100 Introduction

100.1 Nonprofit organizations range in size from small local organizations to large national and international entities. Their scope covers almost every activity imaginable—health and welfare, religion, education, research, social organizations, and professional associations. It is estimated that there are more than one million nonprofit organizations in the United States.

What Is a Nonprofit Organization?

100.2 GAAP defines *not-for-profit entities* by contrasting them with *for-profit entities*. Specifically, FASB ASC 958-10-20 [1] defines a *not-for-profit entity* [2] as an entity that possesses the following characteristics not typically found in business entities:

a. They receive contributions of significant resources from resource providers who do not expect a commensurate or proportionate monetary return.

b. They operate for purposes other than to make a profit.

c. There is an absence of ownership interests like those of business enterprises.

100.3 In some cases, it may be difficult to determine whether an entity is a nonprofit organization since they may have the preceding characteristics in varying degrees. (For example, an organization may receive significant revenue from exchange transactions rather than contributions but still meet the definition of a nonprofit organization.) In other cases, it is fairly obvious that an entity does not have the characteristics of a nonprofit organization. The glossary definition of a *not-for-profit entity* in FASB ASC 958-10-20 notes that such entities do not include investor-owned enterprises and "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."

100.4 FASB ASC 958-10-15-3 explains that nonprofit organizations include the following:

- Cemetery organizations.
- Civic and community organizations.
- Colleges and universities.
- Elementary and secondary schools.
- Federated fund-raising organizations.
- Fraternal organizations.
- Health care entities. [3]
- Labor unions.
- Libraries.
- Museums.
- Other cultural organizations.
- Performing arts organizations.

- Political parties.
- Political action committees.
- Private and community foundations.
- Professional associations.
- Public broadcasting stations.
- Religious organizations.
- Research and scientific organizations.
- Social and country clubs.
- Trade associations.
- Voluntary health and welfare organizations.
- Zoological and botanical societies.

100.5 **IRS Definition**

The Internal Revenue Service (IRS) defines a tax-exempt entity as an entity exempt from income taxes, primarily under Section 501 of the Internal Revenue Code (IRC). Section 501 includes specified types of exempt entities, such as charitable, religious, and educational institutions; civic leagues; social clubs; etc. Most nonprofit entities must apply for and receive recognition of tax-exempt status from the IRS. Churches, however, do not need to apply for tax-exempt status, but automatically qualify under IRC Section 501(c)(3).[4] Oftentimes, the only attribute shared by nonprofit entities is their tax-exempt status; their missions and primary activities may be very diverse.

Types of Nonprofit Entities

100.6 **IRS Classification**

There are more than 20 categories of tax-exempt entities classified under Section 501(c) of the Internal Revenue Code as well as additional types of entities under other sections of the Code. Some of the major IRC Section 501(c) classifications include the following:

- *501(c)(3)*. Entities that are religious, educational, charitable, scientific, or literary, or that test for public safety or foster national or international amateur sports competitions, or organizations for the prevention of cruelty to children or animals, the nature of whose activities is implied by the description of the class of entity.

- *501(c)(4)*. Civic leagues, social welfare organizations, and local associations of employees, whose activities include promotion of community welfare along charitable, educational, or recreational lines.

- *501(c)(5)*. Labor, agricultural, and horticultural entities, whose activities are educational or instructive, with the purpose of improving conditions of work or improving products and efficiency.

- *501(c)(6)*. Business leagues, chambers of commerce, real estate boards, etc., not organized for profit and whose activities are intended to improve business conditions of one or more lines of business.

- *501(c)(7)*. Social and recreation clubs, the purpose of whose activities are pleasure, recreation, and social.

Voluntary Health and Welfare Organizations

100.7 **Definition**

GAAP differentiates between voluntary health and welfare organizations and other nonprofit organizations. Because voluntary health and welfare organizations are required to present a statement of functional expenses as a basic financial statement, it is important for the accountant to decide whether an organization is a voluntary health and welfare organization or another nonprofit organization. Sometimes the distinction may not be obvious, and the accountant will need to decide whether the organization meets the following definition of a *voluntary health and welfare entity* found in FASB ASC 958-205-20:

> A not-for-profit entity (NFP) that is formed for the purpose of performing voluntary services for various segments of society and that is tax-exempt (organized for the benefit of the public), supported by the public, and operated on a not-for-profit basis. Most voluntary health and welfare entities concentrate their efforts and expend their resources in an attempt to solve health and welfare problems of our society and, in many cases, those of specific individuals. *As a group, voluntary health and welfare entities include those NFPs that derive their revenue primarily from voluntary contributions from the general public to be used for general or specific purposes connected with health, welfare, or community services.* [Emphasis added.]

100.8 This definition includes two pieces. First, the organization primarily obtains its revenue from contributions from the "general public." "General public" does not include governmental entities. Thus, organizations that primarily receive their support either from membership fees or dues (exchange transactions) or from government grants (not the general public) would not meet the first piece of the definition. The second piece of the definition is that the organization's purpose is to provide health, welfare, or community services. Thus, organizations that have purposes besides health, welfare, or community service would not meet the second piece of the definition. For example, a school has an educational purpose and thus would not be considered a voluntary health and welfare organization.

100.9 **Nonauthoritative Guidance in the Black Book**

Additional guidance on the definition of a voluntary health and welfare organization is provided in a book entitled *Standards of Accounting and Financial Reporting for Voluntary Health and Welfare Organizations*, Fourth Edition, 1998 (the "Black Book").[5] The Black Book includes the same definition of a voluntary health and welfare organization as that discussed in paragraph 100.7. The Black Book also states that membership in, or affiliation with, the National Health Council, Inc., the National Assembly of Health and Human Service Organizations, Inc., or the United Way of America is usually an indicator that an organization is a voluntary health and welfare organization.

100.10 The objective of the Black Book is to attain uniform accounting and external financial reporting in compliance with GAAP by all voluntary health and welfare organizations. The Black Book gives additional explanations of existing authoritative literature and illustrations particularly relevant to voluntary health and welfare organizations.

100.11 **Examples of Voluntary Health and Welfare Organizations**

Examples of voluntary health and welfare organizations include the following:

• Salvation Army.

• Red Cross.

• CARE.

• Goodwill Industries (local chapters—see paragraph 100.13).

• United Way.

• Boy Scouts.

• Girl Scouts.

• Boys Clubs.

• Girls Inc. (local chapters—see paragraph 100.13).

• Nonprofit organizations whose purpose is to find a cure for, or help people who have, diseases such as cancer, diabetes, heart disease, or muscular dystrophy.

100.12 **Other Organizations Concentrating on Health, Welfare, or Community Services**

Some nonprofit organizations that concentrate on health, welfare, or community services may obtain revenue from client fees, governmental support, or other revenue sources in addition to contributions from the general public. Thus, it may not be clear whether they should be considered voluntary health and welfare organizations. The primary difference between voluntary health and welfare organizations and other nonprofit organizations is the requirement that voluntary health and welfare organizations include a statement of functional expenses as a basic financial statement. Therefore, if it is difficult to determine whether a particular organization is a voluntary health and welfare organization, the authors recommend including a statement of functional expenses as a basic financial statement. The information required to prepare that statement should be readily available because FASB ASC 958-720-05-4 requires all nonprofit organizations to provide information about expenses reported by their functional classification. Accordingly, any allocation of expenses, such as salaries or occupancy, to various programs and supporting services, which would be reflected on a statement of functional expenses, would have already been made.

100.13 **Classification of National Headquarters May Differ**

The authors understand that the national headquarters of some voluntary health and welfare organizations are classified as other nonprofit organizations while their local chapters, affiliates, or member associations are classified as voluntary health and welfare organizations. Some examples are the national organizations of Goodwill Industries, Girls Inc., and the YMCA. Probably, the reason for this practice is that the national organizations do not provide program services directly to the public as do local chapters but are service organizations to member associations (local chapters), providing them with marketing, communications, public relations, and management services, including national purchasing, training of staff, instructors, etc. Also, national organizations usually receive a large portion of their revenue from dues charged to the local chapters. Typically, the local chapters are independent, and the financial statements of the national organization do not include the statements of the local chapters. However, some organizations' national headquarters that are directly involved in program services, such as the American Red Cross, include the local chapters in their financial statements.

