FINANCIAL ACCOUNTING SERIES

ACCOUNTING STANDARDS UPDATE

No. 2012-05
October 2012

Statement of Cash Flows (Topic 230)

Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows

a consensus of the FASB Emerging Issues Task Force

An Amendment of the *FASB Accounting Standards Codification®*

Financial Accounting Standards Board
of the Financial Accounting Foundation

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Summary

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

The objective of this Update is to address the diversity in practice about how to classify cash receipts arising from the sale of certain donated financial assets, such as securities, in the statement of cash flows of not-for-profit entities (NFPs). Some NFPs classify the cash receipts arising from the sale of donated financial assets in the statement of cash flows as investing cash inflows. Other entities classify the cash receipts from the sale of donated financial assets as either operating cash inflows or financing cash inflows, consistent with their treatment of inflows arising from cash contributions.

Who Is Affected by the Amendments in This Update?

The amendments in this Update affect any entity within the scope of Topic 958, Not-for-Profit Entities, that accepts donated financial assets.

What Are the Main Provisions?

The amendments in this Update require an NFP to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any NFP-imposed limitations for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts should be classified as cash flows from financing activities. Otherwise, cash receipts from the sale of donated financial assets should be classified as cash flows from investing activities by the NFP.

How Do the Main Provisions Differ from Current U.S. Generally Accepted Accounting Principles (GAAP) and Why Are They an Improvement?

Currently, there is diversity in practice under U.S. GAAP about the presentation of the cash receipts from the sale of donated financial assets in the statement of cash flows as either an investing activity or a noninvesting (operating or financing) activity. The amendments in this Update eliminate the diversity in practice.

When Will the Amendments Be Effective?

The amendments in this Update are effective prospectively for fiscal years, and interim periods within those years, beginning after June 15, 2013. Retrospective application to all prior periods presented upon the date of adoption is permitted. Early adoption from the beginning of the fiscal year of adoption is permitted. For fiscal years beginning before October 22, 2012, early adoption is permitted only if an NFP's financial statements for those fiscal years and interim periods within those years have not yet been made available for issuance.

How Do the Provisions Compare with International Financial Reporting Standards (IFRS)?

The Preface of International Financial Reporting Standards states that IFRSs are designed to apply to general purpose financial statements and other financial reporting of all profit-oriented entities. Although IFRSs are not designed to apply to not-for-profit activities, entities with such activities may find them appropriate.

IAS 7, *Statement of Cash Flows*, presents a principles-based definition of the classifications of cash flows. Operating cash flows are those that are derived from the principal revenue-producing activities of the entity. Sales of debt instruments, equity instruments, interests in joint ventures, and certain other financial assets are identified as examples of investing activities; however, IAS 7 does not explicitly state that sale of such financial assets should be classified as investing activities.

Amendments to the
FASB Accounting Standards Codification®

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–7. 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 <u>underlined</u>, and deleted text is ~~struck out~~.

Amendments to Subtopic 230-10

2. Amend paragraph 230-10-45-12, with a link to transition paragraph 230-10-65-1, as follows:

Statement of Cash Flows—Overall

Other Presentation Matters

230-10-45-12 All of the following are cash inflows from investing activities:

a. Receipts from collections or sales of loans made by the entity and of other entities' debt instruments (other than cash ~~equivalents~~<u>equivalents,</u> ~~and~~ certain debt instruments that are acquired specifically for resale as discussed in paragraph 230-10-45-21<u>, and certain donated debt instruments received by not-for-profit entities (NFPs) as discussed in paragraph 230-10-45-21A</u>) ~~that were purchased by the entity~~
b. Receipts from sales of equity instruments of other entities (other than certain equity instruments carried in a trading account as described in paragraph 230-10-45-19 <u>and certain donated equity instruments received by NFPs as discussed in paragraph 230-10-45-21A</u>) and from returns of investment in those instruments
c. Receipts from sales of property, plant, and equipment and other productive assets
d. ~~not used~~<u>Subparagraph not used</u>
e. Receipts from sales of loans that were not specifically acquired for resale. That is, if loans were acquired as investments, cash receipts from sales of those loans shall be classified as investing cash inflows regardless of a change in the purpose for holding those loans.

