

Excerpts from Statement of Financial Accounting Standards No. 116
“Accounting for Contributions Received and Contributions Made”
Financial Accounting Standards Board, June 1993

Reporting by Not-for-Profit Organizations

14. A not-for-profit organization shall distinguish between contributions received with **permanent restrictions**, those received with **temporary restrictions**, and those received without donor-imposed restrictions. A restriction on an organization's use of the assets contributed results either from a donor's explicit stipulation or from circumstances surrounding the receipt of the contribution that make clear the donor's implicit restriction on use. Contributions with donor-imposed restrictions shall be reported as restricted support; however, donor-restricted contributions whose restrictions are met in the same reporting period may be reported as unrestricted support provided that an organization reports consistently from period to period and discloses its accounting policy. Restricted support increases **permanently restricted net assets** or **temporarily restricted net assets**. Contributions without donor-imposed restrictions shall be reported as unrestricted support that increases **unrestricted net assets**.

15. Receipts of unconditional promises to give with payments due in future periods shall be reported as restricted support unless explicit donor stipulations or circumstances surrounding the receipt of a promise make clear that the donor intended it to be used to support activities of the current period. For example, receipts of unconditional promises to give cash in future years generally increase temporarily restricted net assets.

16. Gifts of long-lived assets received without stipulations about how long the donated asset must be used shall be reported as restricted support if it is an organization's accounting policy to imply a time restriction that expires over the useful life of the donated assets. Organizations that adopt a policy of implying time restrictions also shall imply a time restriction on long-lived assets acquired with gifts of cash or other assets restricted for those acquisitions. In the absence of that policy and other donor-imposed restrictions on use of the asset, gifts of long-lived assets shall be reported as unrestricted support. An organization shall disclose its accounting policy.

Expiration of Donor-imposed Restrictions

17. A not-for-profit organization shall recognize the expiration of a donor-imposed restriction on a contribution in the period in which the restriction expires. A restriction expires when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.⁵ If an expense is incurred for a purpose for which both unrestricted and temporarily restricted net assets are available, a donor-imposed restriction is fulfilled to the extent of the expense incurred unless the expense is for a purpose that is directly attributable to another specific external source of revenue. For example, an expense does not fulfill an existing donor restriction if that expense is incurred for a purpose that is directly attributable to and reimbursed by a sponsored exchange agreement or a conditional award from a government agency, private foundation, or others. Pursuant to paragraph 19 of Statement 117, expirations of donor-imposed restrictions that simultaneously increase one class of net assets and decrease another (reclassifications) are reported separately from other transactions.

Excerpts from Statement of Financial Accounting Standards No. 117
“Financial Statements of Not-for-Profit Organizations”
Financial Accounting Standards Board, June 1993

Statement of Financial Position

Classification of Net Assets as Donor Restricted or Unrestricted

13. A statement of financial position provided by a not-for-profit organization shall report the amounts for each of three classes of net assets—**permanently restricted net assets**, **temporarily restricted net assets**, and **unrestricted net assets**—based on the existence or absence of donor-imposed restrictions.

14. Information about the nature and amounts of different types of **permanent restrictions** or **temporary restrictions** shall be provided either by reporting their amounts on the face of the statement or by including relevant details in notes to financial statements. Separate line items may be reported within permanently restricted net assets or in notes to financial statements to distinguish between permanent restrictions for holdings of (a) assets, such as land or works of art, donated with stipulations that they be used for a specified purpose, be preserved, and not be sold or (b) assets donated with stipulations that they be invested to provide a permanent source of income. The latter result from gifts and bequests that create permanent **endowment funds**.

15. Similarly, separate line items may be reported within temporarily restricted net assets or in notes to financial statements to distinguish between temporary restrictions for (a) support of particular operating activities, (b) investment for a specified term, (c) use in a specified future period, or (d) acquisition of long-lived assets. Donors' temporary restrictions may require that resources be used in a later period or after a specified date (time restrictions), or that resources be used for a specified purpose (purpose restrictions), or both. For example, gifts of cash and other assets with stipulations that they be invested to provide a source of income for a specified term and that the income be used for a specified purpose are both time and purpose restricted. Those gifts often are called *term endowments*.

16. Unrestricted net assets generally result from revenues from providing services, producing and delivering goods, receiving unrestricted contributions, and receiving dividends or interest from investing in income-producing assets, less expenses incurred in providing services, producing and delivering goods, raising contributions, and performing administrative functions. The only limits on the use of unrestricted net assets are the broad limits resulting from the nature of the organization, the environment in which it operates, and the purposes specified in its articles of incorporation or bylaws and limits resulting from contractual agreements with suppliers, creditors, and others entered into by the organization in the course of its business. Information about those contractual limits that are significant, including the existence of loan covenants, generally is provided in notes to financial statements. Similarly, information about self-imposed limits that may be useful, including information about voluntary resolutions by the governing board of an organization to designate a portion of its unrestricted net assets to function as an endowment (sometimes called a *board-designated endowment*), may be provided in notes to or on the face of financial statements.

Excerpts from Statement of Financial Accounting Standards No. 117
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Statement of Activities

Changes in Classes of Net Assets

19. A statement of activities shall report the amount of change in permanently restricted net assets, temporarily restricted net assets, and unrestricted net assets for the period. Revenues, expenses, gains, and losses increase or decrease net assets and shall be classified as provided in paragraphs 20-23. Other events, such as expirations of donor-imposed restrictions, that simultaneously increase one class of net assets and decrease another (reclassifications) shall be reported as separate items. Information about revenues, expenses, gains, losses, and reclassifications generally is provided by aggregating items that possess similar characteristics into reasonably homogeneous groups.

Classification of Revenues, Expenses, Gains, and Losses

20. A statement of activities shall report revenues as increases in unrestricted net assets unless the use of the assets received is limited by donor-imposed restrictions. For example, fees from rendering services and income from investments generally are unrestricted; however, income from donor-restricted permanent or term endowments may be donor restricted and increase either temporarily restricted net assets or permanently restricted net assets. A statement of activities shall report expenses as decreases in unrestricted net assets.

21. Pursuant to FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made*, in the absence of a donor's explicit stipulation or circumstances surrounding the receipt of the contribution that make clear the donor's implicit restriction on use, contributions are reported as unrestricted revenues or gains (**unrestricted support**), which increase unrestricted net assets. Donor-restricted contributions are reported as restricted revenues or gains (**restricted support**), which increase temporarily restricted net assets or permanently restricted net assets depending on the type of restriction. However, donor-restricted contributions whose restrictions are met in the same reporting period may be reported as unrestricted support provided that an organization reports consistently from period to period and discloses its accounting policy.

22. A statement of activities shall report gains and losses recognized on investments and other assets (or liabilities) as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. For example, net gains on investment assets, to the extent recognized in financial statements, are reported as increases in unrestricted net assets unless their use is restricted to a specified purpose or future period. If the governing board determines that the relevant law requires the organization to retain permanently some portion of gains on investment assets of endowment funds, that amount shall be reported as an increase in permanently restricted net assets.