Governmental Nonprofit Organizations

100.14 This *Guide* applies only to *nongovernmental* nonprofit entities. [6] The AICPA Audit and Accounting Guide, *Not-for-Profit Entities* (Audit Guide), provides the following guidance on the characteristics of a governmental entity. Basically, all public corporations and bodies corporate and politic are governmental organizations. Paragraph 1.04 of the Audit Guide states that other organizations are also considered governmental organizations if they have any of the following characteristics:

- Officers of the organization are elected by popular vote.

- A controlling majority of the organization's officers are appointed or approved by elected officials of one or more state or local governments.

- A government could unilaterally dissolve the organization and retain the organization's remaining net assets.

• The organization can enact and enforce a tax levy.)

Also, other organizations are presumed to be governmental if they can directly issue tax-exempt debt (not through a state or municipal authority). However, the organization may rebut that presumption if none of the other governmental characteristics apply and compelling evidence exists that it should not be considered governmental.

Nonprofit Accounting and Financial Reporting Characteristics

100.15 Except for a few differences, nonprofit accounting and financial reporting follows many of the same principles used by commercial enterprises. As expected, accounting for nonprofit organizations that receive a significant portion of their financial resources from the sale of goods and services is similar to accounting for commercial enterprises; consequently, the unique accounting issues of nonprofit organizations usually are found in the areas of contributions, promises to give, investments, and the financial statement presentation and disclosure issues related to them.

Objectives of Nonprofit Accounting and Financial Reporting

100.16 The objectives of financial reporting for nonprofit organizations differ from those of business enterprises. The main objective of financial reporting for business enterprises is to provide information about an enterprise's performance as measured by earnings. The objectives of financial reporting for nonprofit organizations articulated in Statement of Financial Accounting Concepts[7] (SFAC) No. 4, *Objectives of Financial Reporting by Nonbusiness Organizations*, are to provide information to current and potential resource providers and others in assessing (a) the services a nonprofit organization provides and its ability to provide those services and (b) how management has discharged its stewardship responsibilities, as well as providing information about (c) the organization's economic resources, obligations, and net resources and (d) the effects of transactions, events, and circumstances that change those resources (i.e., the organization's performance or service efforts and accomplishments). More specifically, nonprofit financial reporting objectives are to—

a. communicate the ways resources have been used to meet the organization's objectives and external requirements,

b. identify an organization's principal programs and their costs,

c. disclose the degree of control exercised by donors and funding sources over use of resources, and

d. help the user evaluate the organization's ability to carry out its fiscal objectives.

100.17 These objectives are further refined and expanded in FASB ASC 958-205-05-3 and 4. According to that guidance, the primary purpose of financial statements is to provide relevant information to meet the common interests of donors, members, creditors, and others who provide resources to nonprofit organizations. Similar to the objectives outlined in SFAC No. 4, the authoritative literature states these external users desire to assess the services an organization provides, its ability to continue to provide those services and how managers discharge their stewardship responsibilities and other aspects of their performance. More specifically, the purpose of nonprofit financial reporting is to provide information about—

a. the amount and nature of an organization's assets, liabilities, and net assets;

b. transactions and other events and circumstances that affect net assets;

c. the amount and kinds of inflows and outflows of economic resources during a period and the relationship between the inflows and outflows;

d. an organization's cash revenues, support, and expenses; its borrowing and repayment of borrowing; and other factors that may affect its liquidity; and

e. the service efforts of an organization.

100.18 Groups that are particularly interested in the financial information of a nonprofit organization include the following:

- Funding sources and contributors to the organization.

- Regulatory agencies.

- Governing boards (board of trustees or directors).

• Beneficiaries of the services rendered by the organization.

• Employees.

• Creditors and potential creditors.

• Constituent organizations, e.g., a local chapter or a national organization.

AICPA Audit and Accounting Guide, *Not-for-Profit Entities*

100.19 The AICPA publishes the Audit and Accounting Guide, *Not-for-Profit Entities* (Audit Guide), to assist financial statement preparers in the application of GAAP and to assist auditors in applying generally accepted auditing standards (GAAS) in audits of nonprofit organizations. The Audit Guide focuses on the accounting, auditing, and reporting issues that are unique to nonprofit organizations. Prior to issuance of the FASB Codification (FASB ASC), the Audit Guide was an authoritative source of GAAP. As discussed in section 103, the Audit Guide is not an authoritative source of GAAP. However, although the Audit Guide is nonauthoritative it provides guidance that should be considered if the FASB ASC does not specify the requirements for a transaction or event, or its accounting principles for similar transactions or events do not apply.

100.20 When the Audit Guide is cited as a reference in this *Guide*, the reference is to the current (March 2014) edition of the Audit Guide. The authors believe the nonauthoritative guidance about many accounting topics in the Audit Guide is useful to financial statement preparers and auditors.

Nonprofit Organizations Covered and Not Covered by This *Guide*

100.21 This *Guide* provides guidance particularly applicable to preparing financial statements for the nonprofit organizations covered by the Audit Guide. Because of significant differences between the accounting and reporting requirements of nonprofit organizations and health care entities, the Audit Guide does not cover health care entities. Consistent with the Audit Guide, this *Guide* also does not provide guidance for health care entities even though, as noted in paragraph 100.4, the FASB Codification includes them as a type of nonprofit organization. Governmental colleges and universities, employee benefit plans, cooperatives, state and local governments (including special units of government such as school districts and other special districts), and governmental nonprofit organizations (see paragraph 100.14) are among the other entities not covered by this *Guide*. The AICPA publishes the following audit and accounting guides on nonbusiness enterprises not covered by this *Guide*:

• *Audits of Agricultural Producers and Agricultural Cooperatives*.

• *Common Interest Realty Associations*.

• *Depository and Lending Institutions*.

• *Employee Benefit Plans*.

• *Health Care Entities*.

• *State and Local Governments*.

These guides can be ordered by calling the AICPA Order Department at (888) 777-7077 or through the AICPA's online catalog at **www.cpa2biz.com**. Also, the Tax and Accounting business of Thomson Reuters publishes *PPC's Guide to Preparing Governmental Financial Statements*, *PPC's Guide to Audits of Local Governments*, *PPC's Guide to Audits of Employee Benefit Plans*, *PPC's Guide to Homeowners' Associations and Other Common Interest Realty Associations*, and *PPC's Guide to Audits of Financial Institutions*, which can be ordered by calling (800) 431-9025 or from **tax.thomsonreuters.com**.

100.22 In addition to the aforementioned industry audit and accounting guides, the AICPA publishes an audit guide titled *Government Auditing Standards and Circular A-133 Audits* (GAS/A-133 AICPA Audit Guide). The GAS/A-133 AICPA Audit Guide provides guidance on the auditor's responsibilities when conducting financial statement audits performed under *Government Auditing Standards* and single or program-specific audits in accordance with the Single Audit Act and OMB Circular A-133. While nonprofit organizations that are subject to *Government Auditing Standards* or that receive federal awards are subject to the provisions of the relevant documents, this *Guide* does not cover single audit requirements. Guidance on those requirements is provided in *PPC's Guide to Single Audits* and *PPC's Guide to Audits of Nonprofit Organizations*.

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[1] The FASB ASC is the single source of authoritative accounting principles for nongovernmental entities that prepare financial statements in accordance with U.S. GAAP. The relevant citations to the FASB ASC are provided throughout this *Guide*. See the discussion beginning at paragraph 103.4.

[2] The authors have chosen to use the term *nonprofit organization* in this *Guide*; however, the terms *nonprofit*, *not-for-profit entity*, and *nonbusiness* are synonymous in the authors' opinion.

[3] Health care entities are not covered by the AICPA Audit and Accounting Guide, *Not-for-Profit Entities*; instead, they are covered by a separate AICPA audit and accounting guide titled *Health Care Entities*. This *Guide* also does not provide guidance for health care entities. See paragraph 100.21.

