fees or penalties.
d. Cash payments to lenders and other creditors for interest.
e. Cash payment made to settle an asset retirement obligation.
f. All other cash payments that do not stem from transactions defined as investing or financing activities, such as payments to settle lawsuits, cash **{add glossary link}**contributions**{add glossary link}** to charities, and cash refunds to customers.

> Reconciliation of Net Income and Net Cash Flow from Operating Activities

230-10-45-28 Entities that choose not to provide information about major classes of operating cash receipts and payments by the direct method as encouraged in paragraph 230-10-45-25 shall determine and report the same amount for net cash flow from operating activities indirectly by adjusting net income of a business entity or change in net assets of a not-for-profit entity (NFP) to reconcile it to net cash flow from operating activities (the indirect or reconciliation method). That requires adjusting net income of a business entity or change in net assets of an NFP to remove both of the following:

a. The effects of all deferrals of past operating cash receipts and payments, such as changes during the period in inventory, deferred income, and the like, and all accruals of expected future operating cash receipts and payments, such as changes during the period in receivables and payables. Adjustments to net income of a business entity or change in net assets of an NFP to determine net cash flow from operating activities shall reflect accruals for interest earned but not received and interest incurred but not paid. Those accruals may be reflected in the statement of financial position in changes in assets and liabilities that relate to investing or financing activities, such as loans or deposits. However, interest credited directly to a deposit account that has the general characteristics of **cash** is a cash outflow of the payor and a cash inflow of the payee when the entry is made.
b. All items that are included in net income of a business entity or change in net assets of an NFP that do not affect net cash provided from, or used for, operating activities such as depreciation of property, plant, and

equipment and amortization of finite-life intangible assets. This includes all items whose cash effects are related to investing or financing cash flows, such as gains or losses on sales of property, plant, and equipment and discontinued operations (which relate to investing activities), and gains or losses on extinguishment of debt (which relate to financing activities).

230-10-45-29 The reconciliation of net income of a business entity ~~or change in net assets of an NFP~~ to net cash flow from operating activities described in paragraph 230-10-45-28 shall be provided regardless of whether the direct or indirect method of reporting net cash flow from operating activities is used. However, NFPs that use the direct method of reporting net cash flows from operations are not required to provide a reconciliation of change in net assets to net cash flow from operating activities. Additional guidance for NFPs is found in Subtopic 958-230. The~~That~~ reconciliation shall separately report all major classes of reconciling items. For example, major classes of deferrals of past operating cash receipts and payments and accruals of expected future operating cash receipts and payments, including, at a minimum, changes during the period in receivables pertaining to operating activities, in inventory, and in payables pertaining to operating activities, shall be separately reported. Entities are encouraged to provide further breakdowns of those categories that they consider meaningful. For example, changes in receivables from customers for an entity's sale of goods or services might be reported separately from changes in other operating receivables.

230-10-45-30 If an entity other than an NFP uses the direct method of reporting net cash flow from operating activities ~~is used~~, the reconciliation of net income ~~of a business entity or change in net assets of an NFP~~ to net cash flow from operating activities shall be provided in a separate schedule.

230-10-45-31 If the indirect method is used, the reconciliation may be either reported within the statement of cash flows or provided in a separate schedule, with the statement of cash flows reporting only the net cash flow from operating activities.

230-10-45-32 If the reconciliation is presented in the statement of cash flows, all adjustments to net income of a business entity or change in net assets of an NFP to determine net cash flow from operating activities shall be clearly identified as reconciling items.

Amendments to Subtopic 321-10

62. Add paragraph 321-10-50-2A, with a link to transition paragraph 958-10-65-1, as follows:

Investments—Equity Securities—Overall

Disclosure

321-10-50-1 This Section provides disclosure guidance on information about **equity securities** that is required to be presented in the financial statements.

321-10-50-2 The disclosures in this Section are required for all interim and annual periods.

<u>**321-10-50-2A** The disclosure guidance in paragraph 321-10-50-4 is not required for entities that are within the scope of Topic 958 on not-for-profit entities.</u>

321-10-50-3 An entity that applies the guidance in paragraph 321-10-35-2 for equity securities without **readily determinable fair values** shall disclose all of the following:

a. The carrying amount of investments without readily determinable fair values
b. The amount of impairments and downward adjustments, if any, both annual and cumulative
c. The amount of upward adjustments, if any, both annual and cumulative
d. As of the date of the most recent statement of financial position, additional information (in narrative form) that is sufficient to permit financial statement users to understand the quantitative disclosures and the information that the entity considered in reaching the carrying amounts and upward or downward adjustments resulting from observable price changes.

321-10-50-4 For each period for which the results of operations are presented, an entity shall disclose the portion of unrealized gains and losses for the period that relates to equity securities still held at the reporting date. The portion of unrealized gains and losses for the period related to equity securities still held at the reporting date is calculated as follows.

Net gains and losses recognized during the period on equity securities	$105
Less: Net gains and losses recognized during the period on equity securities sold during the period	(80)
Unrealized gains and losses recognized during the reporting period on equity securities still held at the reporting date	$ 25

Amendments to Subtopic 810-10

63. Amend paragraphs 810-10-55-4C and 810-10-55-4E, with a link to transition paragraph 958-10-65-1, as follows:

Consolidation—Overall

Implementation Guidance and Illustrations

> Implementation Guidance

> > Example 1: Changes in a Parent's Ownership Interest in a Subsidiary

> > > Case A: Change Results in Recognition of Noncontrolling Interest

810-10-55-4C Subsidiary A has 10,000 shares of common stock outstanding, all of which are owned by its parent, Entity ABC. The carrying amount of Subsidiary A's equity is $200,000. Entity ABC sells 2,000 of its shares in Subsidiary A to an unrelated entity for $50,000 in cash, reducing its ownership interest from 100 percent to 80 percent. That transaction is accounted for by recognizing a noncontrolling interest in the amount of $40,000 ($200,000 × 20 percent). The $10,000 excess of the cash received ($50,000) over the adjustment to the carrying amount of the noncontrolling interest ($40,000) is recognized as an increase in additional paid-in capital attributable to Entity ABC. If the parent is a **not-for-profit entity** (NFP), the $10,000 increase in additional paid-in capital in this Example is recognized instead as an increase in net assets, generally of the ~~unrestricted~~without donor restrictions class. Example 1 (see paragraphs 958-810-55-17 through 55-25) provides additional guidance for NFPs.

> > > Case B: Change Results in Increase in Noncontrolling Interest

810-10-55-4D Subsidiary A has 10,000 shares of common stock outstanding. Of those shares, 9,000 are owned by its parent, Entity ABC, and 1,000 are owned by other shareholders (a noncontrolling interest in Subsidiary A). The carrying amount of Subsidiary A's equity is $300,000. Of that amount, $270,000 is attributable to Entity ABC, and $30,000 is a noncontrolling interest in Subsidiary A. Subsidiary A issues 2,000 previously unissued shares to a third party for $120,000 in cash, reducing Entity ABC's ownership interest in Subsidiary A from 90 percent to 75 percent (9,000 shares owned by Entity ABC ÷ 12,000 issued shares).

810-10-55-4E Even though the percentage of Entity ABC's ownership interest in Subsidiary A is reduced when Subsidiary A issues shares to the third party, Entity ABC's investment in Subsidiary A increases to $315,000, calculated as 75 percent of Subsidiary A's equity of $420,000 ($300,000 + $120,000). Therefore, Entity ABC recognizes a $45,000 increase in its investment in Subsidiary A ($315,000 – $270,000) and a corresponding increase in its additional paid-in capital (that is, the additional paid-in capital attributable to Entity ABC). In addition, the noncontrolling interest is increased to $105,000, calculated as 25 percent of $420,000. If the parent is an NFP, the $45,000 increase in additional paid-in capital in this example is recognized instead as an increase in net assets, generally of the ~~unrestricted~~without donor restrictions class. Example 1 (see paragraphs 958-810-55-17 through 55-25) provides additional guidance for NFPs.

Amendments to Subtopic 815-10

64. Amend paragraph 815-10-50-4G, with a link to transition paragraph 958-10-65-1, as follows:

Derivatives and Hedging—Overall

Disclosure

> > Application by Not-for-Profit Entities

815-10-50-4G For purposes of the disclosure requirements beginning in paragraph 815-10-50-4A, not-for-profit entities within the scope of Topic 954 should present a similarly formatted table. Those entities shall refer to amounts within their performance indicator, instead of in income, and amounts outside their performance indicator, instead of in other comprehensive income. Not-for-profit entities not within the scope of Topic 954 shall disclose the gain or loss recognized in changes in net assets using a similar format. All not-for-profit entities also would indicate which class or classes of net assets (~~unrestricted, temporarily restricted, or permanently restricted~~without donor restrictions or with donor restrictions) are affected.

Amendments to Subtopic 825-10

65. Amend paragraph 825-10-15-7, with a link to transition paragraph 958-10-65-1, as follows:

Financial Instruments—Overall

Scope and Scope Exceptions

Fair Value Option

> Other Considerations

> > Application by Not-for-Profit Entities

825-10-15-7 Not-for-profit entities (NFPs) shall apply the provisions of the Fair Value Option Subsections with the following modifications:

a. References to an income statement shall be replaced with references to a statement of activities, statement of changes in net assets, or statement of operations.
b. References to earnings shall be replaced with references to changes in net assets, except as indicated in (c).
c. Paragraph 954-825-45-1 explains that health care entities subject to Topic 954 shall report unrealized gains and losses on items for which the fair value option has been elected within the performance indicator or as a part of discontinued operations, as appropriate. Unlike other NFPs, health care entities subject to that Topic present performance indicators analogous to income from continuing operations. Consistent with the provisions of Subtopic 958-10, NFPs may present such gains and losses either within or outside of other intermediate measures of operations unless such gains or losses are part of discontinued operations. This includes intermediate measures of operations presented by NFPs other than health care entities and any additional intermediate measures of operations presented within the performance indicator by not-for-profit health care entities.
d. The disclosure requirements in paragraph 825-10-50-30 shall apply not only with respect to the effect on performance indicators or other intermediate measures of operations, if presented, but also with respect to the effect on the change in each of the net asset classes (~~unrestricted, temporarily restricted, and permanently restricted~~without donor restrictions or with donor restrictions), as applicable.

Amendments to Status Sections

66. Amend paragraph 230-10-00-1, by adding the following items to the table, as follows:

230-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Board-Designated Endowment Fund	Added	2016-14	08/18/2016
Contribution	Added	2016-14	08/18/2016
Donor-Imposed Restriction	Added	2016-14	08/18/2016

Paragraph	Action	Accounting Standards Update	Date
Donor-Restricted Endowment Fund	Added	2016-14	08/18/2016
Endowment Fund	Added	2016-14	08/18/2016
Funds Functioning as Endowment	Added	2016-14	08/18/2016
Inherent Contribution	Added	2016-14	08/18/2016
Net Assets	Added	2016-14	08/18/2016
Net Assets with Donor Restrictions	Added	2016-14	08/18/2016
Net Assets without Donor Restrictions	Added	2016-14	08/18/2016
230-10-45-14	Amended	2016-14	08/18/2016
230-10-45-17	Amended	2016-14	08/18/2016
230-10-45-29	Amended	2016-14	08/18/2016
230-10-45-30	Amended	2016-14	08/18/2016

67. Amend paragraph 321-10-00-1, by adding the following item to the table, as follows:

321-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
321-10-50-2A	Added	2016-14	08/18/2016

68. Amend paragraph 810-10-00-1, by adding the following items to the table, as follows:

810-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
810-10-55-4C	Amended	2016-14	08/18/2016
810-10-55-4E	Amended	2016-14	08/18/2016

69. Amend paragraph 815-10-00-1, by adding the following item to the table, as follows:

815-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
815-10-50-4G	Amended	2016-14	08/18/2016

70. Amend paragraph 825-10-00-1, by adding the following item to the table, as follows:

825-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
825-10-15-7	Amended	2016-14	08/18/2016

71. Amend paragraph 954-205-00-1, by adding the following items to the table, as follows:

954-205-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
954-205-45-8	Superseded	2016-14	08/18/2016
954-205-45-9	Superseded	2016-14	08/18/2016

72. Add paragraph 954-210-00-1 as follows:

954-210-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Donor-Imposed Restriction	Added	2016-14	08/18/2016
Net Assets without Donor Restrictions	Added	2016-14	08/18/2016
Unrestricted Net Assets	Superseded	2016-14	08/18/2016
954-210-45-2	Amended	2016-14	08/18/2016
954-210-45-4	Amended	2016-14	08/18/2016
954-210-50-1	Superseded	2016-14	08/18/2016
954-210-50-2	Amended	2016-14	08/18/2016

