



Anquillare, Ruocco, Traester and Company
Certified Public Accountants and Consultants
98 Elm Street, P.O. Box 308, West Haven, CT 06516
203-932-2931/ Fax: 203-932-9962
www.artcpas.com

March 2008

FASB issues guidance on reporting and disclosure of restricted funds

March 2008

Recently the Financial Accounting Standards Board published a *Proposed Staff Position* on the net asset classification of donor-restricted endowment funds of nonprofit organizations. The position is meant to apply to those that are subject to a version of the Uniform Prudent Management of Institutional Funds Act of 2006, a model act adopted by the National Conference of Commissioners on Uniform State Laws. Portions of the model were adopted by Connecticut in 2007 (Public Act 07-91). The objective of the FASB's position is to seek comments from interested parties on its guidance associated with the classification of donor-restricted endowment funds along with disclosures under Generally Accepted Accounting Principles associated with both donor-restricted and board-designated funds. This article will focus on some of the highlights of the FASB's position.

According to the position, a nonprofit organization must classify all or a portion of a donor-restricted endowment fund of perpetual duration as permanently restricted net assets. The amount classified as permanently restricted must be the amount of the fund:

- i. that must be retained permanently in accordance with donor stipulations, or
- ii. in the absence of such stipulations, the amount that the organization's governing board determines must be retained permanently, if any, under relevant law.

The position also calls for the disclosure of information to enable financial statement users to understand the net asset classification, net asset composition, changes in net asset compositions, spending policies, and related investment policies about its endowment funds (both donor-restricted and board-designated). At a minimum, the position would require an organization to disclose¹ the following information for each period for which the organization presents financial statements:

- a. A description of the organization's governing board's interpretation² of the law that underlies the organization's net asset classification of donor-restricted endowment funds. The FASB expects that a governing board's interpretation of relevant law will be a one-time interpretation, applied to all donor-restricted endowment funds consistently from year to year. It should not be treated as an accounting policy decision that may be changed from time to time.
- b. A description of the organization's policies for the appropriation of endowment assets (its endowment spending policy).
- c. A description of the organization's endowment investment policies. The description must include the organization's return objectives and risk parameters, how those objectives relate to the organization's endowment spending policies, and the strategies employed for achieving those objectives.

¹ The guidance offers examples with respect to disclosures. However, the examples seem to assume that state law requires each nonprofit organization to preserve the purchasing power of the permanently restricted endowment. Connecticut law does not contain such a requirement. Thus, while Connecticut nonprofit organizations may use the examples in the FASB's position, the examples must be modified based upon Connecticut law.

² Nonprofit organizations may wish to consult qualified legal counsel with regard to the interpretation of Connecticut law.

- d. The composition of the organization'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. In addition, the organization must indicate the cumulative amount of investment return, if any, contained in the permanently restricted net asset class because of the organization's interpretation of relevant law, beyond that required by explicit donor stipulations.
- e. A reconciliation³ of the beginning and ending balance of the organization's endowment, in total and by net asset class, including, at a minimum, the following line items, as applicable:
 - i. investment return, separated into investment income (for example, interest, dividends, rents) and net appreciation or depreciation of investments,
 - ii. contributions,
 - iii. amounts appropriated for expenditure,
 - iv. reclassifications, and
 - v. other changes.

In addition, the organization must indicate how much, if any, of the additions of investment return to permanently restricted net assets are the result of the organization's interpretation of relevant law, beyond that required by explicit donor stipulations.

- f. The proposal would also require the organization to disclose its planned appropriation for expenditures, if known, for the year following the most recent period for which the organization presents financial statements.

The Proposed Staff Position of the Financial Accounting Standards Board is effective for fiscal years ending after June 15, 2008.

If you have questions concerning the FASB's position or if you would like copies of its Notice, please contact Vincent Ruocco, LLC, CPA at 203.932.2931.

~~~~~

---

<sup>3</sup> The FASB encourages organizations to use a format that displays the information in the most understandable manner and to provide any additional information that enables financial statement users to understand the net asset classification, net asset composition, changes in net asset composition, spending policies, and related investment policies.