Statement of Financial Accounting Standards No. 117

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Financial Statements of Not-for-Profit Organizations

June 1993

Financial Accounting Standards Board
of the Financial Accounting Foundation
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Financial Statements of Not-for-Profit Organizations

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FAS 117: Financial Statements of Not-for-Profit Organizations

FAS 117 Summary

This Statement establishes standards for general-purpose external financial statements provided by a not-for-profit organization. Its objective is to enhance the relevance, understandability, and comparability of financial statements issued by those organizations. It requires that those financial statements provide certain basic information that focuses on the entity as a whole and meets the common needs of external users of those statements.

This Statement requires that all not-for-profit organizations provide a statement of financial position, a statement of activities, and a statement of cash flows. It requires reporting amounts for the organization's total assets, liabilities, and net assets in a statement of financial position; reporting the change in an organization's net assets in a statement of activities; and reporting the change in its cash and cash equivalents in a statement of cash flows.

This Statement also requires classification of an organization's net assets and its revenues, expenses, gains, and losses based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of three classes of net assets—permanently restricted, temporarily restricted, and unrestricted—be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

This Statement amends FASB Statement No. 95, *Statement of Cash Flows*, to extend its provisions to not-for-profit organizations and to expand its description of cash flows from financing activities to include certain donor-restricted cash that must be used for long-term purposes. It also requires that voluntary health and welfare organizations provide a statement of functional expenses that reports expenses by both functional and natural classifications.

This Statement is effective for annual financial statements issued for fiscal years beginning after December 15, 1994, except for organizations with less than $5 million in total assets and less than $1 million in annual expenses. For those organizations, the Statement is effective for fiscal years beginning after December 15, 1995. Earlier application is encouraged.

INTRODUCTION

1. This Statement establishes standards for general-purpose external financial statements provided by a **not-for-profit organization**.[1] It specifies that those statements include a statement of financial position, a statement of activities, and a statement of cash flows. This Statement also amends FASB Statement No. 95, *Statement of Cash Flows*, to extend its provisions to not-for-profit organizations. It also specifies that **voluntary health and welfare organizations** continue to provide a statement of functional expenses, which is useful in associating expenses with service efforts and accomplishments of not-for-profit organizations.

2. Not-for-profit organizations currently provide financial statements that differ in their form and content. For example, most hospitals, trade associations, and membership organizations provide a statement of financial position and a statement of activities (or statement of revenues and expenses) that report their financial position and results of operations for the entity as a whole. In contrast, universities, museums, religious organizations, and certain other not-for-profit loose organizations often provide financial statements that report the financial position and changes in financial position of individual fund groups, but many do not report financial position and results of operations for the entity as a whole. Recently, some not-for-profit organizations have begun reporting cash flow information, but most do not. Further, voluntary health and welfare organizations and certain other charitable organizations generally provide a statement that reports expenses by **functional classification** and by natural classification, but most other not-for-profit organizations do not.

3. This Statement is part of a project that has been considering those and other inconsistent practices of not-for-profit organizations, including accounting and reporting principles and practices that are incorporated in several of the audit Guides of the American Institute of Certified Public Accountants (Appendix A). Because this Statement now establishes standards for reporting certain basic information in financial statements that are applicable to all not-for-profit organizations, provisions in AICPA Guides and Statements of Position that are inconsistent with this Statement are no longer acceptable *specialized* [2] accounting and reporting principles and practices. Within the parameters of this Statement, the AICPA or another appropriate body, following the process described in AICPA Statement on Auditing Standards (SAS) No. 69, *The Meaning of "Present Fairly in Conformity With Generally Accepted Accounting Principles" in the Independent Auditor's Report*, may provide more specific reporting guidance for certain not-for-profit organizations.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Purpose of a Set of Financial Statements

4. 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 not-for-profit organizations. Those external users of financial statements have common interests in assessing (a) the services an organization provides and its ability to continue to provide those services and (b) how managers discharge their stewardship responsibilities and other aspects of their performance.

5. More specifically, the purpose of financial statements, including accompanying notes, is to provide information about:

a. The amount and nature of an organization's assets, liabilities, and net assets
b. The effects of transactions and other events and circumstances that change the amount and nature of net assets
c. The amount and kinds of inflows and outflows of economic resources during a period and the relation between the inflows and outflows
d. How an organization obtains and spends cash, its borrowing and repayment of borrowing, and other factors that may affect its liquidity
e. The service efforts of an organization.

Individual financial statements provide different information, and the information each statement provides generally complements information in other financial statements.

Scope

6. A complete set of financial statements of a not-for-profit organization shall include a statement of financial position as of the end of the reporting period, a statement of activities and a statement of cash flows for the reporting period, and accompanying notes to financial statements.

7. This Statement specifies certain basic information to be reported in financial statements of not-for-profit organizations. Its requirements generally are no more stringent than requirements for business enterprises. A set of financial statements includes, either in the body of financial statements or in the accompanying notes, that information required by generally accepted accounting principles that do not specifically exempt not-for-profit organizations and required by applicable specialized accounting and reporting principles and practices. For example,

not-for-profit organizations should apply the disclosure and display provisions for financial instruments; loss contingencies; extraordinary, unusual, and infrequently occurring events; and accounting changes.

8. This Statement discusses how to report assets, liabilities, net assets, revenues, expenses, gains, and losses in financial statements; however, it does not specify when to recognize or how to measure those elements. The degree of aggregation and order of presentation of items of assets and liabilities in statements of financial position or of items of revenues and expenses in statements of activities of not-for-profit organizations, although not specified by this Statement, generally should be similar to those required or permitted for business enterprises. Appendix C includes financial statements that illustrate some of the ways that the requirements of this Statement may be met.

Statement of Financial Position

Purpose and Focus of a Statement of Financial Position

9. The primary purpose of a statement of financial position is to provide relevant information about an organization's assets, liabilities, and net assets and about their relationships to each other at a moment in time. The information provided in a statement of financial position, used with related disclosures and information in other financial statements, helps donors, members, creditors, and others to assess (a) the organization's ability to continue to provide services and (b) the organization's liquidity, financial flexibility,[3] ability to meet obligations, and needs for external financing.

10. A statement of financial position shall focus on the organization as a whole and shall report the amounts of its total assets, liabilities, and net assets.

Classification of Assets and Liabilities

11. A statement of financial position, including accompanying notes to financial statements, provides relevant information about liquidity, financial flexibility, and the interrelationship of an organization's assets and liabilities. That information generally is provided by aggregating assets and liabilities that possess similar characteristics into reasonably homogeneous groups. For example, entities generally report individual items of assets in homogeneous groups, such as cash and cash equivalents; accounts and notes receivable from patients, students, members, and other recipients of services; inventories of materials and supplies; deposits and prepayments for rent, insurance, and other services; marketable securities and other investment assets held for long-term purposes; and land, buildings, equipment, and other long-lived assets used to provide goods and services. Cash or other assets received with a **donor-imposed restriction** that limits their use to long-term purposes should not be classified with cash or other assets that are unrestricted and available for current use.[4]

12. Information about liquidity shall be provided by one or more of the following:

a. Sequencing assets according to their nearness of conversion to cash and sequencing liabilities according to the nearness of their maturity and resulting use of cash
b. Classifying assets and liabilities as current and noncurrent, as defined by Accounting Research Bulletin No. 43, Chapter 3A, "Working Capital—Current Assets and Current Liabilities"
c. Disclosing in notes to financial statements relevant information about the liquidity or maturity of assets and liabilities, including restrictions on the use of particular assets.

Classification of Net Assets as Donor Restricted or Unrestricted

13. A statement of financial position provided by a not-for-profit organization shall report the amounts for each of three classes of net assets—**permanently restricted net assets, temporarily restricted net assets**, and **unrestricted net assets**—based on the existence or absence of donor-imposed restrictions.

14. Information about the nature and amounts of different types of **permanent restrictions** or **temporary restrictions** shall be provided either by reporting their amounts on the face of the statement or by including relevant details in notes to financial statements. Separate line items may be reported within permanently restricted net assets or in notes to financial statements to distinguish between permanent restrictions for holdings of (a) assets, such as land or works of art, donated with stipulations that they be used for a specified purpose, be preserved, and not be sold or (b) assets donated with stipulations that they be invested to provide a permanent source of income. The latter result from gifts and bequests that create permanent **endowment funds**.

15. Similarly, separate line items may be reported within temporarily restricted net assets or in notes to financial statements to distinguish between temporary restrictions for (a) support of particular operating activities, (b) investment for a specified term, (c) use in a specified future period, or (d) acquisition of long-lived assets. Donors' temporary restrictions may require that resources be used in a later period or after a specified date (time restrictions), or that resources be used for a specified purpose (purpose restrictions), or both. For example, gifts of cash and other assets with stipulations that they be invested to provide a source of income for a specified term and that the income be used for a specified purpose are both time and purpose restricted. Those gifts often are called *term endowments*.

16. Unrestricted net assets generally result from revenues from providing services, producing and delivering goods, receiving unrestricted contributions, and receiving dividends or interest from investing in income-producing assets, less expenses incurred in providing services, producing and delivering goods, raising contributions, and performing administrative functions. The only limits on the use of unrestricted net assets are the broad limits resulting from the nature of the organization, the environment in which it operates, and the purposes specified in its articles of incorporation or bylaws and limits resulting from contractual agreements with

suppliers, creditors, and others entered into by the organization in the course of its business. Information about those contractual limits that are significant, including the existence of loan covenants, generally is provided in notes to financial statements. Similarly, information about self-imposed limits that may be useful, including information about voluntary resolutions by the governing board of an organization to designate a portion of its unrestricted net assets to function as an endowment (sometimes called a *board-designated endowment*), may be provided in notes to or on the face of financial statements.

Statement of Activities

Purpose and Focus of a Statement of Activities

17. The primary purpose of a statement of activities is to provide relevant information about (a) the effects of transactions and other events and circumstances that change the amount and nature of net assets, (b) the relationships of those transactions and other events and circumstances to each other, and (c) how the organization's resources are used in providing various programs or services. The information provided in a statement of activities, used with related disclosures and information in the other financial statements, helps donors, creditors, and others to (1) evaluate the organization's performance during a period, (2) assess an organization's service efforts and its ability to continue to provide services, and (3) assess how an organization's managers have discharged their stewardship responsibilities and other aspects of their performance.

18. A statement of activities provided by a not-for-profit organization shall focus on the organization as a whole and shall report the amount of the change in net assets for the period. It shall use a descriptive term such as *change in net assets* or *change in equity*.[5] The change in net assets should articulate to the net assets or equity reported in the statement of financial position.

Changes in Classes of Net Assets

19. A statement of activities shall report the amount of change in permanently restricted net assets, temporarily restricted net assets, and unrestricted net assets for the period. Revenues, expenses, gains, and losses increase or decrease net assets and shall be classified as provided in paragraphs 20-23. Other events, such as expirations of donor-imposed restrictions, that simultaneously increase one class of net assets and decrease another (reclassifications) shall be reported as separate items. Information about revenues, expenses, gains, losses, and reclassifications generally is provided by aggregating items that possess similar characteristics into reasonably homogeneous groups.

Classification of Revenues, Expenses, Gains, and Losses

20. A statement of activities shall report revenues as increases in unrestricted net assets unless the use of the assets received is limited by donor-imposed restrictions. For example, fees from

rendering services and income from investments generally are unrestricted; however, income from donor-restricted permanent or term endowments may be donor restricted and increase either temporarily restricted net assets or permanently restricted net assets. A statement of activities shall report expenses as decreases in unrestricted net assets.

21. Pursuant to FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made*, in the absence of a donor's explicit stipulation or circumstances surrounding the receipt of the contribution that make clear the donor's implicit restriction on use, contributions are reported as unrestricted revenues or gains (**unrestricted support**), which increase unrestricted net assets. Donor-restricted contributions are reported as restricted revenues or gains (**restricted support**), which increase temporarily restricted net assets or permanently restricted net assets depending on the type of restriction. However, donor-restricted contributions whose restrictions are met in the same reporting period may be reported as unrestricted support provided that an organization reports consistently from period to period and discloses its accounting policy.

22. A statement of activities shall report gains and losses recognized on investments and other assets (or liabilities) as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. For example, net gains on investment assets, to the extent recognized in financial statements, are reported as increases in unrestricted net assets unless their use is restricted to a specified purpose or future period. If the governing board determines that the relevant law requires the organization to retain permanently some portion of gains on investment assets of endowment funds, that amount shall be reported as an increase in permanently restricted net assets.

23. Classifying revenues, expenses, gains, and losses within classes of net assets does not preclude incorporating additional classifications within a statement of activities. For example, within a class or classes of changes in net assets, an organization may classify items as *operating* and nonoperating, expendable and nonexpendable, earned and unearned, recurring and nonrecurring, or in other ways. This Statement neither encourages nor discourages those further classifications. However, because terms such as *operating income, operating profit, operating surplus, operating deficit*, and *results of operations* are used with different meanings, if an intermediate measure of *operations* (for example, excess or deficit of *operating* revenues over expenses) is reported, it shall be in a financial statement that, at a minimum, reports the change in unrestricted net assets for the period. If an organization's use of the term *operations* is not apparent from the details provided on the face of the statement, a note to financial statements shall describe the nature of the reported measure of operations or the items excluded from operations.

Information about Gross Amounts of Revenues and Expenses

24. To help explain the relationships of a not-for-profit organization's ongoing major or central operations and activities, a statement of activities shall report the gross amounts of

revenues and expenses. However, investment revenues may be reported net of related expenses, such as custodial fees and investment advisory fees, provided that the amount of the expenses is disclosed either on the face of the statement of activities or in notes to financial statements.

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

Information about an Organization's Service Efforts

26. To help donors, creditors, and others in assessing an organization's service efforts, including the costs of its services and how it uses resources, a statement of activities or notes to financial statements shall provide information about expenses reported by their functional classification such as major classes of program services and supporting activities. Voluntary health and welfare organizations shall report that information as well as information about expenses by their natural classification, such as salaries, rent, electricity, interest expense, depreciation, awards and grants to others, and professional fees, in a matrix format in a separate financial statement. Other not-for-profit organizations are encouraged, but not required, to provide information about expenses by their natural classification.