73. Amend paragraph 954-225-00-1, by adding the following items to the table, as follows:

954-225-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Donor-Imposed Restriction	Added	2016-14	08/18/2016
Functional Expense Classification	Added	2016-14	08/18/2016
Net Assets with Donor Restrictions	Added	2016-14	08/18/2016
Net Assets without Donor Restrictions	Added	2016-14	08/18/2016
954-225-45-2	Amended	2016-14	08/18/2016
954-225-45-3	Amended	2016-14	08/18/2016
954-225-45-4	Amended	2016-14	08/18/2016
954-225-45-6 through 45-9	Amended	2016-14	08/18/2016
954-225-55-1	Superseded	2016-14	08/18/2016
954-225-55-5	Amended	2016-14	08/18/2016
954-225-55-6	Added	2016-14	08/18/2016

74. Amend paragraph 954-305-00-1, by adding the following items to the table, as follows:

954-305-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Donor-Imposed Restriction	Added	2016-14	08/18/2016
954-305-45-1	Amended	2016-14	08/18/2016
954-305-45-3	Amended	2016-14	08/18/2016
954-305-45-4	Superseded	2016-14	08/18/2016

75. Amend paragraph 954-320-00-1, by adding the following items to the table, as follows:

954-320-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Donor-Imposed Restriction	Added	2016-14	08/18/2016
Net Assets without Donor Restrictions	Added	2016-14	08/18/2016
954-320-45-1	Amended	2016-14	08/18/2016
954-320-45-2	Amended	2016-14	08/18/2016
954-320-55-4	Amended	2016-14	08/18/2016
954-320-55-5	Added	2016-14	08/18/2016
954-320-55-5	Superseded	2016-14	08/18/2016

76. Amend paragraph 954-805-00-1, by adding the following item to the table, as follows:

954-805-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
954-805-45-2	Amended	2016-14	08/18/2016

77. Amend paragraph 954-810-00-1, by adding the following item to the table, as follows:

954-810-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Economic Interest	Amended	2016-14	08/18/2016

78. Amend paragraph 958-10-00-1, by adding the following item to the table, as follows:

958-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
958-10-65-1	Added	2016-14	08/18/2016

79. Amend paragraph 958-20-00-1, by adding the following items to the table, as follows:

958-20-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Donor-Imposed Restriction	Added	2016-14	08/18/2016
Economic Interest	Amended	2016-14	08/18/2016
Equity Transfer	Added	2016-14	08/18/2016
Net Assets with Donor Restrictions	Added	2016-14	08/18/2016
Net Assets without Donor Restrictions	Added	2016-14	08/18/2016
Performance Indicator	Added	2016-14	08/18/2016

Paragraph	Action	Accounting Standards Update	Date
Temporarily Restricted Net Assets	Superseded	2016-14	08/18/2016
Unrestricted Net Assets	Superseded	2016-14	08/18/2016
958-20-45-1	Amended	2016-14	08/18/2016
958-20-55-2B	Added	2016-14	08/18/2016
958-20-55-5	Amended	2016-14	08/18/2016
958-20-55-6	Amended	2016-14	08/18/2016
958-20-55-10 through 55-13	Amended	2016-14	08/18/2016
958-20-55-16	Amended	2016-14	08/18/2016
958-20-55-17	Amended	2016-14	08/18/2016

80. Amend paragraph 958-30-00-1, by adding the following items to the table, as follows:

958-30-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Board-Designated Endowment Fund	Amended	2016-14	08/18/2016
Board-Designated Net Assets	Added	2016-14	08/18/2016
Donor-Imposed Restriction	Added	2016-14	08/18/2016
Donor-Restricted Endowment Fund	Added	2016-14	08/18/2016
Donor-Restricted Support	Added	2016-14	08/18/2016
Endowment Fund	Amended	2016-14	08/18/2016

Paragraph	Action	Accounting Standards Update	Date
Funds Functioning as Endowment	Added	2016-14	08/18/2016
Net Assets	Added	2016-14	08/18/2016
Net Assets with Donor Restrictions	Added	2016-14	08/18/2016
Net Assets without Donor Restrictions	Added	2016-14	08/18/2016
Permanent Endowment	Superseded	2016-14	08/18/2016
Permanently Restricted Net Assets	Superseded	2016-14	08/18/2016
Reclassification of Net Assets	Added	2016-14	08/18/2016
Restricted Support	Superseded	2016-14	08/18/2016
Temporarily Restricted Net Assets	Superseded	2016-14	08/18/2016
Temporary Restriction	Superseded	2016-14	08/18/2016
Unrestricted Net Assets	Superseded	2016-14	08/18/2016
Unrestricted Support	Superseded	2016-14	08/18/2016
958-30-45-1 through 45-5	Amended	2016-14	08/18/2016
958-30-45-7	Amended	2016-14	08/18/2016
958-30-50-2	Amended	2016-14	08/18/2016
958-30-50-3	Amended	2016-14	08/18/2016
958-30-55-4	Amended	2016-14	08/18/2016
958-30-55-5	Superseded	2016-14	08/18/2016
958-30-55-30	Amended	2016-14	08/18/2016

81. Amend paragraph 958-205-00-1, by adding the following items to the table, as follows:

958-205-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Board-Designated Endowment Fund	Amended	2016-14	08/18/2016
Contributions Receivable	Added	2016-14	08/18/2016
Donor-Imposed Restriction	Amended	2016-14	08/18/2016
Donor-Restricted Endowment Fund	Amended	2016-14	08/18/2016
Donor-Restricted Support	Added	2016-14	08/18/2016
Endowment Fund	Amended	2016-14	08/18/2016
Functional Classification	Superseded	2016-14	08/18/2016
Functional Expense Classification	Added	2016-14	08/18/2016
Funds Functioning as Endowment	Amended	2016-14	08/18/2016
Management and General Activities	Amended	2016-14	08/18/2016
Natural Expense Classification	Amended	2016-14	08/18/2016
Net Assets	Amended	2016-14	08/18/2016
Net Assets with Donor Restrictions	Added	2016-14	08/18/2016
Net Assets without Donor Restrictions	Added	2016-14	08/18/2016
Permanent Endowment	Superseded	2016-14	08/18/2016

Paragraph	Action	Accounting Standards Update	Date
Permanent Restriction	Superseded	2016-14	08/18/2016
Permanently Restricted Net Assets	Superseded	2016-14	08/18/2016
Quasi-endowment Funds	Superseded	2016-14	08/18/2016
Reclassification	Superseded	2016-14	08/18/2016
Reclassification of Net Assets	Added	2016-14	08/18/2016
Restricted Support	Superseded	2016-14	08/18/2016
Stipulation	Superseded	2016-14	08/18/2016
Temporarily Restricted Net Assets	Superseded	2016-14	08/18/2016
Underwater Endowment Fund	Added	2016-14	08/18/2016
Unrestricted Net Assets	Superseded	2016-14	08/18/2016
Unrestricted Support	Superseded	2016-14	08/18/2016
Voluntary Health and Welfare Entity	Superseded	2016-14	08/18/2016
958-205-05-5 through 05-6A	Amended	2016-14	08/18/2016
958-205-05-6B	Added	2016-14	08/18/2016
958-205-05-8 through 05-10	Amended	2016-14	08/18/2016
958-205-45-2	Amended	2016-14	08/18/2016
958-205-45-4 through 45-6	Amended	2016-14	08/18/2016
958-205-45-9 through 45-13	Amended	2016-14	08/18/2016
958-205-45-13A through 45-13J	Added	2016-14	08/18/2016
958-205-45-14 through 45-19	Superseded	2016-14	08/18/2016

Paragraph	Action	Accounting Standards Update	Date
958-205-45-21 through 45-35	Superseded	2016-14	08/18/2016
958-205-50-1A	Amended	2016-14	08/18/2016
958-205-50-1B	Amended	2016-14	08/18/2016
958-205-50-1C	Added	2016-14	08/18/2016
958-205-50-2	Amended	2016-14	08/18/2016
958-205-50-2A	Amended	2016-14	08/18/2016
958-205-50-4	Amended	2016-14	08/18/2016
958-205-55-1 through 55-2	Amended	2016-14	08/18/2016
958-205-55-5 through 55-7	Amended	2016-14	08/18/2016
958-205-55-9 through 55-21	Amended	2016-14	08/18/2016
958-205-55-22 through 55-30	Superseded	2016-14	08/18/2016
958-205-55-31	Amended	2016-14	08/18/2016
958-205-55-32	Amended	2016-14	08/18/2016
958-205-55-33 through 55-35	Superseded	2016-14	08/18/2016
958-205-55-36 through 55-39	Amended	2016-14	08/18/2016
958-205-55-40	Superseded	2016-14	08/18/2016
958-205-55-41	Amended	2016-14	08/18/2016
958-205-55-42 through 55-46	Superseded	2016-14	08/18/2016
958-205-55-47 through 55-52	Amended	2016-14	08/18/2016
958-205-55-53	Superseded	2016-14	08/18/2016

82. Amend paragraph 958-210-00-1, by adding the following items to the table, as follows:

958-210-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Board-Designated	Amended	2016-14	08/18/2016

Paragraph	Action	Accounting Standards Update	Date
Endowment Fund			
Board-Designated Net Assets	Added	2016-14	08/18/2016
Designated Net Assets	Superseded	2016-14	08/18/2016
Donor-Imposed Restriction	Amended	2016-14	08/18/2016
Donor-Restricted Endowment Fund	Added	2016-14	08/18/2016
Endowment Fund	Amended	2016-14	08/18/2016
Funds Functioning as Endowment	Added	2016-14	08/18/2016
Net Assets	Added	2016-14	08/18/2016
Net Assets with Donor Restrictions	Added	2016-14	08/18/2016
Net Assets without Donor Restrictions	Added	2016-14	08/18/2016
Permanent Endowment	Superseded	2016-14	08/18/2016
Permanently Restricted Net Assets	Superseded	2016-14	08/18/2016
Temporarily Restricted Net Assets	Superseded	2016-14	08/18/2016
Temporary Restriction	Superseded	2016-14	08/18/2016
Term Endowment	Added	2016-14	08/18/2016
Unrestricted Net Assets	Superseded	2016-14	08/18/2016
958-210-45-1	Amended	2016-14	08/18/2016
958-210-45-4	Amended	2016-14	08/18/2016
958-210-45-5A	Added	2016-14	08/18/2016

Paragraph	Action	Accounting Standards Update	Date
958-210-45-6 through 45-11	Amended	2016-14	08/18/2016
958-210-45-12	Superseded	2016-14	08/18/2016
958-210-50-1 through 50-3	Amended	2016-14	08/18/2016
958-210-50-1A	Added	2016-14	08/18/2016
958-210-55-2 through 55-4	Amended	2016-14	08/18/2016
958-210-55-5 through 55-8	Added	2016-14	08/18/2016

83. Amend paragraph 958-225-00-1, by adding the following items to the table, as follows:

958-225-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Affiliate (1st def.)	Added	2016-14	08/18/2016
Board-Designated Endowment Fund	Amended	2016-14	08/18/2016
Donor-Imposed Restriction	Added	2016-14	08/18/2016
Donor-Restricted Endowment Fund	Amended	2016-14	08/18/2016
Donor-Restricted Support	Added	2016-14	08/18/2016
Endowment Fund	Amended	2016-14	08/18/2016
Equity Transfer	Added	2016-14	08/18/2016
Functional Expense Classification	Added	2016-14	08/18/2016

Paragraph	Action	Accounting Standards Update	Date
Funds Functioning as Endowment	Added	2016-14	08/18/2016
Natural Expense Classification	Added	2016-14	08/18/2016
Net Assets	Added	2016-14	08/18/2016
Net Assets with Donor Restrictions	Added	2016-14	08/18/2016
Net Assets without Donor Restrictions	Added	2016-14	08/18/2016
Permanently Restricted Net Assets	Superseded	2016-14	08/18/2016
Programmatic Investing	Added	2016-14	08/18/2016
Reclassification	Superseded	2016-14	08/18/2016
Reclassification of Net Assets	Added	2016-14	08/18/2016
Restricted Support	Superseded	2016-14	08/18/2016
Temporarily Restricted Net Assets	Superseded	2016-14	08/18/2016
Unrestricted Net Assets	Superseded	2016-14	08/18/2016
Unrestricted Support	Superseded	2016-14	08/18/2016
958-225-45-1	Amended	2016-14	08/18/2016
958-225-45-3 through 45-8	Amended	2016-14	08/18/2016
958-225-45-10 through 45-14	Amended	2016-14	08/18/2016
958-225-45-14A	Added	2016-14	08/18/2016
958-225-45-14B	Added	2016-14	08/18/2016
958-225-45-17	Amended	2016-14	08/18/2016
958-225-45-17A	Added	2016-14	08/18/2016
958-225-45-17B	Added	2016-14	08/18/2016
958-225-45-18	Amended	2016-14	08/18/2016

