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Not-for-Profit Entities — Best Practices in Presentation and Disclosure

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Recognition

The Association of International Certified Professional Accountants (Association) gratefully acknowledges Karen Craig and Susan E. Budak for their invaluable help in preparing this publication.

Preface

About This Edition

This publication provides illustrative financial statements and related disclosures for nongovernmental not-for-profit entities (NFPs), other than health care providers. The examples contained herein have been adapted from actual audited financial statements of NFPs whose names and other identifying information have been changed. This publication is published by the Accounting and Auditing Publications team of the AICPA and is intended to provide preparers and practitioners with nonauthoritative practical guidance on such financial statements and disclosures.

This edition of the publication has been updated by staff to include certain changes necessary to keep this publication current on industry matters. Relevant guidance contained in official pronouncements issued through July 1, 2023, up to and including FASB Accounting Standards Update (ASU) No. 2023-02, *Investments — Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*, has been considered in the development of this edition. Because the effective dates of certain guidance may be after the date of this publication, examples reflecting the change in guidance may not be available.

FASB *Accounting Standards Codification* Pending Content

Amendments to the FASB Accounting Standards Codification® (ASC) (issued in the form of ASUs) are initially incorporated into FASB ASC in "pending content" boxes following the paragraphs being amended with links to the transition information. The pending content boxes are meant to provide users with information about how the guidance in a paragraph will change as a result of the new guidance.

Pending content applies to different entities at different times due to varying fiscal year-ends and because certain guidance may be effective on different dates for public and nonpublic entities. As such, FASB maintains amended guidance in pending content boxes within FASB ASC until the roll-off date. Generally, the roll-off date is six months following the latest fiscal year-end for which the original guidance being amended could still be applied.

Financial Statement Examples

The examples contained herein have been adapted from actual audited financial statements of NFPs whose names and other identifying information have been changed. The entity names used in this publication are fictitious. Any resemblance or similarities to real entities is entirely coincidental and beyond the intent of the author, the staff, and the Association. Many of these examples as printed here omit $(000) or $(000,000) from the original; this is not noted. Accordingly, some columns and rows of numbers may not appear to add to the totals given; this is due to rounding. All years have been changed to reflect the current year as 20X2 (with 20X1 as the prior year and 20X3 as the succeeding year).

Some examples refer to *the University* or some other specific type of NFP. This merely reflects the fact that certain types of transactions and balances are found especially often in the type of entity named. It is not intended to imply that other types of entities cannot use similar presentations and disclosures if appropriate or that entities of the named type must use any particular format.

For the most part, requirements for the use of specific titles and formats of financial statements of NFPs are not set forth in the professional literature. (For example, FASB ASC 958-205-45-1 states, “the degree of aggregation and order of presentation of items of assets and liabilities in statements of financial position or of items of revenues and expenses in statements of activities of NFPs, although not specified, generally should be similar to those required or permitted for business entities. Particular formats for a statement of financial position, a statement of activities, or a statement of cash flows, are neither prescribed nor prohibited in part because similar prescriptions and proscriptions do not exist for business entities.”) Current practice and the statement's purpose, however, suggest that a statement of cash flows only be titled "Statement of Cash Flows." The example titles in this publication are not intended to indicate that these are the only acceptable titles. Also, the choice of a particular format (for example, multicolumnar) for one statement does not limit the choices available for other statements as long as all required information is presented.

The guidance provided by FASB ASC 205-10-45 encourages, but does not require, the presentation of prior-year comparative financial information. Some of the examples in this publication include comparative information; in the interest of space, not all do so. Some entities that present information in a multicolumnar format choose to present only a total column in some or all statements for the prior period. If this is done, FASB ASC 958-205-45-8 should be consulted for presentation requirements.

Many entities follow the practice of including one of the standard phrases, "The accompanying notes are an integral part of these financial statements," or "See accompanying notes," or variations thereof, at the bottom of each financial statement. Others insert references to specific notes near the captions or parts of other notes to which the notes refer. Neither practice is illustrated here; entities should follow their own preferences in this regard.

Note that information in the disclosure examples in sections 6–7 often is related to both financial position and activities statements, so both sections should be consulted for examples on various subjects.

For example, disclosures about split-interest agreements refer to both the assets and liabilities associated with such agreements, as well as the related contribution revenue. These sample disclosures are included in section 7 but are also relevant to section 6.

Organization and Intent

This publication is organized to be used as a reference tool for presentations and disclosures for NFPs as follows:

Illustrative financial statements are presented in the following sections:

- Section 1 contains illustrative Statements of Financial Position.
- Section 2 contains illustrative Statements of Activities, including changes in net assets.
- Section 3 contains illustrative Statements of Cash Flows.
- Section 4 contains illustrative analyses of expenses by function and nature.

Illustrative note disclosures are presented in the following sections:

- Section 5 contains illustrative disclosures — general.
- Section 6 contains illustrative disclosures related primarily to the Statement of Financial Position.
- Section 7 contains illustrative disclosures related primarily to the Statement of Activities and Related Statements.

Additional information is presented in the following sections:

- Section 8 contains illustrative financial statements prepared in accordance with special purpose frameworks.
- Section 9 contains illustrative information outside the financial statements.

These disclosures are intended as nonauthoritative guidance only. Sample notes are not necessarily complete or unedited reproductions of the originals. In some cases, certain disclosures may be missing from the sample statements or notes because in the originals, this information was provided elsewhere in the statements or notes.

For further guidance on preparation of financial statements and related disclosures specific to NFPs, see Subtopics 205–230 of FASB ASC 958, *Not-for-Profit Entities*, and the following Association guidance:

- Technical publications
- AICPA Audit and Accounting Guide *Not-for-Profit Entities*

This publication is not a substitute for the authoritative pronouncements. Users of this publication are urged to refer directly to the applicable authoritative pronouncements for further guidance.

Feedback

We hope that you find this edition of *Not-for-Profit Entities — Best Practices in Presentation and Disclosure* to be informative and useful. Please let us know. What features do you like? What do you think can be improved or added? We encourage you to give us your comments and questions about all aspects of this publication. Please direct your feedback to Stephanie

Otero, using the following contact information. All feedback is greatly appreciated and kept strictly confidential.

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Section 1

Statements of Financial Position

1.01 FASB *Accounting Standards Codification* (ASC) 958-210-45-1 states that a statement of financial position should focus on the NFP as a whole and report all the following amounts:

- Total assets
- Total liabilities
- Total net assets
- Total net assets with donor restrictions
- Total net assets without donor restrictions

1.02 The multicolumnar examples in this section show the columns labeled with either names of entities (combining statements) or funds, but not classes, of net assets. Although it is not prohibited to have the columns represent the net asset classes, in most cases, specific assets and liabilities are neither with nor without donor restrictions, and any attempt to categorize them as such may result in arbitrary classifications without an objective basis. FASB ASC 958-210-45-6 states that assets may be restricted by donors. However, restrictions generally apply to net assets, not to specific assets. Assets need not be disaggregated on the basis of the presence of donor-imposed restrictions on their use; for example, cash available for current use and without donor restrictions need not be reported separately from cash received with donor-imposed restrictions that is also available for current use. However, cash or other assets received with a donor-imposed restriction that limits their use to long-term purposes should not be classified with cash or other assets that are without donor restrictions and available for current use.

1.03 All columnar format examples show the classes of net assets separately in the "Net Assets" section of the statement.

1.04 Accounting literature typically does not specify whether certain required information should be presented on the face of the statement of financial position or in the notes to the financial statements. One example is asset valuation allowances. Some entities include them as part of the asset caption on the balance sheet; others disclose them in a note. Allowances for uncollectible receivables are often included in the asset caption. Accumulated depreciation, together with details of the components of fixed assets, is more often disclosed in a note. Another example is the composition of the investment portfolio. Some entities present this information on the face of the balance sheet, whereas other entities include the information in the notes.

Columnar Formats

1.05 The format most commonly used by NFPs for the statement of financial position is a single column format, similar to that used by business enterprises. Assets are sequenced according to their nearness of conversion to cash, and liabilities are sequenced according to the nearness of their maturity and resulting use of cash. This format is also the most convenient for presenting comparative financial statements.

1.06 This statement of financial position illustrates the presentation of right-of-use assets and lease liabilities in accordance with FASB ASC 842, *Leases*. Because ABC Charity does not present finance lease right-of-use assets separately from operating lease right-of-use assets and operating lease liabilities separately from finance lease liabilities on the face of the statement of financial position, it discloses those amounts in the notes to financial statements.

ABC Charity — Statement of Financial Position at December 31, 20X2

Assets	
Assets	
Cash and cash equivalents	$43,398
Bequests and contributions receivable, net of discount of $24	24,285
Other receivables	5,917
Prepaid expenses and other assets	7,038
Investments	374,719
Beneficial interest in trusts held by others	26,338
Right-of-use assets	30,046
Land, buildings, and equipment, net	64,459
Total Assets	**$576,200**

Liabilities and Net Assets	
Liabilities	
Accounts payable and accrued expenses	$22,754
Grants payable	2,586
Other liabilities	995
Annuity obligations	7,627
Lease liabilities	34,613
Total Liabilities	**68,575**
Net Assets	
Net assets without donor restrictions	423,442
Net assets with donor restrictions	84,183
Total Net Assets	**507,625**
Total Liabilities and Net Assets	**$576,200**

1.07 The following is an NFP that has chosen to present information about liquidity using a classified statement of financial position, which classifies assets and liabilities as current or noncurrent. Other methods of showing liquidity are discussed in FASB ASC 958-210-45-8 and are illustrated in the other examples in this section and in some of the notes in section 6, "Disclosures Related Primarily to the Statement of Financial Position."

1.08 The following example also includes amounts related to noncontrolling (or minority) interests in a subsidiary. In accordance with FASB ASC 958-810-45-1, noncontrolling interests in the equity of consolidated subsidiaries are reported as a separate component within the appropriate net asset class, in this instance, net assets without donor restrictions.

1.09 In addition to displaying its noncontrolling interests, the charity has further identified its net assets without donor restrictions as undesignated and board-designated. Such presentation is not required on the face of the statement of financial position but is required to be presented either on the face of the statements or in the notes.

1.10 The change in net assets attributable to the noncontrolling interests is required to be separately presented in the statement of activities.

1.11

BCA Charity — Statement of Financial Position at December 31, 20X2

Assets	
Current Assets	
Cash	$1,656,330
Government contracts receivable	196,030
Contributions and grants receivable	44,256
Accounts receivable	107,424
Deposits	18,924
Prepaid expenses	31,499
Total current assets	2,054,463
Restricted cash and reserves	3,468,707
Property, at cost:	
Land	9,044,758
Buildings and improvements	21,998,175
Equipment and furniture	705,258
Accumulated depreciation	(8,514,532)
Net property	23,233,659
Real estate under development	518,903
Capitalized costs, net of accumulated amortization	72,401
Total Assets	**$29,348,133**

Liabilities and Net Assets	
Current liabilities	
Accounts payable	$139,192
Construction costs payable	101,914
Accrued payroll and vacation	146,157
Prepaid rent	89,726
Deferred revenue	56,557
Accrued interest payable, current portion	4,670
Mortgage notes payable, current portion	430,819
Tenant security deposits	181,141
Total current liabilities	1,150,176
Accrued interest payable, net of current portion	1,184,724
Mortgage notes payable, net of current portion	17,955,272
Commitments and contingencies	
Total Liabilities	**20,290,172**
Net assets without donor restrictions:	
Undesignated	1,758,010
Board-designated	20,000
Controlling interest	1,021,344
Noncontrolling interest	6,008,250
Total net assets without donor restrictions	8,807,604
Net assets with donor restrictions	250,357
Total Net Assets	**9,057,961**
Total Liabilities and Net Assets	**$29,348,133**

1.12 BCA Charity has presented a line on the statement of financial position for commitments and contingencies, and disclosed information about its commitments and contingencies in a note to the financial statements. Because the line item is not required if the amount is zero, some entities choose not to present this line item.

1.13 The following example illustrates the combination of financial statements for a foundation and its affiliated institute.

1.14

The DEF Foundation — Consolidated and Individual Statements of Financial Position — December 31, 20X2

Assets	Foundation	Affiliated Institute	Eliminations	Total
Cash and cash equivalents	$108,406	$20,216	$ —	$128,622
Interest and dividends receivable	4,258	—	—	4,258
Investment sales receivable	199,776	—	—	199,776
Investments, at fair value (Note 3)	7,354,856	—	—	7,354,856
Contributions receivable	—	44,812	(43,412)	1,400
Program-related investments (Note 2)	105,759	—	—	105,759
Property and equipment, net (Note 4)	66,234	48,873	—	115,107
Other assets	10,942	11,412	—	22,354
Total assets	**$7,850,231**	**$125,313**	**$(43,412)**	**$7,932,132**
Liabilities and Net Assets				
Liabilities				
Accounts payable and other liabilities	$17,786	$10,579	$ —	$28,365
Grants payable (Note 5)	179,796	—	(43,412)	136,384
Federal excise tax liabilities	66,547	—	—	66,547
Post-retirement benefit liabilities (Note 7)	6,868	38,829	—	45,697
Total liabilities	**270,997**	**49,408**	**(43,412)**	**276,993**
Net assets				
Without donor restrictions				
Undesignated	7,579,234	10,031	53,412	7,642,677
Board-designated	—	12,462	—	12,462
Total net assets without donor restrictions	**7,579,234**	**22,493**	**53,412**	**7,655,139**
With donor restrictions				
Time-restricted	—	43,412	(43,412)	—
Purpose-restricted	—	10,000	(10,000)	—
Total net assets with donor restrictions	**—**	**53,412**	**(53,412)**	**—**
Total net assets	7,579,234	75,905	—	7,655,139
Total liabilities and net assets	**$7,850,231**	**$125,313**	**$(43,412)**	**$7,932,132**

1.15 Note that the Institute has net assets that are donor restricted, but that in consolidation those net assets are included in undesignated net assets without donor restrictions. As explained in paragraphs 3.112–.114 of the AICPA Audit and Accounting Guide *Not-for-Profit Entities*, in circumstances in which the net assets of two or more NFPs are combined into a single set of financial statements as parent and subsidiary, the definitions of net assets without donor restrictions and net assets with donor restrictions should be applied from the perspective of the reporting entity as a whole, looking through the existence of separate entities. This can result in classifications for the reporting entity that differ from classifications in the separate financial statements. In the statements of DEF Foundation, the net assets with donor restrictions resulted from a contribution from the Foundation to the Affiliated Institute, and the restrictions were placed by the Foundation. From the point of view of the consolidated entity, these net assets are not restricted, so the classification changes in consolidation.

1.16 Note that DEF Foundation makes reference to the note numbers that correspond to certain line items on the statement of financial position. Although not required, this allows the reader to easily locate more detailed information related to a specific balance.

1.17 The following example uses the columnar format by fund groups. Note that the "net assets" section classifies the fund balances into the appropriate net asset classes. For some NFPs, a fund-group format may better track the way finances are managed internally. Note also that a total column is included so that the required amounts — total assets, total liabilities, total net assets without restrictions, total net assets with restrictions, and total net assets — are presented. This financial statement is also illustrated in the next example using a different presentation.

1.18

JKL Academy — Statement of Financial Position — June 30, 20X2

Assets	Operating	Plant	Endowment	Total
Cash and cash equivalents	$3,148	$ —	$ —	$3,148
Restricted cash	—	—	1,063	1,063
Investments	4,521	265,812	175,162	445,495
Receivables, net				
Research grants	128	—	—	128
Receivable for investments sold	—	1,805	5,511	7,316
Accrued interest and dividends	—	766	94	860
Other receivables, net	3,422	—	—	3,422
Due (to) from other funds	22,603	(24,458)	1,855	—
Contributions receivable, net	8,798	1,179	5,200	15,177
Prepaid expenses and other	1,143	82	—	1,225
Notes receivable, net	—	—	1,635	1,635
Investments held in trusts	—	—	5,864	5,864
Property and equipment, net	—	335,207	—	335,207
Total assets	**$43,763**	**$580,393**	**$196,384**	**$820,540**

Liabilities and Net Assets				
Liabilities				
Accounts payable	$656	$ —	$ —	$656
Accrued expenses and other liabilities	6,187	—	933	7,120
Deferred revenue	6,760	—	—	6,760
Payable for investments purchased	—	2,116	282	2,398
Other long-term liabilities	184	—	—	184
Annuities payable	—	—	2,119	2,119
Bonds payable, net	—	279,208	—	279,208
Total liabilities	**13,787**	**281,324**	**3,334**	**298,445**
Net assets				
Without donor restrictions	14,160	295,763	70,067	379,990
With donor restrictions	15,816	3,306	122,983	142,105
Total net assets	29,976	299,069	193,050	522,095
Total liabilities and net assets	**$43,763**	**$580,393**	**$196,384**	**$820,540**

Layered Formats

1.19 When numerous funds are presented separately, it makes it easier to include complete comparative information by fund or class in a more compact arrangement than does the columnar format. This is also referred to as a *pancake* format. If a pancake format is used, a “total all funds” section must be included to present the required amounts — total assets, total liabilities, total net assets without restrictions, total net assets with restrictions, and total net assets. Note also that this is the same financial statement as the previous example.

1.20

JKL Academy — Statement of Financial Position — June 30, 20X2 and 20X1

	20X2	20X1		20X2	20X1
Operating Fund					
Assets:			Liabilities:		
Cash and cash equivalents	$3,148	$3,462	Accounts payable	$656	$1,017
Investments	4,521	4,446	Accrued expenses and other liabilities	6,187	4,174
Receivables, net			Deferred revenue	6,760	4,806
Research grants	128	220	Other long-term liabilities	184	126
Other receivables, net	3,422	1,140	Total liabilities	13,787	10,123
Due (to) from other funds	22,603	16,203	Net assets:		
Contributions, net	8,798	8,731	Without donor restrictions	14,160	7,855
Inventory	37	39	With donor restrictions	15,816	17,410
Prepaid expenses and other	1,106	1,147	Total net assets	29,976	25,265
Total assets	$43,763	$35,388	Total liabilities and net assets	$43,763	$35,388
Plant Fund					
Assets:			Liabilities:		
Investments	$265,812	$255,831	Payable for investments purchased	$2,116	$8,181
Receivables, net			Bonds payable	279,208	279,211
Receivable for investments sold	1,805	14,730	Total liabilities	281,324	287,392
Accrued interest and dividends	766	570	Net assets:		
Due (to) from other funds	(24,458)	(15,923)	Without donor restrictions	295,763	310,495
Contributions, net	1,179	2,830	With donor restrictions	3,306	5,713
Prepaid expenses and other	82	195	Total net assets	299,069	316,208
Property and equipment, less accumulated depreciation	335,207	345,367			
Total assets	$580,393	$603,600	Total liabilities and net assets	$580,393	$603,600
Endowment Fund					
Assets:			Liabilities:		

	20X2	20X1		20X2	20X1
Restricted cash	$1,063	$ —	Accrued expenses and other liabilities	$933	$940
Investments	175,162	165,603	Payable for investments purchased	282	364
Receivables for investments sold	5,511	1,114	Annuities payable	2,119	2,042
Accrued interest and dividends	94	67	Total liabilities	3,334	3,346
Due (to) from other funds	1,855	(280)	Net assets:		
Contributions, net	5,200	4,878	Without donor restrictions	70,067	66,751
Notes receivable, net	1,635	1,490	With donor restrictions	122,983	108,406
Investments held in trusts	5,864	5,631	Total net assets	193,050	175,157
Total assets	$196,384	$178,503	Total liabilities and net assets	$196,384	$178,503
Total All Funds					
			Total liabilities	$298,445	$ 300,861
			Net assets:		
			Without donor restrictions	379,990	385,101
			With donor restrictions	142,105	131,529
			Total net assets	522,095	516,630
Total assets	$820,540	$817,491	Total liabilities and net assets	$820,540	$817,491

Selected Sections of the Statement

1.21 The following example illustrates the net assets section of a statement of financial position that includes details of the two net asset classes beyond the total required for each class. This detail can also be presented in a note; see examples in section 6.

1.22

PQR University — Statement of Financial Position [Net assets section] — June 30, 20X2 and 20X1

	20X2	20X1
Net Assets		
Without donor restrictions		
Undesignated	$7,414,158	$9,917,954
Investment in property, plant, and equipment	56,747,503	54,174,883
Board-designated endowment	3,443,891	3,345,541
Total without donor restrictions	67,605,552	67,438,378
With donor restrictions		
Perpetual in nature	71,097,318	69,286,257
Purpose restrictions	11,239,098	10,966,220
Time-restricted for future periods	15,700,417	10,291,316
Underwater endowments	(6,627,135)	(7,277,569)
Total with donor restrictions	91,409,698	83,266,224
Total Net Assets	**$159,015,250**	**$150,704,602**

1.23 In accordance with FASB ASC 958-205-45, PQR University reports an amount for underwater endowments, which are donor-restricted endowment funds for which the fair value of endowment assets associated with the individual fund is less than the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. The notes to the financial statements include the information required by paragraphs 1B and 2 of FASB ASC 958-205-50.

1.24 The following example illustrates the net assets section of a statement of financial position that includes additional details about net assets without donor restrictions. This detail could also be presented in a note; see examples in section 6. MNO Charity displays amounts for the following subsets of its net assets without donor restrictions:

- Designated for special projects, which is a board-designated special project fund that is funded by one of the service fees that MNO Charity charges.
- Related to accrued pension expense, which is equal to the unfunded pension liability for MNO Charity's defined benefit pension plan.
- Board designated endowment, which is a reserve invested under the direction of the finance committee that operates similar to endowment in that a spending rate is applied to a rolling sixteen-quarter average fair value to determine the amount to be appropriated for operations. Because this endowment was created by the board from net assets without donor restrictions, it could be made available at any time to meet cash needs for general expenditures at the discretion of the board.
- Invested in fixed assets, which is reported value of fixed assets, net of accumulated depreciation and related liabilities.