27. Program services are the activities that result in goods and services being distributed to beneficiaries, customers, or members that fulfill the purposes or mission for which the organization exists. Those services are the major purpose for and the major output of the organization and often relate to several major programs. For example, a large university may have programs for student instruction, research, and patient care, among others. Similarly, a health and welfare organization may have programs for health or family services, research, disaster relief, and public education, among others.[6]

28. Supporting activities are all activities of a not-for-profit organization other than program services. Generally, they include management and general, fund-raising, and membership-development activities. Management and general activities include oversight, business management, general recordkeeping, budgeting, financing, and related administrative activities, and all management and administration except for direct conduct of program services or fund-raising activities. Fund-raising activities include publicizing and conducting fund-raising campaigns; maintaining donor mailing lists; conducting special fund-raising events; preparing and distributing fund-raising manuals, instructions, and other materials; and conducting other activities involved with soliciting contributions from individuals, foundations,

government agencies, and others. Membership-development activities include soliciting for prospective members and membership dues, membership relations, and similar activities.

Statement of Cash Flows

Purpose of a Statement of Cash Flows

29. The primary purpose of a statement of cash flows is to provide relevant information about the cash receipts and cash payments of an organization during a period. Statement 95 discusses how that information helps investors, creditors, and others and establishes standards for the information to be provided in a statement of cash flows of a business enterprise.

Amendments to Statement 95

30. Statement 95 is amended to extend its provisions to not-for-profit organizations as follows:

a. In the first sentence of paragraph 3, *or not-for-profit organization* is added after *business enterprise*.

b. In paragraph 3, the following is added after the first sentence:

> In this Statement *enterprise* encompasses both business enterprises and not-for-profit organizations, and the phrase *investors, creditors, and others* encompasses donors. The terms *income statement* and *net income* apply to a business enterprise; the terms *statement of activities* and *change in net assets* apply to a not-for-profit organization.

c. In paragraph 18, the following is added after *investment*;:

> receiving restricted resources that by donor stipulation must be used for long-term purposes;

d. In paragraph 19, the following is added to the end of the list:

> c. Receipts from contributions and investment income that by donor stipulation are restricted for the purposes of acquiring, constructing, or improving property, plant, equipment, or other long-lived assets or establishing or increasing a permanent endowment or term endowment.

e. In paragraph 27(b), the following footnote is added after *received*:

> *Interest and dividends that are donor restricted for long-term purposes as noted in paragraphs 18 and 19(c) are not part of operating cash receipts.

f. In paragraphs 28, 29, and 30 and in footnote 12, the following is added after each reference to *net income*:

> of a business enterprise or change in net assets of a not-for-profit organization

g. In the third sentence of paragraph 32, the following is added after *lease*;:

> obtaining a building or investment asset by receiving a gift;

h. In paragraph 130, the following is added to the end of the first sentence:

> of business enterprises. Appendix C of Statement No. 117, *Financial Statements of Not-for-Profit Organizations*, provides illustrations for the preparation of statements of cash flows for a not-for-profit organization.

Effective Date and Transition

31. This Statement shall be effective for annual financial statements issued for fiscal years beginning after December 15, 1994, except for organizations with less than $5 million in total assets and less than $1 million in annual expenses. For those organizations, the effective date shall be for fiscal years beginning after December 15, 1995. Earlier application is encouraged. This Statement need not be applied in financial statements for interim periods in the initial year of application, but information for those interim periods shall be reclassified if reported with annual financial statements for that fiscal year. If comparative annual financial statements are presented for earlier periods, those financial statements shall be reclassified (or restated) to reflect retroactive application of the provisions of this Statement. In the year that this Statement is first applied, the financial statements shall disclose the nature of any restatements and their effect, if any, on the change in net assets for each year presented.

The provisions of this Statement need not be applied to immaterial items.

This Statement was adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Dennis R. Beresford, *Chairman*
Joseph V. Anania
Victor H. Brown
James J. Leisenring
Robert H. Northcutt
A. Clarence Sampson

Robert J. Swieringa

Appendix A: BACKGROUND INFORMATION

32. This Statement considers and sets standards to resolve inconsistencies in financial statement display practices of not-for-profit organizations and has been coordinated with Statement 116 that considers accounting for contributions. This Statement also considers the specialized accounting and reporting principles of not-for-profit organizations that are described in the following AICPA documents:

a. *Audits of Colleges and Universities*, 1973
b. *Audits of Voluntary Health and Welfare Organizations*, 1974
c. Statement of Position 78-10, *Accounting Principles and Reporting Practices for Certain Nonprofit Organizations*, 1978
d. *Audits of Providers of Health Care Services*, 1990.

33. In March 1986, the Board added a project to its agenda to establish standards needed to resolve certain inconsistent accounting and reporting practices of not-for-profit organizations. Initially the project had two major parts: accounting for contributions and accounting for depreciation. The Board completed the depreciation part in 1987 when it issued FASB Statement No. 93, *Recognition of Depreciation by Not-for-Profit Organizations*.

34. In April 1986, with the Board's encouragement, the AICPA agreed to undertake a project to study matters of financial statement display. The AICPA's Accounting Standards Executive Committee (AcSEC) established a Not-for-Profit Organizations Task Force to prepare a report on display issues. In December 1988, AcSEC submitted its task force's report, *Display in the Financial Statements of Not-for-Profit Organizations*, to the Board. In February 1989, the Board added financial statement display as a third part of its project to establish standards for not-for-profit organizations.

35. In August 1989, the Board issued an Invitation to Comment, *Financial Reporting by Not-for-Profit Organizations: Form and Content of Financial Statements*, that included the AICPA task force report and requested comments on issues raised by that report. It identified 26 issues, many of which included one or more subordinate issues. The Board received more than 150 written responses to the Invitation to Comment. The AICPA task force report and the responses to the issues it raised provided useful information that assisted the Board in its deliberations. The major issues and the basis for the Board's conclusions on those issues are discussed in Appendix B.

36. In October 1992, the Board issued the Exposure Draft, *Financial Statements of Not-for-Profit Organizations*. The Board received more than 280 comment letters on that

Exposure Draft, and 24 organizations and individuals presented their views during a public hearing held on February 25 and 26, 1993. In November 1992, the Board also issued a related revised Exposure Draft, *Accounting for Contributions Received and Contributions Made*. Twenty organizations participated in a field test of these proposed Statements. Those organizations shared their recasted financial statements with 39 users of financial statements who also participated in this field test. The field test results, the details of which are confidential at the request of some participants, and the written comments and public hearing testimony of respondents to both proposed Statements were considered by the Board at a number of public Board meetings and at public meetings of the FASB Task Force on Accounting Issues for Not-for-Profit Organizations. That 17-member task force has provided advice on technical matters and about the priorities of the issues considered during all stages of the project.

Appendix B

BASIS FOR CONCLUSIONS

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Appendix B: BASIS FOR CONCLUSIONS

Introduction

37. This appendix summarizes considerations that Board members deemed significant in reaching the conclusions in this Statement. It includes reasons for accepting certain views and rejecting others. Individual Board members gave greater weight to some factors than to others.

Benefits and Costs

38. The mission of the FASB is to establish and improve standards of financial accounting and reporting for the guidance and education of the public, including issuers, auditors, and users of financial information. In fulfilling that mission the Board strives to determine that a proposed standard will fill a significant need and that the costs imposed to meet that standard, as compared with other alternatives, are justified in relation to the overall benefits of the resulting information. Because there is no common gauge by which to judge objectively the costs to implement a standard against the need to improve information in financial statements, the Board's assessment of the costs and benefits of issuing an accounting standard is unavoidably subjective. Moreover, because the costs to implement a new standard are not borne directly by those who derive the benefits of the improved reporting, the Board must balance the diverse and often conflicting needs of preparers, investors, donors, creditors, and others who use financial statements.

39. The Board's objective in issuing this Statement is to improve the relevance, understandability, and comparability of general-purpose financial statements issued by not-for-profit organizations. Those organizations currently provide financial statements that differ in their form and content. The Board believes that this Statement fills a significant need by requiring information that meets the objectives of financial reporting for not-for-profit organizations, by defining what constitutes a complete set of general-purpose financial statements for those organizations, and by requiring methods of reporting that information that are comprehensive, understandable, useful for decisions by present and potential resource providers, and consistent with the Board's conceptual framework.

40. The Board concluded that the overall benefits of the information provided by applying this Statement justify the costs that this Statement may impose. Although there will be transitional costs as not-for-profit organizations apply the requirements of this Statement, the Board believes that those organizations generally have the information systems that are needed to meet those requirements and that the ongoing costs should not be significantly greater than for existing requirements. The Board also believes that some of the costs this Statement imposes have been

reduced in various ways: by limiting the provisions of this Statement to requirements that are generally no more stringent than those for business enterprises, by providing broad guidance and allowing some latitude in how information is reported in financial statements, and by extending the effective date of application of this Statement.

Framework for Considering Issues on Financial Statement Display

41. The Board's consideration about what information should be reported in financial statements provided by not-for-profit organizations and how it should be displayed benefited from initial research contained in the report of the AICPA task force, which was included in the Invitation to Comment. The issues identified in that report, as well as the comments received, provided a framework for considering the kind of information that might be required or permitted to be reported or precluded from being reported in financial statements.

42. Several respondents to the Invitation to Comment suggested that the Board focus its efforts on fundamental issues and the Board agreed. It concluded that the reporting standards in this Statement generally should focus on information that is essential in meeting the financial reporting objectives applicable to all not-for-profit organizations and should be no more stringent than requirements for business enterprises.

Objectives of General-Purpose External Financial Reporting

43. The Board reaffirms that general-purpose external financial reporting should focus on the interests of present and potential resource providers. Paragraph 9 of FASB Concepts Statement No. 4, *Objectives of Financial Reporting by Nonbusiness Organizations*, says:

> The objectives [of financial reporting by not-for-profit organizations] stem from the common interests of those who provide resources to [not-for-profit] organizations in the services those organizations provide and their continuing ability to provide services. In contrast, the objectives of financial reporting [of business enterprises] stem from the interests of resource providers in the prospects of receiving cash as a return of and return on their investment. Despite different interests, resource providers of all entities look to information about economic resources, obligations, net resources, and changes in them for information that is useful in assessing their interests. All such resource providers focus on indicators of organization performance and information about management stewardship. [Footnote reference omitted.]

44. Thus, financial reporting by both not-for-profit organizations and business enterprises focuses on providing information that is useful to resource providers in deciding whether to provide resources to an entity. More specifically, Concepts Statement 4 says:

> Financial reporting should provide information about an organization's

> economic resources, obligations, and net resources. That information helps resource providers and others identify the organization's financial strengths and weaknesses, evaluate information about the organization's performance during the period . . . , and assess its ability to continue to render services. [paragraph 44]
>
> Periodic measurement of the changes in the amount and nature of the net resources of a [not-for-profit] organization and information about the service efforts and accomplishments of an organization together represent the information most useful in assessing its performance. [paragraph 47]
>
> Financial reporting should provide information about the amounts and kinds of inflows and outflows of resources during a period. It should distinguish resource flows that change net resources, such as inflows of fees or contributions and outflows for wages and salaries, from those that do not change net resources, such as borrowings or purchases of buildings. It also should identify inflows and outflows of restricted resources. [paragraph 48]
>
> Financial reporting should provide information about the relation between inflows and outflows of resources during a period. [paragraph 49]
>
> Financial reporting should provide information about the service efforts of a [not-for-profit] organization. Information about service efforts should focus on how the organization's resources . . . are used in providing different programs or services. [paragraph 52]
>
> Financial reporting should provide information about how an organization obtains and spends cash or other liquid resources, about its borrowing and repayment of borrowing, and about other factors that may affect its liquidity. [paragraph 54]

45. The objectives and capabilities of general-purpose external financial statements are limited; they do not and cannot satisfy all potential users equally well. They are useful to groups of external users, such as donors and creditors, that generally have similar needs. Regulatory bodies, such as departments of health, education, and consumer affairs, although interested in financial information, often have special-purpose needs that general-purpose financial statements cannot provide. They also have the authority to require information to meet their needs.

46. Individual financial statements also have practical limits. Generally, dissimilar information cannot be combined in a single statement without complicating the information, obscuring the statement's purpose, or both. For example, a single statement of "funds flows" might report and measure changes in economic resources of current funds as well as changes in other economic resources; however, that statement might unnecessarily confuse items of revenue with transfers from noncurrent funds or items of expense with expenditures to acquire noncurrent assets. This Statement considers whether that information is essential and should be presented in a single financial statement or in separate financial statements.

Broad Standards for Basic Information

47. Several respondents to the Invitation to Comment urged the Board to establish broad standards directed at the "critical" issues and to allow organizations sufficient latitude to report relevant information in ways they believe are most useful to present and potential users of their financial statements. Some respondents also suggested that that approach might allow more possibility for certain not-for-profit organizations, such as hospitals and universities, to report in ways that are comparable to similar profit-making or governmental entities. The Board agreed that broad standards that allow, within certain parameters, the exercise of judgment in determining how to best communicate meaningful information have certain advantages.

48. The Board believes that this Statement's broad general standards for reporting information in financial statements provided by not-for-profit organizations represent a significant step toward improving the comparability of those financial statements. Those standards also allow for future changes in financial statement display practices to occur in the gradual, evolutionary way that has characterized past changes in practices of both business enterprises and not-for-profit organizations. The Board believes that, at this time, broad general standards are preferable to narrow prescriptive standards that could unnecessarily inhibit the evolutionary development of meaningful financial reporting. Those respondents to the Exposure Draft who commented on this matter generally supported this fundamental approach and the reporting flexibility that this Statement permits.

