

PROJECT UPDATE

Financial Statements of Not-for-Profit Entities

(Project was renamed after the project on Not-for-Profit Financial Reporting: Other Financial Communications was removed from the Board's technical agenda.)

Last updated on January 6, 2015. Please refer to the Current Technical Plan for information about the expected release dates of exposure documents and final standards.

(Updated sections are indicated with an asterisk *)

The staff has prepared this summary of Board decisions for information purposes only. Those Board decisions are tentative and do not change current accounting. Official positions of the FASB are determined only after extensive due process and deliberations.

Project Objective(s)

Decisions Reached at Last Meeting

Summary of Decisions Reached to Date

Next Steps

Board/Other Public Meeting Dates

Background Information

*Contact Information

PROJECT OBJECTIVE(S)

The objective of this project is to reexamine existing standards for financial statement presentation by not-for-profit entities (NFP), focusing on improving:

1. Net asset classification requirements
2. Information provided in financial statements and notes about liquidity, financial performance, and cash flows.

An April 2012 podcast outlines the objectives of this project and a related research project, Not-for-Profit Financial Reporting: Other Financial Communications.

DECISIONS REACHED AT LAST MEETING (OCTOBER 8, 2014)

The staff provided the Board with a summary of the tentative decisions reached to date and its analysis of the potential benefits, costs, and complexities of the proposed changes, noting that Board members and members of FASB's Not-for-Profit Advisory Committee (NAC) had discussed that summary at the September 4-5, 2014 NAC meeting. The staff noted that although NAC members generally supported the proposed changes, the members raised significant concerns about the cost and complexity of proposed changes in two areas: (1) capital-like transactions and (2) board designations, appropriations, and similar transfers (collectively referred to as *transfers*). The NAC encouraged the Board to consider whether one or more cost-effective alternatives could be implemented without a significant reduction in the benefits of the information.

Capital-Like Transactions

The Board revised its previous decisions on capital-like transactions. The Board decided to require the following treatment of capital-like transactions:

1. An NFP would report gifts of long-lived assets without donor restrictions as operating revenue. If the NFP places the asset in service (instead of selling it), the NFP would also report a transfer out of operations for the entire amount of the gifted long-lived asset. Unlike the Board's previous decision, there would be no transfers back into operations in subsequent periods.
2. Gifts of cash that a donor has restricted for the acquisition or construction of long-lived assets would initially be reported as revenues that increase net assets with donor restrictions, which is reported outside of operations. When the asset is placed in service, the release of the donor restriction would be reported as an increase in net assets without donor restrictions within operating activity and a decrease in net assets with donor restrictions. That amount would also be reported as a transfer from operations to nonoperating activities, which is consistent with the treatment of gifts of long-lived assets, and there would be no transfers back into operations in subsequent periods.

Board Designations, Appropriations, and Similar Transfers

To address concerns about the degree of flexibility, the Board decided to require that NFPs present (1) all transfers in a separate, discrete section and (2) a subtotal of operating revenues and expenses before such transfers, which is in addition to the previous decision to require a subtotal after such transfers. At a minimum, an NFP must present the aggregate of transfers out of operating activities separate from the aggregate of transfers into operating activities. Unless the NFP chooses to display all transfers as discrete line items on the face of the statement of activities, the NFP would need to provide details for aggregated transfers in a note. All NFPs would be required to describe qualitatively the purpose, amounts, and types of transfers (for example, those done because of standing board policies, as one-time decisions, or for other reasons).

Next Steps

Board members were asked whether they had any other concerns about the benefits, costs, or complexities of other decisions that require further research by the staff. None were noted.

The Board directed the staff to proceed to drafting a proposed Update that will be subjected to an external review. The Board will then consider any further feedback, the proposed transition provisions, and any additional sweep issues that arise in drafting. The Board also will consider the overall benefits, costs, and complexities and decide whether to issue the proposed Update for public comment and, if so, determine the length of the comment period.

SUMMARY OF DECISIONS REACHED TO DATE (OCTOBER 8, 2014)

Please see the [linked PDF for a summary of decisions reached to date](#).