[4] *PPC's Guide to Religious Organizations* provides detailed guidance on tax issues for churches and other religious organizations. [Call (800) 431-9025 for order information or order online at **tax.thomsonreuters.com**.]

[5] The Black Book has limited availability but is on the National Health Council's publication order form. It continues to provide relevant guidance.

[6] The accounting and financial reporting standards for governmental entities are promulgated by the Governmental Accounting Standards Board (GASB). *PPC's Guide to Preparing Governmental Financial Statements* discusses the measurement, presentation, and disclosure of transactions and balances in accordance with those standards. That *Guide* can be ordered by calling (800) 431-9025 or from **tax.thomsonreuters.com**.

[7] Statements of Financial Accounting Concepts are nonauthoritative. See paragraph 103.4.

END OF DOCUMENT -

101 Basic Financial Statements

101.1 The concept of *basic financial statements* is important because the basic financial statements represent what is generally accepted as the end product of a nonprofit organization's financial accounting process. This *Guide* is designed to assist accountants in preparing the basic financial statements, related notes, and other financial information that may be presented with the basic financial statements.

What Is Included in Basic Financial Statements?

101.2 According to FASB ASC 958-205-45-4, a complete set of financial statements for nonprofit organizations includes:

- A statement of financial position.
- A statement of activities.
- A statement of functional expenses (required for voluntary health and welfare organizations only).
- A statement of cash flows.
- Notes to financial statements.

101.3 Basic financial statements can be individual GAAP financial statements such as a statement of financial position, or they can be financial statements prepared in accordance with a special purpose framework [8] (for example, the cash, modified cash, or tax basis). (Note that schedules and explanatory material may be considered either as part of the basic financial statements or as supplementary information depending on whether they are specifically identified in the accountant's or auditor's report as being part of the basic financial statements. Chapter 8 discusses supplementary information in more detail, and Chapter 9 discusses preparing financial statements using a special purpose framework.)

101.4 Each of the basic financial statements is discussed in a separate chapter of this *Guide*. Each chapter includes detailed guidance concerning the form of the statement and on applying GAAP to specific accounts in the statement. Chapter 7 discusses the form and content of the disclosures to the financial statements that are required by GAAP.

Comparative Financial Statements

101.5 **Recommendation for Comparative Statements**

FASB ASC 205-10-45-1 encourages, but does not require, presentation of comparative financial statements. Nonprofit organizations that choose to present comparative financial information sometimes present only summarized comparative information that does not include the minimum information required by GAAP. For example, organizations may present prior-year information in total instead of by net asset class, or present information about the prior-year change in net assets without details about revenues, expenses, gains, and losses by net asset class. If comparative information is not sufficient to constitute a presentation in accordance with GAAP, FASB ASC 958-205-45-8 states that organizations should use financial statement titles appropriately describing the summarized prior-year information. Organizations must also disclose the summarized nature of the prior-year presentation in a note to the financial statements. See a discussion of the required note disclosures beginning at paragraph 701.1. Presenting descriptive titles on the face of the financial statements without a corresponding note disclosure does not constitute a proper use of the titles. See a discussion of summarized comparative information at paragraph 205.9.

101.6 Typically, comparative financial statements include statements of financial position, statements of activities, and statements of cash flows for each year presented. However, nothing precludes an organization from presenting the statement of financial position for only the current year and the statement of activities for the current and prior years. If the financial statements include a statement of financial position and a statement of activities, GAAP requires a statement of cash flows for each period that a statement of activities is presented. Considerations for presenting comparative financial statements are discussed throughout this *Guide*. For example—

- Different levels of service provided on comparative financial statements are discussed beginning at paragraph 205.6.

- Comparative statements of activities are discussed in section 401.

- Comparative statements of functional expenses are discussed beginning at paragraph 501.13.

- Comparative statements of cash flows are discussed beginning at paragraph 601.7.

- Disclosures for comparative financial statements are discussed beginning at paragraph 701.1.

Fund Accounting

101.7 Historically, fund accounting provided a mechanism for meeting differing needs of various users of nonprofit financial statements. For instance, contributors and funding sources are often interested in statements that account for the use of funds they provide, whether restricted or unrestricted. Regulatory agencies are often concerned with amounts spent for other than program purposes, including management, fund-raising, unrelated business income, lobbying, etc.; governing boards with the proper utilization of all funds; beneficiaries with the efficient use of program funds; and creditors and potential creditors with the unrestricted funds available for the continued operation of the organization. Fund accounting records resources whose use may be limited by donors, granting agencies, governing boards, or other individuals or entities or by law in separate funds. The funds segregate assets, liabilities, and fund balances into separate accounting entities based on specific activities, donor-imposed restrictions, or objectives.

101.8 **Presentation of Financial Statements by Fund**

An organization's maintenance of its accounts by fund does not necessarily mean that its financial statements will be presented by fund. GAAP does not prohibit or require the use of fund accounting.[9] FASB ASC 958-205-45-3 and 958-205-5-7 state that reporting by fund groups is not a necessary part of external financial reporting but the standards do not preclude providing disaggregated information by fund groups. GAAP does require, however, providing information about three classes of net assets: (a) unrestricted, (b) temporarily restricted, and (c) permanently restricted. (Internal restrictions of net assets, such as board designations, may be disclosed; however, they are considered to be unrestricted.) Fund accounting may not accomplish the goal, as required, of informing the reader about donor restrictions. For example, some of the net assets of a fund established to account for property and equipment may be unrestricted (either because they were acquired with unrestricted net assets or because the donor restriction was satisfied when specific equipment was purchased), and some may be temporarily or permanently restricted because of donor restrictions. So merely accounting for property and equipment in a separate fund does not satisfy the disclosure requirements about donor restrictions under GAAP.

101.9 Fund-accounting-based statements may still be required to compute debt covenant requirements, grantor funding source requirements, or other external reporting requirements. In addition, internal budgets may be prepared on a fund accounting basis. Financial statements that do not present results by funds can accommodate comparative presentations more easily than those using fund accounting. In addition, the GAAP requirements to provide information on unrestricted and restricted net assets and donor restrictions on assets can be met without using multiple columns. For many nonprofit organizations, the authors believe the financial statements most informative to their users will be those that do not use fund accounting and that present comparative results. Some nonprofit organizations that wish to present financial information by fund provide that information in a supplementary schedule.

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[8] AU-C 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*, uses the term *special purpose framework* to describe a financial reporting framework other than U.S. GAAP. See the discussion beginning at paragraph 103.23.

[9] Chapter 16 of the Audit Guide provides additional guidance about fund accounting.

END OF DOCUMENT -

103 Generally Accepted Accounting Principles (GAAP)

Why Is GAAP Important?

103.1 Generally accepted accounting principles are applicable to all financial statements (except statements presented using a special purpose framework) and are important to accountants for nonprofit organizations as well as accountants in public practice. But why?

103.2 Accountants in public practice give varying degrees of assurance on the financial statements with which they are associated. That assurance is expressed in terms of whether the statements are, in all material respects, presented in conformity with generally accepted accounting principles. Thus, a thorough knowledge of GAAP is critical.

103.3 Accountants and financial statement preparers in nonprofit organizations are also concerned with GAAP for several reasons:

- ET 2.320.010 states that members in business may not represent to auditors, regulators, creditors, or others that the entity's financial statements are prepared in accordance with GAAP when the statements contain GAAP departures.

- Some third-party users of financial statements lose confidence in entity-prepared financial statements if they contain material departures from GAAP.

- GAAP generally reflects economic reality. Financial statements presented in conformity with GAAP generally provide management with one of its best tools. In contrast, departures from GAAP may mislead management.

• Financial statements prepared in conformity with GAAP are a sign of professionalism that most accountants value.