1.25 Note that several of the individual line items of the detail of net assets without donor restrictions, including the total operating amount, are deficit amounts. Deficits such as these do not necessarily imply that the organization is in financial straits. In this case, the NFP has adequate resources available as evidenced by its board designated endowment and its investment in fixed assets. When the total net assets with donor restrictions is a deficit number, further investigation of the causes, and perhaps additional disclosure may be necessary. For example, when an NFP experiences continuing deficits in net assets without restrictions, it may spend resources that are subject to donor-imposed restrictions for purposes unrelated to the restriction, and disclosures about noncompliance with donor restrictions or failure to maintain an appropriate composition of assets in amounts needed to comply with all donor restrictions, or both, may be required by FASB ASC 958-450-50. In more severe circumstances, management may need to perform an evaluation of the NFP's ability to continue as a going concern, as described in FASB ASC 205-40-50.

MNO Charity — Statement of Financial Position [Net assets section] — December 31, 20X2 and 20X1

	20X2	20X1
Net Assets		
Without donor restrictions		
Operating		
Designated for special projects	$1,369,019	$1,331,105
Related to accrued pension expense	(1,391,084)	(1,231,104)
Undesignated	(1,989,321)	(1,718,640)
Total operating	(2,011,386)	(1,618,639)
Board-designated endowment	6,342,189	6,019,737
Invested in fixed assets	1,771,489	1,602,830
Total net assets without donor restrictions	6,102,292	6,003,928
With donor restrictions	1,120,663	831,369
Total Net Assets	**$7,222,955**	**$6,835,297**

1.26 Some clubs issue capital stock to their members; therefore, the format of the equity section of their balance sheets often looks similar to that of a commercial business.

	20X2	20X1
Members' equity:		
Capital stock — $500 par value; 65 and 65 shares authorized and 65 and 64 issued at December 31, 20X2 and 20X1, respectively	$32,500	$32,000
Retained earnings	738,667	744,223
Total members' equity (without donor restrictions)	$771,167	$776,223

1.27 Some clubs consider members' initiation fees as equivalent to paid-in capital and report it separately from accumulated operating results, as follows:

Members' equity:	
Initiation fees	$180,000
Retained (deficit)	(11,000)
Total equity without donor restrictions	$169,000

FASB ASC 958-210-55-3 states the term *equity* may be used for net assets, and *other* or *not donor-restricted* may be used with care to distinguish net assets with donor restrictions from net assets without donor restrictions.

Section 2

Statements of Activities, Including Changes in Net Assets

2.01 FASB *Accounting Standards Codification* (ASC) 958-220 does not specify permissible formats for presenting the information required in a statement of activities. Instead, it specifies certain basic information to be reported in the statement, so that NFPs can choose a format that best serves the readers of their financial statements. A statement of activities must present the following, by period, for the entity as a whole:

- Change in net assets in total and by class.
- Revenues, expenses, gains, losses, and reclassifications aggregated into reasonably homogeneous groups. Note that reclassifications should always net to zero.
- Revenues and expenses presented gross (except for investment return [related to total return investing and not programmatic investing], which should be reported net of external and direct internal investment expenses).

2.02 Per FASB ASC 958-720-45-2, a statement of activities or notes to financial statements should provide information about expenses reported by their functional expense classification. See a further comment about this under "Expenses" in section 7, "Disclosures Related Primarily to the Statement of Activities and Related Statements."

2.03 Although a formal reconciliation of net assets from the beginning of the year to the end of the year on the face of the statement is not technically required by professional literature, it is often presented either as part of the statement of activities or as a separate statement.

2.04 Paragraphs 9–12 of FASB ASC 958-220-45 do not define an intermediate measure of operations within a statement of activities ,but permits entities wide latitude in choosing whether to present the measure and how to present the sequence of revenues, expenses, gains, and losses. If an intermediate measure of operations is presented in a statement, that statement of activities must include at least the total change in net assets without donor restrictions for the period. See also the sample notes on this subject in section 7. If the entity's use of the term *operations* is unclear from the face of the statement, a note must describe the nature of the reported measure of operations or the items excluded from operations. For example, if certain contributions are reported within the measure and other contributions are reported outside the measure, titling both line items "contributions" is unclear as to how the distinction is made, but titling one line "operating contributions" and the other "contributions for plant and endowment" provides the necessary information.

2.05 Accordingly, practice is very diverse for this statement, especially regarding the sequence of items. The following examples reflect this diversity by illustrating the presentations:

- One column versus three columns
- Presentation of combining statements for affiliated entities
- Presentation of a measure of operations
- Presentation of expenses above revenue
- Regarding net investment return:
  - — All net investment return in operations
  - — All net investment return outside of operations
  - — Interest, dividend, and other investment income in operations, capital gains outside operations
  - — Interest, dividends, and realized gains in operations, unrealized gains outside operations
  - — Endowment earnings up to a set spending rate in operations, all other components of return outside operations
- Regarding private foundations and other grant-making entities:
  - — Presentation of grants awarded as a deduction from net investment income versus with other expenses
  - — Presentation of federal excise tax as a deduction from net investment income versus with other expenses

Commonly Used Formats

2.06 The following formats of statements of activities are commonly used:

- Single Column, which is also called the layered format, shows the changes in the applicable classes of net assets one on top of the other. A single column or layered format lends itself to reporting comparative amounts for prior years.
- Multiple Column shows separate columns for each class of net assets with an optional total column. That format allows for totals to be provided for revenues and investment-related line items for the entity as a whole and shows clearly that reclassifications between classes of net assets have no effect on total net assets. While the total column is optional, it typically is presented so that the required total change in net assets is presented in addition to the change in each class of net assets.

In addition, FASB ASC 958-205-55 illustrates a format that presents two separate statements: the first statement reports the changes in the class of net assets without donor-imposed restrictions; the second statement reports summary amounts from the first statement and detailed information for the changes in the net assets with donor restrictions class. This format is used primarily by healthcare entities.

2.07 The following example illustrates a multicolumn format by class, with an intermediate measure of operations. Because this statement reports certain restricted contributions outside the measure of operations and other restricted contributions within that measure without further explanation in the notes, the definition of the intermediate measure is unclear. Other matters to note are (*a*) this format makes it clear that reclassifications do not change total net assets; (*b*) contributions of nonfinancial assets are reported on a separate line, as required by the "Pending Content" in FASB ASC 958-605-45-7A; and (*c*) collection activity is reported separately (required by FASB ASC 958-360-45-5 if collections are not capitalized).

2.08

FGH Museum — Statement of Activities and Changes in Net Assets for the Year Ended June 30, 20X2

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenues:			
Gifts and grants:			
Government grants	$—	$627,000	$627,000
Corporate and foundation support	340,893	1,833,849	2,174,742
Contributions of nonfinancial assets — gifts-in-kind		36,052	36,052
Annual giving	744,082	—	744,082
All other gifts and grants	279,733	—	279,733
Total gifts and grants	1,364,708	2,496,901	3,861,609
Exhibitions	152,031	—	152,031
Memberships	478,643	—	478,643
Investment income and gains in accordance with spending policy	2,316,000	—	2,316,000
Additional investment income and gains allocated to operations	400,000		400,000
Education and other related programs	702,674	—	702,674
Revenue from auxiliary services	1,323,073	—	1,323,073
Net assets released from restrictions	2,626,559	(2,626,559)	—
Total support and revenues	9,363,688	(129,658)	9,234,030
Expenses:			
Program services:		—	3,500,866
Exhibitions	2,166,053	—	2,166,053
Education	649,023	—	649,023
Other programs	685,790	—	685,790
Supporting services:			
Management	4,969,585	—	4,969,585
Fund-raising	871,033	—	871,033
Auxiliary services	865,104	—	865,104
Total expenses	10,206,588	—	10,206,588
Nonoperating activities:			
Investment return — net	718,034	12,409,609	13,127,643
Restricted contributions	—	8,775,750	8,775,750
Change in beneficial interest in trust	—	(628)	(628)
Investment income and gains allocated to general operations	(2,716,000)	—	(2,716,000)
Acquisition, preservation, and conservation of works of art	(9,051,930)	—	(9,051,930)
Net change in obligations under trust agreements	(18,726)	—	(18,726)

	Without Donor Restrictions	With Donor Restrictions	Total
Net assets released from restrictions	14,398,593	(14,398,593)	—
Total nonoperating activities	3,329,971	6,786,138	10,116,109
Changes in net assets	2,487,071	6,656,480	9,143,551
Net assets, beginning of year	7,475,259	199,441,229	206,916,488
Net assets, end of year	$9,962,330	$206,097,709	$216,060,039

2.09 The following statement of activities includes a description of the nature of each major program and supporting activity as part of the caption for the line, thus meeting the requirements of FASB ASC 958-205-50-1.

2.10 This statement reports the cost of direct donor benefits as a separate (deduction) line immediately following special events revenue. Alternative presentations may show the cost of direct donor benefits as a supporting service in the "functional expense" section. Another matter of note is that this statement shows that the amount of the consolidated change in net assets, and portions attributable to the parent entity and the noncontrolling interest, which is required to be presented separately on the face of the consolidated statement by FASB ASC 810-10-50-1A.

2.11

NPQ Association — Consolidated Statement of Activities — for the Year Ended June 30, 20X2 (With Summarized Comparative Totals for 20X1)

	Without Donor Restrictions	With Donor Restrictions	20X2	20X1
Revenue:				
Public support:				
Contributions of cash and other financial assets	$71,616	$127,295	$198,911	$150,810
Contributed services and materials	41,799	—	41,799	60,163
Special events	283,600	87,970	371,570	377,728
Less: direct donor benefits	(46,727)	—	(46,727)	(43,912)
Bequests	57,690	23,021	80,711	72,511
Split-interest agreements	608	178	786	1,243
Grants from government agencies	5,068	—	5,068	8,142
Federated and non-federated fund-raising organizations	2,321	963	3,284	3,005
Total public support	415,975	239,427	655,402	629,690
Other revenue:				
Program fees	38,309	—	38,309	31,323
Sales of educational materials	146,088	—	146,088	142,140
Membership dues	5,228	—	5,228	4,398
Investment return, net of fees	43,070	5,043	48,113	62,127
Perpetual trust distributions	5,545	1,446	6,991	6,810
Net unrealized gains on beneficial interest in perpetual trusts	—	5,668	5,668	4,914
Change in value of split-interest agreements	(427)	5,370	4,943	7,298
Royalty revenue	19,126	—	19,126	18,866
Miscellaneous revenue (losses), net	7,741	(4,452)	3,289	4,421
Total other revenue	264,680	13,075	277,755	282,297
Net assets released from restrictions:				
Satisfaction of purpose restrictions	116,616	(116,616)	—	—
Expiration of time restrictions	89,838	(89,838)	—	—
Total net assets released from restrictions	206,454	(206,454)	—	—
Total revenue	887,109	46,048	933,157	911,987
Expenses:				
Program services:				
Research — to acquire new knowledge through biomedical investigation by providing financial support to academic institutions and scientists	183,874	—	183,874	184,676

	Without Donor Restrictions	With Donor Restrictions	20X2	20X1
Public health education — to inform the public about the prevention and treatment of [*disease*]	303,444	—	303,444	312,872
Professional education and training — to improve the knowledge, skills, and techniques of health professionals	166,060	—	166,060	160,734
Community services — to provide organized training in emergency aid, screening, and other community-wide activities	77,954	—	77,954	74,366
Total program services	731,332	—	731,332	732,648
Supporting services:				
Management and general — to provide executive direction, financial management, overall planning, and coordination of the Association's activities	51,229	—	51,229	58,914
Fund-raising — to secure financial support from the public	107,960	—	107,960	101,543
Total supporting services	159,189	—	159,189	160,457
Total program and supporting services expenses	890,521	—	890,521	893,105
Change in net assets before post-retirement changes other than net periodic benefit cost	(3,412)	46,048	42,636	18,882
Post-retirement changes other than net periodic benefit cost	899	—	899	(29)
Change in net assets	(2,513)	46,048	43,535	18,853
Non-controlling interest in partnership	(2,351)		(2,351)	(5,868)
Change in net assets attributed to parent	(4,864)	46,048	41,184	12,985
Net assets, beginning of year	375,953	532,310	908,263	889,410
Net assets, end of year	$371,089	$578,358	$949,447	$902,395

2.12 The comparative information in NPQ Association's statement of activities presents information only in total and not by net asset class. In those circumstances, FASB ASC 958-205-45-8 requires that the nature of the prior-year information be described by the use of appropriate titles on the face of the financial statements and in a note to financial statements. An example disclosure is provided under in "Comparative Prior-Period Information" in section 5.

2.13 The following illustrates a columnar format with line numbers to each row. This facilitates discussion of the statement by simply referring to the line number that is being discussed. Other matters of note are that this statement (*a*) presents an intermediate measure of operations, (*b*) reports changes in the funded status of a defined benefit pension plan, (*c*) reports a loss on bond refunding as a nonoperating item, and (*d*) reports expenses by natural classification. A note to financial statements or a statement of functional expenses is necessary with this format to meet the requirement in FASB ASC 958-720-45-2 to report expenses by their functional expense classification. Because this statement reports "Contributions" as a line item both within the intermediate measure of operations and outside that measure, without further information in the notes to financial statements the definition of the intermediate measure is unclear.

2.14

BCD University — Statement of Activities for the Year Ended June 30, 20X2

		Without Donor Restrictions	With Donor Restrictions	Total
	Operating			
	Revenues:			
1	Student tuition and fees	$1,389,034	$ —	$1,389,034
2	Health care services	1,552,230	—	1,552,230
3	Contracts and grants	475,185	—	475,185
4	Auxiliary enterprises	346,401	—	346,401
5	Sales and services	158,140	—	158,140
6	Contributions	281,084	—	281,084
7	Other	113,652	—	113,652
8	Allocation of endowment spending	227,920	—	227,920
9	Total revenues	4,543,646	—	4,543,646
10	Net assets released from restrictions	141,320	(141,320)	—
11	Total revenues and reclassifications	4,684,966	(141,320)	4,543,646
	Expenses:			
12	Salaries and benefits	2,532,294	—	2,532,294
13	Operating expenses	1,486,579	—	1,486,579
14	Depreciation	245,411	—	245,411
15	Interest on indebtedness	68,009	—	68,009
16	Total expenses	4,332,293	—	4,332,293
17	Increase (decrease) in net assets from operating activities	352,673	(141,320)	211,353
	Nonoperating			
18	Allocation of endowment spending to operations	(91,670)	(136,250)	(227,920)
19	Defined-benefit pension plan changes other than net periodic benefit costs	(38,719)	—	(38,719)
20	Other components of net periodic benefit costs	343	—	343
21	Net investment and endowment income	81,913	2,170	84,083
22	Net appreciation in fair value of investments	162,141	418,767	580,908
23	Contributions	22,547	306,378	328,925
24	Present value adjustment to annuities payable	—	(3,896)	(3,896)
25	Loss on bond refunding	(37,281)	—	(37,281)
26	Increase in net assets from nonoperating activities	99,274	587,169	686,443
27	Total increase in net assets	451,947	445,849	897,796

		Without Donor Restrictions	With Donor Restrictions	Total
28	Beginning net assets	3,699,268	4,183,154	7,882,422
29	Ending net assets	$4,151,215	$4,629,003	$8,780,218

2.15 The following example illustrates a single-column format for a large organization. This format is easier for presenting comparative data than the multicolumn format.

2.16

GHI Organization — Consolidated Statement of Activities — Years Ended June 30, 20X2 and 20X1

	20X2	20X1
Activities without donor restrictions:		
Revenue and support		
Grants and contributions of financial assets	$6,128,053	$6,982,748
Per-member payments	1,414,075	1,263,331
In-kind contributions	732,142	904,676
Council and convention	407,915	63,372
Mailing list rental income	319,615	200,627
Publication sales and other income	266,565	219,974
Interest and dividends, net	115,201	72,745
Contributions in lieu of per-member payments	88,294	133,431
	9,471,860	9,840,904
Net assets released from restrictions	609,034	520,180
Total revenue and support	10,080,894	10,361,084
Expense		
Program services		
Voter education and election services	1,382,402	1,472,281
Communications	1,088,867	1,122,218
Advocacy	633,190	800,705
Council and convention	453,927	114,411
Member services	237,703	292,217
Total program services	3,796,089	3,801,832
Supporting services		
Fund-raising	3,145,988	2,843,720
General and administrative	1,877,316	1,331,850
Total supporting services	5,023,304	4,175,570
Total expense	8,819,393	7,977,402
Change in net assets without donor restrictions from operations	1,261,501	2,383,682
Net realized and unrealized gain on investments	249,813	243,304
Net assets transferred	—	41,219
Change in net assets without donor restrictions	1,511,314	2,668,205
Activities with donor restrictions:		
Grants and contributions	237,498	1,033,781
Investment return, net	56,859	62,669
Net assets released from restrictions	(609,034)	(520,180)
Change in net assets with donor restrictions	(314,677)	576,270
Change in net assets	1,196,637	3,244,475

	20X2	20X1
Net assets, beginning of year	9,069,174	5,824,699
Net assets, end of the year	$10,265,811	$9,069,174

Analysis of Expenses by Functional and Natural Class on the Face of the Statement

2.17 The following example illustrates use of a multicolumnar statement for the class of net assets without donor restrictions, with a single column for the donor-restricted net asset class. The subdivision emphasizes the extent to which the surplus from Program 2 is used to subsidize other functions. Although the line items in the "Expenses" section of this statement are natural expense categories, the presence of the columns for the functions makes this statement also serve the purpose of the functional to natural expense analysis required by FASB ASC 958-205-45-6. This format works best for entities with a small number of programs or funds; otherwise, the focus on the entity as a whole can be lost.

2.18

RST Charity — Statement of Activities — Year Ended December 31, 20X2

	Program Services				
	Program 1	Program 2	Management and General	Fund-Raising	20X2 Total
Changes in net assets without donor restrictions:					
Revenues and other support:					
Registration fees	$ —	$10,504,099	$ —	$ —	$10,504,099
Government contracts:					
Activity 1	792,500	—	—	—	792,500
Activity 2	1,546,000	—	—	—	1,546,000
Contributions of financial assets	—	115,154	—	3,804	118,958
Interest income	—	101,295	—	—	101,295
Donated services	—	165,421	—	—	165,421
	2,338,500	10,885,969	—	3,804	13,228,273
Net assets released from restrictions:					
Satisfaction of program restrictions	—	60,485	—	—	60,485
Total revenues and other support	2,338,500	10,946,454	—	3,804	13,288,758
Expenses:					
Salaries	3,600,651	906,809	701,160	25,347	5,233,967
Employment benefits and payroll taxes	969,465	244,624	188,955	9,885	1,412,929
Temporary help	—	26,084	22,489	—	48,573
Meetings and travel	607,718	764,283	52,987	1,762	1,426,750
Subcontractors	514,840	—	—	—	514,840
Professional education programs and projects	14,459	75,050	58,018	—	147,527
Other purchased service	373,398	690,375	333,888	—	1,397,661
Telephone, telecommunications, and utilities	346,336	10,158	7,853	—	364,347
Publications	82,043	—	—	—	82,043
Finance lease costs	32,047	573	443	—	33,063
Repairs and maintenance	66,513	90,591	70,032	—	227,136

	Program Services				
	Program 1	Program 2	Management and General	Fund-Raising	20X2 Total
Operating lease costs	434,753	18,051	13,954	—	466,758
Postage	92,145	9,122	7,052	—	108,319
Depreciation and amortization	428,479	18,137	14,020	—	460,636
Donated services	—	165,421	—	—	165,421
Other	182,852	105,164	77,408	6,342	371,766
Total expenses	7,745,699	3,124,442	1,548,259	43,336	12,461,736
(Decrease) increase in net assets without donor restrictions	$(5,407,199)	$7,822,012	$(1,548,259)	$(39,532)	$827,022
Change in net assets with donor restrictions:					
Contributions					112,196
Net assets released from restrictions					(60,485)
Increase in net assets with donor restrictions					51,711
Increase in net assets					878,733
Net assets, beginning of year					3,113,639
Net assets, end of year					$3,992,372

Fund Group Presentation

2.19 The following illustrates a multicolumnar statement with net assets without donor restrictions, subdivided by fund group. This format works best for entities with a small number of programs or fund groups; otherwise, the focus on the entity as a whole can be lost.

2.20 In addition, it is common among performing arts entities (for example, opera, symphony, ballet, and so on) to present their statements of activity in the sequential format as follows, which includes in the first revenue section mainly income earned in exchange transactions, and with all contributions below the subtotal "loss from operations." This has the effect of emphasizing the extent to which operations are subsidized by contributed income.

2.21

KLT Ballet — Statement of Activities and Changes in Net Assets for the Year Ended June 30, 20X2

	Without Donor Restrictions					
	Operating	Property	Board-Designated	Total	With Donor Restrictions	Total
Operating revenues:						
[*City*] performance	$22,532	$ —	$ —	$ 22,532	$ —	$ 22,532
Touring	115	—	—	115	—	115
School and student housing	2,456	—	—	2,456	—	2,456
Other income, net	484	66	2	552	—	552
Total operating revenues	25,587	66	2	25,655	—	25,655
Operating expenses:						
Program services:						
Ballet production	33,635	2,406	—	36,041	—	36,041
Touring	117	—	—	117	—	117
School and student housing	3,228	371	—	3,599	—	3,599
Education and outreach	771	26	—	797	—	797
Total program services	37,751	2,803	—	40,554	—	40,554
Support services:						
Marketing, publicity, and audience development	6,441	57	—	6,498	—	6,498
General and administrative	5,071	211	607	5,889	—	5,889
Total support services	11,512	268	607	12,387	—	12,387
Debt service	—	1,265	—	1,265	—	1,265
Total operating expenses	49,263	4,336	607	54,206	—	54,206
Loss from operations	(23,676)	(4,270)	(605)	(28,551)	—	(28,551)
Support:						
Contributions of financial assets	17,720	—	239	17,959	7,057	25,151

	Without Donor Restrictions					
	Operating	Property	Board-Designated	Total	With Donor Restrictions	Total
Contributions of nonfinancial assets	425	—	—	425	—	290
Special events and other activities	4,521	—	—	4,521	321	4,842
Net assets released:						
From donor restriction	4,505	856	3,532	8,893	(8,893)	—
By appropriation	4,272	625	(4,897)	—	—	—
Fund-raising expenses	(2,615)	(60)	(367)	(3,042)	—	(3,042)
Fund-raising expenses for special events	(1,401)	—	—	(1,401)	—	(1,401)
Costs of direct benefits to donors for special events	(627)	—	—	(627)	—	(627)
Support, net	26,800	1,421	(1,493)	26,728	(1,515)	25,213
Change in net assets from operations	3,124	(2,849)	(2,098)	(1,823)	(1,515)	(3,338)
Nonoperating:						
Endowment investment income, net	—	—	2,009	2,009	4,122	6,131
Reclassification of endowment gifts	—	—	350	350	(350)	—
Change in post-retirement benefit obligation	36	—	—	36	—	36
Net realized and unrealized gain on interest rate swap	—	824	—	824	—	824
Increase (decrease) in net assets	3,160	(2,025)	261	1,396	2,257	3,653
Net assets (deficit) — beginning of year	7,941	(29,511)	37,771	16,201	89,636	105,837
Net assets (deficit) — end of year	$11,101	$(31,536)	$38,032	$17,597	$91,893	$109,490

Two-Statement Format

2.22 The following examples report information in two statements with summary amounts from a statement of revenues, expenses, and other changes in net assets without donor restrictions and a statement of changes in net assets as depicted by Format C in the "Pending Content" of paragraphs 15–17 of FASB ASC 958-205-55. Healthcare entities and other NFPs use this statement to focus attention on an operating measure. The first statement reports an intermediate measure of operations, which can be presented only in a statement that includes the change in net assets without donor restrictions. A second statement presents the details of net assets with donor restrictions plus summary amounts for the change in net assets without donor restrictions, so that the second statement can present the required total change in net assets.