NEXT STEPS

The Board directed the staff to proceed to drafting a proposed Update that will be subjected to an external review. The Board will then consider any further feedback, the proposed transition provisions, and any additional sweep issues that arise in drafting (for example, the presentation and classification of equity transfers among affiliated entities, noncontrolling interests in subsidiaries, excise taxes on net investment income of foundations and changes in beneficial interests in trusts managed by others). The Board also will consider the overall benefits, costs, and complexities and decide whether to issue the proposed Update for public comment and, if so, determine the length of the comment period.

BOARD/OTHER PUBLIC MEETING DATES

The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue a final standard.

October 8, 2014	<u>Board Meeting</u> —Consideration of Benefits, Costs, and Complexities, including Alternatives to Reduce Complexities related to Capital-like Transactions and Board Designations, Appropriations, and Transfers
August 27, 2014	<u>Board Meeting</u> —Note Disclosures on Salaries and Benefits Expense, Cost-Allocation, and Tax-Exempt Status
July 23, 2014	<u>Board Meeting</u> —Capital-Like Transactions; Intersection of NFPFS Project with Financial Performance Reporting Research Project
June 18, 2014	<u>Board Meeting</u> —Clarification of the Board’s Tentative Decision: Presentation and Disclosure of Investment Expenses; Capital-Like Transactions; Note Disclosures of Not-for-Profit Entities
May 28, 2014	<u>Board Meeting</u> —Presentation and Disclosure of Information about Liquidity
May 14, 2014	<u>Board Meeting</u> —Presentation and Disclosure of Investment Expenses, Foundation Outreach, and Health Care Outreach and Performance Indicator
March 12, 2014	<u>Board Meeting</u> —Presentation and Disclosure of Liquidity
February 26, 2014	<u>Board Meeting</u> —Presentation of Revenues, Expenses, and Other Changes in Net Assets; Presentation and Disclosure of Investment Expenses
December 18, 2013	<u>Board Meeting</u> —The Statement of Functional Expenses
December 11, 2013	Education Session—The Statement of Functional Expenses
October 23, 2013	<u>Board Meeting</u> —The Statement of Cash Flows
October 2, 2013	Education Session—Liquidity and The Statement of Cash Flows
September 4, 2013	<u>Board Meeting</u> —Net Asset Classes: Classification and Disclosure Requirements
May 29, 2013	Education Session—Net Asset Classes: Background, Stakeholder Concerns, Plans for Revisiting the Net Asset Classes
May 29, 2013	<u>Board Meeting</u> —Operating Measure: Definition and Presentation
May 15, 2013	Education Session—Operating Measure: Definition (cont.)
March 28, 2013	Education Session—Operating Measure: Definition (cont.)
January 31, 2013	Education Session—Operating Measure: Background,

Objectives, Definition

June 6, 2012	<u>Board Meeting—Project Plan</u>
May 16, 2012	Education Session— <u>Handout</u>
November 9, 2011	<u>Board Meeting</u> —Agenda Announcement

BACKGROUND INFORMATION

On November 9, 2011, the FASB chairman announced ([press release](#)) the addition of two agenda projects—this standards-setting project and a research project ([Not-for-Profit Financial Reporting: Other Financial Communications](#))—intended to improve financial reporting of not-for-profit entities. The objectives of these projects encompass [suggestions](#) received by the Board from its Not-for-Profit Advisory Committee (NAC) at the Committee’s September 2011 meeting. The staff discussed the plans and approach for both projects with the NAC at its March 2012 and September 2012 meetings. Subsequent and ongoing discussions are held with members of the project resource group as well as members of NAC. The NAC [page](#) contains handouts and minutes from the NAC meetings.

On January 29, 2014 Agenda prioritization meeting, the Board voted to remove [Not-for-Profit Financial Reporting: Other Financial Communications](#) project ([press release](#)). This decision and potential alternatives were discussed with NAC at its [March 2014 meeting](#).

***CONTACT INFORMATION**

Ronald J. Bossio
Senior Project Manager
rjbossio@fasb.org

Richard Cole
Project Manager
racole@fasb.org

Andrea Willette
Postgraduate Technical Assistant
amwillette@fasb.org

Christopher Dickson
Postgraduate Technical Assistant
cadickson@fasb.org