The FASB Accounting Standards Codification

103.4 The FASB Accounting Standards Codification (FASB ASC or the Codification) is the single source of authoritative accounting principles for nongovernmental entities that prepare financial statements in accordance with U.S. GAAP. Rules and interpretive releases of the Securities and Exchange Commission (SEC) are also sources of authoritative GAAP for SEC registrants.[10]

103.5 Except for certain grandfathered guidance discussed at paragraph 103.9, non-SEC accounting literature that is not contained in the Codification is considered nonauthoritative. The FASB created the Codification by arranging the previous sources of historical GAAP, such as Statements of Financial Accounting Standards (SFASs), Statements of Position (SOPs), and other pronouncements, into a topical structure maintained in an online research platform. The Codification superseded those prior sources of accounting standards.

103.6 The Codification reorganizes U.S. GAAP into approximately 90 accounting topics arranged in a consistent structure. All guidance contained in the Codification carries an equal level of authority. If the accounting treatment for a transaction or event is not specified within a source of authoritative GAAP, an entity should first consider accounting principles for similar transactions or events within a source of authoritative GAAP and then consider nonauthoritative guidance from other sources. Nonauthoritative sources of guidance and literature include—

• Practices widely recognized and generally prevalent or prevalent in the industry.

• FASB Concepts Statements.

• AICPA Issues Papers.

• International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB).

• Pronouncements of professional associations or regulatory agencies.

• Technical Information Service Inquiries and Replies included in the AICPA Technical Practice

Aids.

• Accounting textbooks, handbooks, and articles.

However, the accounting treatment specified in accounting guidance for similar transactions or events should not be used in situations where the accounting principle prohibits its application to the particular transaction or event, or where the accounting principle indicates it should not be applied by analogy.

103.7 **Applicability for Nonprofit Organizations**

Nonprofit organizations should follow the guidance in all topics of the Codification, unless specific provisions explicitly exempt nonprofit organizations or the subject matter precludes applicability (for example, FASB ASC 505-30). The incremental guidance applicable specifically for nonprofit organizations is codified in FASB ASC 958, *Not-for-Profit Entities*.

103.8 FASB ASC 958 is divided into the following subtopics:

• FASB ASC 958-10, *Overall*, which defines not-for profit entities and states that when applying the guidance in other topics and subtopics of the FASB ASC, nonprofit organizations should follow that guidance in an analogous manner that is appropriate for the nonprofit reporting model and should consider the reporting objectives of the guidance when exercising judgment about how best to display information.

• FASB ASC 958-20, *Financially Interrelated Entities*, which describes the standards for nonprofit organizations that hold contributions for related nonprofit organizations, such as might be the case for a council, synod, or similar regional religious organization that holds contributions for related local organizations.

• FASB ASC 958-30, *Split-Interest Agreements*, which provides standards for charitable gift annuities, unitrusts, and pooled income funds.

• FASB ASC 958-205, *Presentation of Financial Statements*, which describes the objectives of financial reporting by nonprofit organizations and what constitutes a complete set of financial statements, and provides standards for the statement of functional expenses, [11] comparative financial statements, the expiration of restrictions, reporting endowment funds, and disclosures of a general nature that do not belong with other subtopics.

• FASB ASC 958-210, *Balance Sheet*, which provides standards for the statement of financial position, including discussion of the three classes of net assets.

• FASB ASC 958-225, *Income Statement*, which provides standards for the statement of activities.

• FASB ASC 958-230, *Statement of Cash Flows*, which discusses a few unique aspects of a statement of cash flows that is presented by a nonprofit organization.

• FASB ASC 958-310, *Receivables*, which discusses promises to give.

• FASB ASC 958-320, *Investments—Debt and Equity Securities*, which provides the standards for equity securities with readily determinable fair values and for debt securities.

• FASB ASC 958-325, *Investments—Other*, which provides standards for all investments other than those within the scope of FASB ASC 958-320.

• FASB ASC 958-360, *Property, Plant, and Equipment*, which provides standards for recognizing depreciation and for accounting for collections of works of art, historical treasures, and similar items.

• FASB ASC 958-405, *Liabilities*, which discusses how to report a promise to give made by a nonprofit organization.

• FASB ASC 958-450, *Contingencies*, which discusses the contingencies that are unique to nonprofit organizations, such as noncompliance with donor-imposed restrictions on contributed assets, problems with the nonprofit organization's tax-exempt status, and failure to maintain an appropriate composition of assets in amounts needed to comply with all donor restrictions.

• FASB ASC 958-470, *Debt*, provides standards for tax-exempt bonds or other obligations issued through state and local financing authorities.

• FASB ASC 958-605, *Revenue Recognition*, which provides standards for accounting for contributions received.

• FASB ASC 958-715, *Compensation—Retirement Benefits*, which discusses some unique aspects of reporting a nonprofit organization's pension plans and other postemployment benefit plans.

• FASB ASC 958-720, *Other Expenses*, which discusses the functional classification of expenses, accounting for activities that include fund-raising (that is, joint activities), and standards for some expenses unique to nonprofit organizations.

• FASB ASC 958-805, *Business Combinations*, which provides the standards for mergers with and acquisitions of other entities, nonprofit activities, or businesses by nonprofit organizations.

• FASB ASC 958-810, *Consolidation*, which discusses the relationships with other entities that require consolidation into the nonprofit organization's reporting entity.

• FASB ASC 958-815, *Derivatives and Hedging*, which provides specific guidance on embedded derivatives in irrevocable split-interest agreements that give rise to an obligation.

• FASB ASC 958-840, *Leases*, which discusses unique accounting treatments for leases between a nonprofit organization and a special-purpose-entity lessor.

103.9 **Grandfathered Guidance**

In the past some accounting standards have permitted an entity to continue applying superseded accounting standards for transactions that have an ongoing impact on an entity's financial statements, such as a business combination. That guidance is considered grandfathered and remains authoritative for those transactions even though it has not been integrated into the Codification. Grandfathered guidance is discussed in FASB ASC 105-10-70.

103.10 **Organization of the Codification**

The Codification is organized by subject matter in a hierarchy, using areas, topics, subtopics, and sections as follows:

a. *Areas.* Areas represent large collections of accounting guidance. The following are the nine areas of the Codification:

(1) General Principles.

(2) Presentation.

(3) Assets.

(4) Liabilities.

(5) Equity.

(6) Revenue.

(7) Expenses.

(8) Broad Transactions.

(9) Industry.

b. *Topics.* Topics reside in areas and represent a collection of related guidance, such as leases. The following are the main types of topics by area:

(1) *General Principles (Topic Codes 105-199).* These topics relate to broad conceptual matters such as generally accepted accounting principles.

(2) *Presentation (Topic Codes 205-299).* These topics relate only to presentation matters and do not address recognition, measurement, or derecognition matters. Such topics include income statement, balance sheet, statement of cash flows, etc.

(3) *Assets (Topic Codes 305-399).* These topics relate to asset accounts, such as cash, receivables, investments, etc.

(4) *Liabilities (Topic Codes 405-499).* These topics include liability accounts, such as debt, guarantees, commitments, etc.

(5) *Equity (Topic Codes 505-599).* These topics contain guidance about equity accounts.

(6) *Revenue (Topic Codes 605-699).* These topics contain guidance about revenues, such as revenue recognition.

(7) *Expenses (Topic Codes 705-799).* The expenses topics include cost of sales, compensation, incomes taxes, etc.

(8) *Broad Transactions (Topic Codes 805-899).* These topics relate to multiple financial statement accounts and are generally transaction-oriented. Such topics include leases, business combinations, derivatives, nonmonetary transactions, etc.