2.23

The EFG Foundation — Statement of Revenues, Expenses, and Other Changes in Net Assets Without Donor Restrictions — Year Ended December 31, 20X2 and 20X1

	20X2	20X1
Activities without donor restrictions:		
Operating activities:		
Support, revenue, and transfers:		
Investment payout	$62,147	$57,951
Contributions of cash and other financial assets	8,629	6,911
Contributions of nonfinancial assets	—	336
Government grants and contracts revenue	3,755	3,099
Transfers for grants from donor-advised funds classified in nonoperating activities	252,834	181,957
Other income	1,208	2,186
Net assets released from restrictions	24,664	24,995
Total operating support, revenue, and transfers	353,237	277,435
Expenses:		
Grants, net of refunds	309,080	229,008
Program-related expenses	12,009	9,780
Administrative expenses	21,960	21,454
Other expenses	39	20
Total operating expenses	343,088	260,262
Excess of operating support, revenue, and transfers over expenses	10,149	17,173
Nonoperating activities:		
Contributions of financial assets for donor-advised funds	370,542	323,286
Net return on investments after investment payout	139,701	94,929
Change in value of charitable gift annuity and life insurance policy	(26)	(49)
Transfer for grants from donor-advised funds to operating activities	(252,834)	(181,775)
Other income	21	19
Net assets released from restrictions	10,866	9,350
Net nonoperating activities	268,270	245,760
Increase in net assets without donor restrictions	$278,419	$262,933

2.24

The EFG Foundation — Statement of Changes in Net Assets — Year Ended December 31, 20X2 and 20X1

	20X2	20X1
Net assets without donor restrictions:		
Excess of operating support, revenue, and transfers over expenses	$10,149	$17,173
Net nonoperating activities	268,270	245,760
Increase in net assets without donor restrictions	278,419	262,933
Net assets with donor restrictions:		
Contributions of cash and other financial assets	4,542	2,708
Net gain on investments	4,326	2,564
Gain on beneficial interest in charitable term trusts	27,691	8,321
Gain on beneficial interest in charitable perpetual trusts	3,877	2,134
Net assets released from restrictions for operating activities	(24,664)	(24,995)
Net assets released from restrictions for nonoperating activities	(10,886)	(9,350)
Other	—	(181)
Increase (decrease) in net assets with donor restrictions	4,906	(18,799)
Increase in net assets	283,325	244,134
Net assets at beginning of year	2,479,551	2,235,417
Net assets at end of year	$2,762,876	$2,479,551

Combining Statements

2.25 This combining statement shows a movement of net assets between the two related entities to reflect the transfer of assets and net assets from one organizational unit to another.

2.26

The AAA Society — Combining Statement of Activities — Year Ended December 31, 20X2

	AAA Society			[Affiliated Entity]				
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total	Eliminations	Combined Total
Revenues and support:								
Contributions	$1,593,487	$53,850	$1,647,337	$17,407	$105,771	$123,178	$(41,734)	$1,728,781
Conferences	293,120	—	293,120	—	—	—	—	293,120
Beneficial interest bequests	151,229	86,635	237,864	—	—	—	—	237,864
Fund-raising	222,375	—	222,375	—	—	—	—	222,375
Merchandise sales	4,285	—	4,285	—	—	—	—	4,285
Investment gain (loss)	(886)	—	(886)	505	—	505	—	(381)
In-kind contributions	21,580	—	21,580	—	—	—	—	21,580
Other income	20,552	—	20,552	1,073	—	1,073	—	21,625
Net assets released from restrictions	192,254	(192,254)	—	283,636	(283,636)	—	—	—
Total revenues and support	2,497,996	(51,769)	2,446,227	302,621	(177,865)	124,756	(41,734)	2,529,249
Expenses:								
Program services								
Core services	746,230	—	746,230	38,822	—	38,822	(23,247)	761,805
Education and awareness	832,726	—	832,726	15,838	—	15,838	(8,731)	839,833
Advocacy	411,809	—	411,809	7,868	—	7,868	(4,318)	415,359
Supporting services								
Fund-raising	392,107	—	392,107	54,994	—	54,994	(4,111)	442,990

	AAA Society			[Affiliated Entity]				
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total	Eliminations	Combined Total
Management and general	126,589	—	126,589	2,417	—	2,417	(1,327)	127,679
Total expenses	2,509,461	—	2,509,461	119,939	—	119,939	(41,734)	2,587,666
Changes in net assets	(11,465)	(51,769)	(63,234)	182,682	(177,865)	4,817	—	(58,417)
Net assets, beginning of year	(55,348)	587,769	532,421	321,379	333,565	654,944	—	1,187,365
Net assets, end of year	$(66,813)	$536,000	$469,187	$504,061	$155,700	$659,761	$ —	$1,128,948

Nontraditional Ordering of Line Items

2.27 This entity puts operating expenses above operating revenues. This has the effect of emphasizing the numbers that best reflect the NFP's programmatic efforts for the year.

2.28

CDE Society — Consolidated Statement of Activities — Year Ended August 31, 20X2

	Without Donor Restrictions	With Donor Restrictions	Total
Our mission program and mission support expenses were:			
Mission program services:			
Patient support	$303,838	$ —	$303,838
Research grants	145,650	—	145,650
Advocacy	208,694	—	208,694
Total mission program services	658,182	—	658,182
Mission support services:			
Management and general	37,896	—	37,896
Fund-raising	142,343	—	142,343
Total mission support services	180,239	—	180,239
Total mission program and mission support services expenses	838,421	—	838,421
Our mission program and mission support expenses were funded by the following:			
Support from the public:			
Special events	269,463	74,979	344,442
Contributions of cash and financial assets	122,775	64,342	187,117
Bequests	87,823	45,264	133,087
Contributed services, merchandise, and other in-kind contributions	24,446	41,861	66,307
Other	3,387	1,918	5,305
Total support from the public	507,894	228,364	736,258
Investment income, net	57,006	22,474	79,480
Change in value of split-interest agreements	5,881	24,689	30,570
Grants and contracts from government agencies	5,344	440	5,784
Other gains (losses)	8,673	(74)	8,599
Total revenues, gains, and other support	584,798	275,893	860,691
Use of amounts restricted by donors for specified purpose or time	230,188	(230,188)	—
Change in net assets prior to impact of retirement plan liability	(23,435)	45,705	22,270
Net decrease in retirement plan liability	9,660	—	9,660
Change in net assets	(13,775)	45,705	31,930

	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, beginning of period	527,859	595,775	1,123,634
Net assets, end of period	$514,084	$641,480	$1,155,564

2.29 Because the donor-restricted net asset class accounts for the great majority of this NFP's revenues, RLS Foundations chooses to place changes in that net asset class first in the following single-column format. Another item of note is the inclusion in this statement of a refund to a donor (a loss) reported as a change in net assets with donor restrictions. Unless immaterial, this item typically would be explained in the notes to financial statements in accordance with FASB ASC 220-20-50-1.

2.30

RLS Charity — Statement of Activities for the Years Ended December 31, 20X2 and 20X1

	20X2	20X1
Net Assets With Donor Restrictions:		
Contributions	$32,964,664	$94,007,644
Interest and investment income, net	4,666,905	365,040
Restricted funds returned to donor	(1,946,181)	—
Net assets released from restrictions	(39,202,732)	(43,126,130)
Increase (decrease) in net assets with donor restrictions	(3,517,344)	51,246,554
Net Assets Without Donor Restrictions:		
Revenues:		
Contributions	7,226,055	1,677,485
Contracts	112,229	75,320
Interest and investment income, net	182,383	47,964
Net assets released from restrictions	39,202,732	43,126,130
Total revenues	46,723,399	44,926,899
Expenses:		
Program services:		
Conservation	42,223,082	41,884,536
Supporting services:		
General and administrative	2,329,170	1,735,400
Fund-raising	309,150	166,440
Total supporting services	2,638,320	1,901,840
Total expenses	44,861,402	43,786,376
Increase in net assets without donor restrictions	1,861,997	1,140,523
Increase (decrease) in net assets	(1,655,347)	52,387,077
Net assets, beginning of year	97,886,458	45,499,381
Net assets, end of year	$96,231,111	$97,886,458

Foundation Formats

2.31 Foundations tend to use many different formats with regard to the sequence of line items for investment returns and excise taxes. QRS Foundation presents realized investment gains and losses separately from unrealized investment gains and presents excise tax with expenses.

2.32

QRS Foundation — Statements of Activities for the Years Ended December 31, 20X2 and 20X1

	20X1	20X2
Income		
Investment return		
Dividends and interest	$500,929	$638,411
Net income from partnership interests	9,831,090	8,708,426
Net realized (loss) gain from sales and redemptions of securities and limited partnership interests	(646,229)	2,615,219
Unrealized appreciation of investments	22,426,748	3,537,196
Investment return	32,112,538	15,499,252
Less investment expenses	(560,853)	(494,066)
Net investment return	31,551,685	15,005,186
Other income	26,090	859
Total income	31,577,775	15,006,045
Expenses		
Grant awards	6,031,922	5,372,814
Direct charitable activities	5,816,932	6,351,005
Operations and governance	2,415,989	2,563,665
Federal excise and unrelated business tax provision	110,407	220,907
Deferred federal excise tax provision	500,000	50,000
Total expenses	14,875,250	14,558,391
Change in net assets before post-retirement benefit obligation adjustment	16,702,525	447,654
Post-retirement benefit obligation adjustment	81,321	96,206
Change in net assets	16,783,846	543,860
Net assets, beginning of year	211,377,129	210,833,269
Net assets, end of year	$228,160,975	$211,377,129

2.33 This foundation reports investment return using two components — income and appreciation. This foundation also subtracts federal excise and income tax expense immediately following the investment return. Also of note is that this foundation provides the required analysis of functional and natural expenses on the face of the statement of activities, which is possible without becoming cumbersome because there is only one major program and one supporting activity.

2.34

TUV Foundation — Statements of Activities for the Years Ended December 31, 20X2 and 20X1

	20X2	20X1
Net investment return		
Dividends, interest, and other investment income	$669,907	$662,387
Net realized and unrealized appreciation on investments	22,339,623	19,037,474
Total investment return before federal taxes	23,009,530	19,699,861
Federal excise and income tax expense	(322,677)	(235,938)
Net investment return	22,686,853	19,463,923
Support	30,000	30,000
Total investment return and support	22,716,853	19,493,923
Expenses		
Program:		
Grants	5,025,775	5,074,520
Salaries and benefits	983,577	966,138
Occupancy	221,046	219,144
Depreciation	53,990	53,018
Memberships	35,038	44,088
Office expenses	25,696	39,262
Professional services	47,955	32,446
Total program	6,393,077	6,428,616
General and administrative:		
Salaries and benefits	487,321	419,373
Occupancy	43,987	92,541
Depreciation	21,328	22,389
Office expenses	51,911	80,425
Professional services	293,132	137,835
Total general and administrative	897,679	752,563
Total expenses	7,290,756	7,181,179
Change in net assets	15,426,097	12,312,744
Net assets, all without donor restrictions		
Beginning of year	141,361,971	129,049,227
End of year	$156,788,068	$141,361,971

2.35 VWX Foundation is primarily supported by a related trust that it does not control. Note that it reports a deficit of its revenues and expenses, which emphasizes its dependency on the trust for support of its activities.

2.36

VWX Foundation — Statement of Activities — Year Ended December 31, 20X2

	20X2
Change in net assets without donor restrictions:	
Revenues and gains:	
Contributions and other income	$37,071
Programmatic investment income, net	63,649
Net assets released from restrictions	48,996
Total revenues, support, and gains	149,676
Program expenses:	
National social welfare programs	6,066,508
Local social welfare programs	800,991
Other charitable programs	236,258
Total program expenses	7,103,757
Management and general	320,785
Total expenses	7,424,542
Deficit before impact of beneficial interest in trust	(7,274,866)
Impact of beneficial interest in trust:	
Distributions from the trust	6,806,925
Appreciation of the net assets of the trust	7,036,573
Total impact of beneficial interest in trust	13,843,498
Change in net assets without donor restrictions	6,568,632
Change in net assets with donor restrictions:	
Contributions	10,937
Net assets released from restrictions	(48,996)
Change in net assets with donor restrictions	(38,059)
Change in total net assets	**$6,530,573**

2.37 The STV Community Foundation has agency endowment funds that it manages for other NFPs in exchange for an administrative services fee. In accordance with FASB ASC 958-605-55-110, if an NFP transfers assets to a community foundation and specifies itself as the beneficiary of the fund created, the community foundation accounts for the transfer as an increase in assets and as a liability to the NFP even if the NFP explicitly grants the community foundation variance power. STV Community Foundation prefers to inform the readers of its statements of activities about the total amounts raised, total investment return, and the total amounts distributed, which include the amounts raised from and distributed to the beneficiaries of the agency endowments. The total amounts raised are not to be labeled as revenue because that total contains agency transactions (which are not contributions received). Likewise, the total amounts distributed are not labeled as expenses because that total contains agency transactions (which are not contributions made).

2.38

STV Community Foundation — Statement of Activities — Year Ended August 31, 20X2

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support			
Total amounts raised	$66,626,535	$399,399	$67,025,934
Less amounts received for agency endowments	(1,124,735)	–	(1,124,735)
Contributions of cash and financial assets	65,501,800	399,399	65,901,199
Amounts earned on investments, net of expenses	28,181,049	6,165,367	34,346,416
Less amounts earned on agency endowments	(2,950,687)	–	(2,950,687)
Investment return, net of expenses	25,230,362	6,165,367	31,395,729
Change in value of trusts held by others	–	1,637,004	1,637,004
Administrative services revenue	871,220	–	871,220
Interest on notes receivable and other income	888,037	–	888,037
Net assets released from restrictions	5,992,459	(5,992,459)	–
Total revenues, gains, and other support	98,483,878	2,209,311	100,693,189
Expenses			
Amounts granted	51,856,586	–	51,856,586
Less amounts granted via agency endowments	(1,447,087)	–	(1,447,087)
Total grants made	50,409,499	–	50,409,499
Other program services	10,054,087	–	10,054,087
Total program services	60,463,586	–	60,463,586
Management and general administrative expenses	2,783,069	–	2,783,069
Fund-raising	2,250,610	–	2,250,610
Total supporting services	5,033,679	–	5,033,679
Total expenses	65,497,265	–	65,497,265
Change in net assets	32,986,613	2,209,311	35,195,924
Net assets, beginning of period	428,194,450	59,302,978	487,497,428
Net assets, end of period	$461,181,063	$61,512,289	$522,693,352

Departmental Margins on Face of the Statement

2.39 The HIJ Club shows a summary of departmental gross margins directly on the face of the statement of activity. Note that this club would report its functional expense classifications in a note.

2.40

The HIJ Club, Inc. — Statement of Revenues, Expenses, and Changes in Net Assets — Year Ended March 31, 20X2

	Sales and Services	Costs and Expenses	Net
Revenues:			
Dues			$1,508
Initiation fees			535
Departmental operations:			
Rooms	$506	$175	$331
Food	3,401	2,947	454
Beverages	848	492	356
Other	113	88	25
	$4,868	$3,702	$1,166
Net departmental revenues and general revenue			3,209
Other expenses:			
General			1,396
Depreciation			205
Taxes			462
Utilities			512
Repairs			199
Retirement plan			165
Total other expenses			2,939
Excess of revenues over expenses			270
Members' equity (net assets), beginning of year			5,370
Members' equity (net assets), end of year			$5,640

Spending Rate in Excess of Investment Return on Endowment

2.41 PRS University uses an operating measure that includes an investment return in operations as the result of its spending policy but has an overall negative (loss) investment return. An NFP may be able to designate an amount for the support of operations even if the total investment return for the year is less than the amount computed under a spending-rate policy; for example, when the organization designates part of its cumulative investment return from prior years to support its current operations. Also of note is that this university identifies the amount of scholarships that, in accordance with FASB ASC 606-10-32-25, is a reduction of the transaction price and, therefore, of revenue. As stated in chapter 12 of the AICPA Audit and Accounting Guide *Not-for-Profit Entities*, "FinREC believes it is acceptable for institutions to disclose the amount of reductions incorporated in the revenue line either parenthetically on the face of the statement of activities or in the notes to the financial statements." Because this statement of activities reports restricted "Contributions" as a line item both within the intermediate measure of operations and outside that measure, without further information in the notes to financial statements, the definition of the intermediate measure is unclear.

2.42

PRS University — Statement of Activities — Year Ended June 30, 20X2

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues:			
Tuition and fees, net of scholarships of $32,151,921	$16,871,233	$ —	$16,871,233
Contributions and grants	2,111,816	801,930	2,913,746
Investment income — operating investments	21,902	167,653	189,555
Investment income — endowment spending rate	(129,206)	3,181,333	3,052,127
Other revenues	1,264,625	425	1,265,050
Sales and services of auxiliary enterprises	8,310,355	—	8,310,355
Net assets released from restrictions	9,956,424	(9,956,424)	—
Total revenues	38,407,149	(5,805,083)	32,602,066
Expenses:			
Instruction	12,975,738	—	12,975,738
Academic support and research	2,719,873	—	2,719,873
Student services	8,551,660	—	8,551,660
Institutional support	3,614,333	—	3,614,333
Institutional advancement	2,487,101	—	2,487,101
Auxiliary enterprises	7,320,489	—	7,320,489
Total expenses	37,669,194	—	37,669,194
Change in operating net assets	737,955	(5,805,083)	(5,067,128)
Investment income greater (less) than spending rate	30,138	(5,238,044)	(5,207,906)
Contributions	—	3,986,432	3,986,432
Actuarial adjustment on life income and annuity agreements	(195,202)	(114,878)	(114,878)
Change in value of perpetual trust	—	372	372
Restructuring and settlements of severance plan	1,445,175	—	1,249,973
Loss on disposition of property, plant, and equipment	(278,230)	—	(278,230)
Change in Net Assets	1,739,836	(7,171,201)	(5,431,365)
Net Assets — Beginning of Year	65,698,542	90,437,425	156,135,967
Net Assets — End of Year	$67,438,378	$83,266,224	$150,704,602

Other Matters

2.43 This section includes partial statements of activities as illustrations of the following circumstances:

- Administrative assessments on restricted gifts
- Special events that are ongoing and major activities
- Focus on a prior year's campaign proceeds that fund the current year's allocations
- Focus on an ongoing campaign and how donations to that campaign are being used
- Reporting grants made showing the foundation's specific areas of focus

2.44 Some NFPs have a policy of designating a certain percentage of restricted gifts to offset the costs of raising and administering those gifts. Not all NFPs disclose that policy to donors in the fund-raising appeal, but many do.

2.45 Administrative assessments may be shown as in the following example if they are deemed to be implicit donor restrictions. As such, the restricted contributions are initially reported in the net assets with donor restrictions column, and then an amount for the assessment is reclassified to the net assets without donor restrictions column. However, if the NFP has elected to report contributions whose restrictions are met in the same period in accordance with paragraphs 4A–4B of FASB ASC 958-605-45, the assessment amount is reported directly in net assets without donor restrictions.

2.46 Chapter 5 of the AICPA Audit and Accounting Guide *Not-for-Profit Entities*, states that "in order to conclude that the policy to allocate a portion of the contribution to supporting services is an implicit donor restriction, FinREC believes that policy needs to be effectively communicated to or from the donor prior to receipt of the contribution." Chapter 5 of the Guide also contains examples of donor communications and whether, in those circumstances, the policy has been effectively communicated and an implicit restriction exists. Chapter 5 of the Guide also states that "if the NFP has not communicated to the donor its policy for cost allocations, charges, assessments, or assignments as it pertains to meeting donor restrictions, the NFP may be in noncompliance with donor restrictions."

2.47

BTL Entity — Statement of Activities (Revenue Section) — Year Ended December 31, 20X2

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Support			
Cash contributions and grants	$5,933,939	$12,644,743	$18,578,682
Donated literature, securities, and other assets	605,728	297,234	902,962
	6,539,667	12,941,977	19,481,644
Revenue:			
Literature sales	102,446	—	102,446
Other revenue	278,693	—	278,693
Investment income, net	137,741	—	137,741
	518,880	—	518,880
Total support and revenue	7,058,547	12,941,977	20,000,524
Reclassifications:			
Administrative assessments	1,214,847	(1,214,847)	—
Satisfaction of purpose restrictions	14,621,383	(14,621,383)	—
Total reclassifications	$15,836,230	$(15,836,230)	$ —

2.48 Per FASB ASC 958-220-45-19, revenue and expenses from special events that are ongoing and major activities of an NFP must be shown gross in the statement of activities. Paragraphs 11–15 of FASB ASC 958-605-55 illustrate three ways that gross reporting can be accomplished. In the following example, YTL Entity reports direct benefits to donors as a deduction from the related special event revenues. Alternatively, the expenses may be shown in the "Expense" section of the statement or may be shown as part exchange (for the fair value the participants at the special event received) and part contribution (for the excess of the ticket price over that fair value). Reporting net amounts is only permitted, but not required, if the receipts and related costs result from special events that are peripheral or incidental activities.