Paragraph	Action	Accounting Standards Update	Date
958-225-45-19	Superseded	2016-14	08/18/2016
958-225-45-20 through 45-22	Amended	2016-14	08/18/2016
958-225-45-25	Amended	2016-14	08/18/2016
958-225-50-1	Amended	2016-14	08/18/2016
958-225-55-2	Amended	2016-14	08/18/2016
958-225-55-5 through 55-7	Amended	2016-14	08/18/2016
958-225-55-9	Amended	2016-14	08/18/2016
958-225-55-12 through 55-15	Amended	2016-14	08/18/2016
958-225-55-16 through 55-20	Added	2016-14	08/18/2016

84. Amend paragraph 958-230-00-1, by adding the following item to the table, as follows:

958-230-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Donor-Imposed Restriction	Amended	2016-14	08/18/2016

85. Amend paragraph 958-310-00-1, by adding the following items to the table, as follows:

958-310-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Donor-Imposed Restriction	Added	2016-14	08/18/2016
Net Assets	Amended	2016-14	08/18/2016
Net Assets with Donor Restrictions	Added	2016-14	08/18/2016

Paragraph	Action	Accounting Standards Update	Date
Net Assets without Donor Restrictions	Added	2016-14	08/18/2016
Permanently Restricted Net Assets	Superseded	2016-14	08/18/2016
Temporarily Restricted Net Assets	Superseded	2016-14	08/18/2016
Unrestricted Net Assets	Superseded	2016-14	08/18/2016
958-310-45-2	Amended	2016-14	08/18/2016
958-310-45-3	Amended	2016-14	08/18/2016

86. Amend paragraph 958-320-00-1, by adding the following items to the table, as follows:

958-320-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Board-Designated Endowment Fund	Amended	2016-14	08/18/2016
Donor-Imposed Restriction	Added	2016-14	08/18/2016
Donor-Restricted Endowment Fund	Amended	2016-14	08/18/2016
Endowment Fund	Amended	2016-14	08/18/2016
Funds Functioning as Endowment	Added	2016-14	08/18/2016
Net Assets	Amended	2016-14	08/18/2016
Net Assets with Donor Restrictions	Added	2016-14	08/18/2016

Paragraph	Action	Accounting Standards Update	Date
Net Assets without Donor Restrictions	Added	2016-14	08/18/2016
Permanently Restricted Net Assets	Superseded	2016-14	08/18/2016
Programmatic Investing	Added	2016-14	08/18/2016
Temporarily Restricted Net Assets	Superseded	2016-14	08/18/2016
Unrestricted Net Assets	Superseded	2016-14	08/18/2016
958-320-45-1	Amended	2016-14	08/18/2016
958-320-45-2	Superseded	2016-14	08/18/2016
958-320-45-3 through 45-5	Amended	2016-14	08/18/2016
958-320-45-8	Amended	2016-14	08/18/2016
958-320-50-1	Superseded	2016-14	08/18/2016
958-320-55-4	Amended	2016-14	08/18/2016
958-320-55-5	Superseded	2016-14	08/18/2016
958-320-55-6 through 55-8	Amended	2016-14	08/18/2016
958-320-55-9	Superseded	2016-14	08/18/2016
958-320-55-10	Superseded	2016-14	08/18/2016
958-320-55-11	Added	2016-14	08/18/2016

87. Amend paragraph 958-321-00-1, by adding the following items to the table, as follows:

958-321-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Donor-Imposed Restriction	Added	2016-14	08/18/2016
Net Assets	Amended	2016-14	08/18/2016

Paragraph	Action	Accounting Standards Update	Date
Net Assets with Donor Restrictions	Added	2016-14	08/18/2016
Net Assets without Donor Restrictions	Added	2016-14	08/18/2016
Permanently Restricted Net Assets	Superseded	2016-14	08/18/2016
Temporarily Restricted Net Assets	Superseded	2016-14	08/18/2016
Unrestricted Net Assets	Superseded	2016-14	08/18/2016
958-321-50-2	Amended	2016-14	08/18/2016

88. Amend paragraph 958-325-00-1, by adding the following items to the table, as follows:

958-325-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
958-325-45-2	Superseded	2016-14	08/18/2016
958-325-50-6	Superseded	2016-14	08/18/2016

89. Amend paragraph 958-360-00-1, by adding the following items to the table, as follows:

958-360-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Donor-Imposed Restriction	Amended	2016-14	08/18/2016
Donor-Restricted Support	Added	2016-14	08/18/2016

Paragraph	Action	Accounting Standards Update	Date
Net Assets with Donor Restrictions	Added	2016-14	08/18/2016
Net Assets without Donor Restrictions	Added	2016-14	08/18/2016
Reclassification	Superseded	2016-14	08/18/2016
Reclassification of Net Assets	Added	2016-14	08/18/2016
Restricted Support	Superseded	2016-14	08/18/2016
Temporarily Restricted Net Assets	Superseded	2016-14	08/18/2016
Unrestricted Net Assets	Superseded	2016-14	08/18/2016
Unrestricted Support	Superseded	2016-14	08/18/2016
958-360-35-8	Amended	2016-14	08/18/2016
958-360-40-1	Superseded	2016-14	08/18/2016
958-360-45-1	Amended	2016-14	08/18/2016
958-360-45-1A	Added	2016-14	08/18/2016
958-360-45-2	Superseded	2016-14	08/18/2016
958-360-45-6	Amended	2016-14	08/18/2016
958-360-45-7	Added	2016-14	08/18/2016
958-360-50-1	Amended	2016-14	08/18/2016
958-360-55-2	Amended	2016-14	08/18/2016

90. Amend paragraph 958-405-00-1, by adding the following items to the table, as follows:

958-405-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Functional Classification	Superseded	2016-14	08/18/2016

Paragraph	Action	Accounting Standards Update	Date
Functional Expense Classification	Added	2016-14	08/18/2016
958-405-45-1	Amended	2016-14	08/18/2016

91. Amend paragraph 958-450-00-1, by adding the following item to the table, as follows:

958-450-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Donor-Imposed Restriction	Amended	2016-14	08/18/2016

92. Amend paragraph 958-605-00-1, by adding the following items to the table, as follows:

958-605-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Board-Designated Endowment Fund	Amended	2016-14	08/18/2016
Contributions Receivable	Added	2016-14	08/18/2016
Donor-Imposed Restriction	Amended	2016-14	08/18/2016
Donor-Restricted Endowment Fund	Added	2016-14	08/18/2016
Donor-Restricted Support	Added	2016-14	08/18/2016

Paragraph	Action	Accounting Standards Update	Date
Endowment Fund	Amended	2016-14	08/18/2016
Funds Functioning as Endowment	Added	2016-14	08/18/2016
Net Assets	Added	2016-14	08/18/2016
Net Assets with Donor Restrictions	Added	2016-14	08/18/2016
Net Assets without Donor Restrictions	Added	2016-14	08/18/2016
Permanent Endowment	Superseded	2016-14	08/18/2016
Permanent Restriction	Superseded	2016-14	08/18/2016
Permanently Restricted Net Assets	Superseded	2016-14	08/18/2016
Reclassification	Superseded	2016-14	08/18/2016
Reclassification of Net Assets	Added	2016-14	08/18/2016
Restricted Support	Superseded	2016-14	08/18/2016
Temporarily Restricted Net Assets	Superseded	2016-14	08/18/2016
Unrestricted Net Assets	Superseded	2016-14	08/18/2016
Unrestricted Support	Superseded	2016-14	08/18/2016
958-605-25-23	Amended	2016-14	08/18/2016
958-605-25-24	Amended	2016-14	08/18/2016
958-605-45-1	Amended	2016-14	08/18/2016
958-605-45-3 through 45-8	Amended	2016-14	08/18/2016
958-605-50-2	Amended	2016-14	08/18/2016
958-605-50-3	Superseded	2016-14	08/18/2016
958-605-55-21 through 55-24	Amended	2016-14	08/18/2016
958-605-55-34	Amended	2016-14	08/18/2016

Paragraph	Action	Accounting Standards Update	Date
958-605-55-37	Amended	2016-14	08/18/2016
958-605-55-38	Amended	2016-14	08/18/2016
958-605-55-48	Amended	2016-14	08/18/2016
958-605-55-85 through 55-87	Amended	2016-14	08/18/2016
958-605-55-98	Amended	2016-14	08/18/2016
958-605-55-100	Amended	2016-14	08/18/2016
958-605-55-105	Amended	2016-14	08/18/2016
958-605-55-107	Amended	2016-14	08/18/2016
958-605-55-110	Amended	2016-14	08/18/2016

93. Amend paragraph 958-715-00-1, by adding the following items to the table, as follows:

958-715-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Donor-Imposed Restriction	Added	2016-14	08/18/2016
Functional Classification	Superseded	2016-14	08/18/2016
Functional Expense Classification	Added	2016-14	08/18/2016
Net Assets without Donor Restrictions	Added	2016-14	08/18/2016
Unrestricted Net Assets	Superseded	2016-14	08/18/2016
958-715-25-1	Amended	2016-14	08/18/2016
958-715-35-1 through 35-5	Amended	2016-14	08/18/2016
958-715-45-1	Amended	2016-14	08/18/2016
958-715-45-2	Amended	2016-14	08/18/2016
958-715-50-1	Amended	2016-14	08/18/2016
958-715-55-4 through 55-8	Amended	2016-14	08/18/2016

94. Amend paragraph 958-720-00-1, by adding the following items to the table, as follows:

958-720-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Functional Classification	Superseded	2016-14	08/18/2016
Functional Expense Classification	Added	2016-14	08/18/2016
Management and General Activities	Amended	2016-14	08/18/2016
Natural Expense Classification	Amended	2016-14	08/18/2016
958-720-45-1 through 45-3	Amended	2016-14	08/18/2016
958-720-45-2A	Added	2016-14	08/18/2016
958-720-45-7	Amended	2016-14	08/18/2016
958-720-45-8	Amended	2016-14	08/18/2016
958-720-45-15	Amended	2016-14	08/18/2016
958-720-45-16	Superseded	2016-14	08/18/2016
958-720-50-1	Amended	2016-14	08/18/2016
958-720-55-166	Amended	2016-14	08/18/2016
958-720-55-169	Amended	2016-14	08/18/2016
958-720-55-171 through 55-176	Added	2016-14	08/18/2016

95. Amend paragraph 958-805-00-1, by adding the following items to the table, as follows:

958-805-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Donor-Imposed Restriction	Amended	2016-14	08/18/2016

Paragraph	Action	Accounting Standards Update	Date
Donor-Restricted Support	Added	2016-14	08/18/2016
Net Assets with Donor Restrictions	Added	2016-14	08/18/2016
Net Assets without Donor Restrictions	Added	2016-14	08/18/2016
Permanently Restricted Net Assets	Superseded	2016-14	08/18/2016
Reclassification	Superseded	2016-14	08/18/2016
Reclassification of Net Assets	Added	2016-14	08/18/2016
Temporarily Restricted Net Assets	Superseded	2016-14	08/18/2016
Unrestricted Net Assets	Superseded	2016-14	08/18/2016
958-805-25-27	Amended	2016-14	08/18/2016
958-805-45-6	Amended	2016-14	08/18/2016
958-805-45-7	Amended	2016-14	08/18/2016
958-805-45-10	Amended	2016-14	08/18/2016
958-805-50-3	Amended	2016-14	08/18/2016
958-805-50-8	Amended	2016-14	08/18/2016
958-805-55-36 through 55-38	Amended	2016-14	08/18/2016
958-805-55-60	Amended	2016-14	08/18/2016
958-805-55-64 through 55-67	Amended	2016-14	08/18/2016

96. Amend paragraph 958-810-00-1, by adding the following items to the table, as follows:

958-810-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Donor-Imposed Restriction	Amended	2016-14	08/18/2016
Economic Interest	Amended	2016-14	08/18/2016
Net Assets with Donor Restrictions	Added	2016-14	08/18/2016
Net Assets without Donor Restrictions	Added	2016-14	08/18/2016
958-810-50-5	Amended	2016-14	08/18/2016
958-810-55-18	Amended	2016-14	08/18/2016
958-810-55-19	Amended	2016-14	08/18/2016
968-810-55-21 through 55-25	Amended	2016-14	08/18/2016

The amendments in this Update were adopted by the affirmative vote of six members of the Financial Accounting Standards Board. Mr. Linsmeier dissented.

Mr. Linsmeier dissents from the issuance of this Update because rather than requiring NFPs to use the direct method of reporting net cash flow from operating activities, the amendments in this Update permit them to use the indirect method of reporting those cash flows. He believes that by continuing to permit the use of the indirect method in lieu of the direct method, the Board has missed an opportunity to make a significant improvement to the quality and usefulness of financial reporting that would enhance the transparency, understandability, and comparability of an NFP's cash flows from operating activities. Reporting information about cash received from customers, donors, grantors, and others, about cash paid to suppliers, employees, grantees, taxing authorities, and others, and about other operating receipts and payments (the direct method) provides a description of the period's operating activities of an entity that is more informative about the operating cash flows of the entity. In addition, it is more consistent with the primary objective of a statement of cash flows, which is, as described in paragraph 230-10-10-01, "to provide relevant information about the cash receipts and cash payments of an entity during a period."