For purposes of this paragraph, receipts from disposing of loans, debt or equity instruments, or property, plant, and equipment include directly related proceeds of insurance settlements, such as the proceeds of insurance on a building that is damaged or destroyed.

3. Add paragraph 230-10-45-21A, with a link to transition paragraph 230-10-65-1, as follows:

230-10-45-21A Cash receipts resulting from the sale of donated **{add glossary link to 1st definition}financial assets{add glossary link to 1st definition}** (for example, donated debt or equity instruments) by NFPs that upon receipt were directed without any NFP-imposed limitations for sale and were converted nearly immediately into cash shall be classified as operating cash flows. If, however, the donor restricted the use of the contributed resource to a long-term purpose of the nature of those described in paragraph 230-10-45-14(c), then those cash receipts meeting all the conditions in this paragraph shall be classified as a financing activity.

Amendments to Subtopic 958-230

4. Amend paragraph 958-230-55-3, with a link to transition paragraph 230-10-65-1, as follows:

Not-for-Profit Entities—Statement of Cash Flows

Implementation Guidance and Illustrations

> > Cash Received with a Donor-Imposed Restriction That Limits Its Use to Long-Term Purposes

958-230-55-3 When an NFP reports cash received (or cash receipts from the sale of donated **{add glossary link to 1st definition}financial assets {add glossary link to 1st definition}** that upon receipt were directed without any NFP-imposed limitations for sale and were converted nearly immediately into cash as discussed in paragraph 230-10-45-21A) with a **donor-imposed restriction** that limits its use to long-term purposes in conformity with paragraph 958-210-45-6, an adjustment is necessary for the statement of cash flows to reconcile beginning and ending cash and cash equivalents. ~~To report in conformity~~ For instance, in accordance with Topic 230, such a cash ~~the~~ receipt ~~of a cash **contribution**~~ that is restricted for the purchase of equipment shall be reported as a cash flow from financing activities (using a caption such as contributions restricted for purchasing equipment), and it shall be simultaneously reported as a cash outflow from investing activities (using a caption such as purchase of assets restricted to investment in property and equipment or, if the equipment was purchased in the same period, purchase of equipment). An adjustment to reconcile the change in net assets to net cash used or provided by operating activities would also be needed if the contributed asset is not classified as cash or cash equivalents on the statement of financial position. When the equipment is purchased in a subsequent period, both the proceeds from the sale of assets restricted to investment in the equipment and the purchase of the equipment shall be reported as cash flows from investing activities.

5. Add paragraph 230-10-65-1 and its related heading as follows:

> Transition Related to Accounting Standards Update No. 2012-05, *Statement of Cash Flows (Topic 230): Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*

230-10-65-1 The following represents the transition and effective date information related to Accounting Standards Update No. 2012-05, *Statement of Cash Flows (Topic 230): Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows:*

a. The pending content that links to this paragraph shall be applied prospectively to cash receipts on or after the date of adoption from the sale of donated financial assets for fiscal years, and interim periods within those years, beginning after June 15, 2013. Retrospective application to all prior periods presented upon the date of adoption also is permitted but not required.
b. Earlier adoption from the beginning of the fiscal year of adoption of the pending content that links to this paragraph is permitted. For fiscal years beginning before October 22, 2012, early adoption is permitted only if an NFP's financial statements for those fiscal years and interim periods within those years have not yet been made available for issuance.
c. An entity shall provide the disclosures in paragraphs 250-10-50-1 through 50-3 in the period the entity adopts the pending content that links to this paragraph.

6. Amend paragraph 230-10-00-1, by adding the following items to the table, as follows:

230-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	**Action**	**Accounting Standards Update**	**Date**
Financial Asset (1st def.)	Added	2012-05	10/22/2012
230-10-45-12	Amended	2012-05	10/22/2012

230-10-45-21A	Added	2012-05	10/22/2012
230-10-65-1	Added	2012-05	10/22/2012

7. Amend paragraph 958-230-00-1, by adding the following items to the table, as follows:

958-230-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	**Action**	**Accounting Standards Update**	**Date**
Financial Asset (1st def.)	Added	2012-05	10/22/2012
958-230-55-3	Amended	2012-05	10/22/2012

The amendments in this Update were adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Leslie F. Seidman, *Chairman*
Daryl E. Buck
Russell G. Golden
Thomas J. Linsmeier
R. Harold Schroeder
Marc A. Siegel
Lawrence W. Smith

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Task Force's considerations in reaching the conclusions in this Update. It includes the Board's basis for ratifying the Task Force conclusions when needed to supplement the Task Force's considerations. It also includes reasons for accepting certain approaches and rejecting others. Individual Task Force and Board members gave greater weight to some factors than to others.