49. The AICPA and other respondents, including members of the FASB's task force, asked the Board to clarify whether future Guides could establish more specific guidance than the broad reporting standards established by this Statement. Paragraph 3 of this Statement indicates that within the parameters of this Statement, the AICPA or another appropriate body, following the process described in AICPA Statement on Auditing Standards (SAS) No. 69, *The Meaning of "Present Fairly in Conformity With Generally Accepted Accounting Principles" in the Independent Auditor's Report*, may provide more specific reporting guidance for certain not-for-profit organizations. SAS 69 requires that an entity adopt cleared AICPA Industry Audit and Accounting Guides, and cleared AICPA Statements of Position that become effective after March 15, 1992. As used in SAS 69, cleared means that the FASB has indicated that it does not object to the issuance of the proposed pronouncement.

50. A national association representing colleges and universities and other respondents also asked the Board to clarify whether existing fund accounting requirements in Chapters 3-10 of *Audits of Colleges and Universities* are superseded by this Statement. Footnote 5 to paragraph 18 clarifies that reporting by fund groups is not required or precluded for purposes of external financial reporting. However, how an organization maintains its internal accounting and recordkeeping systems is a matter outside the purview of the FASB.

Complete Set of Financial Statements

51. The Invitation to Comment asked what basic financial statements, at a minimum, should be required parts of a complete set of general-purpose external financial statements for a

not-for-profit organization. Most respondents agreed with the advisory recommendation of the AICPA task force that a balance sheet (statement of financial position), a statement of changes in net assets (statement of activities), and a statement of cash flows should be required parts of a complete set of financial statements.

52. The Board agreed; it concluded that three financial statements are necessary to provide the variety of information needed to meet the financial reporting objectives of a not-for-profit organization and to report that information in ways that are both comprehensive and understandable. A statement of financial position, a statement of activities, and a statement of cash flows, used with related disclosures, provide information that is useful in assessing (a) the services an organization provides and its ability to continue to provide those services and (b) how managers discharge their stewardship responsibilities and other aspects of their performance. A majority of respondents agreed that the three basic financial statements should be required. However, some respondents to the Exposure Draft said that a statement of cash flows should not be a required part of a set of financial statements. They said that the additional information it provides may not be sufficiently useful to justify the added cost or may add confusion. However, most users of financial statements that participated in the field test found the statement of cash flows helpful or said the statement enhanced their understanding of the organization.

53. The Board concluded that the changes required by this Statement will result in greater comparability, completeness, and clarity in the financial statements issued by not-for-profit organizations, which should enhance significantly the understanding of the information provided by their financial statements. The direct beneficiaries of that information are likely to be present and potential donors, members, and creditors of not-for-profit organizations, which include individuals, foundations, and government granting agencies. Indirectly, not-for-profit organizations and society are likely to benefit from improved information that may lead to more efficient and effective decisions about how resources are allocated. The Board believes that not-for-profit organizations generally have management information systems that provide the basic information needed to prepare a set of financial statements that conform to the provisions of this Statement and that the benefits of the information provided generally exceed the costs to provide that information.

54. The Board continues to believe that "ideally, financial reporting also should provide information about the service accomplishments of a [not-for-profit] organization" (Concepts Statement 4, paragraph 53). However, this Statement emphasizes information to be reported in financial statements. Since information about service accomplishments generally is not measurable in units of money, it cannot be included and reported in the totals of the financial statements.

Other Financial Statements

55. Some respondents to the Invitation to Comment and to the Exposure Draft said that one or

more additional financial statements are necessary to report or measure other essential information. Some respondents said that a statement that reports expenses by both functional and natural classifications is necessary. Others said that a statement that reports operating revenues and expenses separate from other revenues and expenses should be required. Still others said that comparative financial statements for the prior period should be a required part of a complete set of financial statements.

Statement of Functional Expenses

56. The Board considered whether all not-for-profit organizations should provide information about expenses by (a) functional classification, (b) natural classification, (c) either functional or natural classification at the option of the organization, or (d) both functional and natural classification. It also considered whether they should provide that information in a financial statement or in notes to financial statements.

Reporting Expenses by Functional Classification

57. The Board concluded that information about expenses by function, such as major programs or services and major classes of supporting services, is necessary to an understanding of a not-for-profit organization's service efforts and that a set of financial statements should include that information. Requiring that information also is a step toward providing information that may be useful in associating an organization's expenses with its accomplishments. The Board concluded that information about an organization's expenses by function may be meaningfully communicated either in a statement of activities or in notes to financial statements.

58. The Board also concluded that information about the costs of significant programs or services are both relevant and measurable with sufficient reliability. Many costs are directly related to a major program or service or to a supporting activity. Some costs relate to two or more major programs and may require allocations. Techniques for allocating costs among significant programs or services are reasonably well developed; allocating costs among segments, products or services, and accounting periods are common in general-purpose accounting and reporting, managerial accounting, tax accounting, and contract accounting of all entities.

59. This Statement provides latitude for organizations to define their major programs and determine the degree of aggregation used when reporting expenses of major programs. That latitude has several advantages. Foremost, it allows organizations to report in ways that they believe are meaningful, related to their service efforts, and consistent with internal management information systems. That latitude allows organizations to use existing cost-allocation systems to provide the information necessary to comply with this Statement.

60. This Statement describes program services (paragraph 27) and supporting activities (paragraph 28) broadly. The Board believes those descriptions are consistent with functional reporting practices commonly used by most not-for-profit organizations for general-purpose reporting, regulatory filings, or sometimes both. By conforming to predominant existing

practices of classification, this Statement should minimize disruption to the continuity of financial reporting by not-for-profit organizations and minimize transitional costs.

61. Some respondents to the Exposure Draft said reporting expenses by function should not be required because that would be more stringent than reporting required of business enterprises. The Board concluded, however, that this difference, which stems from different indicators of performance of not-for-profit organizations and business enterprises, is appropriate and necessary. Paragraph 9 of Concepts Statement 4 explains that not-for-profit organizations "generally have no single indicator of performance comparable to a business enterprise's profit. Thus, other indicators of performance are usually needed." It adds that those indicators are "information about the nature of and relation between inflows and outflows of resources and information about *service efforts* and accomplishments" (emphasis added). Furthermore, the Board observes that a requirement for information about a not-for-profit organization's expenses by function is similar to standards that require information about a business enterprise's industry segments.

Reporting Expenses by Natural Classification

62. The Board decided not to require not-for-profit organizations to provide an analysis of expenses by natural classification. Some respondents said that information about expenses by natural classification may be essential in understanding the ability of an organization to continue to provide services and about the nature of the costs of providing those services. They noted that information about relatively fixed costs, such as salaries, versus discretionary costs, such as grants to subrecipients or awards to others, can be particularly useful. The Board agrees that information about expenses by natural classification often is useful and encourages organizations to provide that information. However, it also believes that information about expenses by natural classification may not be essential in understanding the service efforts of all not-for-profit organizations or in assessing the ability of all organizations to continue to provide services.

Reporting by Voluntary Health and Welfare Organizations

63. The Board indicated in the Exposure Draft that it believes that current specialized accounting and reporting principles and practices that require certain organizations to provide information about their expenses by both functional and natural classifications are not inconsistent with the requirements of this Statement. Thus, those specialized requirements continue in effect. It also noted that not-for-profit organizations often provide that information in regulatory filings to the Internal Revenue Service and certain state agencies, which are available to the public. Nonetheless, some respondents said the status of current AICPA requirements was unclear because this Statement encourages but does not require information about expense by natural classification. Respondents who use the financial statements of voluntary health and welfare organizations and other not-for-profit organizations expressed strong concern that they might lose meaningful information that currently is available to them if the Board did not clarify the status of the statement of functional expenses.

64. This Statement requires that voluntary health and welfare organizations continue to provide a statement that reports expenses by their functional and natural classifications in a matrix format. The Board believes that requirement is appropriate to prevent the loss of information that voluntary health and welfare organizations and users of their financial statements generally have found to be useful. The Board concluded that before extending that requirement to other organizations, further study is necessary to determine whether other cost-beneficial means of reporting information useful in associating expenses with service efforts might be developed.

Operating Statement

65. Some respondents to both the Invitation to Comment and the Exposure Draft suggested that a statement of activities should be divided into two parts, a statement of "operations" and a statement of other changes in net assets. They generally suggested that the first statement would report "operating" revenues and expenses and would be accompanied by another statement that would report all other revenues, gains, expenses, and losses and the change in net assets for the organization as a whole. They said that a separate operating statement is needed with a "bottom line" different from change in net assets. However, the respondents who expressed that view differed on how to define an operating measure and on which revenues and expenses would be included in or excluded from "operations." For example, some would include in "operations" all gifts that are available for current period use, whether restricted or not. Others would exclude gifts restricted to specified operating purposes if those purposes were not met in the current period. Some would exclude from "operations" revenues, gains, or losses from nonrecurring, unexpected, or unusual events such as a very large bequest, an insurance gain on a fire loss, or an unexpected loss contingency. Others would include some or all of those items.

66. The AICPA task force also considered whether a distinction should be made between operating and nonoperating activities and, if so, whether it should be accomplished within a statement of changes in net assets or through separate statements. In paragraph 124 of its report, the task force said that as it "tried to find a universal definition of 'operations' in a not-for-profit environment, differences in the use of that term became more apparent. In fact, it became clear that distinctions based on operations tend to be arbitrary." That observation is not limited to the not-for-profit sector. To define "operations" for business enterprises has proved equally problematic.

67. The Board decided to neither require nor preclude a not-for-profit organization from classifying its revenues, expenses, gains, and losses as operating or nonoperating within its statement of activities. Present standards neither require nor preclude a business enterprise from classifying its revenues, expenses, gains, and losses in that way, and the Board found no compelling reason to prescribe more specific display standards for not-for-profit organizations.

68. The Board believes that within the parameters of this Statement, not-for-profit organizations should have the same latitude as a business enterprise to make distinctions that

they believe will provide meaningful information. Most respondents to the Exposure Draft that commented on this matter agreed that this Statement should not preclude making so-called operating or nonoperating or other distinctions within each of this Statement's required classes of net assets. A few respondents and FASB task force members suggested, however, that because terms such as *operating income, operating profit, operating surplus, operating deficit*, and *results of operations* are used with different meanings, some constraints are necessary to avoid focusing on undefined measures that may be misunderstood. The Board decided that if an intermediate measure of *operations* is reported, it should be in a financial statement that, at a minimum, reports the change in unrestricted net assets for the period. This Statement also specifies that if an organization's use of the term *operations* is not apparent from the details provided on the face of the statement, a note to financial statements should describe the nature of the reported measure of operations or the items excluded from operations. Appendix C illustrates how an intermediate measure of operations might be presented in financial statements.

Comparative Financial Statements

69. The Invitation to Comment asked whether a complete set of financial statements should include prior-year comparative information in essentially the same form as financial statements for the current period. Most respondents agreed with the AICPA task force advisory conclusion that prior-year comparative information should be encouraged but not required and that if presented, prior-year information should comply with the minimum requirements for a set of financial statements.

70. The Board concluded that the existing standard provided by ARB No. 43, Chapter 2A, "Form of Statements—Comparative Financial Statements," which encourages but does not require comparative financial statements, is relevant to all entities. The usefulness of information about an entity increases if that information can be compared with similar information for other periods, but at times it may be impractical or impossible to provide comparative information on a fully consistent basis of accounting. For example, if a business enterprise or not-for-profit organization changes from a cash basis to an accrual basis of accounting, comparable information for periods before the change may be impossible or too expensive to obtain because of the way accounts were kept. The Board found no reason to impose a more stringent standard for reporting by not-for-profit organizations. Most respondents to the Exposure Draft agreed; others generally said that comparative financial statements should be required.

Aggregation and Classification of Information

71. The Board believes that if financial statements are to be useful, data must be simplified, condensed, and aggregated into meaningful totals.[7] Many not-for-profit organizations are complex entities with multiple program services and diverse, complex, and sometimes unpredictable sources of funding. Their transactions and events are voluminous and must be combined and condensed to be reported in financial statements in ways that are understandable

to external resource providers and others. That fact leads to a number of considerations.

Aggregated Information Focusing on an Entity

72. The Board believes that aggregated information about an entity as a whole facilitates an overall understanding of its financial position, results of its operations, and its cash flows. It concluded that reporting certain basic totals, such as total assets, liabilities, net assets, change in net assets, cash and cash equivalents, and change in cash and cash equivalents, will improve the understandability, usefulness, and completeness of financial reporting by not-for-profit organizations. It also believes that that basic information is necessary to an overall understanding of the entity's financial position, results of its operations, and its cash flows.

73. Summary amounts also are useful in assessing an entity's financial strengths and weaknesses over periods of time, and they provide a basis for further inquiry and analysis of the reasons why its net assets increased or decreased, the causes of the changes in its cash and other liquid assets, and so forth. Summary amounts also are helpful in comparing a not-for-profit organization with other organizations, including similar entities in the profit-making or governmental sectors.

74. In assessing the financial position or performance of a not-for-profit organization, however, the Board believes it is important to avoid focusing attention almost exclusively on net assets, change in net assets, total assets, or other highly simplified and aggregated amounts. For example, in Concepts Statement No. 6, *Elements of Financial Statements*, paragraph 106, the Board says, "Since donor-imposed restrictions affect the types and levels of service a not-for-profit organization can provide, whether an organization has maintained certain classes of net assets may be more significant than whether it has maintained net assets in the aggregate." Similarly, it is important to avoid focusing attention almost exclusively on "the bottom line" or other highly simplified and condensed information about business enterprises. Accordingly, this Statement requires not only summary amounts that focus on a not-for-profit organization as a whole but also information about items and components of those amounts; for example, it generally requires reporting information about the gross amounts of items of revenues and expenses and of cash receipts and cash payments.

Classification of Information

75. The Board concluded that the usefulness of information provided by financial statements of not-for-profit organizations could be vastly improved if certain basic information is classified in comparable ways. The Board decided that all not-for-profit organizations should:

a. Report assets and liabilities in reasonably homogeneous groups and sequence or classify them in ways that provide relevant information about their interrelationships, liquidity, and financial flexibility.
b. Classify and report net assets in three groups—permanently restricted, temporarily restricted, and unrestricted—based on the existence or absence of donor-imposed

restrictions and the nature of those restrictions.

c. Aggregate items of revenues, expenses, gains, and losses into reasonably homogeneous groups and classify and report them as increases or decreases in permanently restricted, temporarily restricted, or unrestricted net assets.
d. Classify and report cash receipts and cash payments as resulting from investing, financing, or operating activities.