(9) *Industry (Topic Codes 905-999).* These topics relate to accounting that is unique to

an industry or type of activity. Such topics include not-for-profit entities, airlines, software, real estate, etc. The not-for-profit entities topic (FASB ASC 958) provides guidance unique to nonprofit organizations. According to FASB ASC 958-10-05-1, nonprofit organizations should also comply with the applicable guidance in other FASB ASC topics and subtopics unless the specific scope sections exempt nonprofit organizations or the subject matter is not applicable. However, nonprofit organizations should follow the reporting model defined in topic 958 when applying the guidance in other topics and subtopics.

c. *Subtopics.* Subtopics represent subsets of a topic and are generally distinguished by type or by scope. For example, operating leases and capital leases are two subtopics of the leases topic distinguished by type of lease. Each topic contains an overall subtopic that generally represents the pervasive guidance for the topic. Each additional subtopic represents incremental or unique guidance not contained in the overall subtopic. Subtopics unique to a topic use classification numbers between 00 and 99.

d. *Sections.* Sections represent the nature of the content in a subtopic such as recognition, measurement, disclosure, and so forth. Every subtopic uses the same sections, unless there is no content for a particular section. The sections of each subtopic are as follows, where XXX = topic, YY = subtopic, and ZZ = section:

XXX-YY-00	Status
XXX-YY-05	Overview and Background
XXX-YY-10	Objectives
XXX-YY-15	Scope and Scope Exceptions
XXX-YY-20	Glossary
XXX-YY-25	Recognition
XXX-YY-30	Initial Measurement
XXX-YY-35	Subsequent Measurement

XXX-YY-40	Derecognition
XXX-YY-45	Other Presentation Matters
XXX-YY-50	Disclosure
XXX-YY-55	Implementation Guidance and Illustrations
XXX-YY-60	Relationships
XXX-YY-65	Transition and Open Effective Date Information
XXX-YY-70	Grandfathered Guidance
XXX-YY-75	XBRL Definitions

An “S” precedes the section number in the case of SEC content. Within sections, paragraphs are numbered with a two-part number in which the first part represents the section and the second part is a sequential number. The content of a paragraph may be amended, but the paragraph number will remain constant. For example, some of the classification codes for Leases are as follows:

840	Leases (Topic)
840-10	Overall (Subtopic)
840-10-15	Scope and Scope Exceptions (Section)
840-10-50	Disclosure (Section)
840-20	Operating Leases (Subtopic)
840-20-15	Scope and Scope Exceptions (Section)
840-20-50	Disclosure (Section)
840-30	Capital Leases (Subtopic)
840-30-15	Scope and Scope Exceptions (Section)
840-30-50	Disclosure (Section)

103.11 The FASB revises the Codification through the issuance of Accounting Standards Updates (ASUs), which generally include a summary of the new guidance, the amendments to the FASB Codification, the background information and the basis for conclusions, and the amendments to the XBRL taxonomy. The title of a new ASU includes “Accounting Standards Update No. YYYY-XX,” where YYYY is the year issued and XX is the sequential number for each Update, such as 2010-01, 2010-02, etc. All Codification revisions are now issued in this format, regardless of the form in which such guidance may have been issued previously (for example, EITF Abstracts, FASB Staff Positions, FASB Statements, FASB Interpretations, etc.).

103.12 Upon its release, an Accounting Standards Update is not authoritative as a stand-alone document. It is a transient document to initiate the FASB's process of amending the Codification. As the FASB amends existing Codification paragraphs, both the current paragraph and the updated paragraph reside in the Codification until such time that the new guidance is completely effective. The FASB identifies amended guidance as “Pending Content” within the Codification. The Pending Content generally includes information regarding the transition date, a link to any transition guidance, and the text of the content that will be effective upon transition. When the newly amended paragraph is fully effective, the outdated guidance is removed from the paragraph and the amended paragraph remains.

103.13 **How This *Guide* Presents Codification Information**

Codification references are preceded by the label *FASB ASC*. In addition, practitioners who subscribe to the electronic versions of this *Guide* and the FASB Reference Materials may link directly from the summarized guidance in this *Guide* to the related authoritative literature in the Codification.

Previous Development of Accounting and Reporting Standards for Nonprofit Organizations

103.14 The need for uniform and comparable accounting and financial reporting standards for nonprofit organizations has long been recognized. For example, a document entitled “Accounting Principles and Procedures of Philanthropic Organizations” was published in 1957, and the first edition of *Standards of Accounting and Financial Reporting for Voluntary Health and Welfare Organizations* (the “Black Book”—see paragraph 100.9) was published in 1964. Publication of the Black Book in part prompted the AICPA to issue the AICPA Industry Audit Guide, *Audits of Voluntary Health and Welfare Organizations* (AVHW), in 1974. AVHW was followed by SOP 78-10, *Accounting Principles and Reporting Practices for Certain Nonprofit Organizations*, in 1978. In addition, separate AICPA guides existed for hospitals and colleges and universities so that differences existed in the accounting standards for various types of nonprofit entities. Meanwhile, FASB issued SFAC No. 4, which provided a broad framework for accounting for nonprofit organizations, and SFAC No. 6, *Elements of Financial Statements*, which defined assets, liabilities, net assets, revenues, expenses, gains, and losses for nonprofit organizations. In response to inconsistencies in certain accounting and financial reporting practices, the FASB issued SFAS No. 116, *Accounting for Contributions*

Received and Contributions Made, and SFAS No. 117, *Financial Statements of Not-for-Profit Organizations*, in 1993. The AICPA continued the trend toward consistent accounting and financial reporting practices for nonprofit organizations when it issued the Audit and Accounting Guide, *Not-for-Profit Organizations* (Audit Guide), in August 1996. Beginning with the March 1, 2009, edition, the Audit Guide was renamed *Not-for-Profit Entities*.

103.15 The March 1, 2008, edition of the Audit Guide was one of the sources of accounting literature used for compilation of the FASB ASC because it provided accounting guidance for nonprofit organizations that did not exist elsewhere. For example, it was the primary source of guidance on accounting for split-interest agreements. All of the authoritative accounting literature constituting GAAP for nonprofit organizations now resides solely in the FASB ASC. As with all sources of accounting guidance other than the FASB ASC, the Audit Guide is nonauthoritative.

Measurement Principles versus Disclosure Principles

103.16 Generally accepted accounting principles include both measurement principles and disclosure principles. Measurement principles are those principles that govern the recognition of transactions, for example, the period in which a transaction will be recorded and the amounts to be recorded. Examples of measurement principles include the following:

- The cost of property and equipment should be depreciated over the estimated useful life of the asset.

- Liabilities should be recorded for expenses incurred but not paid as of the date of the statement of financial position.

103.17 Disclosure principles are those principles that determine what specific numbers and other information must be presented in the financial statements. The following are examples of disclosure principles:

- Depreciation expense for the period should be disclosed.

- Aggregate amounts of maturities of long-term debt for each of the five years following the latest statement of financial position presented should be disclosed.

- The current and long-term portion of lease commitments should be disclosed (if a classified statement of financial position is presented).

This *Guide* provides in-depth guidance on both measurement and disclosure principles.

GAAP and Materiality

103.18 Materiality is a term used to describe the significance of a departure from generally accepted accounting principles. Only material departures require correction. Determining what is material to the financial statements taken as a whole is one of the most difficult decisions in the profession. Statement of Financial Accounting Concepts (SFAC) No. 8, *Conceptual Framework for Financial Reporting—Chapter 3, "Qualitative Characteristics of Useful Financial Information,"* (QC11) states the following regarding materiality: [12]

> Information is material if omitting it or misstating it could influence decisions that users make on the basis of the financial information of a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude or both of the items to which the information relates in the context of an individual entity's financial report. Consequently, the [FASB] cannot specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation.

103.19 Accordingly, there are no quantitative guidelines in authoritative accounting literature for determining materiality. However, the Audit Guide discusses several alternative bases that can be used to determine materiality for planning an audit. The authors believe that those bases could also be used in determining what is material to the financial statements. Those bases include the following:

- Net asset classes.

- Changes in net assets or net asset classes.

- Total revenues and support.

- Revenues of each net asset class.

- Total expenses.

- Other measures, such as total unrestricted contributions, total program expenses, the ratio of program expenses to total expenses, or the ratio of fund-raising expenses to contributions.

103.20 The authors generally recommend, however, that quantitative benchmarks, if used, be based on items such as total assets or total revenue and support rather than changes in net assets because many nonprofit organizations closely match revenue and expenses and operate on small margins. A benchmark used by some accountants for nonprofit organizations follows (a discussion of applying the benchmark in the statement of financial position begins at paragraph 300.23):

Effect of Departure on Total Assets or Support and Revenue	**Materiality to Financial Statements**
$<\frac{1}{2}\%$	Not material
$\frac{1}{2}\%$-1%	Danger area—could be material
1% or greater	Probably is material

103.21 Some accountants further refine the benchmarks suggested in paragraph 103.21 by basing materiality on a sliding scale percentage of total revenue and support or total assets. Although benchmarks may serve as guidelines, it cannot be overemphasized that the use of a benchmark is not a substitute for professional judgment. Also, as previously indicated, benchmarks for nonprofit organizations may be different than those for commercial entities (e.g., usually little or no increase in net assets, nature of activities, use of financial statements by users, etc.).