BC2. This Update clarifies the guidance on classification in the statement of cash flows of cash receipts from the sale of donated financial assets, such as securities, that upon receipt are directed without any NFP-imposed limitations for sale and were converted nearly immediately into cash. The amendments in this Update require that those cash receipts be classified consistently with cash donations received. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash inflows from operating activities. However, if the donor restricted the use of the contributed resource to a long-term purpose (for example, the acquisition, construction, or improvement of long-lived assets or to establish or increase a permanent or term endowment), then those cash receipts should be classified as cash flows from financing activities. Otherwise, receipts from the sale of donated financial assets should be classified as cash flows from investing activities by the NFP.

Background Information and Basis for Conclusions

BC3. NFPs receive donations to operate their programs. Many donations are made in the form of cash, but to accommodate donors, some donations are made in the form of financial assets. Although NFPs typically accept donations in the form of financial assets, many have institutional policies to immediately sell them to convert the financial assets into cash to be available for immediate use. Some NFPs that have such a policy consider those donated financial assets to be essentially equivalent to cash.

BC4. Topic 230 requires entities to classify cash receipts as operating, investing, or financing activities. There is diversity in practice on the presentation of cash receipts from the sale of donated financial assets in the statement of cash flows. Some NFPs classify the cash receipts arising from the sale of donated financial assets in the statement of cash flows as investing cash inflows. Other entities classify the cash receipts from the sale of donated financial assets as either operating cash inflows or financing cash inflows, consistent with their treatment of inflows arising from cash contributions. Some constituents have raised concerns with this diversity in practice.

BC5. At the March 15, 2012 EITF meeting, the Task Force reached a consensus-for-exposure on EITF Issue No. 12-A, "Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows." A proposed Accounting Standards Update was issued on April 17, 2012, with a comment period that ended on July 16, 2012. Fourteen comment letters were received on the proposed Update.

BC6. At the September 11, 2012 EITF meeting, the Task Force considered the comments received on the proposed Update and concluded that the receipt of a donated financial asset and its near immediate conversion into cash is economically similar to the receipt of cash donations. Accordingly, the Task Force also concluded that characterizing the cash receipts from the sale of such financial assets as an investing activity would not provide relevant information about how an NFP obtains cash. Rather, characterizing those receipts as an investing activity might inappropriately suggest a degree of reliance on investing results and investment risks and rewards, which are not present. Because the financial assets in the scope of this Update generally are accepted by the NFP to accommodate the donor's objectives rather than as a result of a strategic decision to invest in a particular entity or asset class, the Task Force does not consider the cash resulting from those transactions to be investing activities in the way that the statement of cash flows characterizes such activities. The Task Force concluded that determining whether the cash receipts from the sale of such donated financial assets are classified as an operating activity or instead are classified as a financing activity should be consistent with classifying receipts of cash donations.

Scope

BC7. The Task Force decided that the scope of this Update should be limited to the statement of cash flows classification of cash receipts resulting from the sale of donated financial assets that upon receipt were directed without any NFP-imposed limitation for sale and were converted nearly immediately into cash. The Task Force concluded that the existence of an NFP-imposed limitation on the sale of donated financial assets (for example, a limit order) would be indicative of an investing decision and, therefore, such a limitation should result in an investing cash flows classification for the related proceeds. Task Force members discussed broadening the scope of this Update to include cash flows resulting from the near immediate sale of other donated assets, such as cars and works of art, but concluded that since they are not aware of diversity in practice related to classification of cash flows from sale of other assets and that the additional time required to deliberate such a scope expansion might delay addressing known diversity, the scope of this Update should be limited to cash flows from donated financial assets. In making that decision, the Task Force encouraged the Board to consider the classification of cash receipts from the sale of donated assets other than financial assets as part of its project, Not-for-Profit Financial Reporting: Financial Statements.