The Board concluded that those broad classifications are among the minimum requirements necessary to meet the objectives of financial reporting by not-for-profit organizations (paragraphs 43 and 44).

76. Classifying and aggregating items with similar characteristics into reasonably homogeneous groups and separating items with differing characteristics is a basic reporting practice that increases the usefulness of information. For example, cash collections of receivables from patients, students, or other service recipients may differ significantly in continuity, stability, and risk from cash collections of pledges made to a special-purpose fund-raising campaign. Classifying and reporting those receivables and collections of receivables as separate groups of assets and of cash inflows facilitates financial statement analysis aimed at objectives such as predicting amounts, timing, and uncertainty of future cash flows.

77. Perhaps the most prevalent problem in current practice is that not-for-profit organizations report their financial position and the effects of transactions, events, and circumstances that change the amount and nature of their net assets in significantly different ways. Many not-for-profit organizations report information for groups of assets and related liabilities of four or more individual fund groups, either in several columns on a single page or in statements on separate pages. Some also include a total column or measures of total assets, liabilities, and net assets of the organization; however, many do not.

78. Although disaggregated information can be useful, differing definitions and terminology for reporting disaggregated fund groups make current financial reporting by not-for-profit organizations difficult to understand. Some organizations use internally defined fund groups that focus on measures of importance to an organization's managers rather than on the common information needs of external users of its financial statements. Other organizations focus on measures or fund groups unique to their particular industry.

79. Differing definitions and fund groups often result in financial statements with objectives or measurement focuses that are unclear, misunderstood, or both. For example, the Guide for colleges and universities explicitly says, "The statement of current funds revenues, expenditures, and other changes is a statement unique to educational and similar institutions. . . . It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses" (pages 55 and 56). That statement of current funds revenues, expenditures, and other changes measures the change in current funds,

which is similar to a measure of change in working capital. Nonetheless, it often is said to be an "operating statement" or said to present the operating surplus, deficit, or "bottom line" for the period.

80. The Board believes this Statement's basic requirements for classifying information in financial statements will lead to more relevant, comparable, and understandable financial reporting by not-for-profit organizations. More prescriptive standards that require information to be classified in ways that go beyond the minimum requirements of this Statement may result in further improvements. However, because not-for-profit organizations are diverse and many are complex entities, the Board decided that it is best at this time to allow sufficient latitude for financial reporting practices to continue to evolve. The Board also believes that AICPA Guides and industry groups are likely, as in the past, to provide guidance to meet more specific needs for disaggregated information that may arise in practice.

Format of Financial Statements

81. The Invitation to Comment raised several questions about whether specified financial statement formats should be required, permitted, or precluded. For example, the AICPA task force suggested that information about revenues, expenses, gains, and losses for each of three classes of net assets should be allowed to be reported on a single page with no organization-wide totals for each item. That task force also suggested that a standardized format should not be required. Views of respondents to the Invitation to Comment were divided. Most would require columnar formats, although a large minority would not. Many would require totals for items of an entity's revenues, expenses, gains, and losses, but many would not. Many of those that would require or preclude particular formats are concerned that unstructured disaggregated information may obscure other essential and meaningful information.

82. Except as noted in paragraph 68, the Board decided to neither prescribe nor prohibit particular formats for a statement of financial position, a statement of activities, or a statement of cash flows, in part because similar prescriptions and proscriptions do not exist for business enterprises. The Board also concluded that standards for reporting financial information should focus on the content of financial statements, that is, on the basic information to be provided in financial statements. Most respondents to the Exposure Draft agreed. The Board expects this Statement's focus on certain basic aggregated information will place practical limits on the number of differing ways information is formatted and that those practical limits will eliminate most concerns about highly disaggregated information. The Board also expects that, as in the past, industry associations will encourage their member organizations to adopt, within the parameters of this Statement, reasonably common and preferable practices for reporting information in financial statements.

Statement of Financial Position

83. The Board concluded that a statement of financial position (balance sheet) should provide

relevant information about an organization's assets, liabilities, and net assets. Information that helps resource providers and others identify the organization's financial strengths and weaknesses, evaluate its performance during the period, and assess its ability to continue to render services is relevant.

Display of Aggregated Totals

84. The Board concluded that a statement of financial position should report the aggregated totals for an organization's assets, liabilities, and net assets. These totals are helpful in assessing the interrelationship of an organization's assets and liabilities and, together with information about the components of assets, liabilities, and net assets, are necessary to an understanding of an organization's financial position. In paragraph 103 of its report, the AICPA task force explicitly recommended that the aggregated total of an organization's net assets be presented in a statement of financial position. Respondents to the Invitation to Comment generally agreed.

85. The Invitation to Comment did not ask whether not-for-profit organizations should report aggregated totals for assets and liabilities. However, the AICPA task force recommended that amounts for items of assets, liabilities, and net assets be presented as a self-balancing group of amounts in a single column, which suggests that highly aggregated totals would be presented. A single group of amounts also implies exclusion or elimination of interfund amounts that could overstate an organization's total assets and total liabilities.[8] Most respondents to the Invitation to Comment and to the Exposure Draft supported reporting assets, liabilities, and net assets in one self-balancing group of amounts in a single column.

86. This Statement emphasizes the need for information about both aggregated totals for assets, liabilities, and net assets and about reasonably homogeneous groups of items of assets and liabilities. Because the Board decided not to emphasize or preclude specific statement formats, this Statement permits a left-to-right or top-to-bottom "balanced" format as well as single-column, multicolumn, single-page, or multipage formats. The Board believes that the provisions of this Statement applied with other generally accepted accounting principles will provide relevant information about the amounts and nature of differing kinds of assets and liabilities, either through disclosures in a statement of financial position or in accompanying notes to financial statements.

Classification of Assets and Liabilities

87. The Invitation to Comment asked whether not-for-profit organizations should classify items of assets and liabilities as current or long-term or should use another classification method, such as nearness to cash, to provide information about liquidity. The AICPA task force recommended that not-for-profit organizations be required to either provide a classified statement of financial position (current and noncurrent assets and liabilities) or highlight illiquid assets by displaying in the net asset section the amount of the entity's fixed assets less related liabilities (sometimes called the *net investment in plant or net equity invested in property, plant, and equipment*). A significant majority of respondents disagreed with that recommendation.

Some respondents said that the requirements should be more permissive, but many others said that they should be more prescriptive. For example, many agreed that a classified statement of financial position should be permitted but they would not require that or the alternative breakout of the net asset section. Many others said a classified statement should be required. Others said that a nearness to cash method of classification should be required.

88. The Board concluded that reporting the net equity invested in property, plant, and equipment within the net asset section is not a substitute for arranging or classifying items of assets and liabilities in ways that provide information about liquidity. The Board believes that essential information about liquidity and an organization's financial flexibility can be provided either by classifying assets and liabilities as current and noncurrent or by sequencing assets according to their nearness of conversion to cash and liabilities according to the nearness of their maturity and resulting use of cash. Each method has advantages and practical limitations.

89. Classifying assets and liabilities as current and noncurrent, although not required by generally accepted accounting principles, is a common reporting practice of both business enterprises and not-for-profit organizations. As others have noted,[9] this classification alone generally does not provide users of financial statements with the liquidity information they need. Thus, other disclosures must be added to the financial statement or notes to financial statements. More recently, financial reporting has emphasized information about changes in cash and cash equivalents, and that new emphasis obviates the need for a rigid requirement to classify and report amounts of current assets and current liabilities.

90. For many small or less-complex organizations, grouping homogeneous items of assets and liabilities and sequencing them according to nearness of cash or maturity is sufficient. Further distinctions at higher degrees of aggregation, such as current and noncurrent assets and liabilities, generally would be unnecessary. Board members also noted that since the issuance of FASB Statement No. 94, *Consolidation of All Majority-Owned Subsidiaries*, many entities have been experimenting with differing degrees of aggregating and displaying information about their assets and liabilities. They believe that at this time it is best to avoid prescriptive standards that might stand in the way of those evolving reporting practices.

91. Some relevant information about the liquidity or maturity of assets and liabilities cannot be adequately communicated solely by classification methods, such as current and noncurrent, or by sequencing information in financial statements. This Statement and generally accepted accounting principles provide latitude, in those circumstances, to disclose information in notes to financial statements. For example, organizations that receive significant amounts of multiyear pledges or that finance their cash needs by borrowing long term generally must use notes to their statements to provide information about expected cash inflows from receivables or expected cash outflows to satisfy long-term borrowings. The Board decided that to report relevant information about liquidity and the interrelationship of assets and liabilities, not-for-profit organizations should have latitude to select classification methods, levels of aggregation, and disclosure techniques that are most meaningful and practical for their circumstances.

92. The Board also considered whether more specific standards are necessary to provide information about the nature and amount of donor-imposed restrictions on the use of contributed assets. A majority of respondents to the Invitation to Comment agreed with the AICPA task force advisory recommendation that not-for-profit organizations be permitted but not required to disaggregate and report assets and liabilities by their related classes of net assets. Respondents that disagreed were divided. Some would preclude that kind of disaggregation and others would require it. A few respondents to the Invitation to Comment and to the Exposure Draft said restrictions on gifts that create permanent endowments or that require acquisition of land, buildings, and other long-lived assets differ significantly from other donor restrictions and that those assets must be reported in a separate statement of financial position.

93. Donor-imposed restrictions may influence the liquidity or cash flow patterns of certain assets and that kind of information may be helpful in assessing the financial flexibility of a not-for-profit organization. For example, a donor stipulation that donated cash be used to acquire land and buildings limits an organization's ability to take effective actions to respond to unexpected opportunities or needs, such as emergency disaster relief. On the other hand, some donor-imposed restrictions have little or no influence on cash flow patterns or an organization's financial flexibility. For example, a gift of cash with a donor stipulation that it be used for emergency-relief efforts has a negligible impact on an organization if emergency relief is one of its major ongoing programs.

94. The Board decided to permit but not require not-for-profit organizations to disaggregate and report assets and liabilities by donor-restricted and unrestricted classes or fund groups. It believes that not-for-profit organizations generally can provide relevant information about liquidity and financial flexibility by aggregating assets and liabilities into reasonably homogeneous groups that include the effects of donor-imposed restrictions as well as other contractual restrictions. Classifying and labeling assets in ways that include the effects of restrictions on liquidity is a long-established practice. For example, cash and claims to cash restricted as to withdrawal or use for other than current operations, whether actually set aside in a special account or not, are excluded from current assets of a business enterprise. Similarly, amounts of cash restricted to a permanent endowment should be excluded from aggregated amounts of cash and cash equivalents for current operations of a not-for-profit organization because they are not homogeneous items.

Classification of Net Assets

95. The Invitation to Comment asked if not-for-profit organizations should report amounts for classes of net assets and, if so, how they should label those amounts. The AICPA task force recommended that not-for-profit organizations report three classes of net assets (or equity)—unrestricted, temporarily restricted, and permanently restricted—as defined by Concepts Statement 6. It also said organizations should use those terms in their financial statements. Respondents generally agreed with the first recommendation; however, views

differed about how to label the three classes of net assets.

96. The Board concluded that information about the effects of donor-imposed restrictions on net assets is relevant to users of financial statements of not-for-profit organizations. Donors' restrictions impose special responsibilities on management of an organization to ensure that it uses donated assets as stipulated. Because they also place limits on the use of resources, donors' restrictions may impinge upon an organization's performance and its ability to provide a satisfactory level of services. Information about how managers discharge their stewardship responsibilities for donor-restricted resources also is useful in assessing an organization's performance.

97. Although respondents to the Invitation to Comment generally supported requiring a minimum of three classes of net assets, the Board also considered whether fewer or more classes of net assets would be appropriate. For example, the Board considered whether reporting unrestricted net assets and donor-restricted net assets would suffice. The Board also considered the present practices of not-for-profit organizations that provide disaggregated information through the use of several fund groups. The Board believes that aggregation in financial statements at a level higher than that commonly found in practice would improve financial reporting by not-for-profit organizations and an understanding of the financial position of those organizations. Important details about differing kinds of donor-restricted classes of net assets also can be provided in notes to financial statements.

98. The Board concluded that consistent with Concepts Statement 6, information about a minimum of three classes of net assets, based on the presence or absence of donor-imposed restrictions and their nature, generally is necessary to gain an adequate understanding of the financial position of a not-for-profit organization, including its financial flexibility and ability to continue to render services. Information about permanent restrictions is useful in determining the extent to which an organization's net assets are not a source of cash for payments to present or prospective lenders, suppliers, or employees and thus are not expected to be directly available for providing services or paying creditors. Information about the extent of unrestricted net assets and of temporarily restricted net assets is useful in assessing an organization's ability and limitations on its ability to allocate resources to provide services or particular kinds of services or to make cash payments to creditors in the future. The Board believes that aggregated information about the three component parts of an organization's net assets is especially important to both donors and creditors and that that information is best provided by display of their amounts in a statement of financial position. Most respondents to the Exposure Draft expressed similar views; others said that amounts for fund balances should be required for fund groups, such as operating, plant, endowment, and other funds.

99. The Board also considered comments raised about how to label the three classes of net assets. Several representatives of health care providers said that single equity line items, identified as unrestricted, temporarily restricted, and permanently restricted are sufficient but that specific terms should not be required. Other respondents said organizations should have

sufficient latitude to use other terms, such as unrestricted fund balance, temporarily restricted fund balance, and permanently restricted fund balance.

100. The Board concluded that while definitions are necessary to make the distinctions required by this Statement, stringent requirements to use specific terms are not necessary to faithfully represent those distinctions. As illustrated in Appendix C, this Statement encourages the use of the terms unrestricted, temporarily restricted, and permanently restricted net assets; however, the Board knows that other labels exist. For example, *equity* may be used for net assets, and *other* or *not donor-restricted* may be used with care to distinguish unrestricted net assets from the temporarily and permanently restricted classes of net assets. For example, the net asset section might be arranged as follows:

Donor restricted:		
Permanently		$XXX
Temporarily		XXX
Other:		
Designated by the Board for [*purpose*]	$XXX	
Undesignated	XXX	XXX
Net assets		$XXX

At a minimum, the amounts for each of the three classes of net assets and the total of net assets must be reported in a statement of financial position and the captions used to describe those amounts must correspond with their meanings, as defined by this Statement. A few respondents to the Exposure Draft suggested that organizations should be required to report separate amounts of unrestricted net assets designated by the governing board for long-term investment or for investment in plant. The Board concluded that those disclosures are not essential and that organizations should be permitted but not required to provide those or other disclosures on the face of financial statements or in notes to financial statements.

