

# **Bond Case Briefs**

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## **FASB Looks to Improve Nonprofit Reporting of Net Assets.**

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At a meeting in Norwalk, Conn., FASB members unanimously supported the staff recommendation to replace existing rules that require a nonprofit to present on the face of its statement of financial position the totals for three classes of net assets that are used to fund the entity's operations. Current requirements also dictate that an entity present the changes in each of the classes on the face of its statement of activities.

Based on the staff's recommendation, the board will pursue guidance that instead requires totals for two classes of net assets to be presented on the face of the financial statements: those with donor-imposed restrictions and those without donor-imposed restrictions.

FASB also agreed to replace the definitions of two donor-restricted classes of net assets — temporarily restricted net assets and permanently restricted net assets — with a single definition for net assets with donor-imposed restrictions. The board will retain the substance of the definition of unrestricted net assets but will change its label to "net assets without donor-imposed restrictions."

To further improve disclosures about net asset restrictions, the board tentatively decided that it will require nonprofit entities to provide information in the financial statement footnotes about the composition of net assets at the balance sheet date.

According to FASB, the guidance will require an entity to describe how and when its resources can be used and provide information on the net assets without donor-imposed restrictions that have been "board-designated or otherwise authorized by the board for particular uses."

Ronald Bossio, a senior project manager at FASB, said the net asset composition can be an important part of nonprofit financial reporting if an entity's communications about its liquidity are perceived to be less than adequate. For some financial statement users, such as creditors, the net asset disclosure is a backdoor way of understanding the liquidity of a nonprofit organization, he added.

According to Bossio, the staff recommendations on improving the information that nonprofit entities provide on their liquidity and cash flow will be presented to the board in October.

FASB's latest decisions were made as part of its project on reexamining the standards for nonprofit financial statement presentation. The board previously decided on how intermediate operating measures should be defined in the financial statements of nonprofit entities. (Prior coverage .)

## Share-Based Payments

The board also unanimously voted against adding to its technical agenda a new project on how to determine the grant date of share-based payments when the conditions of those awards contain discretionary provisions and clawback arrangements.

Lauren Mottley, a FASB practice fellow, said the request for additional guidance was brought to the board's attention because the Dodd-Frank Wall Street Reform and Consumer Protection Act includes a provision that requires public companies to have a clawback policy on the restatement of their financial statements.

According to Mottley, the staff recommended that the board not pursue a project on the topic because they believed that sufficient guidance was provided in Accounting Standards Codification (ASC) Topic 718, "Compensation — Stock Compensation," and that additional guidance might not be able to resolve the diversity in practice.

FASB member Thomas Linsmeier supported the staff recommendation, adding that the board's guidance on stock-based compensation is converged with the related international financial reporting standards. "I don't see a reason at this point to diverge," he said.

Linsmeier said the board will have another opportunity to reconsider the topic after a post-implementation review of FASB Statement No. 123(R), "Share-Based Payment," is completed by the Financial Accounting Foundation.

by Thomas Jaworski