2.49

YTL Entity — Statement of Activities (Revenue Section) — Year Ended June 30, 20X2

	Without Donor Restrictions	With Donor Restrictions	Total
Public support and revenue:			
Sponsorships and *[event]* entry fees	$80,849,817		$80,849,817
Contributed goods and services for event	50,689,691		50,689,691
Less direct benefits to donors and sponsors	(4,460,732)		(4,460,732)
Net *[event]* revenues	127,078,776		127,078,776
Restricted contributions of cash and financial assets		$15,577,850	15,577,850
Restricted contributions of goods		232,187	232,187
Interest and dividends	1,153,795	—	1,153,795
Net realized gains on investments	6,130,990	—	6,130,990
Change in net unrealized losses on investments	(715,753)	—	(715,753)
CARES Act income	5,403.925	—	5,403,925
Other	3,574	—	3,574
Net assets released from restrictions			
Expiration of time restrictions	4,454,043	(4,454,043)	—
Satisfaction of program restrictions	9,379,650	(9,379,650)	—
Total pubic support and revenue	**$152,889,000**	**$1,976,344**	**$154,754,344**

2.50 Some NFPs, especially federated fund-raising entities, conduct campaigns that invite donors to contributions without restriction, to provide restricted contributions, or to specify a beneficiary NFP that will receive their gifts. If the NFP accepts gifts for specified beneficiaries without also obtaining variance power from the donor, as discussed in paragraphs 25–26 of FASB ASC 958-605-25, the resulting agency transactions are recorded as liabilities rather than revenue. NFPs that have many agency transactions may desire to report the overall results of their fund-raising campaign efforts in their statements of activities. One reason might be that if a significant amount of money is raised via agency transactions (which would be reflected as liabilities to others rather than revenues), a ratio of the NFP's fund-raising expenses to contributions would be distorted or even misleading. Another reason might be that NFPs are concerned that the total support that they provide to the community will not be apparent because the amounts that they raise and distribute do not include amounts they raise for beneficiaries selected by their donors. The following example presents total campaign results offset by agency transactions, to arrive at the net campaign revenue amount. The total campaign results should not be labeled as revenue since that total contains agency transactions. In addition, the following example illustrates the situation in which the NFP makes clear to prospective donors that the resources raised in the current year will be used to fund the next year's distributions (that is, that the contributions are time-restricted until the following year).

2.51

BBB Charity — Statement of Activities (Revenue Section) — Year Ended December 31, 20X2

	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Other Revenue:			
20X2 Community campaign	$ —	$56,287,672	$56,287,672
Donor designations to other BBB entities	—	(12,695,888)	(12,695,888)
Donor designations to other charities	—	(10,518,621)	(10,518,621)
Provision for uncollectible pledges	—	(2,044,574)	(2,044,574)
Net campaign revenue available to BBB in 20X3	—	31,028,589	31,028,589
Net assets of 20X1 campaign released from restrictions	29,232,975	(29,232,975)	—
Collection of 20X1 campaign contributions in excess of amount anticipated	534,590	—	534,590
Grants and contracts	6,635,839	—	6,635,839
Investment earnings, net of fees	1,105,139	545,125	1,650,264
In-kind contributions	922,416	—	922,416
Other income	145,655	—	145,655
Total Pubic Support and Other Revenue	**$38,576,614**	**$2,340,739**	**$40,917,353**

2.52 The CCC Foundation in the following example has an ambitious fund-raising campaign underway that funds new initiatives. After presenting a typical foundation revenue section and expense section the following campaign section was presented in the statement of activities. The campaign was also highlighted on the face of the statement of financial position by separately reporting contributions receivable of the campaign and grants payable of the campaign.

2.53

CCC Foundation — Statement of Activities (Special Campaign Section) — Year Ended December 31, 20X2

	Without Donor Restrictions	With Donor Restrictions	Total
Change in net assets before campaign activity	(1,957,792)	(17,877,211)	(19,835,003)
[Campaign name] activity:			
[Campaign name] contributions		2,799,900	2,799,900
[Campaign name] fund-raising expenses	(125.861)		(125.861)
[Campaign name] grants to Seminary renovations	(11,947,731)		(11,947,731)
[Campaign name] grants to minister's retirement fund	(1,543,750)		(1,543,750)
[Campaign name] grants for minister's loan relief	(1,263,000)		(1,263,000)
[Campaign name] net assets released from restrictions	14,880,342	(14,880,342)	–
Total campaign activity	–	(12,080,442)	(12,080,442)
Change in net assets	**($1,957,792)**	**($29,957,653)**	**($31,915,445)**

2.54 Most foundations report a single line item for grants they have made. In the following example, the DDD Foundation reports a line item for each of its major areas of focus:

2.55

DDD Foundation — Statement of Activities (Expense Section) — Year Ended December 31, 20X2

	20X2	20X1
Program expenses — Grants		
[Geographic area] essential human services	10,232,573	13,758,434
[Geographic area] economic opportunities	10,712,841	7,273,765
English learner programs	8,409,675	13,900,519
Nonprofit program support	4,734,823	64,259,954
Family initiatives and new initiatives	29,942,881	33,979,653
Total program expenses	64,032,793	133,172,325
Management and general	5,261,236	5,903,866
Total expenses	**69,294,029**	**139,076,191**

Section 3

Statements of Cash Flows

3.01 A statement of cash flows explains the change during the year in the total of cash and cash equivalents, including changes in restricted cash or restricted cash equivalents. FASB *Accounting Standards Codification* (ASC) 230-10-45-25, encourages, but does not require, entities to use the direct method (reporting major classes of gross cash receipts and gross cash payments and their arithmetic sum — the net cash flow from operating activities) in reporting cash flows from operating activities. Both the direct and indirect methods are illustrated in the following examples.

3.02 FASB ASC 230-10-45-29 states that NFPs that use the direct method of reporting net cash flows from operations are not required to provide a reconciliation of change in net assets to net cash flow from operating activities.

3.03 Although FASB ASC 230, *Statement of Cash Flows*, requires the statement to explain the change in cash and cash equivalents, including changes in restricted cash and cash equivalents, it does not define restricted cash or restricted cash equivalents. Chapter 3 of the AICPA Audit and Accounting Guide *Not-for-Profit Entities* (the Guide) suggests that accountants review the composition of assets included in line items other than "cash and cash equivalents" on the statement of financial position to assist in the proper presentation and disclosure in the statement of cash flows. Any amounts classified as cash, cash equivalents, or restricted cash or restricted cash equivalents included in those line items would be included in the statement of cash flows within the line item *cash, cash equivalents, restricted cash and restricted cash equivalents* and included in the reconciliation required by FASB ASC 230-10-45-24.

3.04 Chapter 3 of the Guide also states that FinREC believes that cash, cash equivalents, and restricted cash or restricted cash equivalents might be included in the following line items in the statement of financial position:

- Investments
- Assets with a donor-imposed restriction that limits use to purchase or construction of long-lived assets
- Deposits held by bond trustees or bond sinking funds
- Insurance reserves set aside by contractual agreements with insurers
- Collateral for a line of credit or other debt
- Assets whose use has been limited or restricted

3.05 If cash or cash equivalents are included in other line items on the statement of financial position, the line items in the statement of financial position need to be reconciled to the line item *cash, cash equivalents, restricted cash and restricted cash equivalents* in the statement of cash flows, as required by FASB ASC 230-10-45-24.

3.06 Note that when considering whether highly liquid instruments with maturities of less than three months are restricted cash equivalents, NFPs must first determine whether the instrument would be characterized as a cash equivalent using the NFP's policy for determining which instrument are treated as cash equivalents; if it is characterized as a cash equivalent under the policy, then it will be included the reconciliation. When making those determinations, NFPs must also consider FASB ASC 958-230-55-2, which notes that not all assets of NFPs that meet the definition of cash equivalents in the FASB ASC Master Glossary are cash equivalents for purposes of preparing statements of financial position and cash flows. Restrictions can prevent them from being included as cash equivalents even if they otherwise qualify. For example, short-term highly liquid investments are not cash equivalents if they are purchased with resources that have donor-imposed restrictions that limit their use to long-term investment. Because any instruments that do not meet the NFP's policy for determining cash equivalents would be excluded from cash equivalents in both the statement of financial position and the statement of cash flows, they would not be included in the required reconciliation or in the disclosures required by FASB ASC 230-10-50-8.

3.07 Disclosures regarding noncash financing and investing activities are required. Examples of such noncash activities are donations of securities; donations of land, buildings, or equipment; obtaining property by assumption of a mortgage; and other comparable activities. These disclosures may be presented on the face of the statement of cash flows or in the notes to financial statements.

3.08 Note that contributions for long-term purposes, such as donor-restricted endowments and the acquisition of property and equipment, are considered financing activities. If the indirect method is used, contributions should be deducted from operating activities (accrual basis) and added to financing activities (cash basis). Note that the amount deducted from operating activities will be different from the amount added to financing activities when the contributions for long-term purposes include promises to give, securities, or other noncash assets. For example, if contributions for donor-restricted endowments are $100,000 in 20X2, which includes $20,000 of unpaid promises to give, and the NFP collected $50,000 of promises to give for endowment purposes that existed at fiscal year-end 20X1, the subtraction from change in net assets in the operating activities section would be $100,000 (accrual basis amount), and the addition in the financing activities section would be $130,000 (cash basis amount of $80,000 contributed for endowment purposes in 20X2 plus $50,000 collected on the 20X1 balance in promises to give for endowment purposes).

Direct Method

3.09 Items of note in the following example are (a) the issuance of a note payable to refinance another note payable results in a financing cash outflow for issuance costs and a supplemental disclosure for the refinancing of the debt, and (b) required supplemental disclosures are presented on the face of the statement, including contributions of real estate and contributions of investments added to the endowment portfolio.

3.10

MNP College — Statements of Cash Flows — Years Ended June 30, 20X2 and 20X1

	20X2	20X1
Cash flows from operating activities:		
Cash received from tuition and fees	$16,199,013	$15,603,154
Cash received from donors	15,743,944	14,862,952
Cash collected from contributions receivable	1,775,828	1,059,871
Cash received from auxiliary enterprises	3,264,358	3,207,568
Interest and dividends received	1,494,507	1,241,133
Miscellaneous receipts	738,899	801,271
Cash paid to employees	(17,362,633)	(17,038,182)
Cash paid for benefits	(5,926,750)	(5,955,317)
Cash paid to suppliers and vendors	(10,240,605)	(10,276,191)
Interest paid	(642,614)	(660,774)
Grants paid	(3,563,684)	(3,529,742)
Net Cash Provided (Used) by Operating Activities	1,480,263	(684,257)
Cash flows from investing activities:		
Purchase of property and equipment	(400,503)	(865,814)
Proceeds from note receivable collection	33,880	34,610
Proceeds on sale of investments	13,842,621	17,454,664
Purchase of investments	(14,912,889)	(15,070,557)
Net Cash Provided (Used) by Investing Activities	(1,436,891)	1,552,903
Cash flows from financing activities:		
Proceeds from contributions restricted for:		
Investment in perpetual endowment	2,125,025	1,339,295
Investment in term endowment	130,000	24,675
Investments subject to annuity and trust agreements	1,460,814	—
Investment in property and equipment	499,157	68,968
Other financing activities:		
Payments on annuity and trust obligations	(931,625)	(777,232)
Payments for issuance costs of notes payable	(103,515)	—
Payments on notes payable	(573,313)	(658,669)
Net Cash Provided (Used) by Financing Activities	2,606,543	(2,963)
Change in Cash and Cash Equivalents	2,649,915	865,683
Cash and Cash Equivalents, Beginning of Year	8,458,156	7,592,473
Cash and Cash Equivalents, End of Year	$11,108,071	$8,458,156
Supplemental disclosures		
Contribution of investments added to endowment	$6,372,149	$3,808,847

Direct Method

	20X2	20X1
Contribution of real estate	$1,183,539	—
Property and equipment acquired by accounts payable	$17,998	$1,627,112
Retirement of notes payable by issuing new notes	$9,555,000	—

3.11 CBA Gallery holds cash equivalents as investments in its endowment portfolio, which requires that the line item *cash and cash equivalents* on the statement of financial position be reconciled to the line item *cash, cash equivalents, and restricted cash equivalents* in the statement of cash flows. CBA Gallery chose to present the reconciliation on the face of the statement of cash flows; this reconciliation may appear in the notes to the financial statements. Other items of note in the following example are (*a*) acquisitions of works of art added to the collection are reported as investing activities, (*b*) cash gifts and grants for acquisitions of art are reported as financing activities, and (*c*) distributions from trusts held by others are reported as operating activities.

3.12

CBA Gallery — Statement of Cash Flows — Years Ended July 31, 20X2 and 20X1

	20X2	20X1
Cash flows from operating activities:		
Governmental appropriations for operations	$140,819	$132,427
Operating gifts and grants	11,427	11,033
Gallery shops sales	8,612	8,085
Investment income and dividends, net	999	1,366
Distributions from trusts held by others	2,300	2,900
Royalties and other income	1,187	2,402
Payments to employees	(109,323)	(106,660)
Payments to suppliers	(58,538)	(50,786)
Income tax payments	(160)	(50)
Net Cash Provided by (Used in) Operating Activities	(2,677)	717
Cash flows from investing activities:		
Purchase of investments	(355,761)	(164,235)
Proceeds from sale of investments	360,601	138,618
Acquisitions of works of art	(14,764)	(12,366)
Purchase of property, plant, and equipment	(9,126)	(20,282)
Net Cash Used in Investing Activities	(19,050)	(58,265)
Cash flows from financing activities:		
Contributions and net investment income for donor-restricted endowment	10,242	38,691
Governmental appropriations for capital projects	24,910	22,701
Gifts and grants for art acquisitions	6,535	11,308
Net cash provided by financing activities	41,687	72,700
Net Change in Cash, Cash Equivalents, and Restricted Cash Equivalents	19,960	15,152
Cash, Cash Equivalents, and Restricted Cash Equivalents at Beginning of Year	69,926	54,774
Cash, Cash Equivalents, and Restricted Cash Equivalents at End of Year	$9,886	$69,926
Cash and cash equivalents reconciliation:		
Cash and cash equivalents, statement of financial position	$3,706	$62,201
Cash equivalents included in investments	6,180	7,725
Cash, cash equivalents, and restricted cash equivalents above	**$9,886**	**$69,926**

Indirect Method

3.13 When the indirect method is used to produce a statement of cash flows, the change in net assets reported in the statement of financial position is reconciled to the change in cash from operating activities. To accomplish that, the following types of adjustments are required:

- Noncash expenses are added back to change in net assets.
- Noncash revenues, including noncash contributions are subtracted from change in net assets.
- Amounts reported in the statement of activities that relate to investing activities (such as gains and losses on investments) or to financing activities (cash contributions restricted to long-term purposes) are added back to (for losses or expenses) or subtracted from (for gains and revenues) change in net assets.
- Changes in current assets are added back to (for decreases in current assets) or are subtracted from (for increases in current assets) change in net assets.
- Changes in current liabilities and accrued expenses are added back to (for increases in the liabilities) or subtracted from (for decreases in the liabilities) change in net assets.
- The amortization of the right-of-use assets for operating and finance leases is added back to change in net assets.
- The reduction in operating lease obligations due to cash payments is subtracted from change in net assets.

Note that, in some cases, such as contributed goods and services that are expensed in the year of donation, the noncash contribution and the noncash expense offset each other, and no adjustment is needed.

3.14 When the indirect method is used to report cash flows from operating activities, supplemental disclosures are required by FASB ASC 230-10-50-2 for amounts of interest paid (net of amounts capitalized) and income taxes paid during the year. For purposes of that disclosure, if payments are made to settle debt instruments that have coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing (including zero-coupon bonds). the portion of payments that is attributable to accreted interest is included in the disclosure. Note that this supplemental information may be presented at the bottom of the statement or in a note to the financial statements.

3.15 The following example illustrates many of the common adjustments that are included in the reconciliation of change in net assets to cash used by operating activities. The required reconciliation of cash, cash equivalents, and restricted cash was presented in the notes to financial statements.

3.16

FED Museum — Statements of Cash Flows for the Years Ended June 30, 20X2 and 20X1

	20X2	20X1
Cash flows from operating activities:		
Change in net assets	$237,709	$398,474
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	51,361	54,609
Loss on disposal of fixed assets		174
Receipt of contributed securities and other assets	(21,599)	(18,335)
Proceeds from the sale of contributed securities	13,171	12,108
Contributions for capital expenditures	(10,765)	(28,468)
Contributions for donor-restricted endowment	(82,737)	(34,587)
Allowance and discount on contributions receivable	5,398	15,402
Net realized and unrealized investment gains	(315,730)	(380,861)
Acquisitions and sales of art, net	87,366	12,100
Interest rate exchange agreements	(7,284)	(14,076)
Asset retirement obligations	(21)	(506)
Pension and other accrued retirement obligations	(33,122)	(28,626)
Changes in assets and liabilities:		
Retail inventories, net	(1,941)	2,597
Accounts receivable and other assets	(427)	3,966
Contributions receivable	63,193	(73,486)
Accounts payable and accrued expenses	(6,184)	(5,080)
Accrued salaries and benefits	(2,750)	(86)
Deferred income	823	(44)
Pension and other accrued retirement obligations	3,876	6,825
Net Cash Used in Operating Activities	(19,663)	(77,900)
Cash flows from investing activities:		
Purchases of fixed assets	(28,099)	(36,941)
Proceeds from sales of investments	763,601	742,681
Purchases of investments	(742,104)	(635,529)
Acquisitions of art	(87,893)	(28,035)
Proceeds from sales of art	2,115	13,407
Net Cash (Used in) Provided by Investing Activities	(92,380)	55,583
Cash flows from financing activities:		
Proceeds from the sale of securities contributed for donor-restricted endowments	8,356	6,648
Contributions for capital expenditures	10,765	28,468
Contributions for donor-restricted endowments	82,737	34,587

	20X2	20X1
Payment of notes payable	(12,876)	(50,727)
Proceeds from notes payable	3,566	49,880
Net Cash Provided by Financing Activities	92,548	68,856
Net (decrease) increase in cash, cash equivalents, and restricted cash	(19,495)	46,539
Cash, cash equivalents, and restricted cash, beginning of the year	53,777	7,238
Cash, cash equivalents, and restricted cash, end of the year	$34,282	$53,777
Supplemental information:		
Cash paid in the year for interest	$13,197	$12,452
Noncash investing activity:		
Fixed asset additions included in accounts payable and accrued expenses	$536	$2,892
Acquisition of art included in accounts payable and accrued expenses	$1,588	$2,528
Receipt of contributed securities and other assets	$21,599	$18,335

3.17 Like the previous example, the following statement of cash flows illustrates many of the common adjustments that are included in the reconciliation of change in net assets to cash used by operating activities. Items of note in the following example are (*a*) amortization of the right-of-use assets are reported as an adjusting item (*b*) the cash payments for operating leases are reported as an adjusting item, and (*c*) the University's role as trustee of split-interest agreements results in an adjustment for the change in value of split-interest agreements reported in the statement of activities, and financing cash flows for the cash received to establish new split-interest agreements and the cash paid to the beneficiaries of the split-interest agreements. The required supplemental disclosures were provided in the notes to financial statements.

3.18

NOP University — Statements of Cash Flows for the Year Ended June 30, 20X2

	20X2
Cash flows from operating activities:	
Change in net assets	($643,855)
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation and amortization of finance lease right-of-use assets	305,944
Amortization of operating right-of-use asset	53,352
Cash payments for operating lease obligations	(53,030)
Loss on the disposal or sale of property, plant and equipment	11,399
Change in value of split-interest agreements	12,343
Contributions received that are donor-restricted to long-term purposes	(111,241)
Net realized gain on sale of investments	(997,562)
Net unrealized loss in value of investments	1,671,115
Increase in accounts receivable	(287,976)
Increase in pledges receivable	(14,192)
Increase in inventories, prepaid expenses and other assets	(33,707)
Increase in accounts payable	38,575
Decrease in accrued liabilities	(627,547)
Increase in refundable advances	2,601
Increase in deposits and deferred revenue	152,718
Increase in other liabilities	43,227
Net cash used by operating activities	**(477,836)**
Cash flows from investing activities:	
Collections of notes receivable	12,169
Origination of notes receivable	(2,050)
Proceeds from sale and maturity of investments	5,920,205
Purchase of investments	(5,905,181)
Purchase of property, plant and equipment	(298,730)
Net cash used in investing activities	**(273,587)**
Cash flows from financing activities:	
Cash contributions that are donor restricted for the following long-term purposes:	
Endowment	106,480
Acquisition of property, plant and equipment	3,826
Split-interest agreements	9,272
Payment of finance lease obligation	(1,232)
Payments to beneficiaries of split-interest agreements	(11,147)
Payment of federal student loan fund advance	(9,921)
Net cash provided by financing activities	**97,278**

	20X2
Decrease in cash and cash equivalents	**(654,145)**
Cash and cash equivalents at the beginning of the year	1,075,383
Cash and cash equivalents at the end of the year	**$421,238**

Other Matters

3.19 In the following example, the Foundation chose to report purchases and sales of its alternative investments separate from the purchases and sales of other investments.

ZYX Foundation — Statements of Cash Flows (Investing Section) for the Years Ended June 30, 20X2 and 20X1

	20X2	20X1
Cash flows from investing activities:		
Purchases of property and equipment	(4,672)	—
Purchases of investments	(14,300,000)	(16,300,000)
Proceeds from sales of investments	22,989,231	21,956,902
Capital calls for alternative investments	(3,439,906)	(3,250,784)
Distributions from alternative investments	6,301,180	4,670,656
Net Cash (Used in) Provided by Investing Activities	**(92,380)**	**55,583**

Section 4

Statements of Functional Expenses

4.01 FASB ASC 958-720-45-15 requires for each period presented an analysis of total expenses by both their function and nature in a single location — on the face of the statement of activities, as a schedule in the notes to financial statements, or in a separate financial statement. The relationship between functional classification and natural classification for all expenses should be presented in an analysis that disaggregates functional expense classifications, such as major classes of program services and supporting activities, by their natural expense classification, such as salaries, rent, electricity, interest expense, supplies, depreciation, awards and grants to others, and professional fees. In addition, FASB ASC 958-720-50-1 requires NFPs to provide a description of the methods used to allocate costs among program and support functions.