BC8. The Task Force discussed whether the ability to avoid significant investment risks and rewards through near immediate conversion into cash should be one of the criteria for applying the guidance or whether the intent to avoid the investment risks and rewards, as evidenced by an unrestricted direction upon receipt of the financial asset for near immediate sale, should be the only basis for classifying the cash receipt as an operating or financing activity. The Task Force concluded that because the volatility in the fair value is a common characteristic of investing activities, an entity's ability to avoid significant investment risks and rewards of a donated financial asset through their near immediate conversion into cash (combined with its intent to do so at the time of receipt) would be a relevant criterion for determining whether the cash flows are reflective of investing activities of the NFP. Furthermore, the Task Force concluded that classifying cash receipts for which an NFP is subject to a significant amount of investment risks and rewards as anything other than investing activities might impair a user's ability to assess the uncertainty in prospective cash receipts associated with future sales of donated financial assets. However, the Task Force concluded that use of a criterion that requires that a donated financial asset be converted nearly immediately into cash should largely achieve the same result as use of a criterion explicitly focused on the ability of an NFP to avoid significant investment risks and rewards, and it achieves a better balance between the benefits and costs to implement the guidance. The Task Force chose not to define *nearly immediately* but concluded that, in arriving at its consensus, *nearly immediately* is synonymous with *promptly* and should generally be considered to be within days rather than months, and should be interpreted to be the same regardless of the type of financial asset being sold.

Transition and Early Adoption

BC9. The Task Force reached a consensus that entities should apply the amendments in this Update prospectively to cash receipts on or after the date of adoption from the sale of donated financial assets. Retrospective application to all prior periods presented upon the date of adoption is also permitted but not required. The Task Force concluded that the costs of retrospectively applying the guidance may exceed the benefits of having comparable financial information. However, because comparability of financial information of an entity across periods is useful and the information required for retrospective application may be available to some NFPs, the Task Force decided to permit retrospective application of the amendments. The transition guidance is based on the cash receipts from the sale of donated financial assets to ensure consistent treatment of cash receipts from those sales in the period of adoption.

BC10. The Task Force decided to permit early adoption of the amendments from the beginning of the fiscal year of adoption so as to eliminate existing diversity as soon as is practicable. The Task Force concluded that entities that have not issued their financial statements for periods ending before the issuance of this Update should be able to adopt the amendments in this Update for those periods and therefore decided to permit an NFP to early adopt the amendments in this Update for fiscal years beginning before October 22, 2012 (the issuance date of this Update). However, such early adoption is permitted only if the NFP's financial statements for those fiscal years and interim periods within those years have not yet been made available for issuance.

Benefits and Costs

BC11. The objective of financial reporting is to provide information that is useful to present and potential donors, creditors, investors, 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 donors, creditors, investors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by those that presently provide resources to the reporting NFP. 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.

BC12. The amendments in this Update should be applied prospectively, and no additional recurring disclosures are required. As such, the Task Force does not anticipate that NFPs will incur significant costs as a result of the amendments. The amendments provide the benefit of eliminating diversity in practice and increasing the consistency of the classification of the cash receipts from the sale of qualifying financial assets and cash donations received in the statement of cash flows.

Amendments to the XBRL Taxonomy

The following changes to the U.S. GAAP Financial Reporting Taxonomy (UGT) will be required as a result of the amendments to the *FASB Accounting Standards Codification*®. The changes to the UGT are available for public comment throughout the year at www.fasb.org. Changes to the UGT for final Accounting Standards Updates are finalized as part of the annual release process starting in September of each year.

Element Name	**Standard Label**	**Documentation**
ProceedsFromSaleOfDonorRestrictedAssets	Proceeds From Sale Of Donor Restricted Assets	Amount of receipts from contributions and investment income with restrictions stipulated by the donor for the purpose of acquiring, constructing, or improving property, plant, equipment, or other long-lived assets, or establishing, or increasing a permanent endowment or term endowment.