103.22 The SEC staff issued Staff Accounting Bulletin (SAB) No. 99, *Materiality*, to provide additional guidance on applying materiality thresholds to financial statements. Although SABs are not applicable to the financial statements of nonpublic entities such as nonprofit organizations, the guidance at FASB ASC 250-10-S99-1 may be useful to all financial statement preparers. Views of the SEC staff are that exclusive reliance on certain quantitative benchmarks to assess materiality is not appropriate. In other words, it is not acceptable to assess materiality purely on a quantitative threshold, such as 5% of total assets or revenues. The SAB states that financial statement preparers and auditors also must assess qualitative considerations when determining whether or not a misstatement is material. In addition to assessing whether the financial misstatements are materially misstated after considering the effect of aggregating all misstatements, the guidance requires assessing whether each individual misstatement is material. If the misstatement individually is considered material, the effect cannot be eliminated by other misstatements that diminish the effect of the misstatement on other financial statement items. FASB ASC 250-10-S99-1 also states that management should not make intentional immaterial misstatements to manage earnings (or in the case of nonprofit organizations, the change in net assets).

Special Purpose Frameworks

103.23 The conventions, rules, and procedures that define GAAP constitute the accounting framework that is considered the norm. Accountants and users of financial statements both usually expect financial statements to be prepared in conformity with GAAP. However, special purpose frameworks other than GAAP (also known as *other comprehensive bases of accounting* or OCBOA) are a widely used alternative to the numerous and sometimes complex accounting requirements prescribed by GAAP. An example of a special purpose framework is the modified cash basis.

103.24 The FASB Accounting Standards Codification does not include guidance for preparing financial statements using a special purpose framework. References to special purpose frameworks appear in the AICPA's auditing standards and the standards for compilation and review services. AU-C 800, *Special Consideration—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*, defines special purpose frameworks and provides guidance to the auditor for determining the acceptability of a special purpose framework. Considerations for preparing financial statements using a special purpose framework are discussed in Chapter 9. Accountants may also wish to refer to *PPC's Guide to Cash, Tax, and Other Bases of Accounting*.

Reference Sources for GAAP

103.25 This *Guide* answers many questions concerning currently the application of GAAP and should greatly facilitate the process of preparing financial statements for nonprofit organizations in conformity with GAAP. However, it is not a substitute for the authoritative literature. To have access to the technical pronouncements that constitute GAAP, accountants should obtain access to the FASB Accounting Standards Codification.

103.26 The staff of the AICPA's Accounting Standards Team has issued 25 Technical Questions and Answers (Q&As) (TIS 6140.01-.25) specifically related to nonprofit organizations. [13] Q&As provide guidance on accounting issues, but are nonauthoritative. When appropriate, the Q&As are discussed at the relevant points in this *Guide*.

103.27 The Tax and Accounting business of Thomson Reuters offers all the authoritative literature issued by the FASB and the AICPA (all hyperlinked to PPC's guides) on Checkpoint. [For information, call (800) 431-9025 or visit **tax.thomsonreuters.com**.] The FASB's website contains information about board actions and upcoming meetings, the quarterly plan for FASB technical activities, membership information, and ordering information and prices for FASB products. In addition, the full text of all ASUs is available on the FASB website, as well as the literature that was superseded by the FASB ASC (such as FASB Statements of Financial Accounting Standards, Statements of Financial Accounting Concepts, FASB Interpretations, FASB Technical Bulletins, FASB Staff Positions, and EITF Abstracts). Although the FASB no longer updates or maintains the superseded standards, they remain available for reference on the FASB website. The FASB home page can be found at **www.fasb.org**. The Codification can be found at **http://asc.fasb.org/home** and is also available on Checkpoint at **checkpoint.riag.com**. The PPC product line website is updated weekly with news articles on accounting, auditing, industry, tax, and technology topics, and can be accessed at **tax.thomsonreuters.com**.

10 SEC registrants must also follow rules and interpretive releases of the Securities and Exchange Commission (SEC). The Codification includes certain SEC rules, regulations, interpretive releases, and staff guidance that are relevant only to SEC registrants. Such guidance is segregated within the Codification and does not represent the authoritative sources of such content.

11 Voluntary health and welfare organizations must also include a statement of functional expenses in a matrix format reporting expenses by their natural expense classifications. (GAAP encourages, but does not require, other nonprofit organizations to provide information about expenses by their natural expense classifications.)

12 The FASB has a project focused on the disclosure framework in GAAP. In March 2014, the Board issued an exposure draft, *Conceptual Framework for Financial Reporting: Chapter 8 Notes to Financial Statements*, in connection with the project. Subsequently, in November 2014, the Board tentatively decided to change the description of materiality in SFAC No. 8 to explain that materiality is a legal concept that varies by jurisdiction. As of the date of this *Guide*, the FASB continues to redeliberate the proposed new guidance based on feedback received on the exposure draft. The FASB's technical plan does not indicate a date for issuance of final guidance.

13 The AICPA is changing the reference of its Technical Questions and Answers section in the Technical Practice Aids from “TIS” to “Q& A”. The numerical reference will remain unchanged. This *Guide* occasionally makes reference to an AICPA Technical Question and Answer and uses the “Q&A” designation.

END OF DOCUMENT -

104 Current Accounting and Reporting Developments

Introduction

104.1 There are several projects underway at the FASB that warrant the attention of those involved with financial reporting for nonprofit organizations. Accountants and management of nonprofit organizations, and the auditors that service those organizations, need to be aware that certain FASB projects could significantly impact the financial statements. Obviously, FASB projects do not change GAAP until after extensive deliberations and due process culminate in the issuance of new standards in the form of a final ASU. Tentative decisions reached during the course of a project can, and often do, change quite significantly prior to issuance of final guidance. For the accountants and management of the typical small to midsize nonprofit organization, monitoring the progress of the FASB's technical agenda may be impractical. Accordingly, this section highlights and summarizes important projects the authors consider to be significant for nonprofit organizations. Additional information about the current status of projects may be obtained from the FASB website at **www.fasb.org**.

Joint Projects of the FASB and IASB

104.2 For several years, the FASB and the International Accounting Standards Board (IASB) (the Boards) have been working toward converging U.S. GAAP with International Financial Reporting Standards (IFRS). Those efforts are aimed at reducing the differences between U.S. GAAP and IFRS with the ultimate goal of having a single set of high-quality globally accepted accounting standards. Although it is unlikely that convergence of all accounting and reporting standards will be achieved, substantial changes to present-day U.S. GAAP can be expected when the following projects are completed.

104.3 **Issuance of ASU No. 2014-09 on Revenue Recognition and Projects to Address Implementation Issues**

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 introduces a comprehensive, principles-based framework for recognizing revenue in FASB ASC 606, and supersedes FASB ASC 605, *Revenue Recognition*, and virtually all industry-specific revenue guidance in the FASB ASC. An overview of the new requirements begins at paragraph 400.26. As described in more detail in that discussion, many questions have arisen about how to implement ASU No. 2014-09 since it was issued. Accordingly, the FASB and IASB formed a Joint Transition Resource Group for Revenue Recognition (JTRG) to solicit and analyze issues arising from implementation of the new ASU and to inform the FASB about implementation issues.

104.4 As a result of input from constituents and the JTRG, in early April 2015 the FASB announced it voted to propose deferring the effective date of ASU No. 2014-09. As issued, the ASU is effective for nonpublic entities including most nonprofit organizations, for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. If the deferral is approved, nonprofit organizations would apply ASU No. 2014-09 in annual periods beginning after December 15, 2018. In announcing its decision to defer the effective date of the ASU, the FASB stated it planned to expose a proposed new ASU that would provide guidance on the new effective dates for a 30-day comment period sometime during the second quarter of 2015.