4.02 Investment expenses that have been netted against investment return should not be included in the analysis of expenses by nature and function. In addition, items that are typically excluded from net income of for-profit entities, such as those items listed in FASB ASC 220-10-45-10A, are considered gains or losses and, like other gains and losses, are not included in the analysis. To the extent that expenses are reported by other than their natural classification, they should be reported by their natural classification in the analysis. For example, salaries, wages, and fringe benefits that are included as part of the cost of goods sold on the statement of activities should be included with other salaries, wages, and fringe benefits in the analysis of expenses by nature and function. Likewise, costs that are reported as direct benefits to donors, such as facility rental costs and meals, would be reported with similar costs.

4.03 Entities have great flexibility about how many program and supporting services categories and how many natural expense categories are included in the expense analysis. However, there typically is symmetry between the program and supporting services shown in the statement of activities and those included in the expense analysis.

Statement of Functional Expenses

4.04 The first illustrated example is a typical statement of functional expenses. Only one year is shown in this example, but if the entity were to report more than one year in its financial statements, a separate statement of functional expenses would be required for each year presented.Entities that present a statement of functional expenses must also include the required disclosure about cost allocations in the notes to the financial statements. See also "Expenses" in section 7, "Disclosures Related Primarily to the Statement of Activities and Related Statements."

4.05

HGF Organization — Statement of Functional Expenses for the Year Ended June 30, 20X2

	Program Services				Supporting Services		
	Child Development Services	Youth Development Services	Family Development Services	Total Program Services	Management	Fund-Raising	Total
Employee expenses:							
Salaries	$459,174	$1,486,870	$306,998	$2,253,042	$47,269	$244,525	$2,544,836
Employee benefits	34,862	100,103	19,287	154,252	5,999	14,800	175,051
Payroll taxes	34,211	110,741	22,898	167,850	3,476	18,413	189,739
Total employee expenses	528,247	1,697,714	349,183	2,575,144	56,744	277,738	2,909,626
Other expenses:							
Occupancy	35,050	94,945	76,209	206,204	42,945	6,731	255,880
Agency vehicles	487	3,202	3,477	7,166	6,060	—	13,226
Postage and freight	—	311	2	313	1,169	4,755	6,237
Employee recruitment	1,972	2,103	1,375	5,450	767	624	6,841
Professional fees	511	23,656	450	24,617	43,257	38,659	106,533
IT	12,177	29,685	16,526	58,388	16,249	14,228	88,865
Direct client assistance	—	117,750	18,134	135,884	—	166	136,050
Supplies	4,596	170,630	17,682	192,908	10,997	59,023	262,928
Telephone	4,423	19,719	4,177	28,319	4,515	2,559	35,393
Travel and conferences	1,648	56,874	1,453	59,975	5,121	7,022	72,118
Program events	—	18,292	276	18,568	—	—	18,568
Insurance	7,385	17,707	17,668	42,760	2,431	997	46,188
Training	2,601	13,723	234	16,558	1,375	1,033	18,966
Donor cultivation	—	570	—	570	948	3,665	5,183
Marketing and advertising	—	5,884	41	5,925	324	19,757	26,006
In-kind expense	222	326,614	21,960	348,796	5,361	9,819	363,976
Miscellaneous	4,486	67,321	998	72,805	7,754	4,476	85,035
Total other expenses	75,558	968,986	180,662	1,225,206	149,273	173,514	1,547,993
Depreciation	25,494	71,480	39,884	136,858	8,777	—	145,635
Total expenses	$629,299	$2,738,180	$569,729	$3,937,208	$214,794	$451,252	$4,603,254

	Program Services				Supporting Services		
	Child Development Services	Youth Development Services	Family Development Services	Total Program Services	Management	Fund-Raising	Total
Other costs not included previously:							
Special events, direct costs						$160,624	$160,624
Investment fees					$ —		$ —

4.06 The next entity has chosen to display natural expense classifications across the top of the matrix and the same functional expense categories as shown in the statement of activities down the side.

4.07

XYZ Charity — Statement of Functional Expenses for the Year Ended June 30, 20X2

	Personnel Costs	Occupancy Costs	Office Expenses	Professional Services	Travel and Professional Development	Grants and Other Assistance	Other	Total
Program Services:								
Campaign for Human Development and Relief Services programs	$9,345	$2,100	$182	$ —	$770	$49,700	$ —	$62,097
Counseling program	356,158	43,198	13,252	218	9,184	—	63	422,073
Direct Assistance program	494,248	139,481	55,376	3,262	18,663	656,030	538	1,367,598
Family Life program	143,050	7,123	30,768	5,632	6,529	1,000	160	194,262
Natural Family Planning program	76,235	2,344	3,982	220	7,162	86	—	90,029
Office of Economic Opportunity	66,307	9,168	3,984	—	3,671	16,000	104	99,234
Pregnancy Support and Adoption program	59,145	20,130	3,952	100	7,580	196	16	91,119
Refugee and Immigration Services program	1,246,558	220,407	43,752	27,216	49,580	734,958	408	2,322,879
Respect Life program	29,866	3,836	4,907	915	7,306	—	—	46,830
Social Concerns and Advocacy program	155,879	19,482	5,441	550	12,471	—	50	193,873
Stay the Course and Teen Parenting program	189,413	35,074	14,300	1,038	3,999	4,993	110	248,927
Translation and Interpretation	387,862	4,932	2,232	4,223	12,984	—	5	412,238
Youth Counseling program	185,348	33,811	10,511	654	9,431	1,055	85	240,895
Supporting Services:								
Cost of direct benefits to donors	—	13,285	72,147	1,150	—	—	5,683	92,265
General and administration	294,621	75,727	79,717	315,013	33,244	500	31,742	830,564
Fund-Raising	109,866	559	90,336	514	10,283	107	588	212,253
Total expenses as reported on the statement of activities	**$3,803,901**	**$630,657**	**$434,839**	**$360,705**	**$192,857**	**$1,464,625**	**$39,552**	**$6,927,136**

Expense Analysis Included in Notes to Financial Statements

4.08 This entity has chosen to provide the required expense analysis and disclosures about allocations in the notes to the financial statements. This example includes only one year of activity. If comparative years were presented, similar information would be required for each year presented, except in the year of adoption, as allowed by FASB *Accounting Standards Codification* (ASC) 958-10-65-1b1.

4.09 Expenses are presented by functional classification in accordance with the overall service mission of the university. Each functional classification displays all expenses related to the underlying operations by natural classification. Depreciation expense is allocated based on square footage occupancy. Interest expense on external debt is allocated to the functional categories, which have benefited from the proceeds of the external debt. Plant operations and maintenance represents space-related costs that are allocated to the functional categories directly or based on the square footage occupancy, or both.

For the year ended June 30, 20X2, functional expense consists of the following:

	Academic, Health Care, and Student Services	Support Services	Fund-Raising Activities	Year Ended June 30, 20X2
Compensation	$1,698,766	$309,213	$32,920	$2,040,899
Fringe benefits	388,758	92,508	10,129	491,395
Operating expenses	964,585	334,092	14,954	1,313,631
Cost of goods sold	63,389	49,436		112,825
Travel	47,999	11,314	810	60,123
Allocations:				
Depreciation	175,132	70,106	173	245,411
Interest	17,448	50,561		68,009
Plant operations and maintenance	162,641	(162,894)	253	
Total	**$3,518,718**	**$754,336**	**$59,239**	**$4,332,293**

4.10 The following entity has included the required expense analysis and disclosures about allocations in the notes to the financial statements.

4.11 The costs of program and supporting services activities have been summarized on a functional basis in the following table:

	Program Services				Supporting Services		
	Becoming a Member	Delivering Member Value	Promoting Competency Globally	Building Influence and Reputation	General Management	Membership Development	Total
People costs	$29,632	$26,458	$36,495	$45,180	$11,577	$9,104	$158,446
Cost of goods sold	9,012	2,561	28,398	212	—	—	40,183
Selling expense	3,007	866	5,964	3,408	—	—	13,245
Occupancy	2,517	1,709	3,079	4,985	1,096	1,231	14,617
Meetings and travel	5,399	5,380	3,279	6,230	569	87	20,944
Office expense	1,677	1,175	3,451	3,548	220	950	11,021
Professional services	16,036	10,010	4,408	20,289	10,433	4,155	65,331
Organizational support	1,507	4,440	133	1,523	18	31	7,652
Depreciation and amortization	1,243	846	2,680	1,950	4,337	965	12,021
Insurance, taxes, interest and other	658	297	712	555	5,226	18	7,466
Total	**$70,688**	**$53,742**	**$88,599**	**$87,880**	**$33,476**	**$16,541**	**$350,926**

Management has reviewed all overhead costs and determined that it is appropriate to allocate a portion of these costs to the program services. A number of allocation methodologies are used, focusing on the location where the costs are incurred, along with the staffing levels and program service cost incurred prior to the allocations.

Section 5

Disclosures — General

5.01 The sample notes in this publication are not necessarily complete for any given entity's facts and circumstances. Also, this publication typically includes more sample notes if the fact that the reporting entity is an NFP introduces unique or different presentation requirements or disclosure requirements, or both. Fewer sample notes are included if the note content typically does not differ based on the type of entity, such as pension disclosures required by FASB *Accounting Standards Codification* (ASC) 715, *Compensation — Retirement Benefits*, and leases (FASB ASC 842, *Leases*), as sample notes for those disclosures are more readily available.

5.02 In practice, notes that include descriptions of accounting policies are often gathered together in one "Accounting Policies" note. Some or all of them, however, may be included in other notes that contain additional information about the item in question. For example, the entity's accounting policies related to fixed assets and depreciation may be presented in the note that summarizes fixed assets by type.

Description of Entity and General Accounting Policies

5.03 FASB ASC 958-205-50-1 requires that the financial statements provide a description of the nature of the entity's activities, including a description of each of its major classes of programs, either on the statement of activities or in the notes to the financial statements. Some entities combine these two items into one note; others put them in two separate notes. Chapter 13 of the AICPA Audit and Accounting Guide *Not-for-Profit Entities* provides a list of factors to consider in determining the programs to present in financial statements. As also noted in that chapter, FinREC believes that program information in the financial statements is most meaningful when it correlates with descriptions of the NFP's mission and the NFP's programs that are used by the NFP in its fund-raising materials, its programmatic promotional materials, website descriptions, tax filings, annual reports, and other public information.

5.04 Note X: Nature of Organization and Summary of Significant Accounting Policies

Organization and Mission: The Center is a not-for-profit organization and is considered an institution of the [*Parent*]. The Center's mission is to serve as a catalyst for change, supporting individuals and families through excellent community services to overcome the impact of poverty. Extensive social service programs that promote education, character development, healthy living, and self-sufficiency address the overall needs of low-income children, youth, adults, and families living in [*location*].

The specific programs and services provided by the Center include the following:

Child Development Services: Child Development Services (CDS) offers comprehensive childcare for children ages six weeks to five years in a nurturing and educational environment that offers high-quality care as it supports each child's achievement of age-appropriate growth and development. CDS includes [*Program*], which serves children ages six weeks to three years old and their families in an effort to support quality improvement, child development, and family well-being.

Youth Development Services: Youth Development Services (YDS) offers after-school, in-school, and summer programs that serve youth ages 6–18. The goal of YDS is to assist participants in acquiring the life and academic skills necessary for personal success. Programs are built around 5 pillars: academic achievement, reduction of risk, exploring college and career pathways, leadership development, and family engagement. Activities are theme- and module-based and include academic support, asset building, vocational exploration, college preparation, connection to workforce development activities, support for making healthy choices, nutrition and exercise, and leadership development. Each program component is designed to build life skills and confidence, the foundations of improved school performance and life success.

Family Development Services: Family Development Services (FDS) provides immediate assistance, case management, counseling, and adult education (GED/ESL, citizenship, computer classes) for adults ages 16 and above. It includes individuals aged 60 and above who also receive specialized support in the Center's nationally accredited Senior Center, including nutrition, health, and wellness services. Through FDS, case management, individual counseling, and group counseling are available to all children, youth, and families enrolled in the Center's programs.

Basis of Presentation: The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP). Net assets, support and revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Without Donor Restrictions: Net assets available for use in general operations and not subject to donor restrictions. Grants and contributions gifted for recurring programs are generally not considered "restricted" under GAAP, though for internal reporting, the Center tracks such grants and contributions to verify that the disbursement matches the intent. Assets restricted solely through the actions of the Board are reported as net assets without donor restrictions, board-designated.

With Donor Restrictions: Net assets subject to donor-imposed stipulations that are more restrictive than the Center's mission and purpose. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor-imposed restrictions are released when the restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Other donor-imposed restrictions are perpetual in nature, when the donor stipulates that resources be maintained in perpetuity.

Contributions: Contributions and grants are reported as without or with donor restrictions, depending on the existence or nature of any restrictions, or both. Support that is restricted by the donor is reported as an increase in net assets without donor restriction if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions depending on the nature of the restriction. When a restriction expires, the net assets are reclassified to net assets without donor restrictions. Noncash contributions are recorded at their fair market value at the date of contribution.

Gifts of equipment are reported as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit donor-imposed restrictions that specify how the assets are to be used, and gifts of cash or other assets that the donor stipulates must be used to acquire long-lived assets, are reported as support with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Contributions received with donor restrictions whose restrictions are met in the same reporting period they are received are generally reported as support without donor restrictions in the same reporting year. Similarly, contributions that are subject to both donor-imposed conditions and donor-imposed restrictions are reported as support without donor restrictions if the conditions are met in the same period in which the restrictions are met.

Revenue Recognition: Revenue is recognized when the Center satisfies its performance obligations under its contracts. Program service fees and payment under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities, other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Government Agencies: Government funding is generally recorded on a reimbursement basis, that is, when qualifying expenses are incurred by the Center, both a receivable from the government funder and revenue are recorded.

Special Events: Ticket revenues from special events are recognized when the event is held. Costs associated with special events are netted against the related revenue.

Functional Allocation of Expenses: The costs of providing the services and other activities are summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Salaries and benefits expenses are allocated on a basis of time and effort. Depreciation, office, and occupancy expenses are allocated on a square footage basis.

Cash and Cash Equivalents: Cash and cash equivalents consist of cash on hand and deposits held by financial institutions with original maturities of three months or less.

Accounts Receivable: Accounts receivable represent amounts due for childcare program service fees and local and state granting agencies and are reported at outstanding principal. An allowance for uncollectible amounts, if considered necessary, is generally determined based on an account-by-account review and historical trends. Accounts are charged off when collection efforts have failed, and the account is deemed uncollectible. Interest is generally not charged on the receivables.

Pledges Receivable: Legally enforceable pledges and contributions, less an allowance for uncollectible amounts, are recorded as pledges and revenue in the year made unless the pledge or contribution contains a donor-imposed condition. Conditional pledges and contributions are recognized when the conditions upon which they depend are substantially met. An allowance was not considered necessary at June 30, 20X2 or June 30, 20X1.

Investments: Investments are reported at fair market value determined by quoted market prices. Investment revenue and realized and unrealized gains and losses are reported on the statement of activities.

Endowment: The Center's endowments, included in investments on the accompanying statement of financial position, consist of board-designated and donor-restricted funds. The principal balance of the donor-restricted endowments is reported as net assets with donor restrictions based on the existence of such restrictions. Any earnings not expended at year-end are reported as net assets with donor restrictions.

Property and Equipment: The land and original buildings operated by the Center are owned by the [*Entity*]. The funds for building additions and improvements have been raised largely through the fund-raising efforts of the Center.

The Center capitalizes all expenditures for furniture, fixtures, equipment, and improvements in excess of $5,000. New acquisitions of furniture, fixtures, equipment, and improvements are carried at cost or, if donated, at approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful life of the asset (ranging from 5–40 years).

Donated Services, Materials, and Facilities: The Center receives donated services from a variety of volunteers assisting the Center in fund-raising events. No amounts have been recognized in the accompanying statements of activities because the criteria for recognition of such volunteer efforts under GAAP have not been satisfied. Donated materials, services, and facilities are valued based on their estimated fair market value on the date of contribution.

Income Taxes: The Center is a not-for-profit organization exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code and is not a "private foundation" within the meaning of Section 509(a). Donors of money or property, or both, are entitled to the maximum charitable contribution deduction allowed by law. Management is not aware of any tax positions that would have a significant impact on its financial position. Its tax returns for the last four years remain subject to examination.

Advertising: Advertising costs are expensed as incurred and totaled approximately $26,000 in 20X2 and $28,000 in 20X1.

Employee Benefit Plan: The Center sponsors a defined contribution retirement plan (the Plan), covering substantially all employees at least 21 years of age and having one year or more of service. Participants are permitted to make elective deferrals in any amount up to 100% of their compensation. The Center may make a matching contribution to the Plan up to 2% of the employee's salary. Matching contributions for the Plan by the Center totaled approximately $22,000 in 20X2 and $20,000 in 20X1.

Concentrations of Credit Risk: Financial instruments that potentially subject the Center to concentrations of credit risk consist principally of cash, investments, and pledges receivable. The Center maintains cash deposits with major banks which, from time to time, may exceed federally insured limits. The Center periodically assesses the financial condition of the institutions and believes the risk of any loss is minimal. Concentration of credit risk with respect to its investments is reduced as a result of the diversity of the underlying securities. The Center also has concentrations of credit risk with respect to pledges receivable due to it soliciting primarily in the [*geographical area*].

Commitments and Contingencies: The Center participates in several federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Center has not complied with the rules and regulations governing the grants, refunds of any money received may be required, and the collectibility of any related receivable may be impaired. Management does not believe there are any significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants.

Use of Estimates: The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements, and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

Subsequent Events: Subsequent events have been evaluated by management through the date of the independent auditor's report (the date the financial statements were available to be issued). Material subsequent events, if any, are disclosed in a separate note to these financial statements.

5.05 Note X: Basis of Presentation

Resources are classified for accounting and financial reporting purposes into categories established according to their nature and purposes to ensure observance of limitations and restrictions placed on their use. The assets, liabilities, and net assets of the Organization are reported in two categories as follows:

> *Net Assets Without Donor Restrictions* — Net assets available for use in general operations and not subject to donor restrictions. The only limits on net assets without donor restrictions are those resulting from the nature of the Organization and its purposes.

Net Assets With Donor Restrictions — Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, when the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor-imposed restrictions on net assets (that is, the donor-stipulated purpose has been fulfilled or the stipulated time period has elapsed, or both) are reported as reclassifications between the applicable classes of net assets. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions are met in the fiscal year in which the contributions are received.

5.06 Note X: Description of Organization

The Community Trust (the Trust) is the [*City*] region's community foundation, established in 1915 to promote, guide, and manage philanthropy for the benefit of the residents of the greater [*City*] area. The mission of the Trust is to lead and inspire philanthropic efforts that measurably improve the quality of life and the prosperity of the region. Over the years, thousands of individuals and families, businesses, and corporations have contributed to the Trust. Today, donors recognizing the importance of the Trust continue to add to these funds with contributions, including provisions for the Trust in their estate planning and establish donor-advised funds to manage their giving during their lifetime. Trust resources are used to respond to the current needs of the community and will be used in the future to respond to the ever-changing needs of the region.

The accompanying consolidated financial statements include all funds held by or created for the benefit of the Trust and its affiliated organizations.

The Trust and its affiliated organizations are recognized as public charities and have received determination letters from the IRS indicating that they are exempt from federal income taxes on related income under Section 501(a) as organizations described in 501(c)(3) of the Internal Revenue Code.

5.07 Note X: Summary of Significant Accounting Policies [*portion of longer note*]

Principles of consolidation — The accompanying consolidated financial statements include the accounts of the Aquarium and its supporting organization. The Aquarium controls and has an economic interest in its supporting organization. Intercompany transactions and accounts have been eliminated in consolidation.

5.08 Note X: Nature of Business

ORGANIZATION

The [*Religious Affiliation*] Charities of [*Region*] and subsidiary and commonly owned affiliate (collectively the Organization) is a nonprofit organization incorporated under the laws of the [*State*] in 1945. The Organization consists of its commonly owned affiliate (the Foundation), a [*State*] nonprofit corporation, and the Organization's 100% wholly owned subsidiary. The central offices are located in [*City*], and services are provided in the [*City*] Diocese.

BUSINESS ACTIVITY

The purpose of the Organization is to establish programs and service centers that will ensure that the basic needs of the poor, homeless, and disadvantaged people in [*Region*] will be met, as far as resources allow, in cooperation with other local social service agencies. The services provided include dining rooms and shelters for indigent transients, emergency assistance programs for the needy, immigration and migration assistance programs, and an adoption service. The Organization also provides services through a senior nutrition program, senior companion program, retired senior volunteer programs, and a senior citizens employment service.

STRUCTURE OF ORGANIZATION

The structure of the Organization has remained unchanged since 20X0, when the management structure was reorganized to effectively communicate the mission statement of the Organization and maximize the economy of scale in services provided.

5.09 Note X: Organization

The Association was formed in 1923 in accordance with the laws of the [*State*] as a nonpartisan membership organization that encourages the informed and active participation of citizens in government, works to increase understanding of major public policy issues, and influences public policy through education and advocacy. The Association does not support or oppose any political party or candidate. Membership is open to women and men who subscribe to the purpose of the Association. More than 50,000 members are organized into over 700 state and local chapters in cities, towns, and communities located in all 50 states, the District of Columbia, the Virgin Islands, and Hong Kong.

The Association Education Fund (the Education Fund), an affiliate of the Association, was established in 1957 by the Association as a charitable trust dedicated to strengthening citizen knowledge of, and involvement in, government. The Education Fund works to increase public understanding of major public policy issues and promote awareness of the options available in government decision making. The Education Fund provides a variety of educational services, research, publications, and conferences on public policy issues and techniques to enable citizens to take part more effectively in the democratic process. The Education Fund also provides nonpartisan election services.

The Education Fund is the sole member of [*Affiliate* LLC] (the LLC), which was formed in April 20X2 in accordance with the laws of [*State*]. The LLC owns the online interactive voter guide software.

