Bond Case Briefs

Municipal Finance Law Since 1971

Highlights of FASB's Not-for-Profit Advisory Committee Meeting.

On February 28 and March 1, 2013, the FASB's Not-for-Profit Advisory Committee (NAC) held its semi-annual meeting. The discussions focused on the development of an intermediate operating measure for not-for-profit entities (NFPs), accounting for government assistance, accounting for financial instruments, and EITF Issue 12-B, "Services Received from Personnel of an Affiliate for Which the Affiliate Does Not Seek Compensation." In addition, the NAC received updates from FASB staff on other current and potential projects. The NAC also discussed re- cent trends in the sector.

Operating Measure
The NAC discussed defining, presenting, and disclosing an intermediate operating measure applicable to a broad range of NFPs. In a breakout session, NAC members explored the potential underlying bases for an intermediate operating measure. They also explored what might be included in or excluded from such a measure with respect to:

- Endowment management; and
- Capital campaigns, bequests, and other planned giving programs.

The NAC considered factors that might serve as bases for distinguishing between transactions and other events and circumstances that are and are not operating items, including:

- The NFP's core mission; that is, their ongoing, day-to-day major and/or central activities directed at achieving the NFP's purpose(s);
- The time period in which the day-to-day activities are carried out;
- The time period for which the activities/resources are expected to benefit—e.g., expenses for activities directed at generating support for future periods and/or resource inflows to support future periods; and
- The nature of the transaction or event, such as nonrecurring or unusual rather than on-going day-to-day activities.

In general, NAC members expressed support for using core mission as a factor for helping distinguish an intermediate operating measure but not as the sole basis. NAC members ex- pressed concern that core mission might be too broad, that almost anything could be seen as part of an NFP's mission, that an NFP's mission can change, and that an NFP with nefarious intent could change its mission to justify other activities that may not be in the best interest of stakeholders. NAC members suggested that the emphasis of an operating measure should be on current period activities and the sources of support for those activities. The sources of support for those current activities would include prior period resources that became available during the current period. NAC members also expressed a desire to distinguish the following as nonoperating items: (a) current revenues that are restricted by donors (or by law) for uses other than current period activities and (b) items that for-profit entities report as part of other comprehensive income rather than within net income. In addition, some NAC members suggested that bequests and certain other current period inflows (for example, returns on quasi-endowment funds) be presented as nonoperating items if

designated by the NFPs governing board for use in future periods. Those members would reflect a current period operating addition to the extent that the governing board appropriates amounts from bequests and quasi-endowment returns to support current period operations.

NAC members also discussed alternative ways of sequencing operating items within the intermediate operating measures. One alternative would begin by presenting all legally available revenues (earned revenues and contributions, including support received for the current period and reclassifications of restricted support received in a prior period for which the restrictions are met in the current period) as gross operating revenues. Expenses would then be deducted to arrive at gross operating results. Board-designations, including, for example, bequests designated for future periods, would be shown as deductions and adjustments would be made for transfers to arrive at net operating results. In effect, two measures of operations would be created (gross operating results and net operating results). Some NAC members preferred that alternative, while others expressed concern that the amounts reported as gross operating results would appear to inflate the extent of the current resources that were made available for use by the NFP, would not reflect the NFP's budget process and the way its governing body is managing the use of entity resources, or both.

Some NAC members preferred a second alternative that would first present as net revenue available for operations: all legally available revenues and support received for the current period, reclassifications of restricted support received in a prior period for which the restrictions are met, and transfers in/out of Board-designated funds. Expenses would then be deducted to arrive at results from operations. Some NAC members expressed concern that the second alter- native was not as transparent since it included the impact of board designations in the current revenue available for operations.

Some NAC members preferred a third alternative—that all current period revenues that are unrestricted but designated by the NFP's governing board for use in future periods be reported as nonoperating revenues. That is, they would not report board-designated funds as part of gross operating revenues.

NAC members expressed different preferences on whether to use a single- or a two-statement approach. A single-statement approach would present all changes in net assets for the period. A two-statement approach would present current period operating revenues and support, expenses, and other operating activities separately from all other changes in net assets. NAC members noted that under any approach, the financial statements should provide sufficient transparency to enable users to understand how the entity is distinguishing between operating and nonoperating revenues and support, including distinguishing items for board-appropriations and other transfers among the current period operating and nonoperating subdivisions.

Government Assistance

NAC members discussed a potential FASB agenda project on Accounting for Government Assistance—federal, state, and local. Some NAC members expressed support for the Board providing guidance that clarifies which types of government assistance should be accounted for as contributions rather than as exchange transactions. NAC members observed that current U.S. GAAP requires judgment, that some diversity exists in practice, and that guidance would be helpful for government assistance involving cost-sharing, partnering, and certain other forms of collaborative agreements. Most recently, diversity has arisen in both the for-profit and not-for- profit healthcare industry regarding the recognition of Federal assistance for the implementation of electronic health records. Some NAC members cautioned that the potential project scope be clearly defined. They questioned whether the benefits of recognizing the value of broad-based tax exemptions, such as property taxes, would exceed the costs to quantify such exemptions.

Accounting for Financial Instruments
NAC members discussed the FASB's projects on Accounting for Financial Instruments, both Classification and Measurement, and Impairment (or Credit Loss). During the discussion on impairment, some NAC members compared the current practices regarding reserving for uncollectible loans receivable and pledges receivable to the proposed Current Expected Credit Loss (CECL) model and suggested that the CECL model could result in a similar accounting out- come. However, several NAC members expressed concerns about the usefulness of disclosures under the CECL model as well as current U.S. GAAP, which requires credit quality disclosures for student loans and program-related loans.

EITF 12B
NAC members discussed EITF Issue 12-B. NAC members supported the recognition of all un- compensated services received from personnel of an affiliate that directly benefit the recipient NFP. Those services would include services received from personnel of a for-profit affiliate or personnel hired by an individual who meets the definition of an affiliate. NAC members generally supported measuring the value of those services at cost; however, they also generally sup- ported a fair value measurement alternative when the cost information is not readily available or reflective of fair value.

Additional information about these topics and other areas discussed during the meeting can be found in the meeting handouts and in the meeting minutes.

http://www.fasb.org/cs/BlobServer?blobkey=id&blobwhere=1175826398445&blobheader=application%2Fpdf&blobcol=urldata&blobtable=MungoBlobs

Copyright © 2026 Bond Case Briefs | bondcasebriefs.com