Disclosures about Composition of Assets in Accordance with Donor Restrictions

101. The Invitation to Comment asked whether an organization that does not maintain an appropriate composition of assets (usually cash and marketable securities) in amounts needed to comply with all donor restrictions should report that noncompliance. It also asked if that reporting should be accomplished by (a) explicit disclosure in notes to financial statements, (b) displaying self-balancing fund groups for each significant type of donor restriction, or (c) other means. The AICPA task force recommended that if an organization does not maintain an appropriate composition of assets in amounts needed to comply with all donor restrictions, the amounts and circumstances involved should be disclosed. Respondents to the Invitation to Comment generally agreed; however, some respondents suggested that existing accounting and auditing standards adequately address this matter.

102. In their May 7, 1992 letter responding to a request of the FASB about the adequacy of existing accounting and auditing standards, the AICPA's Not-for-Profit Organizations Committee and Not-for-Profit Organizations Guide Task Force said:

> We believe [FASB Statement No. 5, *Accounting for Contingencies*, AICPA Statements on Auditing Standards No. 47, *Audit Risk and Materiality in Conducting an Audit*, and No. 54, *Illegal Acts by Clients*] require that noncompliance with donor-imposed restrictions be disclosed if there is a reasonable possibility that a material contingent liability has been incurred at the date of the financial statements or there is at least a reasonable possibility that the noncompliance could lead to a material loss of revenue, or can cause an entity not to be able to continue as a going concern.

They also said that existing AICPA Guides for not-for-profit organizations provide relevant guidance and they will consider developing further guidance as part of a Guide revision project to be completed after the FASB issues this Statement. Accordingly, the Board concluded that this Statement, which emphasizes how and what information to provide in financial statements, need not explicitly consider this matter of compliance and related disclosure issues raised by the Invitation to Comment.

Statement of Activities

103. The Board concluded that a statement of activities should provide relevant information about the effects of transactions and other events and circumstances that change the amount and nature of an organization's net assets. This Statement affirms that information about revenues, expenses, gains, and losses is relevant and emphasizes four measures of their effects—change in the amount of an organization's net assets and change in the amounts of an organization's permanently restricted net assets, temporarily restricted net assets, and unrestricted net assets. The Board believes those measures together with information about their components are essential to resource providers and others in evaluating an organization's performance during the period. Respondents to the Exposure Draft generally agreed.

Display of Aggregated Totals

104. The Invitation to Comment requested comments about the appropriate level of aggregation or disaggregation in reporting the amounts for items of revenues, expenses, gains, and losses, and the change in net assets. Several interrelated questions asked whether certain disaggregated information and certain aggregated totals about those items should be required or permitted to be reported or precluded from being reported in a statement of changes in net assets (statement of activities). It also raised several questions about how to format those items in a statement of changes in net assets.

105. In paragraph 225 of its report, the AICPA task force said that among other things it "believes that the statement of changes in net assets should . . . include . . . revenues, expenses, gains, and losses and their components classified into the appropriate class of net assets—permanently restricted, temporarily restricted, and unrestricted [and] the change for the period in each of the three classes of net assets. . . ." In paragraph 226 the task force also said that "a total for each element [revenues, expenses, gains, and losses] should not be required to be displayed" and it summarized more specifically the ways it believes the content of a statement of changes in net assets should be presented, including how specific line items should be sequenced and how statements should be formatted, to best achieve the objectives of financial reporting by not-for-profit organizations. The Board decided that at this time it would be preferable to focus on requirements for reporting certain basic and essential information by all not-for-profit organizations rather than how specific line items are sequenced or how statements are formatted.

Change in Net Assets and Change in Classes of Net Assets

106. The AICPA task force recommended that a statement of changes in net assets include measures of change in permanently restricted net assets, change in temporarily restricted net assets, and change in unrestricted net assets. The task force was divided on whether change in net assets for the organization as a whole should be displayed; the majority of its members said display of that measure should be permitted and a significant minority said it should be required. A majority of respondents supported the AICPA recommendation to classify revenues, expenses, gains, and losses and their components into permanently restricted, temporarily restricted, and unrestricted net assets and report the change for each of the three classes of net assets. Some respondents who disagreed would require totals for the activity of the organization as a whole or would classify revenues, expenses, gains, and losses in other ways, such as by an "operating" and nonoperating classification or by "managed fund groups" as defined by the organization.

107. The Board concluded that not-for-profit organizations should report the amounts for the change in net assets for the organization as a whole and the change in permanently restricted net assets, temporarily restricted net assets, and unrestricted net assets. The Board concluded that those four measures of the effects of revenues, expenses, and other transactions, events, and circumstances are necessary to evaluate an organization's performance during the period and they are useful in assessing its ability to continue to render services. This Statement also affirms the conclusions in paragraphs 9 and 47 of Concepts Statement 4 that not-for-profit organizations "generally have no single indicator of performance comparable to a business enterprise's profit" and that "periodic measurement of the changes in the amount and nature of the net resources of a [not-for-profit] organization and information about the service efforts and accomplishments of an organization together represent the information most useful in assessing its performance."

108. Measures of the change in an organization's net assets and its classes of net assets are useful individually and collectively. Paragraphs 103-106 of Concepts Statement 6 explain that a measure of the amount of periodic change in net assets is useful in assessing whether an organization is maintaining its net assets, drawing upon resources received in past periods, or adding resources that can be used to support future periods. That measure provides information

useful in assessing an organization's overall ability to continue to provide satisfactory levels of services. Periodic measures of change in net assets are also useful in assessing trends over time.

109. Moreover, not-for-profit organizations receive significant amounts of contributed resources and because donor-imposed restrictions often affect the types and level of service they can provide, information about changes in the nature of net assets of not-for-profit organizations is useful, particularly in assessing their ability to respond to short-term needs for differing types or higher levels of services. For example, if an organization maintained its net assets solely because it received a significant permanently restricted endowment contribution that made up for a significant decrease in unrestricted net assets, measures of the change in the permanently restricted and unrestricted classes of net assets would be informative in assessing the organization's long-run and short-run ability to provide comparable types or levels of services in the future. Similarly, if the organization received significant restricted contributions in response to a building campaign, a measure of the change in the temporarily restricted class of net assets may be useful in assessing the extent to which the organization maintained the part of net assets that is restricted to specific uses and is not fully available to support services of the next period. While each of the four required measures provide useful information, because of their interrelationships, they also provide information by complementing each other.

110. Furthermore, the Board believes that requiring not-for-profit organizations to distinguish between transactions and other events without donor-imposed restrictions and those with temporary or permanent restrictions imposes no more stringent standards on those organizations than exist for business enterprises. Rather, the distinctions required of not-for-profit organizations and of business enterprises reflect differences in their characteristics and objectives of financial reporting. Business enterprises must distinguish between owner and nonowner transactions that change their net assets, a distinction that generally is not relevant to not-for-profit organizations, and not-for-profit organizations must distinguish between transactions without donor-imposed restrictions and those with permanent and temporary restrictions, a distinction that generally is not relevant to business enterprises.

A Measure of "Operating Income" or Similar Measures

111. As discussed in paragraphs 65-68, the Board also considered whether to require distinctions between "operating" revenues, expenses, gains, and losses and other transactions that change an organization's net assets. Some respondents to the Invitation to Comment and to the Exposure Draft said that there is a strong need for a measure of how an organization is managing or maintaining the resources available for its "operations" or its "current operations." Others characterized that as a need for a measure similar to a business enterprise's "net income," "operating income," or "income from continuing operations." A few others said that unusually large gifts should be classified as nonoperating revenues or capital contributions if the organization's governing board designates those gifts for long-term investment. However, most respondents to the Exposure Draft suggested that the Board not define or proscribe a so-called operating measure for all or specific types of not-for-profit organizations.

112. The Board believes that change in unrestricted net assets, which measures whether an organization has maintained the part of its net assets that is fully available to support services in the next period, may serve as an *operating measure* as that term is used by some respondents. The Board also believes that this Statement provides ample latitude to sequence items of revenues and expenses in ways that permit organizations to report subtotals similar to other respondents' descriptions of "operating income" or "current operating income." Thus, this Statement should not inhibit an evolution toward reporting the so-called operating measure if all or certain kinds of not-for-profit organizations or industries find that measure desirable for their specific circumstances.

113. The Board also considered whether to preclude or limit the use of terms such as *operating income* or *operating surplus or deficit*. Some FASB task force members and others said that this Statement allows too much flexibility and that the term *operating income* may be used inconsistently. They suggested specifying that if an *operating* label is used, it should only be used for the measure of unrestricted net assets as defined by this Statement or for an intermediate component of unrestricted net assets that excludes a few specified items, such as extraordinary items, the effects of discontinued operations, the cumulative effect of accounting changes, and perhaps certain gains and losses on investment assets.

114. The Board concluded that there is no compelling reason to prescribe the display of another measure similar to but not identical to a measure of change in unrestricted net assets. The Board observes that generally accepted accounting principles and the application of paragraph 7 of this Statement require display of an appropriately labeled subtotal for change in a class of net assets before the effects of an extraordinary item, the discontinuance of an operating segment, or an accounting change. For example, using the columnar Format B in Appendix C, a statement of activities would report the effects of an extraordinary item as follows:

	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Change in net assets before extraordinary items	$11,558	$(1,128)	$5,020	$15,450
Extraordinary items (Note X)	xxx	xxx	xxx	xxx
Change in net assets	$xx,xxx	$(x,xxx)	$ x,xxx	$xx,xxx

Because generally accepted accounting principles require that these captions be modified appropriately when an organization reports the cumulative effect of an accounting change or the effects of disposal of a segment of its operations that may affect any one or more classes of its net assets, there is no need for this Statement to require the use of a specific label for the unrestricted or any one class of net assets. That would impose a standard more stringent than those that exist for business enterprises. The results of the Board's field test revealed that about half of the participants chose to report an intermediate measure of operations; however, they differed significantly in how they defined and described that measure. In its redeliberations of the Exposure Draft, the Board decided to add the disclosure and reporting requirements of paragraph 23 of this Statement.

115. The Board also reaffirmed its decision not to prescribe, at this time, whether to report gains and losses from investments in a particular sequence, in an intermediate measure of net assets, or as a specified component of change in net assets. The Board intends to consider the issue of accounting for investments by not-for-profit organizations, including how to measure investment assets and whether to recognize unrealized gains and losses, in a subsequent part of its project on not-for-profit organizations. The Board considered similar accounting and reporting issues for business enterprises in Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*.

Totals for Revenues, Expenses, Gains, and Losses

116. The AICPA task force recommended that organizations be permitted but not required to display totals for the aggregated amounts of their revenues, expenses, gains, or losses. Most respondents to the Invitation to Comment agreed with that recommendation; almost all of the respondents that disagreed with that recommendation would require display of those totals. The Board concluded that totals for each element are not essential. That requirement would be more stringent than display requirements for business enterprises and could inhibit meaningful financial reporting by not-for-profit organizations. The Board believes that the measures of change in net assets and classes of net assets required by this Statement provide the necessary and relevant aggregated information about the effects of a not-for-profit organization's revenues, expenses, gains, and losses.

117. The Invitation to Comment also asked if the activity for the three classes of net assets is reported separately, whether organization-wide totals should be required for each line item of revenues, expenses, gains, and losses. Almost half of the respondents to the Invitation to Comment would require those totals; others were nearly evenly divided between precluding and permitting totals.

118. The Board concluded, and most respondents to the Exposure Draft agreed, that organization-wide totals are not necessary for individual line items of revenues, expenses, gains, or losses. It believes information about reasonably homogeneous components of revenues, such as unrestricted contributions available to support current expenses and restricted contributions to be used to acquire land and buildings, generally is more meaningful than the aggregated total of those components. Disaggregated information that permits users of financial information to relate components of revenues to components of expenses also is often preferable to information provided by their aggregated amounts. For example, information that permits analysis of the levels of revenues from tuition in relation to expenses for instruction and other academic services and of revenues from room and board fees in relation to expenses for housing and food services generally is more meaningful than totals of aggregated items of revenues, such as student tuition and fees, or aggregated items of expenses, such as salaries, heat, electricity, or supplies. The Board believes that those who prepare financial statements generally are best able to make judgments about the extent to which financial statements or notes to financial statements should

provide disaggregated information about various items of revenues or expenses and that this Statement need not limit those judgments.

Classification of Items as Donor Restricted or Unrestricted

119. This Statement generally specifies reporting an item of revenue, expense, gain, or loss as an increase or decrease in unrestricted net assets unless the use of the asset received is limited by donor-imposed restrictions. That provision is consistent with and stems from decisions reached in Statement 116, which establishes the standards for recognizing, measuring, and classifying contributions received. Paragraph 21 of this Statement describes the basic guidance for classifying donor-restricted and unrestricted contributions. Paragraphs 120-137 discuss considerations about two classification issues that were raised by the Invitation to Comment: classifying net appreciation on endowments and classifying expenses.

Classification of Net Appreciation on Investments of Donor-Restricted Endowments

120. The Invitation to Comment requested comments about the classification of net appreciation on investments of donor-restricted endowments. It asked whether not-for-profit organizations should initially display gains and losses as permanently restricted or initially display net appreciation in excess of original principal as unrestricted or temporarily restricted, depending on the purposes and uses specified by the donor.