Furthermore, permitting the use of the indirect method makes the cash flow statement internally inconsistent and unnecessarily confusing. Under the current requirements for cash flow statements, the major classes of gross cash receipts and cash payments for investing and financing activities are reported transparently and separately, but when using the indirect method, the major classes of gross operating cash flows are not presented. In addition, presenting a reconciliation of changes in net assets and net cash flows from operating activities within the statement of cash flows rather than within a separate schedule results in the inclusion of the effects of certain noncash transactions and other events within the statement of cash flows. That adds unnecessary confusion rather than providing internally consistent, transparent, understandable, and relevant information about an NFP's operating cash flows. Mr. Linsmeier also notes that unlike business entities, NFPs generally do not report a *net income* metric and do not have equity owners and analysts that have some interest in reconciling that metric to net cash flows from operations.

Mr. Linsmeier acknowledges that by no longer requiring the use of the indirect method, the amendments in this Update provide NFPs with an opportunity to avoid incurring the costs and complexities of providing the indirect reconciliation of net operating cash flows to the change in net assets for the period. He also understands that delaying the required use of the direct method at this time allows the Board more time to consider related issues that it *might* consider for business entities before requiring NFPs to incur the initial implementation costs to switch to reporting operating cash flows using the direct method. He believes, however, that the delay is neither necessary nor warranted and will result in the failure to achieve one of the primary objectives of the Board's project, which is to improve the statement of cash flows to more clearly communicate financial performance through better disaggregation and classification of information in that statement.

Mr. Linsmeier also notes that his views are consistent with those expressed by the Board in the proposed Update. His views have been reinforced by the comments received from respondents to the proposed Update, participants in public roundtables, and preparers and users that participated in 10 workshops, as well as by the advice from members of the NAC and project resource group. After carefully considering the experiences of NFP preparers and auditors that have adopted the direct method of reporting, he believes that the benefits to users of financial statements from more transparent and understandable information clearly justify the first-year and ongoing costs to switch to the direct method. He also believes that the Board is placing (1) insufficient weight on the experiences of NFP stakeholders, (2) excessive weight on the transition costs asserted by stakeholders that have not attempted to apply the direct method, and (3) perhaps undue expectations on what more might be learned from further study of related issues for business entities.

Mr. Linsmeier also agrees with the Board that the reporting objectives of NFPs and business entities, while similar in many respects, are sufficiently different and justify no longer requiring the indirect reconciliation; however, unlike the Board, he believes that waiting for further study of financial reporting issues will yield neither new nor better information from NFP stakeholders about how best to present operating cash flows. He notes that the experiences of NFPs that have implemented the direct method of presenting operating cash flows, including large, complex public universities that are subject to the standards of the Governmental Accounting Standards Board (GASB), provide sufficient evidence that the benefits of increased understanding of operating cash flows justify the incremental costs to prepare the information. In addition, he believes that the expected costs of presenting operating cash flows under the direct method are likely to be significantly lower for many NFPs when compared with for-profit entities because NFPs are not subject to internal control requirements similar to public for-profit entities and are less likely to have multiple accounting systems that require integration across multinational jurisdictions or parent/subsidiary entities. Moreover, he observes that in recent years, many NFPs encountered cash flow difficulties, some of which led to their demise and to society's loss of their critical services. In many of those cases, the indirect method of presenting operating cash inflows did not reveal the negative cash flow trends that were occurring from diminishing contributions, grants, and other revenues. Those cash flow statements often failed to provide their stakeholders, including board members, with clear, transparent, and timely information that might have enabled corrective actions. Therefore, Mr. Linsmeier believes that the cost of delaying action at this time is too great a price to pay for NFPs and their donors, grantors, creditors, employees, volunteers, and many beneficiaries that rely on their services.

Members of the Financial Accounting Standards Board:

Russell G. Golden, *Chairman*
James L. Kroeker, *Vice Chairman*
Daryl E. Buck
Thomas J. Linsmeier
R. Harold Schroeder
Marc A. Siegel
Lawrence W. Smith

Background Information and Basis for Conclusions

CONTENTS

Paragraph Numbers

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

Background Information

BC2. The amendments in this Update improve financial reporting guidance for not-for-profit entities (NFPs) that is provided by Topic 958, Not-for-Profit Entities. For the most part, the current reporting guidance of Topic 958 was established in 1993 when the Board issued FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations*. The guidance in Statement 117 became effective for larger NFPs for fiscal years beginning after December 15, 1994, and one year later for smaller NFPs. Other than a few limited technical corrections, clarifications, and amendments to provide interpretative guidance, the main provisions of Statement 117 have remained unchanged.

BC3. Statement 117 changed NFP financial reporting in several significant ways. Previously, financial statements for different NFPs varied in both their form and their content. For example, most hospitals and trade associations provided statements of financial position and statements of activities that reported their financial positions and results of operations for the entities as a whole. However, universities, museums, religious organizations, and many other NFPs provided financial statements that reported the financial position and changes in financial position of individual fund groups rather than the financial position and results of operations of the entity as a whole. Moreover, different types of NFPs reported on different fund groups and included different kinds of financial statements within their sets of financial statements. For example, some NFPs included statements of cash flows or functional expenses, while others did not.

BC4. To address the diverse practices that preceded Statement 117, the Board decided to focus its efforts on the most fundamental reporting issues that were essential in meeting the reporting objectives applicable to all NFPs. That included determining what constitutes a full set of financial statements and whether the focus should be on the entity as a whole or on specific fund groups. The Board concluded that a full set of financial statements of all NFPs consists of a statement of financial position (balance sheet), a statement of activities, a statement of cash flows, and accompanying notes to financial statements and that the focus should be on the entity as a whole. In addition, at that time, voluntary health and welfare organizations were required to continue to provide a statement of functional expenses.

BC5. Considering the significance of the fundamental changes being proposed at that time, the Board also decided that Statement 117 should focus on presentation requirements for information that generally are no more stringent than requirements for business entities. For example, some stakeholders had suggested that the statement of activities should be divided in two parts: a statement of operations and a statement of other changes in net assets. However, it was observed that there were significant differences among NFPs in the use of the term *operations*, and distinctions based on operations tended to be arbitrary. The Board noted that attempting to define operations for business enterprises also proved problematic and, at that time, found no compelling reason to prescribe more specific display standards for NFPs.

BC6. Similarly, some stakeholders suggested that a statement of functional expenses, which reports expenses by both nature and function, should be required of NFPs, particularly those supported by public contributions. At that time, such a statement was required for voluntary health and welfare organizations. The Board acknowledged that those specialized requirements were consistent with the requirements of Statement 117, and to address the concerns of stakeholders about the potential loss of useful information, the Board decided to retain that requirement for voluntary health and welfare entities. However, the Board concluded in paragraph 64 of Statement 117 that "before extending that requirement to other organizations, further study is necessary to determine whether other cost-beneficial means of reporting information useful in associating expenses with service efforts might be developed."

BC7. The requirements of Statement 117, despite the limited focus and approach taken in developing those requirements, resulted in significant changes and improvements in both the comparability and understandability of financial reporting by NFPs. Those requirements also resulted in more useful information for creditors, donors, grantors, and other users of financial statements that rely on that information for their lending, giving, granting, and other resource allocation decisions. Nonetheless, Statement 117 left some issues unresolved and open for further study and voluntary development through best practices.

Why the Need to Update Existing Reporting Guidance?

BC8. In October 2009, the FASB established the Not-for-Profit Advisory Committee (NAC). The NAC is a standing committee of 18 current members (and 3 participating observers) who are active in and have experience with NFPs. Its members include preparers, auditors, and users of financial statements of NFPs who work closely with the Board in an advisory capacity to ensure that perspectives from the not-for-profit sector are effectively communicated to the FASB on a timely basis in connection with the development of financial accounting and reporting guidance. In addition to assisting the FASB and its staff with communication and outreach activities, the principal responsibilities of the NAC include providing focused input and feedback on the following:

a. The need for and relative priority of proposed projects

b. Conceptual and practical implications of proposals under development in active projects, which have included accounting for financial instruments, revenue from contracts with customers, leases, disclosure framework, and others
c. Practice issues, including implementation issues arising from new standards and potential areas for improvement that are pertinent to the NFP sector
d. Long-term issues that are important to the NFP sector
e. Other matters for which the FASB may seek guidance.

BC9. Among other things, the NAC was asked to advise on the effectiveness of the current NFP financial reporting model. To assist the NAC's efforts, a standing Not-for-Profit Resource Group was formed, and in 2010, members of that resource group were surveyed and asked to identify aspects of GAAP for NFPs that are most in need of the FASB's attention. At the time, that resource group had 111 members and has since grown to approximately 250 members who continue to provide support to the NAC as needed. Survey respondents and NAC members identified several issues. Some issues were about specific technical accounting matters (for example, accounting for joint costs and accounting for temporarily restricted gifts, including pledges and certain government grants), and others were about financial statement presentation matters (for example, distinguishing capital flows from operating flows and concerns about the degree of flexibility and complexity). Still, other respondents noted that there were no issues requiring immediate attention.

BC10. During 2010 and 2011, the NAC considered how best to improve the NFP financial reporting model. As a result, NAC members identified several ways in which significant improvements could be made to the information currently provided to creditors, donors, grantors, and others. The NAC formed three subgroups to further study ways to improve the following:

a. Reporting on financial performance through the statement of activities and statement of cash flows
b. Other means of financial communications for telling an NFP's story beyond those financial statements
c. Reporting on financial health, including liquidity, through the statement of financial position, notes, or both.

BC11. Subsequently, NAC members further discussed and considered the work of each of the NAC's subgroups and developed recommendations that they discussed with the FASB. As reported in the highlights of that meeting, the NAC suggested that the Board consider adding projects to address four areas in need of improvement. The objectives would be:

a. To improve the current net asset classification scheme in conjunction with improving how liquidity is portrayed in an NFP's statement of financial position and related notes.

b. To improve the statement of activities and statement of cash flows to more clearly communicate financial performance through better disaggregation and classification of information within the statement of activities and through better cohesiveness between the statements. The NAC's suggestions included the following, among others:
   1. Maintaining emphasis on the presence or absence of restrictions in the presentation model for the statement of activities but allowing NFPs the ability to emphasize or deemphasize certain elements depending on the nature of their operations, especially their revenue mix
   2. Requiring the presentation of an operating measure in the statement of activities
   3. Encouraging or requiring NFPs to divide the statement of activities into a statement that is focused on current-period operations and a statement with other changes in net assets to further emphasize operating results
   4. Improving the statement of cash flows by better linking operating cash flows to the operating section in the statement of activities.
c. To develop a framework for an NFP's directors and management to provide commentary and analysis about the organization's financial health, operations, and liquidity with an objective of helping the NFP tell its financial story, including in relation to its programmatic outputs. That framework also might encourage or require some form of line-of-business (segment) reporting, at least for larger or more complex NFPs.
d. To review existing NFP-specific disclosure requirements to streamline, if possible, and otherwise improve their relevance and understandability. This could include identifying current disclosure requirements that might be better suited for the commentary and analysis contemplated in item (c).

Objectives and Scope

BC12. On November 9, 2011, the Board added a standard-setting project and a research project to its agenda. Taken together, the project objectives and scopes encompassed the broad suggestions received from the NAC and certain specific financial reporting suggestions received from other stakeholders. The Board noted that it shared the NAC's belief that existing standards for financial statements of NFPs are sound but that it also was advisable to revisit and consider potential improvements to the reporting standards for the two-decades-old NFP financial reporting model. The Board also decided, however, that further research on other financial communications outside of financial statements (such as management's discussion and analysis) was needed before Board members would be able to assess whether that type of reporting should be taken up as a standard-setting project.[1]

BC13. On April 22, 2015, following the Board's initial deliberations and consultations with members of the NAC, members of the project resource group, and other stakeholders, the Board issued for public comment 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*. The comment period ended on August 20, 2015. That proposed Update was directed at achieving each of the financial reporting objectives (a), (b), and (d) noted in paragraph BC11.

BC14. The Board received significant and useful feedback on the proposed Update from its stakeholders. The feedback was received from preparers, auditors, creditors, grantors, and others that use financial statements of NFPs. That feedback was received in several ways, including (a) 264 comment letters submitted on the proposed Update, (b) 37 participants in public roundtable discussions held in Norwalk and Los Angeles, (c) 146 participants in 10 workshops held in 5 cities across the United States, (d) discussions with members of the NAC and members of the project resource group, (e) outreach calls with numerous preparers, creditors, grantors, and others during the Board's redeliberations of the proposed amendments, and (f) discussions with members of the National Association of College and University Business Officers' (NACUBO's) Accounting Principles Council, the Healthcare Financial Management Association's (HFMA's) Principles and Practices Board, the American Institute of Certified Public Accountants' (AICPA) Expert Panels for NFPs and for Health Care Entities, and others.