104.5 In addition to the project to consider deferral of the effective date for ASU No. 2014-09, as of the date of this *Guide* two more projects had been added to the FASB's technical agenda based on recommendations of the JTRG. These projects will address (a) narrow scope improvements and practical expedients, and (b) identifying performance obligations and licenses. The FASB's technical plan indicates exposure drafts of proposed ASUs on these topics would be issued in the second quarter of 2015.

104.6 Information about the JTRG and developments in its activities including its meeting schedule, meeting materials, and archived webcasts, is available from the FASB website at **www.fasb.org**.

104.7 **Leases**

The goal of this project is to ensure that all assets and liabilities arising from lease contracts with a term of more than 12 months are recognized in the statement of financial position. The proposed guidance provides both lessee and lessor accounting requirements. It would apply to all leases except leases of intangible assets, minerals, natural gas and similar exploration leases, and biological asset leases, such as timber.

104.8 In August 2010, the FASB released an exposure draft of a proposed ASU, *Leases*. The FASB also held several public roundtables and other types of workshops to get feedback from a variety of constituents. Because of the extent of changes made to the initial exposure draft during redeliberations, the FASB issued a revised exposure draft in May 2013 with a comment period ending in September 2013. The FASB continues to deliberate and make revisions to the May 2013 proposal and has begun making decisions that differ from those of the International Accounting Standards Board (IASB). As of the date of this *Guide*, the FASB has directed its staff to begin drafting the final standards but it has not announced whether it intends to issue another exposure draft of new guidance for leases before issuing a final ASU, or when final standards would be issued and effective.

104.9 The FASB is currently discussing a dual approach model for lessee accounting that would require a lessee to classify the lease, as type A or type B depending on whether the lease is effectively an installment purchase. Under the proposed guidance, most leases currently classified as a capital lease would be a type A lease while most leases currently classified as an operating lease would be a type B lease. Both type A and type B leases would result in the lessee recognizing a right-of-use asset and a lease liability. For type A leases, organizations would recognize amortization of the right-of-use asset in the statement of activities separately from the interest on the lease liability. For type B leases, organizations would recognize only a total lease expense in the statement of activities.

104.10 The FASB is continuing to discuss a dual approach for lessor accounting as well but has not made as much progress as on lessee accounting. It is expected lessors would evaluate leases for a type A or B classification based on whether the risks and rewards of the leased asset have transferred to the lessee. In addition, the FASB has decided to eliminate the receivable and residual approach included in the May 2013 proposal and require type A lessor accounting similar to IFRS finance lease accounting and U.S GAAP sales-type, direct financing lease accounting. The FASB is also making an effort to align revenue recognition for lessors with ASU 2014-09 (see paragraphs beginning at 104.3).

104.11 The proposed changes to guidance for leases are significant and will affect nearly all entities, including nonprofit organizations. Organizations will need to be prepared not only for the effect the changes will have on their financial statements but also on the resulting financial ratios which may be specified in debt covenants. The FASB is aware of these implications and has indicated they will be considered when the Board determines the effective dates of the new requirements.

104.12 **Financial Instruments**

The goal of this project is to significantly improve reporting of financial instruments. The project has been separated into three components: (a) classification and measurement, (b) credit impairment, and (c) hedging.[14] Disclosures related to liquidity and interest rate risk are also being discussed by the FASB as a part of this project. In concept, the new guidance would affect the accounting for a variety of financial instruments including investments in debt and equity securities, investments in nonmarketable equity securities, loans, deposit liabilities, accounts payable, and accounts receivable. Short-term receivables and payables may be measured at amortized cost. Certain financial instruments, such as pension obligations and leases, are exempt from the scope of this project. The following paragraphs discuss developments in this project.

104.13 In December 2012, the FASB issued an exposure draft of a proposed ASU, *Financial Instruments—Credit Losses*. This proposed new guidance would replace the current impairment model, which reflects incurred credit events, with a current expected credit loss (CECL) model that recognizes expected credit risks and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The proposal would require an entity to impair its financial assets based on the current estimate of contractual cash flows not expected to be collected. The impairment would be reflected as an allowance for expected credit losses. The estimate of expected credit losses would be based on information about past events, including historical loss experience, current conditions, and reasonable and supportable forecasts that affect the expected collectibility of remaining contractual cash flows. As of the date of this *Guide*, the FASB technical agenda indicates the Board expects to issue a final ASU in the third quarter of 2015. No proposed effective date for the new standards has been published.

104.14 In February 2013, the FASB issued another proposed ASU in this project, *Financial Instruments—Overall*, which relates to the classification and measurement phase of the project. This proposal aims to improve financial reporting for financial instruments by developing a consistent, comprehensive framework for classifying those instruments that links the measurement of financial assets to how an entity expects to benefit from the cash flows embedded in those assets. The proposal covers the recognition, classification and measurement, and presentation of financial instruments. The exposure draft provides a lengthy overview of the proposals for classifying various types of financial assets and liabilities. As currently proposed, nonpublic entities (that is, most nonprofit organizations) would be exempt from only the requirement to disclose the fair values of financial assets measured at amortized cost and the requirement to disclose information about core deposit liabilities. In March 2014, the FASB decided to retain the separate models in existing GAAP for determining classification of loans and securities. As of the date of this *Guide*, the FASB's technical agenda indicates the Board expects to issue a final ASU in the second quarter of 2015. No proposed effective date for the new standards has been published.

104.15 The new guidance that comes from the project on financial instruments, when effective, is expected to have a significant impact on banks and other financial institutions. Because nonprofit organizations generally already report all equity securities with readily determinable fair values and debt securities at fair value, the new standards are not expected to represent a significant change in the measurement of many investments held by nonprofit organizations. However, as currently proposed, the new standards would require financial assets that represent investments held for the collection of contractual cash flows to be reported at amortized cost. The proposals are expected to simplify the assessment of impairment of cost method investments and may restrict use of the fair value option.

FASB Activities Related to Nonprofit Organizations

104.16 **FASB Project on the Financial Statements of Nonprofit Organizations**

The objective of this project is to examine existing standards for financial statement presentation by nonprofit organizations and focus on improving (a) net asset classification requirements and (b) information provided in financial statements and notes about liquidity, financial performance, and cash flows. Since adding this project to its technical agenda in late 2011, the FASB has discussed the project several times and made several tentative decisions about the proposed form and content of the financial statements of nonprofit organizations. Most recently, in March 2015 the Board directed its staff to proceed with drafting an exposure draft of the new ASU. As of the date of this

Guide, the FASB expected to issue the exposure draft for public comment by the end of April 2015. In early April the FASB announced the public comment period for the new proposal will extend for 120 days.

104.17 Tentative FASB decisions on this project are summarized as follows:

- All nonprofit organizations, except business-oriented healthcare providers that currently are required to provide a performance indicator, would be required to present an intermediate measure of operations in the statement of activities. The intermediate measure would be defined on the basis of: (a) a mission dimension and (b) an availability dimension. The statement of activities would have all legally available mission-related revenues available for the current period presented before amounts designated by the governing board for use in future periods. Investing and financing activities generally would not be considered to meet the mission dimension and would not be reported within the intermediate measure of operations unless they are directed at carrying out the organization's programs.

- The requirement to present totals for each of three classes of net assets on the face of the statement of financial position and for changes in each of those classes on the face of the statement of activities would be replaced with similar requirements for each of two classes of net assets. The new classes would convey (a) net assets with donor-imposed restrictions and (b) net assets without donor-imposed restrictions.

- Current requirements to provide information about the nature and amounts of different types of donor-imposed restrictions would be retained. However, the standards would be modified to remove the hard-line distinction between temporary restrictions and permanent restrictions and focus instead on describing differences in the nature of restrictions; including how and when the resources (net assets) can be used. Disclosure of information about the amount and purposes of board designations of net assets without donor-imposed restrictions would also be required.

- The direct method of reporting cash flows for operating activities would be required, and the requirement to reconcile the change in net assets to net cash flows from operating activities would be removed. Certain cash flow categories would be reclassified to better align them with tentative guidance for presenting an intermediate measure of operations in the statement of activities.