121. In paragraph 187 of its report, the AICPA task force recommended that "gains and losses on investments of permanently restricted net assets should be displayed initially as permanently restricted, and the amount of net gains available for use by the organization should be disclosed in the notes to the financial statements." It also said, "To the extent that accumulated net gains are appropriated for use by the organization in accordance with the law, such amounts should be displayed as capital reclassifications." Most respondents to the Invitation to Comment agreed with the recommendation for initial display and disclosure, but some of those respondents and others said certain amounts subsequently appropriated by the organization's governing board are "operating reclassifications" rather than "capital reclassifications."

122. Respondents who disagreed with the AICPA recommendation to initially display net gains as permanently restricted challenged the appropriateness of that classification and necessity for a subsequent reclassification. Those respondents generally said that if net gains are available for use by the organization, those gains are not permanently restricted and classifying those gains as permanently restricted would be misleading. The Board agreed and concluded that there is no need to delay recognizing available net gains in unrestricted or temporarily restricted net assets until such time as the organization's governing board acts to appropriate them for use. Decisions about when to spend resources generally do not bear on the issue, which is whether the resources are available for spending.

123. The Board concluded that not-for-profit organizations should classify gains and losses on permanent endowments consistent with the Board's fundamental conclusions for contributions received. That is, restricted net assets result only from a donor's stipulation that limits the

organization's use of net assets or from a law that extends the donor's stipulation to enhancements (including holding gains) and diminishments of those net assets.

124. The Board believes that there is general agreement that, for example, if a donor stipulates that net gains be added to the principal of its gift until that endowed gift plus accumulated gains increases to a specified dollar level, the gains are permanently restricted. Support for that view also exists in the comments to Section 3 of the Uniform Management of Institutional Funds Act (Uniform Act), which since its development in 1972 has been adopted in varying forms in at least 29 states and the District of Columbia. The Uniform Act says, "If a gift instrument expresses or otherwise indicates the donor's intention that the governing board may not appropriate the net appreciation in the value of the fund, his wishes will govern." Section 3 also prohibits implying a restriction on the expenditure of net appreciation from a common set of words often used in gift instruments:

> A restriction upon the expenditure of net appreciation may not be implied from a designation of a gift as an endowment, or from a direction or authorization in the applicable gift instrument to use only "income," "interest," "dividends," or "rents, issues or profits," or "to preserve the principal intact," or a direction which contains other words of similar import.

125. The Board believes that the relevant issue is one of fact. Do donor-imposed restrictions exist that preclude the use of gains and losses (net appreciation) on permanent endowments, either as a result of explicit or clear implicit donor stipulations or by law? The Board believes that because donor stipulations and laws vary, not-for-profit organizations must assess the relevant facts and circumstances for their endowment gifts and their relevant laws to determine if net appreciation on endowments is available for spending or is permanently restricted.

126. Some business officers of colleges and universities have expressed strong concern that institutions in the same state will interpret the state laws differently. They attribute that concern to differing interpretations about the provisions of the Uniform Act, particularly those of Section 2, "Appropriation of Appreciation," and Section 6, "Standard of Conduct." The Board considered that concern and it specifically considered the Uniform Act. Sections 2 and 6 of the Uniform Act provide that:

> The governing board may appropriate for expenditure for the uses and purposes for which an endowment fund is established so much of the net appreciation, realized and unrealized, in the fair value of the assets of an endowment fund over the historic dollar value of the fund as is prudent under the standard established by Section 6.
>
> In the administration of the powers to appropriate appreciation, . . . members of a governing board shall exercise ordinary business care and prudence under the facts and circumstances prevailing at the time of the action or decision. In so doing they shall consider long and short term needs of the institution in carrying

> out its educational, religious, charitable, or other eleemosynary purposes, its present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions.

127. Interpretations differ about the extent to which, if at all, the standard of ordinary business care and prudence precludes an institution's use of net appreciation. Some constituents believe that the Uniform Act supports the traditional view that gains on investments of endowments are not expendable unless the governing board makes an affirmative judgment that it is prudent to spend those gains. Others, including Board members, believe that the responsibility to exercise ordinary business care and prudence in determining whether to spend net appreciation is similar to the fiduciary responsibilities that exist for all charitable resources under an organization's control. That latter view is consistent with page 5 of the Prefatory Note to the Uniform Act, which says:

> The Uniform Act authorizes expenditure of appreciation subject to a standard of business care and prudence. It seems unwise to fix more exact standards in a statute. To impose a greater constriction would hamper adaptation by different institutions to their particular needs.
>
> The standard of care is that of a reasonable and prudent director of a nonprofit corporation—similar to that of a director of a business corporation—which seems more appropriate than the traditional Prudent Man Rule applicable to private trustees. . . .

128. Some states have adopted modified forms of the Uniform Act and in some cases those modifications may be substantive and relevant to the classification of net gains. For example, at least one state (Rhode Island) provides that the "historic dollar value" of an endowment fund, as defined in the Uniform Act, shall be adjusted to reflect the change, if any, in the purchasing power of the historic dollar value of the fund. This modification is substantive because it requires changes to the measure of the original historic dollar value. Thus, the portion of net appreciation in excess of the original historic dollar value that is necessary to cover the purchasing power adjustments must be retained and, considering past economic history and prospects for continued inflation, interpreting and classifying that amount as permanently restricted would be a fair representation. Most states, however, have not adopted explicit provisions that fix more exacting standards or impose a greater constriction than the standard of ordinary business care and prudence quoted above.

129. The Board concluded that a definitive interpretation of the Uniform Act is not necessary or critical to the issue. The Board decided that this Statement should require reporting of gains and losses on endowments that faithfully represents the relevant facts and circumstances. Accordingly, the Board concluded that if the law of the relevant jurisdiction, as interpreted by an organization's governing board, places permanent restrictions on some part of the net appreciation, that amount should be reported as permanently restricted net assets in the organization's financial statements. In the absence of such a law or a donor's explicit or clear

implicit permanent restriction, net appreciation should be reported as unrestricted if the endowment's income is unrestricted or temporarily restricted if the endowment's income is temporarily restricted by the donor.

130. The Board also concluded that to implement the provisions of this Statement, latitude for interpretation by an institution's governing board is necessary for both conceptual and practical reasons, especially for institutions in Uniform Act states. Section 1(5) of the Uniform Act defines the "historic dollar value" of an endowment fund and includes comments that provide additional guidance. It also provides that "the determination of historic dollar value made in good faith by the institution is conclusive." Accordingly, the Board believes that it is appropriate that this Statement provide that net appreciation be classified in accordance with those conclusive good-faith determinations made by an institution's governing board.

131. Respondents to the Exposure Draft that commented on the provisions of paragraph 22 of this Statement expressed differing views; although most agreed, many continue to believe that the Uniform Act requires retention of some gains or that interpretations of the Uniform Act will be inconsistent. At this time, the Board has no reason to believe that governing boards will interpret similar facts and circumstances, including state statutes, in significantly differing ways. Rather, the Board believes that ample opportunities exist for the directors and officers of colleges, universities, museums, and other organizations to avoid that perceived problem. Consultations with others, including corporate counsel, outside auditors, industry associations, attorneys general, state societies of CPAs, and other institutions generally result in common understandings and conclusions about matters of state and local law.

132. Some respondents raised questions about reporting losses on investments and requested guidance for display if the law requires repatriation from unrestricted assets of previously appropriated earnings. Their questions generally relate to specific facts and circumstances and the display generally would follow from the requirements, if any, of the relevant laws. The Board plans to consider those and other issues of accounting for investments in a subsequent part of its project on not-for-profit organizations.

Classification of Expenses as Unrestricted

133. The Invitation to Comment asked whether all expenses should be classified as decreases in unrestricted net assets or, if not, whether expenses financed by restricted resources should be reported as decreases in the permanently or temporarily restricted class of net assets. The AICPA task force recommended that all expenses be shown in the unrestricted class of net assets. Paragraph 193 of its report said, "Some members believe all expenses should be presented in the unrestricted [class of net assets] because expenses are the using up of resources, causing any restrictions related to them to expire." The task force also noted that a reclassification of resources from temporarily restricted net assets to unrestricted net assets could be presented when restricted resources are used to finance expenses of a restricted grant.

134. Respondents to the Invitation to Comment expressed mixed views. Although many

agreed with the AICPA task force advisory recommendation, most did not. Those who disagreed generally said that (a) the related reclassifications are confusing and that a direct decrease to temporarily restricted net assets is easy to understand, (b) the revenues and expenses relate to each other and should be presented together, or (c) certain specific exceptions should be allowed.

135. The Board concluded that not-for-profit organizations should report expenses as decreases in unrestricted net assets. Identifying or designating sources of donor-restricted revenues to be used to finance specific expenses does not make an expense donor restricted. Rather, expenses result from the decisions of an organization's managers about the activities to be carried out and about how and when particular resources are to be used. The Board believes that the perceived confusion about reclassifications can be avoided by appropriate labeling in financial statements and by reporting those items separately and in reasonably homogeneous groups as required by paragraph 19.

136. Further, although some respondents to the Invitation to Comment and the Exposure Draft said reporting certain expenses as a decrease in the restricted class of net assets is simpler or more understandable, the Board believes that reporting has disadvantages that outweigh the perceived simplicity. Because expenses often occur months or years after the related restricted support is received and recognized in financial statements, reporting an expense in the restricted class of net assets would not necessarily achieve the "match" of revenues and expenses that some respondents desire. Moreover, reporting current period expenses in the temporarily restricted class of net assets with restricted support for gifts restricted for use in a future period may cause greater confusion, particularly for those users of financial statements that believe revenues and expenses of a period are necessarily directly related to each other.

137. A few respondents to the Exposure Draft said that certain information currently available to them may be lost if all expenses are reported in the unrestricted class of net assets. Generally, they expressed concern that the extent to which an organization's expenses are dependent on restricted contributions may no longer be clear from its financial statements. The Board believes those concerns generally are satisfied by this Statement's requirements to distinguish between donor-restricted and unrestricted revenues and gains and present those and other items in reasonably homogeneous groups.

Reporting Gross Amounts of Revenues for Special Events

138. Paragraph 24 of this Statement requires reporting of gross amounts of revenues and expenses. The Board concluded that information about those amounts is essential to "provide information about the amounts and kinds of inflows and outflows of resources during a period" (Concepts Statement 4, paragraph 48). That information is helpful to users of financial statements in understanding and assessing an organization's ongoing major or central operations and activities. A few respondents to the Exposure Draft said that the current practice of netting the revenues and direct costs of *special events* should be permitted. As paragraph 25 explains,

organizations may report net amounts for their special events if they result from peripheral or incidental transactions. However, so-called special events often are ongoing and major activities; if so, organizations should report the gross revenues and expenses of those activities.

Statement of Cash Flows

139. The Board concluded that a statement of cash flows should provide relevant information about the cash receipts and cash payments of an organization during a period. Statement 95 established standards for the information to be provided in a statement of cash flows of a business enterprise. Paragraph 69 of Statement 95 says the "exclusion of not-for-profit organizations from the scope of [Statement 95] means only that the Board has not yet decided whether not-for-profit organizations should be required to provide a statement of cash flows." The Board concluded, in this Statement, that the provisions of Statement 95 generally are applicable to not-for-profit organizations.

140. The Invitation to Comment requested comments on provisions of Statement 95 and whether to apply or amend those provisions to make them applicable to not-for-profit organizations. The AICPA task force recommended applying most of the provisions of Statement 95. Respondents to the Invitation to Comment generally agreed as did most respondents to the Exposure Draft.

Amendment to Description of Financing Cash Flows

141. The Invitation to Comment asked whether items identified by the AICPA task force as "capital cash flows" should be reported as operating, investing, or as a separate category of cash flows. The AICPA task force recommended that a fourth category be created to display capital cash flows, which it defined in paragraph 255 of its report to "include all permanently restricted gifts and temporarily restricted cash receipts from donors for property, plant, and equipment, and those that are not immediately available for operations, such as term endowments, and gifts subject to a life interest." Most respondents to the Invitation to Comment agreed; however, several respondents, including an organization representing institutional lending officers, said that a new category could be misinterpreted and confusing, and is not necessary.

142. In paragraph 254 of its report, the AICPA task force said that "transactions involving changes in permanently restricted and temporarily restricted net assets for which the restrictions are likely to last for an extended period of time . . . may not easily fit into the categories prescribed in FASB Statement No. 95." Those who disagreed with the task force's recommendation generally said that "capital cash flows" can be appropriately reported as financing activities. Some also suggested that the financing cash flows could be presented in two sections: debt financing cash flows and capital cash flows.

143. The Board concluded that creating a fourth category of cash flows to accommodate the cash inflows of not-for-profit organizations described by the AICPA task force as capital cash

flows is neither necessary nor desirable. The Board believes that a new category would create new differences in terminology and definitions between not-for-profit organizations and business enterprises, and between not-for-profit organizations and governmental entities, and those differences could cause more confusion than clarity. Paragraph 15 of GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, which requires governmental entities to classify cash receipts and cash payments as resulting from operating, noncapital financing, capital and related financing, or investing activities, uses similar terms that have definitions that differ from those in Statement 95 and those recommended by the AICPA task force.

144. The Board concluded that comparability of reporting will be enhanced if both business enterprises and not-for-profit organizations report their cash flows using the same classifications and definitions. Common definitions and reporting will help enhance users' understandings of information provided in statements of cash flows. Although GASB Statement 9 provides different definitions, colleges, universities, hospitals, and other organizations may, under this Statement, subdivide categories of cash flows to provide information in their statement of cash flows that is reasonably comparable to if not the same as governmental entities.

145. To implement the Board's conclusion, this Statement amends Statement 95 to extend its scope to not-for-profit organizations and to expand the description of financing activities in paragraph 18 of Statement 95 to encompass receipts of resources that by donor stipulation must be used for long-term purposes. That category of transactions was not considered when Statement 95 was issued. This Statement also amends paragraph 19 to include among its list of cash inflows from financing activities receipts from contributions and investment income that by donor stipulation are restricted for the purposes of acquiring, constructing, or improving property, plant, equipment, or other long-lived assets or establishing or increasing a permanent endowment or term endowment.