BC15. Subsequently, the Board discussed the mixed feedback received on the proposed Update, including advice received at the NAC's September 2015 meeting, and established its plan for redeliberations of the proposed amendments. Based primarily on the input received, the Board decided to narrow the scope of this Update's amendments so that it might focus first on the proposed amendments that stakeholders generally supported. That would enable the Board to move those improvements forward to a final Update on a timely basis. That also would allow time for the Board, through a second phase of its project, to address certain more significant proposed changes that cross-cut with challenging issues being addressed in other projects. Those include the proposed requirements for

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[1]The research project was added to study other means of communication, such as management commentary, that NFPs can voluntarily use in telling their financial story. The staff's research found that such communications were most prevalent in the health care and higher education sectors, as well as among larger NFPs; however, they varied greatly, and it was noted that improvements could be made in their quality and consistency. Those findings were discussed with members of the project resource group and with the NAC at its September 2012 meeting. At its January 29, 2014 meeting, the Board voted to reorganize its agenda and removed this research project and several other unrelated projects from its agenda.

(a) reporting intermediate measures of operations, (b) defining such measures, including whether they should or should not include internal transfers, interest expense, and certain other items, and (c) aligning the operating definitions for a statement of activities and a statement of cash flows.

BC16. The Board observed that in addition to receiving mixed feedback on the proposed requirements for those more challenging issues, the issues are likely to require considerably more time to resolve. Some issues involve consideration of alternatives suggested by stakeholders that the Board did not previously consider. They also relate to similar issues being addressed in the FASB's research project on financial performance reporting by business entities. Many of the respondents also suggested that the Board strive to maintain, to the fullest extent feasible, the comparability of reporting by NFPs and business entities. Many added that the Board should delay moving forward with reporting matters other than those issues that are uniquely related to financial reporting objectives of NFPs.

BC17. The Board decided to defer certain issues to a second phase of its project on financial statements of NFPs, which would allow it to coordinate that project's activities with activities of the FASB's research project that may address similar financial statement presentation issues. Those issues include:

a. Whether to require one or more intermediate measures of operations and, if so, no longer require business-oriented health care NFPs to provide the currently required *performance indicator*
b. How to define such measure(s) and what items should or should not be included in the measure(s)
c. Whether and how to realign certain line items within such operating measures with line items within operating cash flows
d. Whether an alternative disaggregation and classification approach suggested by stakeholders might be more decision useful than an operating and nonoperating classification scheme and, if so, whether that approach might be more decision useful as an addition or alternative to that classification scheme
e. Whether business-oriented health care NFPs should provide disaggregated information by segments instead of the required analysis of expenses by their natural classification and functional classification.

As a result, the narrower scope of this Update, unlike the proposed Update, does not make significant changes to incremental requirements for business-oriented health care NFPs that are subject to Topic 954.

Basis for Conclusions

BC18. The amendments in this Update make significant improvements to the presentation guidance for financial statements of NFPs and to the related note disclosures that accompany those financial statements. Paragraphs BC19–BC73 of this basis discuss this Update's major improvements and the reasons for them, including the Board's considerations about their overall benefits and costs.

Benefits and Costs

BC19. The FASB's *Rules of Procedure* states the following about its mission, how that mission is carried out, and considerations about the benefits and costs of issuing financial reporting standards:

> The mission of the FASB is to establish and improve standards of financial accounting and reporting that foster financial reporting by nongovernmental entities that provides decision-useful information to investors and other users of financial reports.
>
> The FASB establishes and improves standards and concepts through a comprehensive and independent process that encourages broad participation, objectively considers all stakeholder views, and is subject to oversight by the Foundation's Board of Trustees. FASB members exercise their judgment after research, due process, and careful deliberation. They are guided by these principles:
>
> 1. *To be objective in its decision making* and to ensure, insofar as possible, the neutrality of information resulting from its standards. To be neutral, information must report economic activity as faithfully as possible without coloring the image it communicates for the purpose of influencing behavior in any particular direction.
> 2. *To actively solicit and carefully weigh the views of stakeholders* in developing standards and concepts. The ultimate determinant of standards and concepts, however, must be the FASB's judgment, based on research, public input, and careful deliberation, about the usefulness of the resulting information.
> 3. *To issue standards only when the expected benefits justify the perceived* costs. The FASB strives to determine that proposed standards fill a significant need and that the perceived costs they impose, compared with possible alternatives, are justified in relation to the overall expected benefits. [pages 2 and 4]

BC20. Based on the extensive research performed and stakeholder input received, particularly in the Board's outreach with creditors, grantors, and others that rely on financial statements of NFPs, as well as the Board's objective and carefully weighed consideration of that input, the Board concluded that collectively the expected benefits of the more relevant and decision-useful information resulting from this Update's amendments justify the expected costs that they may impose. Of course, assessing the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC21. The following paragraphs discuss the research and feedback that the Board performed and considered during its initial deliberations leading to the proposed Update and the subsequent redeliberations leading to this Update. That includes discussions with members of the NAC, the project resource group, the NACUBO's Accounting Principles Council, the HFMA's Principles and Practices Board, the AICPA Expert Panels for NFPs and for Health Care Entities, and other stakeholder groups and individuals with experience with various types of NFPs that issue financial statements. Those outreach activities focused on the usefulness of the information—improvements in its relevance, understandability, and the extent to which it faithfully represents what it purports to represent—and the costs that stakeholders are likely to incur to prepare and use that information. Outreach discussions included gathering feedback about the application of alternatives under consideration to particular industry groups, such as colleges and universities, hospital systems, community foundations, private foundations, charities, and others.

BC22. In addition, at the September 2014 meeting, NAC members devoted the majority of their time to a discussion of the expected benefits and costs of the near-final tentative decisions reached at that time. The NAC's input, including subsequent feedback from individual members of the NAC and the project resource group on specific proposed provisions, also was helpful to the Board and led to further deliberations and certain revisions that helped reduce the complexities and costs of particular proposed provisions of this Update. The input received from respondents to the proposed Update provided further input about the costs and complexities of particular proposals that led to further modifications and alternatives to reduce those costs and complexities.

BC23. At that September 2014 NAC meeting, a few NAC members also questioned whether the Board should delay adopting the proposed improvements to financial reporting for NFPs until the Board makes further progress on its research efforts on reporting financial performance for business entities. When the Board issued its proposed Update, it noted in paragraph BC20 that:

> The Board understands that comparability across all entities is desirable, but Board members, as well as a consensus of the NAC, noted that the objectives of financial reporting of NFPs differ from those of business entities in significant ways. In addition, the purpose of the statement of activities of NFPs (presentation of all changes in each net asset class) differs from the purpose of the statement(s) of financial performance for business entities (presentation only of certain changes in

retained earnings and accumulated other comprehensive income). These differences provide a basis for justifying differences between financial statement presentation and disclosures for NFPs and business entities. Board members also noted that the NAC previously had advised the Board that existing presentation and disclosure requirements for NFPs did not adequately meet the needs of creditors, donors, and grant makers and, thus, the benefit and cost considerations for changes proposed by this Update differ in significant ways from their consideration for business entities. A majority of the Board believes that there are sufficient differences between NFPs and business entities that make it cost-beneficial to seek stakeholder feedback on the proposed amendments without further developments in the research efforts on reporting financial performance, as well as in the Board's research efforts on classifying activities in the statement of cash flows for business entities. The Board expects, however, that information gained from public commentary on the proposed amendments in this Update will help inform the two research efforts for business entities and vice-versa, and it is committed to considering the interaction of the projects before proceeding to finalize the proposed guidance for NFPs.

BC24. As discussed in paragraphs BC14–BC17 of this Update, feedback from and discussions with stakeholders on the proposed amendments were helpful to Board members in reassessing their views. After carefully weighing that input, the Board decided to narrow the scope of this Update, primarily to allow more time for further progress on the Board's research efforts on financial performance reporting for business entities before proceeding with the issues listed in paragraph BC17.

BC25. The paragraphs that follow discuss each of the major amendments of this Update. That discussion includes cost and benefit considerations for the specific amendment as well as the relevant (a) outreach with stakeholders performed during the FASB's research and initial deliberations leading to the proposed Update, (b) feedback received on those proposed amendments and the Board's subsequent redeliberations, (c) alternatives considered, and (d) the Board's reasons for accepting some alternatives and rejecting others. The Board believes that the amendments that are most likely to make significant improvements to financial reporting by NFPs are those that (a) simplify the net asset classifications and improve the related terminology and related disclosures about their composition, (b) require information about an NFP's available resources, (c) require information useful in assessing an NFP's liquidity, (d) require more useful information about expenses incurred in carrying out an NFP's activities, including extending to all NFPs a requirement to provide, in one location, an analysis of expenses by both their natural classification and functional classification, (e) provide an opportunity to improve the understandability of information about an

NFP's cash flows by reporting cash flows from operations using the so-called *direct method* and remove the requirement to also report those cash flows using the so-called indirect method if reporting under the direct method, and (f) require the presentation of the investment return net of external and direct internal investment expenses and remove the requirement to disclose such netted expenses.

Net Asset Classification Scheme, Terminology, and Disclosures

BC26. Paragraph 958-210-45-1 requires NFPs to present the amounts for two classes of net assets: *net assets with donor restrictions* and *net assets without donor restrictions*. The Board decided to replace the current requirement to present on the face of the statement of financial position the amount for each of three classes of net assets—unrestricted, temporarily restricted, and permanently restricted.

BC27. The Board concluded that this amendment and this Update's more precise terminology, as noted in paragraph 958-205-45-2, will improve financial reporting in several ways. First, combining the permanently restricted and temporarily restricted classes will reduce complexity. Second, the previous distinction between those two classes has become blurred because changes in laws, among other things, now permit entities, within the bounds of prudence, to spend from a *permanently* restricted endowment even though the amount of the endowment has fallen below the original amount of the endowed gift. Thus, the Board expects that eliminating the current distinction will help avoid misunderstandings about the use of the notion of permanence.

BC28. Moreover, the Board concluded that the notes to financial statements can more effectively provide more detailed distinctions about the nature and types of donor-imposed restrictions as well as board designations, including more relevant information about how both externally imposed limits and internally imposed limits affect the availability of resources and, thus, increase the understandability of information about the part of net assets that is restricted by donor stipulations. Accordingly, the amendments retain the current requirements of paragraph 958-210-50-3(d) through (e) to provide information about the nature and amounts of different types of donor-imposed restrictions and underscore the importance of information about how those restrictions affect the use of resources. Similarly, as proposed, paragraph 958-210-50-3 requires NFPs to disclose the amounts and purposes of board-designated net assets. NFPs could provide that information by presenting disaggregated, descriptive line items on the face of the statement of financial position or by presenting aggregated amounts on the face with the details in notes to financial statements. Of most importance, the Board concluded that those disclosures will improve financial reporting and will help to ensure that creditors, donors, grantors, and other users do not lose relevant information regardless of the presentation methods chosen.

BC29. The Board also decided to revise the terminology that describes net assets that are not subject to donor-imposed stipulations. Stakeholders have told the Board that too often donors and others have misunderstood the term *unrestricted net assets*. That class of net assets is defined in the Master Glossary as the "part of net assets of a not-for-profit entity (NFP) that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations." However, despite its definition, the term *unrestricted* implies, and some users have thought, that part of net assets is without contractual, legal, or any other type of restriction. As a result, creditors, donors, grantors, and other users could reach the wrong conclusion about an entity's financial position, particularly about its financial flexibility and liquidity. Although the change in terminology for that class of net assets does not change the substance of its definition, the revised terminology will bring greater understanding and, thus, will bring greater usefulness to the information provided by financial reporting by NFPs.

BC30. The Board also considered, but decided not to require, other classification schemes. Those other classification schemes could distinguish net assets on the basis of (a) restrictions that would include legal restrictions, contractual restrictions, or both or (b) the particular purposes for which net resources are available or expected to be used (for example, operations, investment in plant, or long-term investment). However, outreach with stakeholders revealed that the distinction based on external restrictions imposed by donors and grantors continues to be relevant and useful to (a) creditors that are particularly interested in information about the availability of resources to meet cash demands and (b) donors, grantors, and others that are interested in assessing when and how resources can or cannot be used toward achieving the NFP's mission. Accordingly, the Board decided to update, but not overhaul, the net asset classification scheme.