- Expenses would be reported by their nature and by their function. A nonprofit organization would be required to provide an analysis of all expenses by function and by nature in one location (in the statement of activities, a separate statement of expenses similar to the current statement of functional expenses, or a schedule in the notes). Although this analysis would typically be provided in the form of a matrix, that specific format would not be required.

• Flexibility in the presentation of revenues, expenses, and other changes in net assets using a one- or two-statement approach would be allowed.

104.18 As noted in paragraph 104.16, one of the objectives of this project is to improve the information in the financial statements about a nonprofit organization's liquidity. According to the FASB, meeting this objective means providing information that enables financial statement users to identify and understand the effects of restrictions placed on an organization's assets. Tentative decisions to achieve this objective include requiring organizations to provide quantitative and qualitative information that includes a description of the time horizon used to manage liquidity. Qualitative disclosures would include the following:

• Total amount of financial assets.

• Amounts unavailable to meet cash needs within the organization's time horizon due to limitations.

• Total amount of financial liabilities due within the organization's time horizon.

Qualitative information would include information about how the organization manages its liquidity.

Other Significant FASB Activities Affecting Financial Reporting by Nonprofit Organizations

104.19 This discussion covers FASB projects that are either targeted to provide guidance for nonprofit organizations, or that by their broad applicability could affect financial reporting for nonprofit organizations. It begins by highlighting significant ASUs that have been issued since the last edition of this *Guide*.[15] A summary of other pertinent FASB projects underway as of the date of this *Guide* is also provided.

104.20 **ASU No. 2014-08 on Discontinued Operations**

In April 2014, the FASB issued ASU No. 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, which changes the criteria for reporting discontinued operations. For nonprofit organizations, ASU No. 2014-08 is effective for disposal related events that occur within annual periods beginning on or after December 15, 2014, with early implementation permitted. ASU No. 2014-08 is discussed beginning at paragraph 409.48.

104.21 **ASU No. 2014-15 on Going Concern**

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. Prior to this ASU, GAAP only addressed going concern from the perspective of it being presumed as the basis for preparing financial statements until the point liquidation becomes imminent and the liquidation basis of accounting is required. With the issuance of ASU No. 2014-15, GAAP now addresses going concern and establishes that the evaluation of an organization's ability to continue as a going concern is *management's* responsibility. The ASU is effective for annual periods ending after December 15, 2016, and interim periods within years beginning after December 15, 2016, with early implementation permitted. ASU No. 2014-15 is discussed beginning at paragraph 705.48.

104.22 **ASU No. 2015-01 on Extraordinary Items**

In January 2015, the FASB issued ASU No. 2015-01, *Income Statement—Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items*. ASU No. 2015-01 eliminates the concept of *extraordinary items* from GAAP. ASU No. 2015-01 is effective for all entities for fiscal years and interim periods within those years beginning after December 15, 2015, with early adoption permitted. ASU No. 2015-01 is discussed beginning at paragraph 409.14.

104.23 **ASU No. 2015-02 on Consolidation**

In February 2015, the FASB issued ASU No. 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*. Among other things, the ASU: (a) eliminates the presumption that a general partner controls a partnership, (b) removes the specialized consolidation model and guidance for limited partnerships, (c) adds a requirement that limited partnerships (and similar entities) must provide partners with either substantive kick-out rights or participating rights over the general partner to qualify as a voting interest entity, and (d) for entities that qualify as voting interest entities, a limited partner with a controlling financial interest is required to consolidate the limited partnership. ASU No. 2015-02 is effective for nonprofit organizations for fiscal years beginning after December 15, 2016, and for interim periods within fiscal years beginning after December 15, 2017, with early adoption permitted. Because of the delayed effective date, this *Guide* has not been updated to reflect the new guidance in ASU No. 2015-02. Future editions of this *Guide* will fully incorporate the new requirements.

104.24 **Standing Project on Technical Corrections to the FASB ASC**

The FASB has a standing project to provide regular updates and improvements to the FASB ASC and to address related feedback received from constituents. The FASB staff reviews the feedback, develops proposed amendments, and presents its recommendations for deliberation by the FASB. Exposure drafts of proposed amendments to the FASB ASC are then issued to address corrections.

104.25 As a result of this process, the FASB issued an exposure draft of a proposed ASU, *Technical Corrections* in September 2014. The scope of the proposed amendments would apply to all reporting entities within the scope of the affected accounting guidance. The proposed amendments generally fall into one of the following types of amendments: (a) amendments related to differences between original guidance (such as SFASs or EITF Issues) and the FASB ASC; (b) guidance clarification and reference corrections; (c) simplification; or (d) minor improvements. The amendments in the proposed ASU also would modify FASB ASC 820 to align terminology, and clarify various Topics of the FASB ASC to reflect the requirements of FASB ASC 820. These proposed amendments would not introduce any new fair value measurements and are not intended to result in a change in the application of the requirements in FASB ASC 820 or fundamentally change other principles of GAAP. As of the date of this *Guide*, the FASB's technical agenda indicates the FASB expects to issue a final ASU in the second quarter of 2015.

104.26 **Projects on Nonprofit Accounting for Goodwill and Certain Identifiable Intangible Assets**

The FASB has two narrow projects underway that are focused on simplification for nonprofit organizations and public entities. The project on goodwill is still in the research phase as the FASB staff conducts research on the use of the qualitative assessment for the possible impairment of goodwill that was made available for nonpublic business entities in ASU No. 2011-08, *Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment*. The second project on intangible assets is intended to evaluate whether certain identifiable intangible assets acquired in a business combination should be subsumed into goodwill. Both projects are in the early stages and the FASB has not begun formal deliberations.

FASB Initiative to Simplify Accounting Standards

104.27 In June 2014 the FASB announced an initiative to reduce complexity in accounting standards. The projects included in the initiative that result in new guidance are expected to simplify GAAP and be completed in a relatively short period of time. ASU No. 2015-01 on eliminating extraordinary items, discussed in paragraph 104.22, is a result of this initiative. ASU No. 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, issued in early April 2015, is another ASU from this initiative.[16]

104.28 Other projects that are part of the FASB's simplification initiative include the following:

- Simplifying the measurement date for defined benefit plan assets.

- Simplifying the equity method of accounting.

- Simplifying the subsequent measurement of inventory.

• Simplifying the balance sheet classification of debt.

As of the date of this *Guide*, the FASB's technical agenda indicated the ASU with new guidance for measuring defined benefit plan assets is being drafted with an issuance date targeted for early in the second quarter of 2015. Proposed guidance for simplifying the equity method of accounting is scheduled to be issued in an exposure draft sometime in the second quarter of 2015. The remaining two projects are still being deliberated and the FASB's technical agenda does not indicate a planned issuance date for proposed new standards.

Activities of the FASB's Not-for-Profit Advisory Committee

104.29 The NAC was established by the FASB in 2009 to support its efforts to address the accounting and reporting needs of nonprofit organizations and the users of their financial statements. In this advisory role the NAC provides the FASB with input and feedback on existing GAAP, current and proposed FASB projects, and long-term reporting and accounting issues. It also assists the FASB in communicating and reaching out to the nonprofit sector and other interested parties.

104.30 The primary outcome of the work done by the NAC so far is the project to improve guidance for financial statement presentation and disclosure discussed beginning at paragraph 104.16. The FASB has made considerable progress in considering the recommendations of the NAC for improvements to the financial reporting guidance for nonprofit organizations. The NAC also has provided feedback on the development of new guidance discussed beginning at paragraph 104.19. Information about activities and resources developed by the NAC is available on the FASB website at **www.fasb.org**.

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[14] The FASB changed the part of the project focused on hedge accounting from a joint project with the IASB to a FASB research project. The following discussion only addresses the progress on the recognition, measurement, and impairment of financial instruments.

[15] See the discussion of ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. beginning at paragraph 104.3.

[16] ASU No. 2015-3 is effective for nonprofit organizations for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. Future editions of this *Guide* will be updated for this new guidance.

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