5.10 Note X: Description of the Foundation

[*Region*] Community Foundation (the Foundation) is a publicly supported, nonprofit public benefit corporation, which received its IRS exemption in November 2006 and officially launched in January 2007. The Foundation advances innovative philanthropic solutions to challenging problems. The Foundation partners with families, individuals, and corporations to manage and facilitate their philanthropy. The Foundation connects donors' interests to the most pressing needs, whether in [*Region*] or around the globe. As a comprehensive center for philanthropy, the Foundation shapes critical public policy issues, partners with nonprofit groups and institutions advancing the best ideas, and directs resources swiftly and strategically toward unforeseen needs.

MISSION

The Foundation engages donors and corporations from [*Region*], across the country, and around the globe to make our region and world better for all. Our passion for helping people and organizations achieve their philanthropic dreams has created a global philanthropic enterprise committed to the belief that possibilities start here.

PROGRAMS

Advised funds — The Foundation offers several types of funds that enable donors to identify funding opportunities aligned with donors' values and charitable interests. Donor-advised funds allow donors to recommend grant recipients, subject to the Foundation's due diligence and approval. Collectively, these funds granted approximately $1,200,000 and $1,228,000 to charitable organizations during fiscal years 20X2 and 20X1, respectively.

Corporate-advised funds — The Foundation manages one of the largest corporate-advised fund programs among all U.S.-based community foundations. The Foundation assists in the grant-making process, works with employee contribution committees, builds community-wide partnerships, and works with corporate fund holders on community relations activities. These funds made grants of approximately $62,000 and $50,000 during fiscal years 20X2 and 20X1, respectively.

Community endowment and field-of-interest funds — Through the Community Endowment Fund or named endowment funds, donors can contribute funds to address community needs. These funds are a perpetual charitable resource. They grow through community support and provide much-needed funding for local programs and services. They allow the Foundation to act strategically to improve the community by addressing the most urgent needs with one-time or multiyear grants.

Field-of-interest funds enable donors to identify a broad charitable purpose, a category of interest (for example, arts, education, or human services), or geographic area or target population (for example, senior citizens, children and youth, or immigrants).

Together, the community endowment and field of interest funds granted approximately $13,852 and $15,600 to charities in nearby counties during fiscal years 20X2 and 20X1, respectively.

Scholarship funds — The Foundation administers 53 scholarship programs. The majority are designated for current or former residents of local counties. During fiscal years 20X2 and 20X1, the Foundation awarded 343 and 475 scholarships totaling approximately $1,576 and $2,389, respectively.

5.11 Note X: Basis of Presentation

The University, established in 1888, is a nonprofit corporation organized under the laws of [*State*]. The University is an independent, predominantly residential undergraduate liberal arts college with selected graduate programs building effectively on a liberal arts foundation. The University, as a community of learning, maintains a strong commitment to teaching excellence, scholarly engagement, and fruitful student-faculty interaction.

The mission of the University is to develop in its students the capacity for critical analysis, aesthetic appreciation, sound judgment, and apt expression that will sustain a lifetime of intellectual curiosity, active inquiry, and reasoned independence. A University education, both academic and co-curricular, encourages a rich knowledge of self and others; an appreciation of commonality and difference; the full, open, and civil discussion of ideas; thoughtful moral discourse; and the integration of learning, preparing the university's graduates to meet the highest tests of democratic citizenship. Such an education seeks to liberate each person's fullest intellectual and human potential to assist in the unfolding of creative and useful lives.

5.12 Note X: Basis of Presentation and Summary of Significant Accounting Policies

ACCOUNTING PERIOD

The Zoological Society (the Society) reports on a 52/53-week year ending the Sunday nearest December 31. The fiscal years ended December 31, 20X2 (20X2) and January 1, 20X2 (20X1) included 52 weeks and 53 weeks, respectively.

5.13 The following two examples are of notes used that describe non-generally accepted accounting principles policies with an immaterial effect on the financial statements.

5.14 Note X: Basis of Accounting [*Financial statements are on a GAAP basis.*]

The entity does not provide an allowance for uncollectible pledges receivable but, rather, expenses such items in the period they become uncollectible. This practice differs from GAAP, but its impact is deemed immaterial.

5.15 Note X: Basis of Accounting [*Financial statements are on a GAAP basis.*]

The college recognizes interest and dividend income substantially on the cash basis and does not amortize bond premiums or accrete bond discounts, except that the discount on zero-coupon bonds is accreted, and the income on guaranteed investment contracts is accrued. The difference between such policies and those that would result from following the full accrual, amortization, and accretion methods is not material.

5.16 Note X: Net Asset Categories

For financial reporting purposes, the University follows the reporting requirements of GAAP, which requires that resources be classified for reporting purposes based on the existence or absence of donor-imposed restrictions. This is accomplished by classification of fund balances into two classes of net assets: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories and the types of transactions affecting each category follow:

- *Without Donor Restrictions* — Net assets that are not subject to donor-imposed restrictions. Items that affect this net asset category principally consist of fees for service and related expenses associated with the core activities of the University: instruction, conduct of sponsored research, and provision of health care services. In addition to these exchange transactions, changes in this category of net assets include investment returns on "funds functioning as endowment" funds, actuarial adjustments to self-insurance liabilities, changes in post-retirement benefit obligations, and certain types of philanthropic support.

  Such philanthropic support includes gifts without restrictions, including those designated by the Board of Trustees to function as endowment and restricted gifts whose donor-imposed restrictions were met during the fiscal year, as well as previously restricted gifts and grants for buildings and equipment that have been placed in service.

- *With Donor Restrictions* — Net assets subject to donor-imposed restrictions that will be met either by actions of the University or the passage of time. Items that affect this net asset category are gifts for which donor-imposed restrictions have not been met in the year of receipt, including gifts and grants for buildings and equipment not yet placed in service; endowment, annuity, and life income gifts; pledges; and investment returns on "true" endowment funds and endowments in which the principal may be expended upon the passage of a stated period of time (term endowments). Expirations of restrictions on net assets with donor restrictions, including reclassification of restricted gifts and grants for buildings and equipment when the associated long-lived asset is placed in service, are reported as net assets released from restrictions.

  Also included in this category are net assets subject to donor-imposed restrictions to be maintained in perpetuity by the University, including gifts and pledges wherein donors stipulate that the corpus of the gift be held in perpetuity (primarily gifts for endowment and providing loans to students) and that only the income be made available for program operations. Other items restricted in perpetuity in this net asset category include annuity and life income gifts for which the ultimate purpose of the proceeds is restricted in perpetuity.

5.17 Note X: Financial Statement Presentation

GAAP requires that resources be classified for reporting purposes into two net asset categories based upon the presence or absence of donor restrictions: with donor restrictions or without donor restrictions. Net assets without donor restrictions represent resources available for the general support of the Academy's activities and may be designated by the Academy's Board of Directors for specific purposes. Net assets with donor restrictions are those whose use has been limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled by actions of the Academy and donor-restricted endowment funds. As restrictions expire, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions.

5.18 Note X: Use of Net Assets

Included in net assets without donor restrictions at December 31, 20X2 and 20X1 is $184,330 and $202,749, respectively, which is our net investment in fixed assets and is not available to spend on current operations.

Net assets with donor restrictions result from contributions of assets whose use by the Society is specified by our donors. For net assets with time restrictions, the assets are not restricted for a specific purpose by the donor. Instead, the donor's restriction on our use of those assets is met with the passage of time. For perpetually restricted net assets, the principal contributed by the donor is restricted in perpetuity, and only the earnings on the following net assets may be spent for the purpose specified by the donor. Included in donor-restricted net assets subject to time or purpose restrictions at December 31, 20X2 and 20X1 is $231,601 and $187,934, respectively, that we have not yet received in cash that will be used for our mission program services once received. The use of donor-restricted net assets, which includes earnings on donor-restricted net assets to be maintained in perpetuity, as of December 31, 20X2 and 20X1 has been limited by our donors for the following purposes:

	Subject to Time or Purpose Restrictions		To Be Maintained in Perpetuity	
	20X2	20X1	20X2	20X1
Mission programs:				
Patient support:				
Facilities	$105,771	$78,342	$15,133	$14,742
Other	15,297	13,584	17,524	16,818
Research	60,087	54,274	70,140	67,448
Prevention	5,215	4,620	1,482	1,482
Detection/treatment	16,976	17,384	1,652	1,652
Across mission programs:				
Time restrictions (primarily planned giving, including perpetual trusts)	120,302	122,780	142,624	132,490
Specific geographic locations	14,533	16,749	33,784	31,819
Fixed asset acquisitions/building fund	517	72	—	—
Other mission program and mission support services	1,091	2,249	19,352	19,270
Total	**$339,789**	**$310,054**	**$301,691**	**$285,721**

5.19 Note X: Summary of Significant Accounting Policies [*portion of a longer note, quantitative and qualitative information provided in a separate note*]

CONTRIBUTED GOODS AND IN-KIND SERVICES

Contributed goods and services are reflected as both contribution revenue and expenses in the accompanying statement of activities at their estimated fair value at date of receipt. When valuing contributed goods, the Foundation estimates the fair value on the basis of prices that would be received for selling similar products in similar quantities in the area in which the Foundation received the goods. Contributed goods and gifts of property and equipment are reflected as support without donor restrictions unless explicit donor stipulations specify how the donated goods must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

The Foundation receives services from a large number of volunteers who give significant amounts of their time to the Foundation's programs, fund-raising campaigns, and management. The contributions of services are recognized if the services received (*a*) create or enhance nonfinancial assets or (*b*) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided. Generally, such services include research grant application reviews; advertising, consulting, and printing services; and other services that meet the criteria for recognition as contributed services. When valuing contributed services that meet the recognition criteria, the Foundation bases the valuation on current rates for similar services in the area in which the Foundation received the services.

5.20 Note X: Summary of Significant Accounting Policies [*portion of longer note*]

PLANNED GIVING AGREEMENTS

The College's planned giving agreements consist primarily of charitable gift annuities, charitable remainder unitrust contracts and pooled life income funds. For those trusts for which the College is the trustee, the assets are reported as long-term investments at their fair value. Contribution revenue is recognized at the dates the trusts are established after recording a liability for the present value of the estimated future payments to be made to the beneficiaries using discount rates and assumptions established upon initial recognition of the liability and the use of the appropriate mortality tables. Discount rates range from 1.3% to 7.0%. The obligation is adjusted during the term of the agreement for changes in the value of the assets, amortization of the discount and other changes in the estimates of future benefits.

For those irrevocable trusts for which the College does not serve as trustee, contribution revenue and a receivable are recognized at the date the trust is established for the present value of the estimated future payments to be received.

The College is also the beneficiary of a perpetual trust held and administered by others. The estimated fair value of the trust was recognized as an asset and as revenue on the date the College was notified of the establishment of the trust. Distributions from the trust are recorded as investment income.

5.21 Note X: Fluctuations in Revenues and Expenses

Due to the emphasis of the entity's programs on provision of disaster relief, the level of entity activity normally varies from year to year by a considerable amount, depending on the number of incidents occurring, which cause people to need the entity's help. In 20X2, a significantly higher number of such incidents occurred and, accordingly, expenses were higher than in 20X1, and additional funds were raised to cover the increased expenses and to rebuild the entity's reserves for future disasters.

Contingencies and Other Uncertainties, Including Going Concern Questions

5.22 Note X: Commitments and Contingencies

CLAIMS AND LEGAL ACTIONS

The Organization is subject to claims and legal actions arising in the ordinary course of business. In the opinion of management, based in part upon the advice of legal counsel, these matters are of such a nature that unfavorable disposition would not have a material adverse effect on the consolidated financial position, results of operations, or cash flows of the Organization.

SELF-INSURANCE

The Organization carries an excess workers' compensation liability policy that includes a $250 retained limit per claim up to $4,000 aggregate per year. The Organization employs a professional third-party administrator to manage workers' compensation claims incurred. The Organization accrued $5,273 and $5,606 as an estimate of workers' compensation claims incurred but not yet paid or reported as of year-end 20X2 and 20X1, respectively. The liability is reflected in accounts payable and accrued expenses on the accompanying consolidated statements of financial position.

CONSTRUCTION COMMITMENTS

As of year-end 20X2, the Organization had outstanding commitments for future capital expenditures of $7,183.

5.23 Note X: Guarantees

On July 17, 20W3, the Trust executed a guaranty to secure a line of credit of $900,000 on behalf of one of its grantees toward the purchase and renovation of a new building. At September 30, 20X2 and 20X1, no amounts have been drawn on the guarantee. The guarantee expires on July 1, 20Z3.

5.24 Note X: Information Security and Privacy [*portion of a longer note*]

As with many medical centers and universities across the country, information security and privacy is a growing risk area based on developments in the law and expanding mobile technology practices. The University and the Hospital have policies, procedures, and training in place to safeguard protected information, but select incidents have occurred in the past and may occur in the future involving potential or actual disclosure of such information (including, for example, certain identifiable information relating to patients or research participants). In most cases, there has been no evidence of unauthorized access to, or use/disclosure of, such information, yet laws may require reporting to potentially affected individuals and federal and state governmental agencies. Governmental agencies have the authority to investigate and request further information about an incident or safeguards, to cite the University or Hospital for a deficiency or regulatory violation, and/or require payment of fines, corrective action, or both. [*State*] law also allows a private right to sue for a breach of medical information. The cost of such possible consequences has not been material to date to the University or the Hospital, and management does not believe that any future consequences of these incidents will be material to the consolidated financial statements.

5.25 Note X: Contingent Liabilities

The Organization is required to pay an assessment to [*Affiliated Organization*] under terms and conditions which change from time to time. Starting in 20W9, using previous arrangements and because of its economic situation, the Organization was unable to follow its original intentions and pay its full assessment to [*Affiliated Organization*]. As a result of an agreement reached with [*Affiliated Organization*] in April 20X0, it was agreed that certain conditions would have to exist and be continuing before the Organization would make any payments on the outstanding amount; it is not known when such conditions will exist. As a result, the Organization classifies any such amounts as they may exist from time to time as contingent liabilities.

5.26 Note X: Government Grants [*portion of a longer note*]

Government grant and contract revenue is recognized when qualifying expenses have been incurred, and all other grant requirements have been met. The Organization receives a substantial amount of its operating support from the federal government. Any significant reduction in the level of this support could have an effect on the Organization's programs.

5.27 Note X: Business Matters

For the fiscal year ended July 31, 20X2, the Organization's net assets without donor restrictions decreased by $27 million, primarily due to a deficiency of operating revenues over expenses and an increase in the unfunded accumulated benefit obligation. The Organization's line of credit has been extended to September 30, 20X3. Any outstanding principal and interest is due at the line of credit's expiration date. At [*date of financial statement issuance*], the amount outstanding under the line of credit was $17 million.
In August 20X2, the Organization reached new agreements with its labor unions that will result in expense savings beginning in fiscal 20X3. In addition, the Organization is launching a new fund-raising drive beginning in fiscal 20X3. Based upon the most recent information available and the Organization's actions taken to improve access to cash and reduce costs, the Organization estimates that it has sufficient liquidity through July 31, 20X3 to support operations.

5.28 Note X: Concentrations of Credit Risk

Financial instruments, which potentially subject the Association to concentrations of credit risk, include cash and cash equivalents, investments, and receivables. At December 31, 20X2, balances on deposit at U.S. financial institutions exceeded FDIC insured limits. Cash equivalent amounts in sweep investment accounts are not insured nor guaranteed by the FDIC. The Association maintains its significant cash balances with a high-quality financial institution, which the Association believes limits these risks. Occasionally during the year, the balances in a financial institution exceed the FDIC $250,000 deposit insurance amount; that excess is uninsured. As of December 31, 20X2, the uninsured cash balance in the Association's bank accounts was $427,000.

Credit risk with respect to receivables is also limited because the Association deals with a large number of customers in a wide geographic area. The Association closely monitors the extension of credit to its customers while maintaining allowances for potential credit losses. On a periodic basis, the Association evaluates its receivables and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit considerations. As of December 31, 20X2, the allowance for doubtful accounts was $2,513,000.

Notes and mortgages received by the Association's Benevolent Fund in connection with assistance payments to members and their families are recorded as assets, net of amounts deemed uncollectible. Notes and mortgages are non-interest-bearing and are due upon the death of the member and spouse or sale of the mortgaged property, or both. Credit risk with respect to receivables is limited because the Association's Benevolent Fund secures notes from a limited number of payment recipients in a wide geographic area.

The Association's Benevolent Fund closely monitors the extension of notes and mortgages to its members while maintaining allowances for potential losses. On a periodic basis, the Association's Benevolent Fund evaluates its receivables and establishes an allowance for doubtful accounts, based on a history of past write-offs, market value of mortgaged properties, and collections and current credit considerations.

5.29 Note X: Concentration of Market and Credit Risk [*portion of a larger note*]

Market risk represents the potential loss the Organization faces due to a decrease in the value of its investments and assets held at fair value. Credit risk represents the potential loss the Organization faces due to possible nonperformance by obligors and counterparties of the terms of their contracts. Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash equivalents, the investment portfolio, and accounts receivable and pledges receivable. Credit risk on pledges receivable is managed by discounting the pledges based on a rate that reflects the risk of that pledge not being collectible.

In order to limit credit risk with respect to cash equivalents and the investment portfolio, the Organization invests in obligations of the U.S. government, mutual funds, and other marketable securities. These investments are held by diverse, high-quality financial institutions. The Organization grants unsecured credit to local councils and others for merchandise sales and insurance coverage within established guidelines for creditworthiness. These transactions make up the majority of accounts receivable.

5.30 Note X: Concentration of Market Risk [*portion of the investments note*] For the years ended June 30, 20X2 and 20X1, the [*Entity*] had an investment in the J.P. Morgan U.S. Government Money Market Agency Share Fund that has a value greater than 5% of total net assets:

	20X2	20X1
Fair value	$392,770,000	$402,854,000
Percent of net assets	8.32%	8.32%

5.31 Note X: Concentrations of Credit Risk [*portion of a larger note*]

The [*Entity*] had four donors at December 31, 20X2 and December 31, 20X1, whose individual pledges accounted for more than 10% of the pledge receivable balance. Collectively, these donors' pledges totaled 66% and 78% of the pledge receivable balances, respectively.

5.32 Note X: Concentrations and Credit Risk

FUNDING

Approximately 76% and 70% of the Agency's grant and contract income from operations, including releases from restrictions, for the years ended December 31, 20X2 and 20X1, was from two and one funding sources, respectively.

Approximately 75% and 72% of the Agency's grants and contracts receivable at December 31, 20X2 and 20X1, respectively, are due from two funding sources. Of the Agency's total

20X2 grant and contract income from operations, including releases from restrictions, totaling $25,651,711, approximately 70% was from public sources, and 30% was from private sources. Of the Agency's total 20X1 grant and contract income from operations, including releases from restrictions, totaling $25,967,906, approximately 70% was from public sources, and 30% was from private sources.

Contributions without donor restrictions in the accompanying combining statements of activities and changes in net assets for the years ended December 31, 20X2 and 20X1, are comprised of the following:

	20X2	20X1
Individual	$306,874	$541,024
Corporate	130,586	118,905
Foundations	31,760	59,507
	$469,220	$719,436

The Agency receives significant assistance from numerous government agencies in the form of contracts and grants. Expenditures of these funds require compliance with the agreements and are subject to audit. Any disallowed expenditures resulting from such audits become a liability of the Agency. In the opinion of management, the results of such audits, if any, will not have a material effect on the financial position of the Agency as of December 31, 20X2 and 20X1.

5.33 Note X: Collective Bargaining Agreements [*portion of a larger note*]

Approximately 80% of the Association's employees are covered by collective bargaining agreements. During the year ended July 31, 20X2, three agreements expired, of which two were extended via mutual agreement, and one is in negotiations to extend. The Association believes all agreements will renew without issue.

5.34 Note X: Intellectual Property Agreement

On July 2, 20Y2, the Association entered into an agreement to continue the Association's interest in certain intellectual property and restaging of programs. The agreement also requires that certain consulting services be provided throughout the lifetimes of the parties. Amounts paid under this agreement were approximately $131,000 and $130,000 during 20X2 and 20X1. Future amounts due under this agreement approximate the following as of June 30:

20X3	$132,000
20X4	133,000
20X5	134,000
20X6	135,000
20X7	136,000
Thereafter	690,000
	$1,360,000

5.35 Note X: Federal Finding

In April 20X2, following an investigation of an anonymous complaint at a local [*Organization*] program that proved unsubstantiated, the Office of the Inspector General (OIG) of the Corporation for National and Community Service (CNCS) raised their concern with the [*Organization*] about subgrantees using full-time [*Service Provider*] members in a teaching assistant capacity because this work, although allowable under CNCS regulations, is not specified in the [*Organization's*] grant. In September 20X2, CNCS determined that these costs were allowable, but disallowed other costs related to one member's service, requiring repayment of $17,650 in living allowance and education award payments. The [*Organization*] repaid these funds in October 20X2. Subgrant provisions require subgrantees to reimburse the [*Organization*] for any funds which the [*Organization*] is required to repay to funders on their behalf due to audit findings. As a result, the relevant program has begun repayments to the [*Organization*] of the disallowed amount.

5.36 Note X: Hurricane [*Name*]

In 20X1, Hurricane [*Name*] struck the area where the university is located, causing widespread damage throughout the region. The university's campuses experienced extensive property damage from the hurricane, including the losses of research-related assets, fine arts materials, equipment, building contents, and valuable documents. Hurricane [*Name*] caused a necessary interruption of the university's business. The university resumed partial operations with the spring 20X2 semester. The university incurred significant costs to replace, repair, and remediate damage to its properties; demolish and remove damaged improvements and contents; and reconstruct facilities and buildings.

Estimated cumulative disaster losses (excluding business interruption costs) and costs as of June 30, 20X2 and 20X1, are summarized as follows (in thousands):

	20X2	20X1
Restoration of buildings and grounds	$232,897	$228,156
Equipment replacements	12,986	12,986
Other incremental disaster-related operating costs	78,361	77,983
Direct gross incremental out-of-pocket disaster costs	324,244	319,125
Net book value of fixed improvements and equipment destroyed*	28,074	28,074
Less: construction and replacement equipment capitalized	(112,458)	(107,515)
National Flood Insurance Program, FEMA, and other insurance recoveries	(160,632)	(154,927)
Disaster costs, net of recoveries**	$79,228	$84,757

** Net book value destroyed was determined on the basis of replacement costs deflated to the in-service date and depreciated to the loss date.*

*** Excludes business interruption, certain research losses, and lost arts and library materials.*

5.37 FASB ASC 450, *Contingencies*, sets a very high standard to be met before a contingent asset may be recorded. However, note disclosure of such matters is appropriate.