BC31. The Board also decided to revise the classification of the aggregate amount by which donor-restricted endowment funds are underwater (the amount by which a fund has fallen below its original gift or historical dollar amount). The amendments no longer require that the underwater amount be disaggregated within the overall endowment fund amount and separately classified in net assets without donor restrictions. Rather, paragraph 958-205-45-13H requires that the entire amount of the donor-restricted endowment fund be classified as part of net assets with donor restrictions. Since the issuance of Statement 117, substantially all states now have adopted versions of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which, unlike prior laws, no longer precludes any spending from an endowment fund if its amount falls below its historical dollar amount.[2] Rather, in the absence of further donor stipulations that preclude spending, NFPs may, within the bounds of prudence, spend from endowment funds even if the amount has fallen below the original gift or historical dollar amount. Many stakeholders have told the Board that continuing to report the underwater portion of donor-restricted endowments in a without-donor-restriction (unrestricted) category, especially in the current UPMIFA era, is confusing to both preparers and users of financial statements. The Board agreed and concluded that classifying the full amount of donor-restricted endowment funds within the class of net assets with donor restrictions is more understandable and helpful, together with the enhanced disclosures for underwater endowment funds.

BC32. Paragraph 958-205-50-1B requires an NFP to disclose its policy or policies for the appropriation of endowment assets for expenditure (its endowment spending policy or policies), including its policy, and any actions taken during the period, concerning appropriation from underwater endowment funds. Paragraph 958-205-50-2 requires NFPs also to disclose the following, in the aggregate, for all underwater endowment funds: (a) the fair value of such funds, (b) the original endowment gift amount or level required to be maintained by donor stipulations or by law that extends donor restrictions, and (c) the amount of the deficiencies of such funds ((a) less (b)).

BC33. During the Board's initial deliberations, some stakeholders suggested improving the current underwater endowment disclosure to better portray the potential effect of the deficiencies on liquidity. They noted that although the amount by which funds are underwater is a required disclosure, NFPs are not required to identify the corresponding original gift amount (or that amount which is required by the donor or law to be maintained). Moreover, they suggested that the policies that an NFP may have in place to reduce or eliminate spending from such funds to help reattain "above water" levels would be helpful to users that may not be aware of the relative degree to which such funds are underwater, of potential actions that governing boards might take in response, and of how such actions could affect an NFP's liquidity. The Board agreed that enhanced disclosures about underwater endowment funds would provide information that could be helpful in assessing

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[2]UPMIFA allows such spending, in part, by removing the concept of historical dollar value and the corresponding requirement for an NFP to cease all (or some) spending from an endowment fund if the fair value of the fund falls below that threshold. Notwithstanding that removal, the Board understands that NFPs still commonly use the original gift amount (or other level required by the donor) as an important data point for the governing board's spending approach to its endowment and that the notion of an "underwater endowment," including the term itself, is still commonly used in the sector. Thus, the Board concluded that disclosures in this area continue to provide useful information for creditors, donors, grantors, and others in understanding an NFP's ability to continue to provide services, especially in the short term. Thus, the Board decided to enhance those disclosures. (See also paragraphs BC32 and BC33.)

liquidity, particularly during times in which financial markets are depressed[3] and liquidity becomes constrained.

BC34. During its redeliberations, the Board discussed and considered the feedback received on its proposals to (a) revise the net asset classification scheme and its terminology, (b) revise the classification requirements for underwater endowments, and (c) improve disclosures for both donor restrictions and board designations that place limits on net assets. Board members noted that a substantial majority of respondents supported the proposals. The Board also discussed the feedback with NAC members who expressed no significant cost-benefit concerns with the net asset classification scheme and related issues.

BC35. Accordingly, and primarily for the reasons noted in paragraphs BC26–BC34, the Board affirmed its decisions to:

a. Combine temporarily and permanently restricted net assets into *net assets with donor restrictions* and to rename unrestricted net assets *net assets without donor restrictions*
b. Retain the current GAAP requirement to provide relevant information about the nature and amounts of donor restrictions on net assets (either on the face of the statement of financial position or in notes)
c. Require the disclosure of the amounts and purposes of board-designated net assets either on the face of the financial statement or in notes
d. Require the aggregate amount by which endowment funds are underwater to be classified within net assets with donor restrictions rather than within the current unrestricted category.

Information about an NFP's Available Resources and Liquidity

BC36. Paragraphs 958-210-45-7(c) and 958-210-50-1 through 50-1A require NFPs to provide certain information about an NFP's available resources and liquidity and that is within the bounds of financial statements and notes, as opposed to other means of financial reporting. The Board decided to require NFPs to provide:

a. Qualitative information in the notes to financial statements that is useful in assessing an entity's liquidity and that communicates how an NFP manages its liquid resources available to meet cash needs for general

[3]For example, as of December 31, 2008, a survey of 184 institutions in states that have adopted UPMIFA found that on average, 38 percent of the dollar value of survey participants' total endowment pool was underwater. That survey was conducted by the Association of Governing Boards, in partnership with the NACUBO and Commonfund Institute (David Bass, "Management of Underwater Endowments under UPMIFA: Findings of a Survey of Colleges, Universities, and Institutionally Related Foundations Conducted by AGB in partnership with Commonfund Institute and NACUBO," Association of Governing Boards of Universities and Colleges, June 2009, http://agb.org/reports/2009/management-underwater-endowments-under-upmifa).

expenditures within one year of the date of the statement of financial position

b. Quantitative information either on the face of the statement of financial position 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 date of the statement of financial position to meet cash needs for general expenditures within one year of the date of the statement of financial position.

BC37. The Board concluded that information about the availability of an NFP's financial assets and management of its liquid resources is useful to creditors, donors, grantors, and others that are interested in assessing an NFP's liquidity and financial flexibility. The Board also acknowledges that, by itself, the information is not sufficient for assessing liquidity without additional management commentary and analysis provided outside financial statements. Nonetheless, the Board concluded that the additional information and transparency about the nature and extent of available resources and the extent of external and internal limits placed on their availability make a significant improvement to financial reporting by NFPs.

BC38. The proposed Update would have required NFPs to provide quantitative and qualitative information about the liquidity of assets and near-term demands for cash to satisfy existing obligations as of the reporting date. More specifically, that would include information about (a) the amount of financial assets at the end of the period, (b) the amount that, because of limitations, is not available to meet cash needs in the near term, (c) the amount of financial liabilities that require cash in the near term, and (d) the way an entity manages its liquidity, including the time horizon it uses in its management of liquidity. The proposed Update also included an illustrative note that showed a net measure of available financial assets in excess of financial liabilities based on a time horizon.

BC39. The proposed Update noted the reasons for the Board's proposals and its thinking at that time. Paragraphs BC27 and BC28 of the proposed Update noted that users of financial statements had told the Board that understanding an entity's exposures to risks that are inherent in financial instruments and the ways in which reporting entities manage these risks was integral to making informed investing, lending, giving, and other capital allocation decisions. However, it could be particularly difficult to assess an NFP's liquidity because of the prevalence of donor-imposed restrictions and lack of clarity about whether and how those restrictions affect the liquidity of assets. Therefore, as noted in paragraph BC29 of the proposed Update, a major objective of the proposed amendments was to improve the quality of information users need to help them assess an NFP's liquidity and how it manages its exposure to liquidity risk. The Board believed that certain financial information could be provided at the end of the period that would be helpful to creditors, donors, and other users in assessing the potential liquidity of an NFP without going beyond the boundaries of audited GAAP-based financial statements. Furthermore, the Board believed that the proposed requirements would be the most effective way to provide the needed information in a way that would be understandable, useful, and auditable and would not require new systems or impose significant costs on NFPs.

BC40. Respondents to the proposed Update and other stakeholders generally supported the overall objective of providing more transparent and useful information for assessing an NFP's liquidity and financial flexibility. That support generally extended to the proposed qualitative disclosures about how an NFP manages its liquid resources. However, some significant concerns were raised about the proposed quantitative information, especially about the required disclosures of amounts of available financial assets and liabilities based on time horizons used in the management of liquidity, including the guidance that illustrated a net liability position. Many respondents and participants in public roundtables and outreach workshops noted that (a) NFPs do not necessarily manage liquidity using a prescribed time horizon, and (b) the illustrated measure of available financial assets in excess of financial liabilities based on a time horizon could be misinterpreted as a liquidity measure. Thus, requiring information on the basis of such a time horizon would impose implementation costs on many NFPs, including costs to audit information that would not reflect or relate to how the entity manages its liquidity. Also, because of the diverse types of NFPs and ways that they manage liquidity, many stakeholders asked the Board to consider and perhaps illustrate other low-cost and more flexible alternatives for presenting relevant quantitative information that achieves the desired objective of making more transparent the effects of donor-imposed restrictions and other limitations on the availability of resources.

BC41. The Board considered the feedback received and asked the staff to perform further research, including outreach with respondents for suggested alternatives. That outreach sought to learn about stakeholder suggestions and alternatives that might reduce the identified implementation costs and complexities while still providing relevant and useful quantitative information about an NFP's available resources at the reporting date.

BC42. The Board considered and carefully weighed the additional suggestions received and concluded that the proposed quantitative information could be modified to reduce costs and complexities and provide greater flexibility in the reporting of relevant and useful information. First, the Board noted that the uniqueness and pervasiveness of donor restrictions that place limits on the use of an NFP's resources generally do not bear on its liabilities. Thus, the Board decided that there is no need to require NFPs to provide additional disclosures about liabilities at the reporting date and the related guidance that showed a calculation of a net asset or liability position. Second, the Board agreed that the proposed disclosures of amounts of financial assets based on a presumed time horizon used in managing cash is unnecessarily restrictive and often is not reflective of how an NFP manages its available resources. Third, the Board agreed that it would be helpful to include in a final Update examples illustrating different ways that entities might report the modified required information (see paragraph BC36). That modified requirement now focuses on communicating quantitative information about the availability of an NFP's financial assets at the balance sheet date to meet cash needs for general expenditures within one year of the balance sheet date separately from information about how an NFP manages liquidity. The Board concluded that by focusing only on financial assets (not liabilities) and on a period of one year, rather than on a shorter time horizon, the required disclosures could draw on information generally available from audited financial statements and, thus, help avoid imposing the additional implementation and audit costs that were a concern to stakeholders. The Board also concluded that separating the quantitative disclosures on availability from the rather limited qualitative disclosures about liquidity will help reinforce that the required disclosures are not intended to provide all information needed to assess liquidity. Rather, the Board's objective for the availability disclosures is to (a) make more transparent the effects of restrictions and other limitations on assets and (b) provide a potential starting point for an analysis of an NFP's liquidity. However, as noted in paragraph BC37, a comprehensive analysis of liquidity requires forward-looking information about revenues, expenses, and cash flows as well as management commentary and analysis that go beyond the scope of financial statements.

Improving Information about Financial Performance

BC43. As explained in paragraphs BC15–BC17, after considering the feedback received, the Board decided to narrow the scope of this Update, and the Board now plans to address many of the more complex proposals on financial performance reporting in a second phase of the Board's project on financial statements of NFPs.

BC44. Paragraphs BC45–BC73 discuss certain improvements of information about financial performance that remain within the scope of this Update. They are:

a. Providing NFPs with greater flexibility to present operating cash flows more clearly in a statement of cash flows and reduce costs by permitting but no longer requiring the indirect reconciliation of operating cash flows if presenting operating cash flows using the direct method
b. Requiring all NFPs to provide more relevant and useful information about the use of their resources by:
    1. Requiring that expenses (other than netted investment expenses) be reported in financial statements or notes by their natural classification in addition to the currently required functional classification
    2. Requiring all NFPs to provide an analysis of expenses by their natural classification and functional classification in one location, which may be on the face of the statement of activities, in a separate statement, or in notes
    3. Clarifying the definition of *management and general activities* and providing implementation guidance to better depict the types of costs that can (and cannot) be allocated among program and/or support functions

    4. Requiring enhanced disclosures about the method(s) used to allocate costs among program and support functions.

c. Requiring all NFPs to present investment return net of external and direct internal investment expenses and permitting but no longer requiring the disclosure of all netted investment expenses
d. Enhancing the disclosures if NFPs present a self-defined operating measure in a statement of activities (or changes in net assets) that also includes internal board designations, appropriations, and similar actions affecting that measure
e. Improving comparability of the reported amounts of changes in each of the classes of net assets during the period (and as of the end of the period) by eliminating an option that had allowed an NFP to delay reporting of an expiration of a donor-imposed restriction for the acquisition or construction of a long-lived asset by electing to report the expiration over time (as the asset is used or consumed) rather than when placed in service.

Presenting Operating Cash Flows More Clearly

BC45. Paragraphs 230-10-45-29 through 45-30 allow NFPs to present operating cash flows using either the direct method or the indirect method and permit but no longer require the indirect reconciliation if an NFP elects to present operating cash flows using the direct method. The Board decided that the differences between NFPs and business entities and the interests of users of their financial statements justify no longer requiring NFPs to incur the costs of providing the indirect reconciliation of operating cash flows to change in net assets. The Board concluded that removing the impediment of the indirect reconciliation if an NFP provides the direct method may encourage more NFPs to choose the more intuitive direct method. The Board also concluded that there is sufficient merit in waiting for further study of the costs of those NFPs that switch to reporting operating cash flows using the direct method and further study and progress on related issues for reporting by business entities before mandating that all NFPs incur the costs to switch to reporting operating cash flows using the direct method.