Reporting Net Cash Flows from Operating Activities

146. The Invitation to Comment asked whether not-for-profit organizations should be required to report cash flows from operating activities using the direct method and, if so, whether they should provide a reconciling statement. The AICPA task force discussed the advantages of the direct method and the indirect method of presenting cash flows from operating activities and, in paragraph 260, the task force said that it "believes that the direct method of reporting would be more useful to preparers and users of not-for-profit organization's financial statements." It recommended that not-for-profit organizations be required to present their statements of cash flows using the direct method of presentation. A significant majority of respondents disagreed. Respondents generally said that the option of presenting net cash flows from operating activities using the indirect method as permitted for business enterprises should be allowed for not-for-profit organizations for reasons similar to those discussed in Statement 95.

147. The Board agreed with those respondents and concluded that, consistent with Statement

95, not-for-profit organizations should be encouraged to use the direct method of reporting net cash flows from operating activities and allowed to use the indirect method. The advantages and disadvantages of each method and the Board's considerations of each are discussed in paragraphs 106-121 of Statement 95. More specifically, paragraph 119 says:

> The Board believes that both the direct and the indirect methods provide potentially important information. The more comprehensive and presumably more useful approach would be to use the direct method in the statement of cash flows and to provide a reconciliation of net income and net cash flow from operating activities in a separate schedule—thereby reaping the benefits of both methods while maintaining the focus of the statement of cash flows on cash receipts and payments. This Statement therefore encourages enterprises to follow that approach. But most providers and users of financial statements have little or no experience and only limited familiarity with the direct method, while both have extensive experience with the indirect method. Not only are there questions about the ability of enterprises to determine gross amounts of operating cash receipts and payments, . . . but also little information is available on which specific categories of operating cash receipts and payments would be most meaningful.

148. The Board concluded that those observations also apply to not-for-profit organizations, which generally have little experience presenting statements of cash flows. This Statement also clarifies that not-for-profit organizations that present a reconciling schedule when using the direct method or that use the indirect method should reconcile the change in net assets as reported in a statement of activities to net cash flows from operating activities. The Board believes that reconciling from the change in net assets is consistent with reporting information that focuses on cash flows for the entity as a whole.

Reporting Cash Flows from Purchases and Sales of Investment Securities

149. A few respondents to the Exposure Draft said that the reporting of gross amounts of cash from purchasing and selling securities, particularly those of endowment funds, may be misleading, inappropriate, or both. Some suggested that because permanent endowments require reinvestment of cash inflows from selling securities, the cash outflows, which are nondiscretionary expenditures to maintain the existing endowment, are not available and the appearance of those inflows and outflows in a statement of cash flows can easily mislead users. The Board believes that reporting those cash flows as investing activities—not operating activities—is appropriate and is generally understood by users of financial statements. Furthermore, the Board believes that, for reasons similar to those discussed in paragraphs 97-99 of Statement 95, allocating transactions for pooled investments between nondiscretionary transactions to maintain or expand the permanent endowments and discretionary expenditures to maintain or expand board-designated endowment funds would necessarily be arbitrary and add additional costs that would exceed the benefits provided.

Effective Date and Transition

150. The Exposure Draft proposed that this Statement generally be effective for annual financial statements issued for fiscal years beginning after December 15, 1994. The Board decided to provide ample time before this Statement becomes effective primarily to coordinate its implementation with Statement 116. The Board also noted that that extended time may be helpful to organizations that have not determined the historic dollar value of their permanent endowment funds. Most respondents agreed that the proposed effective date would provide adequate time for organizations to update systems and gather information necessary to report the basic information required by this Statement.

151. Nonetheless, a national association representing over 400 human services organizations (and a few other respondents) requested an additional one-year delay for small not-for-profit organizations. About one-third of the association's members have annual budgets of less than $1 million and the association said an extended transition period would allow them sufficient time to utilize the initial experience gained by larger organizations and CPAs. They believe that experience could help them find cost-effective ways to implement this Statement and Statement 116. Board members believe a further delay generally is not necessary. However, because small organizations are often dependent on outside volunteers and are particularly sensitive to any incremental one-time costs, the Board decided to grant a one-year delay for organizations with less than $5 million in total assets and less than $1 million in annual expenses.

152. Earlier application of this Statement is encouraged. Applying this Statement early may result in some erosion in comparability of reporting during the transition period; however, the Board concluded that the benefits of the information gained by permitting early application outweigh its disadvantages. Respondents to the Exposure Draft generally agreed.

Appendix C: ILLUSTRATIVE EXAMPLES

153. This appendix provides illustrations of statements of financial position, statements of activities, and statements of cash flows. These illustrations are intended as examples only; they present only a few of the permissible formats. Other formats or levels of detail may be appropriate for certain circumstances. Organizations are encouraged to provide information in ways that are most relevant and understandable to donors, creditors, and other external users of financial statements. The Board encourages organizations to provide comparative financial statements; however, for simplicity, the illustrative statements of activities and statements of cash flows provide information for a single period.

154. The illustrations also include certain notes to the financial statements for matters discussed in this Statement. The illustrative notes are not intended to illustrate compliance with

all generally accepted accounting principles and specialized accounting and reporting principles and practices.

155. Shading * is used to highlight certain basic totals that must be reported in financial statements to comply with the provisions of this Statement. This Statement requires not only reporting those certain basic totals but also reporting components of those aggregates; for example, it requires reporting information about the gross amounts of items of revenues and expenses and cash receipts and payments.

Statement of Financial Position

156. A statement of financial position that sequences assets and liabilities based on their relative liquidity is presented. For example, cash and contributions receivable restricted by donors to investment in land, buildings, and equipment are not included with the line items "cash and cash equivalents" or "contributions receivable." Rather, those items are reported as "assets restricted to investment in land, buildings, and equipment" and are sequenced closer to "land, buildings, and equipment"; cash and cash equivalents of permanent endowment funds held temporarily until suitable long-term investment opportunities are identified are included in the classification "long-term investments." Assets and liabilities also may be arrayed by their relationship to net asset classes, classified as current and noncurrent, or arranged in other ways. Comparative statements of financial position are provided to facilitate understanding of the statement of cash flows.

Not-for-Profit Organization
Statements of Financial Position
June 30, 19X1 and 19X0
(in thousands)

	19X1	**19X0**
Assets:		
Cash and cash equivalents	$ 75	$ 460
Accounts and interest receivable	2,130	1,670
Inventories and prepaid expenses	610	1,000
Contributions receivable	3,025	2,700
Short-term investments	1,400	1,000
Assets restricted to investmentin land, buildings, and equipment	5,210	4,560
Land, buildings, and equipment	61,700	63,590
Long-term investments	218,070	203,500
Total assets	$292,220	$278,480
Liabilities and net assets:		
Accounts payable	$ 2,570	$ 1,050

Refundable advance		650
Grants payable	875	1,300
Notes payable		1,140
Annuity obligations	1,685	1,700
Long-term debt	5,500	6,500
Total liabilities	10,630	12,340
Net assets:		
Unrestricted	115,228	103,670
Temporarily restricted (Note B)	24,342	25,470
Permanently restricted (Note C)	142,020	137,000
Total net assets	281,590	266,140
Total liabilities and net assets	$292,220	$278,480

Statement of Activities

157. Three formats of statements of activities are presented. Each format has certain advantages. Format A reports information in a single column. That format most easily accommodates presentation of multiyear comparative information. Format B reports the same information in columnar format with a column for each class of net assets and adds an optional total column. That format makes evident that the effects of expirations on donor restrictions result in reclassifications between classes of net assets. It also accommodates presentation of aggregated information about contributions and investment income for the entity as a whole. Format C reports information in two statements with summary amounts from a statement of revenues, expenses, and other changes in unrestricted net assets (Part 1 of 2) articulating with a statement of changes in net assets (Part 2 of 2). Alternative formats for the statement of changes in net assets—a single column and a multicolumn—are illustrated. The two-statement approach of Format C focuses attention on changes in unrestricted net assets. That format may be preferred by organizations that view their operating activities as excluding receipts of donor-restricted revenues and gains from contributions and investment income. To facilitate comparison of the formats, the same level of aggregation is used in each of the statements of activities.

158. The three illustrative statements of activities show items of revenues and gains first, then expenses, then losses; reclassifications, which must be shown separately, are reported with revenues and gains. Those items could be arranged in other ways and other subtotals may be included. For example, the items may be sequenced as (a) revenues, expenses, gains and losses, and reclassifications shown last or (b) certain revenues, less directly related expenses, followed by a subtotal, then other revenues, other expenses, gains and losses, and reclassifications. Paragraph 167 provides an example that shows how items may be sequenced to distinguish between operating and nonoperating activities or to make other distinctions, if desired.

159. Although the illustrative statements of activities report expenses by function, expenses may be reported by natural classification in the statements with functional classification disclosed in the notes.

Format A

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

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

Contributions	280
Income on long-term investments (Note E)	120
Net unrealized and realized gains on long-term investments (Note E)	4,620
Increase in permanently restricted net assets	5,020
Increase in net assets	15,450
Net assets at beginning of year	266,140
Net assets at end of year	$281,590

Format B

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support:				
Contributions	$ 8,640	$ 8,110	$ 280	$ 17,030
Fees	5,400			5,400
Income on long-term investments (Note E)	5,600	2,580	120	8,300
Other investment income (Note E)	850			850
Net unrealized and realized gains on long-term investments (Note E)	8,228	2,952	4,620	15,800
Other	150			150
Net assets released from restrictions (Note D):				
Satisfaction of program restrictions	11,990	(11,990)		
Satisfaction of equipment acquisition restrictions	1,500	(1,500)		
Expiration of time restrictions	1,250	(1,250)		
Total revenues, gains, and other support	43,608	(1,098)	5,020	47,530
Expenses and losses:				
Program A	13,100			13,100
Program B	8,540			8,540
Program C	5,760			5,760
Management and general	2,420			2,420

Fund raising	2,150			2,150
Total expenses (Note F)	31,970			31,970
Fire loss	80			80
Actuarial loss on annuity obligations		30		30
Total expenses and losses	32,050	30		32,080
Change in net assets	11,558	(1,128)	5,020	15,450
Net assets at beginning of year	103,670	25,470	137,000	266,140
Net assets at end of year	$115,228	$ 24,342	$142,020	$281,590

Format C, Part 1 of 2

Not-for-Profit Organization
Statement of Unrestricted Revenues, Expenses, and Other Changes in Unrestricted Net Assets
Year Ended June 30, 19X1
(in thousands)

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

Format C, Part 2 of 2

Not-for-Profit Organization
Statement of Changes in Net Assets
Year Ended June 30, 19X1
(in thousands)

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

Format C, Part 2 of 2 (Alternate)

Not-for-Profit Organization
Statement of Changes in Net Assets
Year Ended June 30, 19X1
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support:				
Unrestricted revenues, gains, and other support	$ 28,868			$ 28,868

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

Statement of Cash Flows

160. Statements of cash flows are illustrated using both the direct and indirect methods of reporting cash flow from operating activities.

Direct Method

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

Cash flows from operating activities:	
Cash received from service recipients	$ 5,220
Cash received from contributors	8,030
Cash collected on contributions receivable	2,615
Interest and dividends received	8,570
Miscellaneous receipts	150
Interest paid	(382)
Cash paid to employees and suppliers	(23,808)
Grants paid	(425)

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

Net cash used by operating activities		$ (30)
Supplemental data for noncash investing and financing activities:		
Gifts of equipment	$140	
Gift of paid-up life insurance, cash surrender value	80	

Indirect Method

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

Cash flows from operating activities:	
Change in net assets	$ 15,450
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation	3,200
Fire loss	80
Actuarial loss on annuity obligations	30
Increase in accounts and interest receivable	(460)
Decrease in inventories and prepaid expenses	390
Increase in contributions receivable	(325)
Increase in accounts payable	1,520
Decrease in refundable advance	(650)
Decrease in grants payable	(425)
Contributions restricted for long-term investment	(2,740)
Interest and dividends restricted for long-term investment	(300)
Net unrealized and realized gains long-term investments	(15,800)
Net cash used by operating activities	(30)
Cash flows from investing activities:	
Insurance proceeds from fire loss on building	250
Purchase of equipment	(1,500)
Proceeds from sale of investments	76,100
Purchase of investments	(74,900)
Net cash used by investing activities	(50)
Cash flows from financing activities:	
Proceeds from contributions restricted for:	
Investment in endowment	200
Investment in term endowment	70
Investment in plant	1,210

Investment subject to annuity agreements	200
	1,680
Other financing activities:	
Interest and dividends restricted for reinvestment	300
Payments of annuity obligations	(145)
Payments on notes payable	(1,140)
Payments on long-term debt	(1,000)
	(1,985)
Net cash used by financing activities	(305)
Net decrease in cash and cash equivalents	(385)
Cash and cash equivalents at beginning of year	460
Cash and cash equivalents at end of year	$ 75

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

Notes to Financial Statements

161. Illustrative Note A provides required policy disclosures (paragraphs 14 and 16 of Statement 116) that bear on the illustrated statements and Notes B and C provide information required by this Statement. Notes D through F provide information that not-for-profit organizations are encouraged to disclose. However, paragraph 26 requires loose voluntary health and welfare organizations to provide the information in Note F in a statement of functional expenses. All amounts are in thousands.

Note A

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Organization reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Note B

Temporarily restricted net assets are available for the following purposes or periods:

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

Note C

Permanently restricted net assets are restricted to:

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

Note D

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

Purpose restrictions accomplished:	
Program A expenses	$ 5,800
Program B expenses	4,600
Program C expenses	1,590
	11,990
Program A equipment acquired and placed in service	1,500
Time restrictions expired:	
Passage of specified time	850
Death of annuity beneficiary	400
	1,250
Total restrictions released	$14,740

Note E

Investments are carried at market or appraised value, and realized and unrealized gains and losses are reflected in the statement of activities. The Organization invests cash in excess of daily requirements in short-term investments. At June 30, 19X1, $1,400 was invested short term, and during the year short-term investments earned $850. Most long-term investments are held in two investment pools. Pool A is for permanent endowments and the unappropriated net appreciation of those endowments. Pool B is for amounts designated by the board of trustees for long-term investment. Annuity trusts, term endowments, and certain permanent endowments are separately invested. Long-term investment activity is reflected in the table below:

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

The participation in the pools and ownership of the other investments at June 30, 19X1 is shown in the table below:

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

The board of trustees has interpreted state law as requiring the preservation of the purchasing power (real value) of the permanent endowment funds unless explicit donor stipulations specify how net appreciation must be used. To meet that objective, the Organization's endowment management policies require that net appreciation be retained permanently in an amount necessary to adjust the historic dollar value of original endowment gifts by the change in the Consumer Price Index. After maintaining the real value of the permanent endowment funds, any remainder of total return is available for appropriation. In 19X1, the total return on Pool A was $18,000 (10.6 percent), of which $4,620 was retained permanently to preserve the real value of the original gifts. The remaining $13,380 was available for appropriation by the board of trustees. State law allows the board to appropriate so much of net appreciation as is prudent considering the Organization's long- and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions. Under the Organization's endowment spending policy, 5 percent of the average of the market value at the end of the previous 3 years is appropriated, which was $7,500 for the year ended June 30, 19X1.