5.38 Note X: Testamentary Gift

During 20X2, the Organization was notified of a significant testamentary gift through a bequest. This gift has not been recorded in the accompanying financial statements because the donor's will has not yet been declared valid by the probate court and the value of the amount to be received is not yet determinable. However, management estimates that the fair market value of assets to be received could be $2.3 million or more.

5.39 Note X: Management's Plans

In 20X1, the entity began the renovation of the [*Theatre*]. Final costs were approximately $20 million, which was greater than the original budgeted costs. In addition, the entity suffered revenue losses due to the closure of the [*Theatre*] during the renovation. The [*Theatre*] was reopened in January 20X2.

As of June 30, 20X2, the entity has negative net assets of $604,905. This is directly attributable to the renovation of the [*Theatre*], including the loan discussed in note [*number*]. Because the entity has no long-term assurance of continuing use of the [*Theatre*], the renovation costs are not considered an asset of the entity (see note [*number*]).

[*Note: This treatment is unusual; generally, leasehold improvements are reflected as an asset.*]

The management of the entity anticipates eliminating the negative net asset balance through a combination of the following activities:

- The entity is a plaintiff in a lawsuit, and management expects to prevail and obtain damages.
- Management anticipates an increase of revenues from the Facility Free Ticket Surcharge as a result of increased ticket sales for various performances at the [*Music Center*] complex, particularly the [*Theatre*] season.
- Management has reduced staff and instituted a freeze on spending, except for budgeted projects.
- The entity's sublease with [*County*] contains a provision that for any fiscal year in which expenses exceed revenues, the entity can submit a bill to [*County*] for the deficit which shall be paid by the county within 60 days.

5.40 Note X: Bonds Payable

Principal payments of $113,703 on the dormitory bonds with the Department of Housing and Urban Development (HUD) have not been paid when due during fiscal 20X2 and prior years; in addition, interest payments of $17,755 have not been paid when due during such years. During fiscal 20X2, interest payments of $44,949 were made; $34,325 was applied to delinquent interest and the remainder to fiscal 20X2 interest. The nonpayment of principal and interest constitutes an event of default under the indentures relating to the bonds and enables the trustees to declare the remaining balance immediately due and payable; the trustees have not taken such action. Officials of the college have been negotiating with HUD to obtain deferments or moratorium on the required deposits and principal and interest payments. The college's administration expects to make payments in fiscal 20X3, which will liquidate the delinquent interest amounts and begin reducing the delinquent principal balances.

The dormitory bond indentures with HUD contain provisions, which require that net revenues of [*Dormitory*] and the North Campus cafeteria, or certain minimum amounts, whichever is greater, be deposited with a trustee. The college has not made such deposits, and the net assets without donor restrictions balance was reduced in prior years to reflect the deposit obligation amounting to $136,910.

The library building bond indenture with HUD contains provisions, which require the college to maintain debt service deposits with a trustee in the amount of $23,000. The college has been granted an indefinite moratorium, which may be terminated with 30 days notice, on the requirement to maintain such deposit until the principal and interest delinquencies have been paid.

Related Parties

General Matters

5.41 NFPs are often related to other entities in various ways. One entity may carry out program, management, or fund-raising activities on behalf of another, or two or more entities may conduct joint program or fund-raising activities or share staff or facilities. An entity may operate under an affiliation agreement with a national organizational parent, such as a charity, religious organization, or association. Entities may also be considered related parties to other entities with which their officers, directors, trustees, key employees, or major donors are otherwise affiliated.

5.42 Note X: Affiliate Programs

International and U.S. national organizations and affiliates are independent, not-for-profit groups that are approved by regional, area, or national offices of the Organization and operate under an affiliation agreement with the Organization. All affiliates are encouraged to be self-supporting in their fund-raising efforts; however, the Organization also solicits contributions, both cash and donated product, on behalf of its affiliates. Although the Organization retains variance power in these contributions, it has transferred cash and donated assets totaling $121,734,658 and $106,548,565 in 20X2 and 20X1, respectively, to international and U.S. national organizations and affiliates.

Some affiliates in developing countries, where severely limited resources constrain local fund-raising, receive the majority of their funding from the Organization. All U.S. affiliates are expected to contribute a portion of their cash contributions without donor restrictions to support the Organization's work outside their own country. These contributions totaled $14,600,378 and $14,010,659 in 20X2 and 20X1, respectively.

The Organization agreed to guarantee a $590,000 mortgage note made on February 1, 19Z9, for Uptown Organization, Inc. (Uptown). The obligation is payable to the [*State*]

Housing Development Authority (SHDA), a body created by and existing pursuant to the [*State*] Development Act, and is due and payable on August 1, 20Y8. The note is secured by mortgages that were assigned by Uptown to SHDA pursuant to a prior loan agreement between Uptown and SHDA.

The Organization offers a program to U.S. affiliates to guarantee certain bond issuances in the event of default by an affiliate. The total amount guaranteed by the Organization under the program at June 30, 20X2 and 20X1 was $14,607,554 and $11,726,504, respectively.

5.43 Note X: Organization and Principles of Consolidation [*portion of a larger note*]

ORGANIZATION

The [*Media Service*], incorporated in 1969, is a membership organization that, in partnership with its member stations, serves the American public with programming and services of the highest quality, using media to educate, inspire, entertain, and express a diversity of perspectives.

[*Media Service*] Enterprises, LLC (MSE), a single member LLC, of which [*Media Service*] is the sole member, was organized to pursue revenue-producing projects and services as part of an ongoing effort to increase public media's financial base.

[*Media Service*] Foundation was established by [*Media Service*] as a 501(c)(3) supporting organization in July 20W4. The mission of the [*Media Service*] Foundation is to enlist philanthropic support of public media through establishing special initiative funds and a perpetual endowment to ensure [*Media Service's*] continued excellence and to promote and enhance outstanding public media programs and services. The [*Media Service*] Foundation has established the [*Media Service*] Endowment Fund for the support of [*Media Service*].

Public Media Distribution, LLC (PMD) was formed on December 15, 20W8, under the laws of [*State*] by [*Media Service*] and [*Educational Foundation*]. [*Media Service*] has a 60% membership interest, and [*Educational Foundation*] has a 40% membership interest in the organization. PMD promotes the educational mission of public media through worldwide distribution of public media content and other high-quality content. The 40% minority interest, owned by [*Educational Foundation*], is reflected as minority interest in the accompanying consolidated statements of financial position.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of [*Media Service*], MSE, [*Media Service*] Foundation, and PMD (collectively referred to as the Company). All intercompany balances and transactions have been eliminated in consolidation.

5.44 Note X: Organization

The International Council of the Museum (the Council) provides exhibition and programming support to the Museum. In 20X1, the Council amended its bylaws to exclusively support the Museum in its international programs and activities. As a result of this amendment, the Museum has recorded its interest in 100% of the Council's net assets of $6,065,000 and $5,648,000 in the consolidated statements of financial position as of June 30, 20X2 and 20X1, respectively. These net assets are classified as net assets with donor restrictions. The Council's net assets consist primarily of cash and cash equivalents and investments, which were $535,000 and $6,404,000, respectively, at June 30, 20X2 and $492,000 and $6,176,000, respectively, at June 30, 20X1. All of the Council's investments (as of June 30, 20X2 and 20X1) are maintained within the Museum's investment portfolio.

5.45 Because the entity and the council are financially interrelated entities, as discussed in FASB ASC 958-20-25-2, the beneficiary (the entity) recognizes its interest in the net assets of the recipient entity (the foundation).

5.46 Note X: Consolidation

On July 26, 20X2, the Foundation amended its bylaws to provide that the Organization appoint a majority of the members of the Foundation board, thereby establishing the Foundation as an entity under the control of the Organization. As a result of this change in control status, the financial statements of the Organization and the Foundation are required to be consolidated for the year ended June 30, 20X2. Audited financial statements were separately issued for both the Organization and the Foundation for the year ended June 30, 20X1.

As a result of the change in presentation, certain net assets with donor restrictions in the financial statements of the Organization in accordance with GAAP, have been reclassified as net assets without donor restrictions of the consolidated entity as they are no longer considered beneficial interests due to the consolidation. The changes to net assets with donor restrictions are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Net assets as previously presented at June 30, 20X1	$4,605,472	$33,009,111	$37,614,583
Changes in classification	1,894,512	(1,894,512)	
Net Assets as of July 26, 20X2	**$6,499,984**	**$31,114,599**	**$37,614,583**

5.47 Note X: City and County of [*Location*] Support of Operations

Section [*Code number*] of the City and County of [*Location*] charter states that the City and County shall provide funds necessary for the maintenance, operation, and continuance of the Academy and funds deemed proper for the maintenance, operation, and continuance of its building. During the fiscal years ended June 30, 20X2 and 20X1, the Academy received $7,022,327 and $6,102,855, respectively, from the City for this support.

5.48 Note X: Related Party Transactions

The Foundation had the following related party transactions:

Board members may hold interests or may be employed by corporations or partnerships whose shares or interests are held as investments by the Foundation and its supporting organizations and affiliates. A conflict of interest policy has been established, which covers investments and vendor relationships with Board members, volunteers, and staff.

The Foundation's volunteer members of the Board are active in oversight of fund-raising events, activities, and in making private contributions. Contributions received from the Board or from companies with which the Board is affiliated were approximately $380,000 and $1,748,000 for the years ended December 31, 20X2 and 20X1, respectively.

The Foundation's supporting organizations use the services of an investment manager whose founder is also the founder of a supporting organization. In-kind investment management service fees of approximately $2,174,000 and $2,094,000 were donated by the investment manager during the years ended December 31, 20X2 and 20X1, respectively.

5.49 Note X: Related Parties

The Center is considered an institution of the [*Religion*] Diocese of [*Region*] (the Diocese) and receives extensive support from the Diocese. There is no common management or Board, but the Center was established by, and has a close relationship with, the Diocese. Support received by the Center through the Diocese totaled $150,500 in 20X2 and $155,850 in 20X1.

Parishes throughout the Diocese also support the ministry and programs of the Center through contributions made by their Congregations. Support received by the Center through the parishes within the Diocese totaled $50,849 in 20X2 and $50,222 in 20X1.

The Center purchases food and kitchen supplies from a company owned by one of its Board members. Payments of $11,543 were made to this vendor to cover costs associated with the purchase of food and kitchen supplies during the year ended June 30, 20X2.

5.50 Note X: Related Parties

As of June 30, 20X2, undiscounted pledges receivable include approximately $2,419 due from members of the Association's Board of Trustees and of the Foundation's Board of Directors.

A fixed income mutual fund managed by a member of the Association's Board of Trustees and the Foundation's Board of Directors' investment management company was valued at $6,869 as of June 30, 20X2. A member of the Association's Board of Trustees is the Chairman and Founding Chief Executive Officer of the bank with which the Association has its operating accounts, credit facilities, and loans payable.

A member of the Foundation's Board of Directors sits on a committee of the investment manager, which oversees the fixed income investment strategy, monitors implementation of that strategy, and oversees the research process for two of the Ballet's mutual fund holdings. This member is also a partner and shareholder of an investment firm that manages one of the Ballet's global equity holdings. The collective value of the Ballet's investments in the mutual funds and global stock fund was $27,205 at June 30, 20X2.

These transactions were subject to customary arrangements regarding fees and, for the limited partnership, allocation of investment gains.

5.51 Note X: Related Party Transactions

Members of the Library's Board of Trustees and senior management may, from time to time, be associated, either directly or indirectly, with companies doing business with the Library. The Library has a written ethics and conflicts policy that requires, among other things, annual disclosure of interests or affiliations that could be construed as creating a conflict or the appearance of a conflict with the interests of the Library. The ethics and conflicts policy requires that no member of the Board of Trustees or senior management can participate in any decision in which he or she (or an immediate family member) has a material financial interest. Each trustee and member of senior management is required to certify compliance with the ethics and conflicts policy on an annual basis and indicate whether the Library does business with an entity in which he or she has a material financial interest. When such relationships exist, measures are taken to mitigate any actual or perceived conflict, including requiring that such transactions be conducted at arm's length, for good and sufficient consideration, based on terms that are fair and reasonable to and for the benefit of the Library, and in accordance with applicable conflict of interest laws. No such associations are considered to be significant as of and for the years ended June 30, 20X2 and 20X1.

5.52 Note X: Managing Conflicts of Interest

Members of the University's governing boards and senior administration may, from time to time, be associated, either directly or indirectly, with companies doing business with the University.

Written conflict of interest policies are maintained for members of the governing boards of the University, the Hospitals, and the Investment Management Company that require, among other things, that no member of a governing board may participate in any decision in which he or she (or an immediate family member) has a material financial interest. Each governing board member is required to certify compliance with the conflict of interest policy on an annual basis and indicate whether the University does business with an entity in which that member (or an immediate family member) has a material financial interest. When such relationships exist, measures, including written management plans, are taken to mitigate any actual or perceived conflict, including requiring that such transactions be conducted at arm's length, for good and sufficient consideration, based on terms that are fair and reasonable to and in the best interests of the University, and in accordance with applicable conflict of interest laws and policies in effect. No such associations that have been disclosed are considered to be material to the consolidated financial statements.

For members of the senior administration, the University requires annual disclosure of significant financial interests in, or employment or consulting relationships with, entities doing business with the University. These annual disclosures cover members of the senior administration and their immediate family members. When such relationships exist, measures are taken to appropriately manage the actual or perceived conflict in the best interests of the University. No such associations that have been disclosed are considered to be material to the consolidated financial statements.

Mergers and Spinoffs

5.53 See FASB ASC 958-805 for additional guidance.

5.54 Note X: Change in Reporting Entity

On June 30, 20X2, the Organization purchased all the [*Charity's*] land, buildings, furniture, fixtures, equipment, and other assets and assumed certain liabilities for $1.00. Total assets and liabilities related to the acquisition as restated were recorded at their fair value and allocated as follows on June 30, 20X2:

Building	$1,235,000
Land	435,000
Furniture and equipment	80,000
Other assets	238,657
Current liabilities assumed	(24,366)
Total	**$1,964,291**

The excess of fair value of assets acquired over the consideration paid of $1,964,291 was included as support in the restated statement of activities as of June 30, 20X2.

5.55 Note X: Acquired Net Assets

The Association acquired 47 chapters during fiscal year 20X2 as a result of one chapter dissolution and 46 mergers. No consideration was provided as a result of the transaction.

For fiscal year 20X2, the following table summarizes the estimated fair values of the assets and liabilities at the acquisition date (in thousands):

Cash	$39,065
Pledges receivable, net	19,072
Other receivables	14,715
Inventories of education materials, at cost	1,227
Investments	57,697
Prepaid expenses	2,197
Fixed assets, net	7,405
Beneficial interest in split-interest agreements	587
Beneficial interest in perpetual trusts	9,182
Other assets	857
Total identifiable assets acquired	152,004
Accounts payable	(1,330)
Accrued expenses	(16,983)
Deferred revenue	(2,018)
Deferred rent	(814)
Net assets acquired	**$130,859**

As a result, the net value is recorded as an acquisition of dissolved and merged chapters during fiscal year 20X2 in the consolidated statements of activities.

5.56 Note X: Deconsolidation of [*Affiliated Charity*]

Effective April 1, 20X1, [*Affiliated Charity*] approved changing their exempt status with the Internal Revenue Service from a public charity supporting organization of the Foundation to a private foundation. This was approved by the Board of [*Affiliated Charity*] in May 20X1 retroactive to April 1, 20X1. Due to this change in status, [*Affiliated Charity*] is no longer a supporting organization of the Foundation and will no longer be consolidated with the Foundation, effective April 1, 20X1. However, the two foundations have entered into a service agreement whereby the Foundation will continue to provide investment, grant-making, and accounting services to [*Affiliated Charity*] for a fee.

The statement of financial position of [*Affiliated Charity*] consisted of the following as of April 1, 20X1 and is the basis for the deconsolidation of [*Affiliated Charity*] on the consolidated statement of activity:

Assets	
Cash and Cash Equivalents	$85,196
Interest and Dividends Receivable	17,444
Investments	39,699,115
Total Assets	**$39,801,755**

Liabilities and net assets	
Accounts Payable	$23,520
Total Liabilities	23,520
Net Assets With Donor Restrictions	39,778,235
Total Net Assets	39,778,235
Total Liabilities and Net Assets	**$39,801,755**

Summarized Financial Data for a Component of the Entity

5.57 Note X: University Health System — Summarized Financial Information

Throughout the year, certain transactions (primarily billings for allocations of common costs, physicians' salaries and benefits, certain purchased services, and support for the School of Medicine) are conducted between the University Health Service and the University. "Nonoperating, net," as shown in the following table, includes transfers from the University Health Service to the University of $198,394 and $180,632 in 20X2 and 20X1, respectively, to further the research and educational activities of the School of Medicine and $4,874 and $0 in 20X2 and 20X1, respectively, for other activities. In addition, the University Health Service recognized operating expenses of $19,844 and $19,351 in 20X2 and 20X1, respectively, to support academic operating activities in the clinical departments of the School of Medicine.

The effect of all these transactions is included in the following summarized financial information of the University Health Service as of and for the years ended June 30, 20X2 and 20X1:

	20X2	20X1
Net patient service revenue	$6,417,674	$5,903,582
Provision for bad debt	(164,763)	(193,651)
Net patient service revenue less bad debts	6,252,911	5,709,931
Other revenue	529,240	428,721
Total expenses	(6,399,423)	(5,751,787)
Excess of revenue over expenses from operations	382,728	386,865
Nonoperating, net	728,454	275,059
Increase in net assets	1,111,182	661,924
Total current assets	1,992,168	1,481,230
Assets whose use is limited	3,714,069	3,197,291
Property and equipment, net	4,103,777	3,309,820
Investments and other assets	1,204,215	962,164
Total assets	$11,014,229	$8,950,505
Total current liabilities	$1,110,380	$876,636
Long-term debt, net of current portion	2,274,859	1,451,816
Other liabilities	1,833,978	1,938,223
Total liabilities	5,219,217	4,266,675
Net assets		
Without donor restrictions	5,137,511	4,093,287
With donor restrictions	657,501	590,543
Total net assets	5,795,012	4,683,830
Total liabilities and net assets	$11,014,229	$8,950,505

Use of Estimates

5.58 See FASB ASC 275-10-50 for further guidance.

5.59 Note X: Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses as well as the disclosure of contingent assets and liabilities. The significant estimates made in the preparation of these consolidated financial statements include the fair value of alternative investments, the allowance of uncollectible accounts and contributions receivables, the allocation of functional expenses and joint costs, and the liability under split-interest agreements. Actual results may differ from those estimates.

Subsequent Events

5.60 Additional guidance on this topic can be found in FASB ASC 855, *Subsequent Events*. As noted in FASB ASC 855-10-25-1A, an entity that is either (*a*) a Securities and Exchange Commission (SEC) filer or (*b*) a conduit bond obligor for conduit debt securities that are traded in a public market, should evaluate subsequent events through the date that the financial statements are issued. All other entities should evaluate subsequent events through the date the financial statements are available to be issued. In addition, FASB ASC 855-10-50-1 requires that entities that are not SEC filers disclose the date through which subsequent events have been evaluated and whether that date is the date that financial statements were issued or the date the financial statements were available to be issued.

5.61 Note X: Subsequent Events

The Association has evaluated events and transactions for potential recognition or disclosure through April 30, 20X3, which is the date the combined financial statements were available to be issued.

In February 20X3, the Association made an announcement that affected the jobs of certain employees. First, the opening of an office in [*City, Country*], for which certain support activities currently performed by employees of the Association in various locations would be moved to [*City*] to allow for centralization of processes to achieve cost efficiencies. Second, a technology partner was announced, which would join the Association as a third party to increase the Association's speed to market, leverage best-in-class IT and service capabilities, and achieve cost efficiencies. As part of the announcement, impacted employees were communicated a last day of employment, and each individual will be entitled to receive a severance payment in accordance with the Association's policy, if the individual remains employed until his or her last day of employment. Severance costs associated with impacted employees approximated $1.4 million.

Further, in April 20X3, the Association entered into a seven-year technology agreement (Agreement) with a third party with fees totaling up to $52 million over the same period. The Agreement can be terminated by the Association without cause with at least six months' prior written notice to the third party, although such notice cannot be served prior to the second anniversary of the effective date of the Agreement. The Association may also enter into additional statements of work (SOWs) for services not included in the Agreement. For all SOWs, unless otherwise provided in the applicable SOW, the Association may, without cause, terminate any individual SOW, upon 180 days prior written notice. Upon termination of the Agreement or any SOW, the Association shall pay the third party for services rendered and any applicable expenses up to the date of termination.

5.62 Note X: Subsequent Events

The Organization has evaluated subsequent events through October 30, 20X2, which is the date that the consolidated financial statements were available to be issued. The Board has approved liquidation of funds from the long-term investments intended for the repayment of the bonds in full, which is expected to occur on November 1, 20X2. No other subsequent events were identified that required adjustment to or disclosure in the consolidated financial statements.

5.63 Note X: Subsequent Events

The Institute evaluates the impact of subsequent events, which are events that occur after the consolidated balance sheet date but before the consolidated financial statements are issued for potential recognition in the consolidated financial statements as of the balance sheet date. For the year ended September 30, 20X2, the Institute evaluated the impact of subsequent events through January 26, 20X3, representing the date that the consolidated financial statements were issued. No events have occurred that require disclosure in or adjustment to the consolidated financial statements.

Comparative Prior-Period Information

5.64 Note X: Summary of Significant Accounting Policies [*portion of longer note*]

SUMMARIZED COMPARATIVE TOTALS

The financial statements include certain prior-year summarized comparative information that does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended June 30, 20X1, from which the summarized information was derived.