BC46. The proposed Update would have required that all NFPs present their operating cash flows using the direct method. At that time, a majority of Board members supported that proposed requirement for the reasons expressed in paragraphs BC75–BC80 of the proposed Update. Paragraphs BC104–BC111 of the proposed Update also noted that at that time, two Board members were not opposed to the direct method but they also did not support making a decision to mandate that method at that time.

BC47. During its redeliberations, the Board discussed and considered the mixed feedback received from respondents on the proposed Update, participants in workshops, and other stakeholders. The majority of comment letter respondents expressed the view that the direct method of presenting operating cash flows is generally more understandable than the indirect method. In addition, most participants at the roundtables expressed the view that the currently required statement of cash flows is underutilized today. Many of those participants suggested that the use of the indirect method is not well understood, and they expressed a desire to address this concern by improving the statement of cash flows. Many participants at the Norwalk roundtables, including those who have implemented the direct method, expressed strong support for the proposal that would require the direct method and no longer require the indirect method.

BC48. However, the majority of the preparers and auditors disagreed with moving forward with the proposal at this time. Many of those stakeholders suggested that the Board strive to maintain the current comparability that exists in reporting cash flows by both NFPs and business entities until the related issues are considered for business entities. Some raised concerns about the costs of gathering information to present cash flows using the direct method, especially for large, complex consolidated entities with decentralized cash management systems. Therefore, some suggested that no change be made to the reporting of operating cash flows by NFPs, while others suggested that NFPs be given the option to choose either method of presentation.

BC49. Many of the stakeholders supporting the proposed Update noted, however, that NFPs do not report a measure of net income and, thus, their indirect reconciliation of operating cash flows to the change in net assets already differs from the reporting by business entities. Many of those that have actually implemented the direct method added that implementing that method was not that difficult or costly, particularly after the first year. Some auditors of small and medium-sized NFPs that prefer to use the direct method of presenting operating cash flows added that they too have found that the cost to implement the method is not significant once a template is developed in the first year of adoption. Nonetheless, they would not object to continuing to permit rather than requiring the direct method at this time to allow the Board to address the issue as part of a more comprehensive project for all entities.

BC50. Similar to the dissenting Board member, two Board members that voted with the majority also prefer that the Board would have gone forward with the proposed requirement that would mandate the use of the direct method of reporting operating cash flows at this time. They continue to believe that the understandability and comparability of information about an NFP's financial performance can be improved significantly by using the direct method of reporting cash flows from operating activities rather than the indirect method of reporting those cash flows. They also note that, in their view, the experience of NFPs that have implemented the direct method of presenting operating cash flows, including large, complex public universities subject to GASB standards, provides sufficient evidence that the benefits of the increased understanding and utility of the information justify the incremental and ongoing costs to provide that information. Although the flexibility permitted by this Update is not likely to achieve the short-term degree of comparability that they desire, like other Board members, they acknowledge that this Update takes a step forward by providing NFPs with the freedom to use a more cost-effective way of reporting operating cash flows that will help foster the desired improvement over time.

Improving Information about the Use of Resources

BC51. Paragraphs 958-205-45-6 and 958-720-45-15 require that all NFPs disclose expenses by natural classification and provide an analysis of expenses (other than netted investment expenses) by their natural classification and functional classification in one location. Those disclosures can be provided on the face of the statement of activities, in a separate statement, or in the notes to financial statements.

BC52. Those requirements are consistent with the proposed Update and, thus, affirm the decisions and views expressed by the Board in the proposed Update. That includes the Board's conclusion that information about financial performance can be improved by providing greater transparency about how an NFP uses its resources in carrying out its purposes, particularly about expenses incurred as part of its service efforts. As the proposed Update noted, the Board's view also is consistent with paragraph 47 of FASB Concepts Statement No. 4, *Objectives of Financial Reporting by Nonbusiness Organizations*, which states that "changes in the amount and nature of the net resources . . . and information about the service efforts and accomplishments of an organization together represent the information most useful in assessing its performance." Paragraphs 51 and 52 of Concepts Statement 4 add that:

> Information about an organization's service efforts and accomplishments is useful to resource providers and others in assessing the performance of a nonbusiness organization and in making resource allocation decisions, particularly because:
>
> a. The accomplishments of nonbusiness organizations generally cannot be measured in terms of sales, profit, or return on investment.
> b. Resource providers often are not in a position to have direct knowledge of the goods or services provided when they also are not users or beneficiaries of those goods and services.
>
> Financial reporting should provide information about the service efforts of a nonbusiness organization. *Information about service efforts should focus on how the organization's resources (inputs such as money, personnel, and materials) are used in providing different programs or services. Techniques for measuring the costs of significant programs or services are well developed and this information normally should be included in financial statements.* [Emphasis added.]

BC53. The proposed Update also noted that the AICPA's Financial Reporting Executive Committee (FinREC) and other stakeholders asked the Board to consider whether all or only certain NFPs should be required to provide information about their expenses by both their nature and their function. Prior to this Update, only voluntary health and welfare entities were required to provide both, and they were required to provide that analysis in a basic financial statement. The Board observed that whether all NFPs should provide that information was considered when the FASB issued Statement 117. At that time, the Board also had noted in paragraph 62 of Statement 117 that information about expenses by their nature:

> . . . often is useful and [the Board] encourages organizations to provide that information. However, [the Board] also believes that information about expenses by natural classification may not be essential in understanding the service efforts of all not-for-profit organizations or in assessing the ability of all organizations to continue to provide services.

BC54. Paragraph 64 of Statement 117 also explained why voluntary health and welfare organizations were required to provide information about their expenses by both nature and function:

> This Statement requires that voluntary health and welfare organizations continue to provide a statement that reports expenses by their functional and natural classifications in a matrix format. The Board believes that requirement is appropriate to prevent the loss of information that voluntary health and welfare organizations and users of their financial statements generally have found to be useful.

BC55. When the Board issued Statement 117, in addition to encouraging NFPs to provide information about expenses by their natural classification, the Board decided to allow organizations to report expenses on the face of the activities statement by either their natural classification or their functional classification, provided that all entities disclosed information by their function. The Board observed that since issuing Statement 117, many NFPs, particularly health care providers, some universities, and membership organizations, have elected to provide information about their expenses by nature on the face of the statement of activities with disclosure by their function in notes. Most other NFPs have elected to present expenses by function on the statement of activities with or without disclosure of expenses by nature. Others provide an analysis by both nature and function in a matrix format as a basic financial statement or schedule in notes.

BC56. At the time that Statement 117 was issued, the Board also had observed that few NFPs had elected to provide more comprehensive information showing the relationship of their expenses to program revenues or segments. Thus, at that time, the Board decided to allow for further study before extending the requirement for an analysis of expenses by both nature and function and left sufficient flexibility for the practice to evolve and perhaps develop more effective disclosures. For example, footnote 6 to paragraph 27 of Statement 117 states:

> Information about an organization's major programs (or segments) can be enhanced by reporting the interrelationships of program expenses and program revenues. For example, a university might report expenses for its instruction and other academic services with related revenues from student tuition and expenses for its housing and food services with related revenues from room and board fees.

BC57. The proposed Update also noted that although the Board's current project does not pursue that more comprehensive type of revenue and expense reporting within financial statements or notes, the Board believes that reporting of expenses by nature is useful in assessing an NFP's service efforts and its financial performance. Information about expenses by their nature also can be useful in distinguishing relatively fixed costs from variable or discretionary costs, which can be useful in assessing an entity's sustainability. In addition, the Board observed that because substantially all entities track and manage their expenses by natural classifications, the cost to provide that information is minimal. As a result, the Board decided to extend to all NFPs the requirement to report operating expenses by both their nature and their function (and nonoperating expenses by nature with function permitted). It also decided to allow flexibility to present operating expense by either classification on the face of the statement of activities and disclose the other classification in notes and to extend that presentation flexibility to voluntary health and welfare organizations by no longer requiring a separate basic statement of expenses by nature and function. The Board noted that would result in a more evenhanded reporting standard that is consistent with the Board's precept of setting standards that are neutral (avoid extending preferences for particular types of entities).

BC58. The Board also decided to require all NFPs to provide in one location an analysis of all expenses, with operating expenses by nature and function. The location and format for that information are flexible, and the Board believes that it likely would be included in notes. Of more importance, the Board observed that donors and grantors are especially interested in information that is useful in assessing how an NFP uses its resources and its stewardship for the resources entrusted to it. Information that clearly shows the nature of expenses (for example, internal salaries and benefits, external professional fees, rent or building costs, heat, light, and power) and how they relate to an NFP's programs and supporting activities is most useful for those donors' purposes.

BC59. During its redeliberations, the Board discussed and considered the feedback from respondents to the proposed Update, participants in workshops, and other stakeholders. That stakeholder feedback generally supported the proposal to require all NFPs to disclose expenses by their natural classification. A minority of respondents expressed a preference to report expenses only by their function or only by their nature, but no significant objections were raised about disclosing expenses by nature on the face of or in notes to the financial statements. After considering that feedback, the Board affirmed its views and decided to require all NFPs to report expenses by their nature.

BC60. The Board also discussed the feedback received on the proposal to require all NFPs to provide in one location an analysis of all expenses with *operating expenses*[4] by nature and function. The majority of all respondent types other than preparers agreed with the proposed requirement. Users particularly said that the additional information would be useful and relevant in addition to providing increased comparability across all types of NFPs. However, some preparers, auditors, and members of the NAC suggested that the proposal only be required for those entities that derive revenue *primarily* from contributions or derive a *significant portion* of revenue from contributions. This suggestion would exempt many NFPs that were classified as business-oriented health care providers (subject to Topic 954) as well as membership organizations from providing the analysis of all expenses. Some NAC members also expressed concern that the proposed analysis of all expenses by nature and function would not agree with expense reporting in the Internal Revenue Service (IRS) Form 990 filing, which may be unconsolidated or may report expenses by programs at more highly aggregated amounts. Other concerns from NAC members were the potential costs and complexities for religious organizations that do not prepare an IRS Form 990 and that consolidate many subsidiaries, which may outweigh the benefits of providing the analysis of expenses.

BC61. Before considering whether to require all NFPs to provide an analysis of expenses by nature and function, the Board directed the staff to explore further whether to exclude certain business-like NFPs from the current requirement to report expenses by function. More specifically, the Board asked the staff to seek further input from users of financial statements. The staff conducted outreach calls with creditors, underwriters, grantors, government regulators, and fiscal intermediaries for government funders and obtained further input from certain respondents (auditors and preparers) about possible alternatives for the Board's consideration. During its deliberations, the Board also discussed this issue and a potential exception or segment reporting alternative for business-like NFPs with members of the NAC and the HFMA's Principles and Practices Board.

BC62. The Board reconsidered the issue after learning of the additional feedback and weighed the mixed feedback received from users of financial statements. Creditor-type users generally suggested that information about expenses by function is not as useful as information about expenses by nature.

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[4]As noted in paragraphs BC15–BC17, the Board had decided to limit the scope of this Update to exclude the proposed operating and nonoperating distinction. Because such distinctions often are inconsistent if made in practice, the Board decided to extend the scope of its consideration of the reporting of all expenses by both their nature and their function, regardless of whether an NFP elects to make an operating and nonoperating distinction.

Some noted that they are more interested in sustainability and would find functional information more useful if it was presented like segment information of business entities, which relates the expenses incurred by segment (or program-like activities) to the related revenues of the segment. Other users that are more regulatory or watchdog-like all generally suggested that expense information by function is useful, at least at a "red flag" level, and that the FASB should continue to require such information for all types of NFPs. Some added that information was particularly important when assessing proposed mergers and acquisitions, including those with for-profit entities. Overall, users of financial statements of NFPs generally agreed that the analysis of expenses by nature and function would add value; however, some questioned whether the added benefit of the information to users justifies the added costs to preparers for business-oriented health care NFPs and other business-oriented NFPs, particularly if they could obtain the desired information through discussions with an NFP's management.

BC63. The staff also conducted further outreach with preparers and auditors of business-like health care providers to gain further insights about the costs to prepare an analysis of expenses by nature and function and about the costs and benefits of providing segment-like information as a potential alternative to the analysis. The auditors noted that costs to provide the required information for expenses by function is not significant, in part because most business-like health care providers categorize them into only two functions: *patient services* (or health care services) and *management and general activities*. Several added that a further breakdown within patient services might add value but also would add implementation and audit costs. Several preparers and auditors also noted that for larger, complex health systems, it could be more practicable and useful to report expenses along lines of business (segments) that are well-aligned with the entity's internal management and reporting structure.