Note F

Expenses incurred were for:

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

Transactions Reported in the Illustrative Financial Statements

162. The following facts and transactions are reflected in the illustrative financial statements. The transactions are presented by class of net assets to facilitate locating their effects in the statements and notes.

The following transactions affect unrestricted net assets:

a. The organization invested cash in excess of daily requirements in short-term investment instruments. Interest earned on these investments totaled $850. The governing board has designated a portion of unrestricted net assets for long-term investment. Those assets earned $2,000.
b. The organization received unrestricted contributions of the following: cash, $5,120; recognizable contributed services, $300; other consumable assets, $1,410; equipment, $140; and unconditional promises to give to support activities of 19X1, $1,020.
c. Equipment with an original cost of $660 and accumulated depreciation of $330 was destroyed in a fire. Insurance proceeds of $250 were received. The equipment was originally purchased with unrestricted assets.
d. All conditions of a prior year's grant of $650 were substantially met. The grant proceeds were originally recorded as a refundable advance.
e. The organization made a payment of $425 on its prior year unconditional grant to an unrelated agency.
f. The organization repaid $1,140 of its notes payable. Interest of $32 was incurred and paid on these notes.
g. The organization repaid $1,000 of its long-term debt. Interest of $350 was incurred and paid on the debt.
h. Depreciation amounted to $3,200.

The following transactions affect temporarily restricted net assets:

i. The organization received temporarily restricted contributions as follows:

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

j. In addition, a donor transferred cash of $200 to set up an annuity trust having a related annuity obligation with a present value of $100. Upon the death of the beneficiary, the remaining interest will be used for a donor-stipulated purpose.
k. In addition, a donor contributed cash of $70 to create a term endowment. At the end of 15 years the endowment assets can be used to support the organization's operations.
l. The organization made payments of $145 to beneficiaries of annuity trust agreements.

The following transactions affect permanently restricted net assets:

m. A donor contributed a paid-up life insurance policy with a cash surrender value of $80.

Upon the death of the insured, the death benefit must be used to create a permanent endowment. There was no change in the cash surrender value between the date of the gift and the end of the fiscal year.

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

The following transactions affect more than one class of net assets:

o. The organization collected promises to give of $3,055: $980 of amounts for unrestricted purposes, $610 of amounts restricted to future periods, $1,025 of amounts restricted to program purposes, and $440 of amounts for acquisition of land, buildings, and equipment.

p. The organization utilized all of the $1,410 consumable assets contributed for unrestricted purposes, and $350 of the $960 consumable assets contributed for program purposes.

q. A trust annuitant died and the $400 remainder interest became available for the unrestricted use of the organization. Management decided to invest the remainder interest in short-term investments. The actuarial gain on death of the annuitant is included in the actuarial loss on annuity obligations.

r. The organization acquired and placed in service $1,500 of equipment for Program A; temporarily restricted net assets were available at the time the equipment was purchased.

s. The net gain, unrealized and realized, on unrestricted net assets designated by the governing board for long-term investment of $3,800 was recognized. The net gain, unrealized and realized, on permanent endowments and the unappropriated net appreciation of those endowments of $12,000 was recognized. The governing board has interpreted the law in its jurisdiction as requiring preservation of purchasing power. The governing board has selected the CPI as the measure of changes in purchasing power. The CPI has changed by 3.5 percent over the year. The index-adjusted original gift amount of the endowment at the end of the previous year was $132,000.

t. The organization reinvested the yield of $120 on a permanent endowment that requires income to be added to the original gift until the fund's value is $2,500.

Statement of Activities with Additional Classifications

163. This Statement neither encourages nor discourages organizations from classifying items of revenues, expenses, and other changes in net assets as operating and nonoperating, expendable and nonexpendable, earned and unearned, recurring and nonrecurring, or in other ways. Rather, the requirements of this Statement provide a few broad constraints for a statement of activities and allow not-for-profit organizations latitude to make distinctions that they believe will provide meaningful information to users of their financial statements. Like business enterprises, that latitude allows organizations to report an undefined intermediate measure of operations. That latitude also allows reporting practices to develop in an evolutionary manner for all or certain kinds of not-for-profit organizations.

164. Entities that use terms such as *operating income, operating profit, operating surplus,*

operating deficit, and *results of operations* often use those terms with different meanings. Business enterprises that choose to make an operating and nonoperating distinction do so within an income statement (statement of earnings) that at a minimum reports net income for the period as well as an intermediate measure of income before the effects of a discontinued operating segment, extraordinary items, or an accounting change, if any.

165. Paragraph 23 imposes a similar constraint on not-for-profit organizations that choose to use similar terms. If an organization reports an intermediate measure of *operations*, it must do so within a financial statement that, at a minimum, reports the change in unrestricted net assets for the period. Paragraph 23 also specifies that if an organization's use of the term *operations* is not apparent from the details provided on the face of the statement, a note to financial statements should describe the nature of the reported measure of operations or the items excluded from operations.

166. A statement of unrestricted revenues, expenses, and other changes in unrestricted net assets that subdivides all transactions and other events and circumstances to make an operating and nonoperating distinction is illustrated. This example uses part 1 of 2 of Format C of the previously illustrated statements of activities to show a measure of operations—change in unrestricted net assets from operations.

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

Other Not-for-Profit Organization
Statement of Unrestricted Revenues, Expenses, and
Other Changes in Unrestricted Net Assets
Year Ended June 30, 19X1
(in thousands)

Operating revenues and support:	
Fees from providing services	$ X,XXX
Operating support	X,XXX
Net assets released from restrictions	X,XXX
Total operating revenues and support	XX,XXX
Operating expenses:	
Programs	XX,XXX

Management and general	X,XXX
Fund raising	X,XXX
Total operating expenses	XX,XXX
Change in unrestricted net assets from operations	X,XXX
Other changes:	
[Items considered to be nonoperating	X,XXX
(paragraphs 65-68 and 111-115).]	X,XXX
Change in net assets before effects of discontinued operations, extraordinary items, and changes in accounting principles	XX,XXX
Discontinued operations	X,XXX
Extraordinary items	X,XXX
Changes in accounting principles	X,XXX
Change in net assets	XX,XXX
Net assets at beginning of year	XXX,XXX
Net assets at end of year	$XXX,XXX

Appendix D: GLOSSARY

168. This appendix contains definitions of certain terms or phrases used in this Statement.

Donor-imposed restriction

A donor stipulation that specifies a use for a contributed asset that is more specific than broad limits resulting from the nature of the organization, the environment in which it operates, and the purposes specified in its articles of incorporation or bylaws or comparable documents for an unincorporated association. A restriction on an organization's use of the asset contributed may be temporary or permanent.

Endowment fund

An established fund of cash, securities, or other assets to provide income for the maintenance of a not-for-profit organization. The use of the assets of the fund may be permanently restricted, temporarily restricted, or unrestricted. Endowment funds generally are established by donor-restricted gifts and bequests to provide a permanent endowment, which is to provide a permanent source of income, or a term endowment, which is to provide income for a specified period. The principal of a permanent endowment must be maintained permanently—not used up, expended, or otherwise exhausted—and is classified as permanently restricted net assets. The principal of a term endowment must be maintained for a specified term and is classified as temporarily restricted net assets. An organization's governing board may earmark a portion of its unrestricted net assets as a board-designated endowment (sometimes called funds functioning as endowment or quasi-endowment funds) to be invested to provide income for a long but unspecified period. The principal of a board-designated endowment, which results from an internal designation, is not donor restricted and is classified as unrestricted net assets.

Functional classification

A method of grouping expenses according to the purpose for which costs are incurred. The primary functional classifications are program services and supporting activities.

Not-for-profit organization

An entity that possesses the following characteristics that distinguish it from a business enterprise: (a) contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return, (b) operating purposes other than to provide goods or services at a profit, and (c) absence of ownership interests like those of business enterprises. Not-for-profit organizations have those characteristics in varying degrees (Concepts Statement 4, paragraph 6). Organizations that clearly fall outside this definition include all 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 companies, credit unions, farm and rural electric cooperatives, and employee benefit plans (Concepts Statement 4, paragraph 7).

Permanent restriction

A donor-imposed restriction that stipulates that resources be maintained permanently but permits the organization to use up or expend part or all of the income (or other economic benefits) derived from the donated assets.

Permanently restricted net assets

The part of the net assets of a not-for-profit organization resulting (a) from contributions and other inflows of assets whose use by the organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the organization, (b) from other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) from reclassifications from (or to) other classes of net assets as a consequence of donor-imposed stipulations (Concepts Statement 6, paragraph 92).

Restricted support

Donor-restricted revenues or gains from contributions that increase either temporarily restricted net assets or permanently restricted net assets. Also refer to **Unrestricted support**.

Temporarily restricted net assets

The part of the net assets of a not-for-profit organization resulting (a) from contributions and other inflows of assets whose use by the organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the organization pursuant to those stipulations, (b) from other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) from reclassifications to (or from) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the organization pursuant to those stipulations (Concepts Statement 6, paragraph 93).

Temporary restriction

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

Unrestricted net assets

The part of net assets of a not-for-profit organization that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations (Concepts Statement 6, paragraph 94).

Unrestricted support

Revenues or gains from contributions that are not restricted by donors. Also refer to **Restricted support**.

Voluntary health and welfare organizations

Organizations formed for the purpose of performing voluntary services for various segments of society. They are 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 organizations 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 organizations include those not-for-profit organizations 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 (*Audits of Voluntary Health and Welfare Organizations, preface*).

Footnotes

FAS117, Footnote 1--Words that appear in the glossary are set in **boldface type** the first time they appear.

FAS117, Footnote 2--The term *specialized* is used to refer to those current accounting and reporting principles and practices in existing AICPA Guides and Statements of Position that are neither superseded by nor contained in the Accounting Research Bulletins, APB Opinions, FASB Statements, and FASB Interpretations.

FAS117, Footnote 3--Liquidity reflects an asset's or liability's nearness to cash. Financial flexibility is the ability of an entity to take effective actions to alter amounts and timing of cash flows so it can respond to unexpected needs and opportunities. Information about the nature and amount of restrictions imposed by donors on the use of contributed assets, including their potential effects on specific assets and on liabilities or classes of net assets, is helpful in assessing the financial flexibility of a not-for-profit organization.

FAS117, Footnote 4--ARB No. 43, Chapter 3A, "Working Capital--Current Assets and Current Liabilities," paragraph 6, says that the "concept of the nature of current assets contemplates the exclusion from that classification of . . . cash and claims to cash which are restricted as to withdrawal or use for other than current operations, are designated for expenditure in the acquisition or construction of noncurrent assets, or are segregated[1] for the liquidation of long-term debts," and footnote 1 explains that "even though not actually set aside in special accounts, funds that are clearly to be used in the near future for the liquidation of long-term debts, payments to sinking funds, or for similar purposes should also . . . be excluded from current assets."

FAS117, Footnote 5--This Statement does not use the terms *fund balance* or *changes in fund balances* because in current practice those terms are commonly used to refer to individual groups of assets and related liabilities rather than to an entity's net assets or changes in net assets taken as a whole. Reporting by fund groups is not a necessary part of external financial reporting; however, this Statement does not preclude providing disaggregated information by fund groups.

FAS117, Footnote 6--Information about an organization's major programs (or segments) can be enhanced by reporting the interrelationships of program expenses and program revenues. For example, a university might report expenses for its instruction and other academic services with related revenues from student tuition and expenses for its housing and food services with related revenues from room and board fees. Related nonmonetary information about program inputs, outputs, and results also is helpful; for example, information about applications, acceptances, admissions, enrollment and occupancy rates, and degrees granted. Generally, reporting that kind of information is feasible only in supplementary information or management explanations or by other methods of financial reporting.

FAS117, Appendix B, Footnote 7--"It is a very fundamental principle indeed that knowledge is always gained by the *orderly* loss of information, that is, by condensing and abstracting and indexing the great buzzing confusion of information that comes from the world around us into a form which we can appreciate and comprehend" (Kenneth E. Boulding, *Economics as a Science* [New York: McGraw-Hill Book Company, 1970], 2, emphasis added).

FAS117, Appendix B, Footnote 8--This Statement does not preclude display of interfund items in a statement of financial position; rather, its requirement to display total assets and liabilities results in certain practical limits on how interfund items are displayed in a financial statement. For example, because receivables and payables between fund groups are not organizational assets or liabilities, a statement of financial position must clearly label and arrange those interfund items to eliminate their amounts when displaying total assets or liabilities.

FAS117, Appendix B, Footnote 9--"New business practices, new methods of financing, and new methods of accounting have resulted in balance sheet accounts that defy classification as current or noncurrent.

"Perhaps one of the most significant changes that has occurred is the change in attitudes toward disclosure of financial information. Financial statement users demand, and companies are willing to disclose, much more detailed information about their financial affairs in supporting schedules and notes to financial statements than at the time accountants began to classify assets and liabilities as current or noncurrent" (Loyd C. Heath, Accounting Research Monograph 3, *Financial Reporting and the Evaluation of Solvency* [New York, AICPA, 1978], 74).

FAS117, Appendix C, Footnote *--Editor's Note: These totals are highlighted in this edition rather than being shaded.