



EXPOSURE DRAFT

Proposed Accounting Standards Update

Issued: October 27, 2016
Comments Due: November 11, 2016

Technical Correction to Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*

Endowment Reporting

The Board issued this Exposure Draft to solicit public comment on proposed changes to Topic 958 of the *FASB Accounting Standards Codification*®. Individuals can submit comments in one of three ways: using the electronic feedback form on the FASB website, emailing comments to director@fasb.org, or sending a letter to “Technical Director, File Reference No. 2016-350, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116.”

Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update

The Board invites comments on all matters in this Exposure Draft until November 11, 2016. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at [Exposure Documents Open for Comment](#)
- Emailing comments to director@fasb.org, File Reference No. 2016-350
- Sending a letter to “Technical Director, File Reference No. 2016-350, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116.”

All comments received are part of the FASB's public file and are available at www.fasb.org.

The *FASB Accounting Standards Codification*® is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective. A copy of this Exposure Draft is available at www.fasb.org.

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Endowment Reporting

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Summary and Question for Respondents

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

Since the *FASB Accounting Standards Codification*[®] was established in September 2009 as the source of authoritative generally accepted accounting principles (GAAP) to be applied by nongovernmental entities, stakeholders have provided suggestions for minor corrections and clarifications. The Accounting Standards Codification's *About the Codification* describes the FASB's procedure for responding to submissions, which involves the staff analyzing and processing the submissions and including any resulting changes to the Accounting Standards Codification in maintenance updates or in an Accounting Standards Update.

The Board is issuing this proposed Update to clarify the minimum requirements for the reconciliation that a not-for-profit entity (NFP) is required to disclose if it has endowment funds.

Who Would Be Affected by the Amendments in This Proposed Update?

The amendments in this proposed Update would affect NFPs. NFPs generally receive significant contributed resources and operate to further a public purpose rather than to achieve a profit objective, and their stakeholders, unlike those of business entities, generally do not have ownership interests. Those NFPs typically include nongovernmental entities such as charities, foundations, colleges and universities, health care providers, cultural institutions, religious organizations, and trade associations, among others.

What Are the Main Provisions?

The proposed amendments would remove the words "that contain no purpose restrictions" from paragraph 958-205-50-1B(e)(3), which were added by the amendments in Update 2016-14, thus clarifying the minimum requirements for the reconciliation that an NFP is required to disclose if it has endowment funds.

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

The proposed amendments would restore legacy wording that should not have been changed because of the amendments in Update 2016-14 and would clarify the correct guidance that was intended.

When Would the Amendments Be Effective?

The proposed amendments would not require transition guidance and would be effective upon the effective date of the amendments in Update 2016-14. These amendments would be incorporated in the final Accounting Standards Update on technical corrections and improvements, which is expected to be issued in December 2016.

Question for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issue and question below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

Question 1: Do you agree with the removal of the words “that contain no purpose restrictions” from paragraph 958-205-50-1B(e)(3), which were included in Update 2016-14? Why or why not?

Amendments to the *FASB Accounting Standards Codification*[®]

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–3. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

Amendments to Subtopic 958-205

2. Amend paragraph 958-205-50-1B, with a link to a transition paragraph 958-10-65-1, as follows:

Not-for-Profit Entities—Presentation of Financial Statements

Disclosure

> Reporting Endowment Funds

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

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

restricted endowment funds separately from board-designated endowment funds.

- e. A reconciliation of the beginning and ending balance of the NFP's endowment, in total and by net asset class, including, at a minimum, all of the following line items that apply:
 1. Investment return, net
 2. **Contributions**
 3. Amounts appropriated for expenditure ~~that contain no purpose restrictions~~
 4. Subparagraph superseded by Accounting Standards Update No. 2016-14
 5. Other changes.

3. Amend paragraph 958-10-65-1 and its related heading as follows:

Not-for-Profit Entities—Overall

Transition and Open Effective Date Information

> Transition Related to Accounting Standards ~~Update~~Updates No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, and No. 2016-XX, *Technical Correction to Update No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities—Endowment Reporting (to be included in Accounting Standards Update No. 2016-XX, Technical Corrections and Improvements)*

958-10-65-1 The following represents the transition and effective date information related to Accounting Standards ~~Update~~Updates No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, and No. 2016-XX, *Technical Correction to Update No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities—Endowment Reporting (to be included in Accounting Standards Update No. 2016-XX, Technical Corrections and Improvements)*:

[The remainder of this paragraph is not shown here because it is unchanged.]

The amendments in this proposed Update were approved for publication by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Russell G. Golden, *Chairman*
James L. Kroeker, *Vice Chairman*
Christine A. Botosan
Daryl E. Buck
R. Harold Schroeder
Marc A. Siegel
Lawrence W. Smith

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this proposed Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

Background Information

BC2. The amendments in Update 2016-14 incorrectly added the words "that contain no purpose restrictions" to paragraph 958-205-50-1B(e)(3). These words should not have been added and, thus, should be removed to reflect the wording in the legacy literature. Whether funds appropriated for expenditure from an endowment fund have an associated purpose restriction does not affect the amount that should be reported as removed from the NFP entity's endowment. Rather, the act of appropriation by the entity's governing board is what results in such removal. Furthermore, it was not the Board's intent to require a distinction between funds appropriated for expenditure by requiring separate presentation of such funds that contain no restrictions from funds that are appropriated for a specific purpose.

Benefits and Costs

BC3. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC4. The Board does not anticipate that entities would incur significant costs because of the amendments in this proposed Update. The proposed amendments would provide the benefit of improving consistent application of GAAP by clarifying guidance that already exists within GAAP. The proposed amendments would not

create new accounting requirements, and the Board does not expect that the proposed amendments would result in significant changes in practice. Therefore, the Board concluded that the cost of implementing the proposed amendments would not be significant.

Effective Date and Transition

BC5. The Board does not expect that the proposed amendments would result in changes in current practice. The proposed amendments would be effective upon the effective date of the amendments in Update 2016-14.

BC6. These amendments would be incorporated in the final Accounting Standards Update on technical corrections and improvements, which is expected to be issued in December 2016.

Amendments to the XBRL Taxonomy

The provisions of this Exposure Draft, if finalized as proposed, would not require changes to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). Any stakeholders who believe that changes to the Taxonomy are required should provide their comments and suggested changes through [ASU Taxonomy Changes](#) provided at www.fasb.org.