BC64. The Board carefully weighed the mixed views received and decided to affirm the proposed requirement for all NFPs to provide an analysis of expenses (other than netted investment expenses) by both nature and function in one location. Board members ultimately did not adopt suggestions by some stakeholders that functional expenses or the analysis of expenses by nature and function should not be required for certain business-like NFPs. Board members expressed several reasons for their decision, which they may have weighed differently. Among others, those reasons include:

a. No longer requiring the reporting of expenses by their function would be a step backward for users that are interested in how an NFP is using its resources toward furthering its public purposes and in fulfilling its stewardship responsibilities.
b. Reporting expense by both nature and function would not add significant costs.
c. Exceptions for certain types of NFPs would be inconsistent with providing evenhanded standards for purposes of general-purpose financial statements that are designed to meet the needs of creditors, donors,

grantors, and other users without placing the interests of one group over the interests of others.

d. Exceptions based on past levels of revenues from donations or public support would:
    1. Raise difficult definitional complexities
    2. Diminish the utility of financial reporting in meeting the informational needs of prospective *future* donors, grantors, and other users
    3. Unduly diminish the significance of donations, grants, and public assistance, including tax subsidies and exemptions, relative to an NFP's surplus (deficit) and ability to sustain its operations
    4. Result in inconsistent reporting for NFPs that do not solicit gifts on an annual basis but periodically conduct major capital campaigns to expand or rebuild their capacity.

BC65. Nonetheless, Board members also expressed an openness to consider other ways of reporting expenses that might provide more useful information without imposing undue costs. Accordingly, the Board directed the staff to explore, in Phase 2 of the project or in a future project, whether business-oriented health care NFPs should provide disaggregated information about revenues and expenses by segments instead of an analysis of expenses by nature and function.

BC66. Paragraphs 958-720-45-2A and 958-720-55-171 through 55-176 also improve information about the use of resources by (a) clarifying the definition of *management and general activities* and (b) providing implementation guidance to better depict the types of costs that can (and cannot) be allocated among program and/or support functions. That is consistent with the proposed Update. The Board considered the feedback received, which generally was supportive, affirmed its decision, and continues to believe that this clarification and guidance will lead to more comparable and, thus, more useful information about an NFP's expenses. The Board also affirmed its decision to require enhanced disclosures about the method(s) used to allocate costs among program and support functions. Paragraph 958-720-45-2A provides that disclosure requirement, which will add needed transparency and also will lead to more comparable and useful reporting of expenses.

Presenting Net Investment Return

BC67. Paragraphs 958-225-45-14 through 45-14B require NFPs to present investment return (other than programmatic investing) net of external and direct internal investment expenses and no longer require disclosure of these expenses. Paragraph 958-225-45-14 permits NFPs to present the amounts of net investment return from portfolios that are managed differently or derived from different sources as separate, appropriately labeled line items on the statement of activities. The Board concluded that requiring the netting of external and direct internal investment expenses will reduce complexity and improve the comparability of information presented in an NFP's statement of activities. Paragraphs BC100 and BC101 of the proposed Update added:

The Board also believes that complexity can be reduced and comparability of information can be improved by requiring investment returns (other than from programmatic investing) to be presented net of investment expenses—as a net investment return. The proposed amendments also would reduce costs by no longer requiring the disclosure of all investment expenses. The Board was asked by FinREC and other stakeholders to reconsider the requirements for reporting investment returns and related expenses because of the difficulties of identifying all investment expenses and because of diversity in practice in the degree to which NFPs net their investment expenses within investment return. The Board observed that expenses charged by external investment managers, such as embedded fees charged by hedge funds, mutual funds, and funds of funds, generally are disclosed in annual reports and proxy statements. However, because NFPs may move their assets in and out of such funds at various times during a particular reporting period, and because the fund's year-end often differs from an NFP's fiscal year-end, the Board believes the cost and effort to determine those fees would be impractical. That is, the Board believes the costs to obtain that information would exceed the benefit that it might provide to users of financial statements, in part because most users find the net investment return to be most relevant, comparable, and useful.

The Board also understands, however, that donors, creditors, and other users of an NFP's financial statements generally find information about how an NFP utilizes its resources, including information about its expenses, to be particularly useful. Thus, the Board is concerned that not requiring information about any investment-related expenses because of difficulties in identifying some investment expenses may be too great of a sacrifice of useful information. The Board acknowledges that (a) donors are especially interested in assessing how resources are used, including the extent to which they are directed at achieving an NFP's mission, and (b) creditors are especially interested in understanding the relationships of expenses to revenues and the extent to which expenses are fixed or variable and the degree to which they are discretionary—that is, whether the expense can be readily increased or decreased to meet urgent needs and other short-term changes in demands. Accordingly [at that time], the Board decided to require disclosure of the aggregate amount of direct salaries and benefits of personnel involved in investing activities because generally (1) there are no difficulties in identifying those expenses, and (2) information about those expenses is particularly useful to donors, creditors, and others. The Board believes not requiring disclosure of all expenses but requiring disclosure for certain most important expenses strikes a reasonable balance between the need to provide useful information without imposing undue costs.

BC68. In addition, the amendments in this Update no longer require institutions of higher education in the scope of Topic 958 to disclose the total performance of the “other investment portfolio,” as previously required by paragraphs 958-325-45-2 and 958-325-50-6. Although no longer required, those institutions are permitted to present this disclosure in a separate line item on the statement of activities in accordance with the guidance in paragraph 958-225-45-14. The Board believes that permitting, but no longer requiring, this disclosure requirement is consistent with its views on the presentation of net investment return.

BC69. During its redeliberations, the Board considered the mixed feedback it received from respondents to the proposal, participants in outreach workshops, NAC members, and other stakeholders. A significant majority of respondents to the proposal, including users, supported the decision to require the net presentation of investment return and to no longer require disclosure of most related expenses. However, many of those supporters and others disagreed with the proposal to continue requiring disclosure of the aggregate amount of direct salaries and benefits of personnel involved in investing activities. They expressed differing reasons for their views, which included that the disclosure would not provide information of sufficient relevance to justify the costs and that the objective of disclosing all salaries and benefits would not be achieved because other salaries might, for example, be capitalized into inventory or other assets. Board members also expressed mixed views. Some Board members noted that they would prefer that the Board affirm its proposal, in part because they did not find the reasons given by stakeholders for their opposition to be sufficiently compelling and because users supported the disclosure. The Board, however, decided not to require the proposed disclosure, in part because the proposed disclosure would have added information that has a minimal degree of usefulness and would have added complexities and implementation costs that are not justified.

BC70. Other stakeholders raised concerns about limiting the netting of investment related expenses to only those internal expenses that are *direct* internal costs. Many of those stakeholders suggested retaining the current guidance that merely refers to *related* investment expenses. Some noted that the proposed guidance seems to limit direct expenses to only that of internal staff involved in the *direct conduct or direct supervision* of the investing activity, which they suggested seemingly, and perhaps unintendedly, omits management and general administrative costs such as bookkeeping and accounting functions. The Board considered those comments and affirmed the proposal, noting that the potential benefits and related complexities of allocating indirect costs do not justify the costs. It also observed that the intent is consistent with the intended clarification of the definition of management and general activities discussed in paragraph BC66. The

Board also decided to add explicit guidance to this Update to make clear the intended notion of direct internal investment expenses.

Eliminating Reporting Options for Expirations of Donor Restrictions on Long-Lived Assets

BC71. This Update's amendments improve the comparability of reported amounts for an NFP's changes in each of the classes of net assets during the period as well as the amounts of net assets at the end of the period. That greater comparability improves the usefulness of information for assessing financial performance as well as information about the extent and nature of limits on its net assets. Its amendments (see paragraphs 958-205-45-12 and 958-360-45-1) accomplish that goal by eliminating an option that, in the absence of explicit donor stipulations, had allowed an NFP to delay reporting of an expiration of a donor-imposed restriction for the acquisition or construction of a long-lived asset by electing to report the expiration over time (as the asset is used or consumed) rather than when placed in service.

BC72. The Board decided that there was no reason to delay the proposed Update's proposal to eliminate alternative practices for recognizing and reporting the expiration of donor restrictions on contributed resources that must be used to acquire or construct long-lived assets. The Board noted that this matter is unique to reporting by NFPs and, thus, there is no need to delay considerations until Phase 2 of its NFP project. Paragraph BC66 of the proposed Update explained that:

> Currently, GAAP allows NFPs to choose, as a matter of policy, to recognize the expiration when the asset is (a) acquired and placed in service or (b) being used up (that is, in ratable amounts over the asset's estimated useful life). The Board observed that when Statement 117 was issued, stakeholders held strongly opposite and seemingly irreconcilable views. Since then, practice has evolved to some degree toward the placed-in-service approach, which the proposed amendments would require. The Board believes that approach best reflects economic reality in that generally donors want to subsidize the acquisition of long-lived assets so that they can be put to use in conducting and often expanding an NFP's programs and their intent and restriction are met when the qualifying asset is purchased and placed in service. The Board also clarified that it is at that time that the previously restricted resource flow becomes available to support the current-period operating activities.

BC73. During its redeliberations, the Board discussed and considered the feedback received on its proposed elimination of the above discussed accounting choice. The majority (more than 70 percent) of respondents to the proposed

Update, including the majority of users, agreed or conditionally agreed with the proposal to eliminate the choice and require the placed-in-service approach for reporting the expirations of donor restrictions on gifts of cash or other assets to be used to acquire or construct long-lived assets. Those who conditionally agreed with eliminating the choice asked the Board to also consider (a) modifying the placed-in-service requirement to allow for earlier reporting of the expiration—as donor-restricted resources are expended for construction in progress—if applied to long-term projects or (b) providing explicit transition guidance for NFPs that are not currently using the placed-in-service approach. The Board considered but rejected the modification. Consistent with its views expressed in the proposed Update, the Board concluded that the placed-in service approach best reflects economic reality in that generally donors want to subsidize the acquisition of long-lived assets so that the assets can be put to use in conducting and often expanding an NFP's programs and that their intent and restriction are met if the qualifying assets are purchased *and* placed in service. This Update also provides explicit transition guidance for applying this amendment.

Effective Date and Transition

BC74. During its redeliberations, the Board considered the feedback received from respondents that were asked (a) whether any particular proposed amendments would take a longer period to implement than other amendments and (b) whether any particular size or type of NFP would need more time to implement the final Update. The most commonly cited implementation concerns were the proposals to require (a) the use of the direct method of presenting operating cash flows and no longer require the use of the indirect method, (b) the presentation of operating measures before and after transfers, (c) an analysis of expenses by nature and function, and (d) certain aspects of the disclosures of information useful in assessing liquidity. A few respondents also noted that the restatement of prior-period financial statements would take time. Subsequently, items (a) and (d) were relaxed by the decisions reached in the Board's redeliberations, and item (b) was deferred to Phase 2.

BC75. After discussing the feedback, the Board decided to make this Update's amendments effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018 (with initial adoption of this Update's amendments only at year-end for the fiscal year of adoption or for the first interim period within the fiscal year of adoption). The Board concluded that those dates provide adequate time for all NFPs to implement the amendments in this Update.

BC76. Board members also considered whether to permit or preclude early adoption of the amendments. Some Board members expressed concern that early adoption, together with the extended time for the final Update's effectiveness, could result in a period of up to two years with some loss of comparability. However, the Board noted that even with an earlier effective date, there would be limited comparability because NFPs have diverse fiscal periods. Other members observed that smaller NFPs could benefit from the learning experiences gained by larger, well-resourced NFPs that implement the final Update early. The Board decided to allow NFPs to utilize this Update's improvements early if desired, which would provide smaller NFPs the opportunity to learn from the experiences of larger NFPs that adopt early.

BC77. The Board also decided, as proposed, to require that this Update's amendments be applied on a retrospective basis in the period that this Update is first applied. However, to help minimize the costs of applying the amendments, the Board also decided that if an NFP is presenting comparative financial statements, it should have the option to omit the following information for any periods presented before the period of adoption:

a. Analysis of expenses by both natural classification and functional classification (the separate presentation of expenses by functional classification and expenses by natural classification is still required). NFPs that previously were required to present a statement of functional expenses do not have the option to omit this information; however, they may present the comparative period information in any of the formats permitted in this Update, consistent with the presentation in the period of adoption.
b. Disclosures about liquidity and availability of resources.

BC78. This Update, as proposed, also requires that in the period that the amendments are first applied, an NFP shall disclose the nature of any reclassifications or restatements and their effects, if any, on changes in the net asset classes for each period presented.

Amendments to the XBRL Taxonomy

The amendments to the *FASB Accounting Standards Codification*® in this Accounting Standards Update do not require changes to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). Any stakeholders who believe that changes to the Taxonomy are required should provide their comments and suggested changes through ASU Taxonomy Changes provided at www.fasb.org.