Foreign Operations

5.65 See also FASB ASC 830, *Foreign Currency Matters*, for further guidance.

5.66 Note X: Accumulated Translation Adjustments

Translation adjustments for the year ended December 31, 20X2, consist of foreign currency translation adjustments associated with the Association's combined foreign entities. Changes in accumulated translation adjustments are reported in the combined statement of activities. The amount of accumulated translation adjustments is included within net assets without donor restrictions at December 31, 20X2, in the combined statement of financial position. The change in accumulated translation adjustments for the year ended December 31, 20X2, is as follows:

Balance at beginning of year	$ —
Foreign currency translation adjustments	(600)
Balance at end of year	**$(600)**

5.67 Note X: Foreign Currency Translations

The Society records foreign currency translation in accordance with FASB ASC 830, *Foreign Currency Matters*. The financial statements and transactions of various international subsidiaries are generally maintained in the respective local currencies. For the consolidated financial statements, foreign entities' assets and liabilities are translated at exchange rates in effect as of the date of the consolidated statement of financial position. Revenue and expenses are translated at the exchange rates in effect at the end of the reporting period, which approximates translation at the average exchange rate during each period. Translation adjustments, which result from the process of translating the consolidated financial statements into U.S. dollars, are accumulated in net assets without donor restrictions. Gains and losses from foreign currency transactions are included in the consolidated statements of activities as changes in net assets in the period in which they are realized.

Accounting Changes

5.68 Additional guidance on this subject can be found in FASB ASC 250-10. Accounting changes made prospectively are reported in the statement of activities for the year of the change.

5.69 Accounting changes made retrospectively require restatement of certain beginning-of-the-year amounts and, if comparative prior-period statements are presented, prior-year amounts. The reconciliation of these amounts, as previously reported, may be shown either on the face of the statement of activity or in a note. An example of such a note follows.

5.70 Note X: Change in Accounting

On July 1, 2020, the Museum adopted Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. Lessees are required to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the Statement of Financial Position. Leases are classified as either operating or financing, which in turn determines expense recognition. For operating leases, a single lease cost is calculated and allocated over the lease term on a straight-line basis. In July 2018, the FASB provided relief from the transition requirements in ASU No. 2016-02 by allowing entities to elect not to recast prior comparative periods. A full retrospective transition approach is not permitted. The Museum used a modified retrospective approach to adopt the guidance and as such there was no restatement of prior financial statements. As permitted under the transition guidance, the Museum elected a package of practical expedients which, among other provisions, allowed the Museum to carry forward historical lease classifications. Short-term leases (those with a term of 12 months or less on the commencement date) are exempt under the guidance and are not capitalized in the Statement of Financial Position. As a result of adoption, the Museum recognized a right-of-use asset of $10.0 million and an operating lease liability of $10.5 million on July 1, 20X1. There was no impact upon the opening net assets as of July 1, 20X1. The adoption of ASU No. 2016-02 did not have a material impact on the Statements of Activities or cash flows for the Museum.

5.71 Note X: Change in Accounting Principle

In February 2016, the FASB issued Accounting Standards Update No. (ASU) 2016-02, *Leases (Topic 842)*. This ASU requires lessees to recognize assets and liabilities on the balance sheet for leases with lease terms greater than 12 months. The recognition, measurement, and presentation of expenses and cash flows from a lease by a lessee primarily depends on its classification as a finance or an operating lease. ASU No. 2016-02 requires additional disclosures on the amount, timing, and uncertainty of cash flows arising from leases. The Foundation adopted ASU No. 2016-02 on January 1, 20X2, which had no material impact on the consolidated financial statements.

Illustrative Management Statement of Responsibility

5.72 Statements of responsibility are not technically part of the financial statements themselves. However, when presented, they accompany and refer to the statements. The following is an example of such a statement.

5.73

Management's Responsibility for the Consolidated Financial Statements

The management of the University is responsible for the preparation and fair presentation of the consolidated financial statements. The accompanying consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles and, as such, include amounts based on judgments and estimates by management.

The consolidated financial statements have been audited by the independent accounting firm of [*Audit Firm*], which was given unrestricted access to all financial records and related data, including minutes of all meetings of trustees. [*Audit Firm*] did not audit the financial statements of the [*Affiliated Medical Center*] and their opinion, insofar as it relates to the amounts included for the [*Affiliated Medical Center*], is based solely on the report of [*Other Audit Firm*], the independent auditors for the [*Affiliated Medical Center*]. The University believes that all representations made to [Audit Firm] during its audit were valid and appropriate. [*Audit Firm's*] audit opinion is presented on pages X and Y.

The University maintains a system of internal controls over financial reporting which is designed to provide reasonable assurance to the University's management and Board of Trustees regarding the preparation of reliable published financial statements. Such controls are maintained by the establishment and communication of accounting and financial policies and procedures, by the selection and training of qualified personnel, and by an internal audit program designed to identify internal control weaknesses in order to permit management to take appropriate corrective action on a timely basis. There are, however, inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation.

The Trustees of the University, through its Audit Committee comprised of trustees not employed by the University, are responsible for engaging the independent auditors and meeting with management, internal auditors, and the independent auditors to ensure that each is carrying out their responsibilities. Both internal auditors and the independent auditors have full and free access to the Audit Committee.

[*Signed*]

[*Chief Financial Officer*]

[*Controller*]

5.74 In addition, management may wish to include in the notes to the financial statements language similar to the following.

5.75 Note X: Entity and Accounting Policy [*portion of longer note*]

The entity maintains a system of internal controls designed to provide reasonable assurance that

1. transactions are executed in accordance with management's general or specific authorization;
2. transactions are recorded as necessary to
   a. permit preparation of financial statements in conformity with generally accepted accounting principles [*or other basis, if used*], and
   b. maintain accountability for assets;
3. access to assets is permitted only in accordance with management's general or specific authorization; and
4. the recorded accountability for assets is compared with the existing assets at reasonable intervals, and appropriate action is taken with respect to any differences.

Section 6

Disclosures Related Primarily to the Statement of Financial Position

6.01 These sample disclosures are not necessarily complete for any given entity's circumstances.

6.02 See also section 7 for notes describing revenue and expense amounts, many of which have balance sheet effects.

Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents

6.03 Although FASB *Accounting Standards Codification* (ASC) 230, *Statement of Cash Flows*, requires the statement to explain the change in cash and cash equivalents, including changes in restricted cash and cash equivalents, it does not define restricted cash or restricted cash equivalents. The following examples provide the definitions used by some NFPs.

6.04 Note X: Cash and Cash Equivalents [*portion of Significant Accounting Policies note*]

The Museum considers all highly liquid investments with a maturity of three months or less from the time of purchase to be cash equivalents. Cash equivalents are recorded at cost plus accrued interest, which approximates fair value. On the Statements of Cash Flows, the Museum is required to show cash inflows and outflows of restricted cash and cash equivalents. The Museum elected to treat cash equivalents that are highly liquid short-term investments held within its investment portfolio (cross-reference to Investments note) as short-term investments, and therefore only the changes in the cash held in the portfolio is reported as cash inflows and outflows. Short-term investments are reported at fair value.

The following table provides a reconciliation of cash and cash equivalents reported within the Statements of Financial Position to the amounts show on the Statements of Cash Flows for the years ended June 30, 20X2 and 20X1:

	20X2	20X1
Cash and cash equivalents on the Statements of Financial Position	$68,755	$41,261
Cash included in Investments on the Statements of Financial Position	5,852	14,977
Total cash, cash equivalents, and restricted cash on the Statements of Cash Flows	**$3,261,043**	**$2,999,826**

6.05 Note X: Cash and Cash Equivalents [*portion of Significant Accounting Policies note*]

Cash and Cash Equivalents — Cash and cash equivalents include all unrestricted cash balances and short-term, highly liquid investments with a maturity of three months or less from the date acquired that are not held for long-term investment. Cash is held on deposit at various institutions. At times, cash deposits may exceed federally insured limits.

Restricted Cash — Restricted cash consists of cash balances that have donor-imposed restrictions and are due to be transferred to the endowment investment account within the next fiscal year. Restricted cash is held on deposit at various institutions. At times, cash deposits may exceed federally insured limits.

Investments, Fair Value, and Endowments

6.06 The organization in this example has a very simple investment portfolio. As such, the example is not as extensive as others in this section.

6.07 Note X: Investments

In accordance with generally accepted accounting principles, [*Entity*] uses the following prioritized input levels to measure fair value of investments. The input levels used for valuing investments are not necessarily an indication of risk.

- ***Level 1*** — Observable inputs that reflect quoted prices for identical assets or liabilities in active markets, such as stock quotes.
- ***Level 2*** — Includes inputs other than Level 1 inputs that are directly or indirectly observable in the marketplace, such as yield curves or other market data.
- ***Level 3*** — Unobservable inputs, which reflect the reporting entity's assessment of the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk, such as bid/ask spreads and liquidity discounts.

The fair values of common stocks and mutual funds were determined using Level 1 inputs, which were based on quoted prices in active markets. Management believes the fair value of investments to be a reasonable approximation of their exit price.

Investments and investments held to fund deferred compensation consisted of the following at June 30:

	20X2	20X1
Investments		
Common stocks	$3,261,043	$2,999,826
Mutual funds — equity	871,069	793,529
Mutual funds — fixed income	3,295,672	2,394,424
	$7,427,784	**$6,187,779**
Investments held to fund deferred compensation		
Mutual funds — equity	$47,019	$96,955
Mutual funds — fixed income	3,419	3,479
	$50,438	**$100,434**

Net investment return consisted of the following for the years ended June 30:

	20X2	20X1
Without donor restrictions		
Interest and dividends	$155,475	$112,086
Investment management fees	(40,274)	(39,341)
Net gain on investments	249,813	243,304
Subtotal without donor restrictions	365,014	316,049
With donor restrictions		
Interest and dividends	23,070	21,204
Investment management fees	(6,482)	(7,436)
Net gain on investments	40,271	48,901
Subtotal with donor restrictions	56,859	62,669
	$421,873	$378,718

6.08 Note X: Investments

The fair value of investments consists of the following at June 30:

	20X2	20X1
Short-term investments	$769,063	$792,152
Fixed income	1,581,967	1,787,035
Equities	2,215,320	2,040,715
Hedged strategies	3,520,357	3,260,216
Private capital	3,332,471	2,691,195
Real assets	2,083,320	1,947,162
Other	249,646	183,773
Total investments	**$13,752,144**	**$12,702,248**

At June 30, 20X2 and 20X1, $65,144 and $17,885, respectively, was posted as collateral for derivatives and, thus, not readily available for use. Collateral held is included in short-term investments.

The University's investment classes are described in further detail in the paragraphs that follow. Classes include direct holdings, which are generally marketable securities, and interests in funds for which the related investment strategies are described.

Short-term investments include cash collateral, money market funds, and other highly liquid debt securities with an aggregate duration of less than one year.

Fixed income includes U.S. Treasury and agency debt, as well as nongovernment domestic and international fixed-income securities, funds holding similar securities, and debt-based derivatives.

Equities include domestic and international stocks, equity-based derivatives, and interests in funds that invest predominantly in long but also short stocks. Exposure by market is approximately 20% domestic, 25% developed international, 35% emerging international, and 20% global.

Hedged strategies primarily include interests in funds that invest both long and short in U.S. and non-U.S. stocks, credit-oriented securities, and arbitrage strategies. Approximately 75% of the hedged strategies portfolio is invested through equity-oriented strategies, with the balance split between multi-strategy (15%) and credit strategies (10%) funds and accounts. Virtually all the University's investments in these funds are redeemable, and the underlying assets of the funds are predominately marketable securities and derivatives.

Private capital primarily includes interests in funds or partnerships that hold illiquid investments in venture capital, buyouts, and credit. These funds typically have periods of 10 or more years during which committed capital may be drawn. Distributions are received through liquidation of the underlying assets of the funds, which are anticipated to occur over the next 4–10 years. Certain private placement securities may also be held.

Real assets include interests in funds or partnerships that hold illiquid investments in residential and commercial real estate, oil and gas production, energy, other commodities, and related services businesses. These funds typically have periods of 10 or more years during which committed capital may be drawn. Distributions are received through liquidations of the underlying assets of the funds, which are anticipated to occur over the next 5–12 years. Additionally, certain liquid-commodity- and real-estate-related equities, private placement securities, and related derivatives are included.

Other primarily includes other derivative instruments.

The following is a summary of the levels within the fair value hierarchy for the University's investments at June 30:

	Level 1	Level 2	Level 3	Investments Reported at NAV [(1)]	Total
Fair Value as of June 30, 20X2					
Short-term investments	$427,633	$341,430	$ —	$ —	$769,063
Fixed income	387,352	1,146,082	—	48,533	1,581,967
Equities	1,294,757	31,205	86,382	802,976	2,215,320
Hedged strategies	177,349	—	—	3,343,008	3,520,357
Private capital	2,462	—	315,898	3,014,111	3,332,471
Real assets	51,584	1,349	42,743	1,987,644	2,083,320
Other	60,704	179,962	—	8,980	249,646
Total investments	**$2,401,841**	**$1,700,028**	**$445,023**	**$9,205,252**	**$13,752,144**
Fair Value as of June 30, 20X1					
Short-term investments	$123,896	$668,256	$ —	$ —	$792,152
Fixed income	77,384	1,658,053	—	51,598	1,787,035
Equities	1,104,751	62,709	72,660	800,595	2,040,715
Hedged strategies	44,510	6,792	—	3,208,914	3,260,216
Private capital	2,482	—	236,816	2,451,897	2,691,195
Real assets	129,998	(1,935)	28,173	1,790,926	1,947,162
Other	38,577	136,647	—	8,549	183,773
Total investments	**$1,521,598**	**$2,530,522**	**$337,649**	**$8,312,479**	**$12,702,248**

[(1)] *Certain investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.*

As of June 30, 20X2 and 20X1, redemption frequency and the corresponding notice period for all investments are as follows:

Asset Class	Redemption Frequency (in Days) (If Currently Eligible)	Redemption Notice Period (in Days)
Short-term investments	daily	1
Fixed income	1 to 30	1 to 30
Equities	1 to 90	1 to 90
Hedged strategies	30 to >365	2 to 100
Private capital	N/A	N/A
Real assets	N/A	N/A
Other	N/A	N/A

The following tables present additional information about Level 3 investments.[1] Both observable and unobservable inputs may be used to determine the fair value of positions that the University has classified within the Level 3 category. As a result, the unrealized gains and losses for assets within the Level 3 category in the following table may include changes in fair value that were attributable to both observable and unobservable inputs.

	Balance as of June 30, 20X1	Net Realized and Unrealized Gains	Purchases	Sales	Net Transfers Out	Balance as of June 30, 20X2
Equities	$72,660	$13,722	$ —	$ —	$ —	$86,382
Private capital	236,816	62,257	62,498	(45,323)	(350)	315,898
Real assets	28,173	243	15,744	(1,417)	—	42,743
Total Level 3 investments	**$337,649**	**$76,222**	**$78,242**	**$(46,740)**	**$(350)**	**$445,023**

	Balance as of June 30, 20X0	Net Realized and Unrealized Gains	Purchases	Sales	Net Transfers Out	Balance as of June 30, 20X1
Equities	$61,637	$11,023	$ —	$ —	$ —	$72,660
Private capital	218,645	4,540	40,985	(27,354)	—	236,816
Real assets	28,180	7,841	8,867	(16,180)	(535)	28,173
Total Level 3 investments	**$308,462**	**$23,404**	**$49,852**	**$(43,534)**	**$(535)**	**$337,649**

6.09 Although the organization in the following example presents comparative financial statements, for simplicity, only a single year is presented here.

6.10 Note X: Investments, Trusts Held by Others, and Fair Value Measurement

At September 30, 20X2, investments and trusts held by others consisted of the following:

Investments	$975,382
Trusts held by others	14,144
Subtotal	989,526
Loan to U.S. Treasury	5,000
Total	**$994,526**

In 1942, [*Entity*], under authority of an Act of Congress, made a $5,000 permanent loan to the U.S. Treasury. This loan bears interest at the higher of 4.00% or 0.25% below the average monthly rate for long-term funds paid by the U.S. Treasury (4% during fiscal year

[1]Although FASB ASC 820-10-50-2G permits NFPs to report only purchases and issues (separately) and transfers into and out of Level 3 in lieu of the reconciliation, most NFPs continue to provide the full reconciliation. In part, this may be because a reconciliation can help to provide the information required by FASB ASC 820-10-50-2(d), which requires disclosure of the amount of the total gains or losses on items measured at fair value on a recurring fair value categorized within Level 3 of the fair value hierarchy, as well as the amount that is attributable to unrealized gains or losses relating to those assets and liabilities held at the end of the reporting period.

20X2). Interest income on this loan was $203 for the fiscal year ended September 30, 20X2. The fair value of the loan to the U.S. Treasury approximates the carrying value.

[*Entity's*] investments in private equity, venture capital, and real estate are generally valued based on the most current net asset value (NAV) adjusted for cash flows when the reported NAV is not at the measurement date.

The *fair value* of a financial instrument is the exit price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. [*Entity*] applies a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy consists of three broad levels:

- ***Level 1*** — Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that [*Entity*] has the ability to access as of the reporting date. Because valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment. Investments include investments in equity, real estate, and fixed-income mutual funds that are traded in an active exchange market.
- ***Level 2*** — Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly, as of the reporting date.
- ***Level 3*** — Valuations based on inputs that are unobservable and significant to the overall fair value measurement as of the reporting date. The determination of fair value for these financial instruments requires one or more inputs subject to significant management judgment or estimation. Trusts held by others are valued using Level 3 inputs. One trust is invested in real property and has been recorded at the value of the real property as of the date of the gift based on property valuations that involved significant judgments and estimation. Another trust is a perpetual trust invested in equity, fixed-income securities, and mutual funds in which [*Entity*] receives annual distributions but will never receive the trust's principal. The remainder of the trusts are invested in cash equivalents, mutual funds, and publicly traded equities.

The following tables summarize the fair values of investments and trusts held by others as of September 30, 20X2 for financial assets by pricing observability levels:

	Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Investments Measured at NAV [(1)]	Fair Value at September 30, 20X2
U.S. equities	$154,889	$ —	$ —	$156,004	$310,893
International equities:					
Developed market equities	70,232	—	—	110,939	181,171
Emerging market equities	41,485	—	—	51,694	93,179
Real estate:					
Mutual fund	17,098	—	—	—	17,098
Private investments	—	—	—	1,035	1,035
Private equity and venture capital funds	—	—	—	31,629	31,629
Hedge funds	—	—	—	214,724	214,724
Multi-asset fund	—	—	—	21,577	21,577
Fixed-income securities	—	—	—	82,111	82,111
Cash and money market fund	9,379	—	—	—	9,379
Charitable gift annuities and other	12,586	—	—	—	12,586
Trusts held by others	—	—	14,144	—	14,144
Total	**$305,669**	**$ —**	**$14,144**	**$669,713**	**$989,526**

(1) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

The following table summarizes the changes in Level 3 assets, trusts held by others, measured at fair value on a recurring basis[2] for the years ended September 30, 20X2:

Fair value of Level 3 assets, beginning of year	$12,991
Unrealized gains	1,502
Proceeds from distributions	(349)
Fair value of Level 3 assets, end of year	**$14,144**

The fair values of the following investments have been estimated using the net asset value per share of the investments as of September 30, 20X2:

[2]See footnote 1.

		Fair value	Commit-ments	Redemption Frequency	Redemption Notice Period
U.S. equities	(a)	$156,004	$ —	Monthly to quarterly	30–60 days
International equities:	(b)				
Developed market equities		110,939	—	Semi-monthly to monthly	8–30 days
Emerging market equities		51,694	—	Monthly to quarterly	30–120 days
Real estate:	(c)				
Private investments		1,035	484	N/A	N/A
Private equity and venture capital funds	(d)	31,629	6,546	N/A	N/A
Hedge funds	(e)	214,724	19,986	Monthly to rolling three years	45–95 days
Multi-asset fund	(f)	21,577	—	Annually	365 days
Fixed-income securities	(g)	82,111	—	Daily	2 days
Total		**$669,713**	**$27,016**		

(a) U.S. equities: Investments in limited partnerships and limited liability companies that invest in the equity securities of U.S. companies and master limited partnerships.

(b) International equities: Investments in equity securities of international companies in both developed and emerging markets comprised of investments in limited partnerships and limited liability companies.

(c) Real estate: Investments in limited partnerships that invest in privately held real estate. The limited partnerships are organized as funds of funds.

(d) Private equity and venture capital funds: Investments in limited partnerships that invest in shares of operating companies that are not listed on a publicly traded stock exchange, including leveraged buyouts, growth capital, distressed investments, and venture capital. The limited partnerships are organized as funds of funds.

(e) Hedge funds: Investments in limited partnerships and limited liability companies that employ investment strategies such as long/short equity, long/short credit, and distressed assets or that are organized as funds of funds.

(f) Multi-asset fund: Investment in a side pocket of a limited partnership that contains shares of funds engaged in private equity, venture capital, hedge funds, real estate, and natural resources.

(g) Fixed-income securities: Investment in a limited partnership that invests in investment-grade fixed-income securities issued by U.S. government and corporate entities.

The following schedule summarizes the investment return, net of expenses, and its classification in the statement of activities for the year ended September 30, 20X2:

	Without Donor Restrictions	With Donor Restrictions	Total
Dividends and interest	$2,499	$10,769	$13,268
Net realized and unrealized gains	17,103	34,926	52,029
Total investment return	19,602	45,695	65,297
Appropriated for operations	(2,723)	(18,224)	(20,947)
Appropriated for art acquisitions	—	(4,918)	(4,918)
Investment return less amounts appropriated for operations and art acquisitions	$16,879	$22,553	$39,432

6.11 This foundation provides a reconciliation of the types of investments to the purposes for which they are held.

6.12 Note X: Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. This entire portion of the portfolio is classified as trading with investment gain or loss (including realized and unrealized gains and losses on investments, interest, and dividends) included in the excess of revenues over expenses, unless restricted by donor or law.

Alternative investments consist of investments in limited partnerships and limited liability companies. Except for alternative investments held by the defined benefit pension plan, the Institute accounts for alternative investments (hedge funds, private equity funds, and so on) using the equity method of accounting and reports its share of the increase or decrease in the fund's value as investment gain or loss. Alternative investments held by the defined benefit pension plan are held at fair value using net asset value as a practical expedient. These carrying values for alternative investments are determined based upon information from the funds' General Partners. The General Partners' estimates and assumptions of fair values of nonmarketable investments may differ significantly from the values that would have been used had a ready market existed and may also differ significantly from the values at which such investments may be sold, and the differences could be material.

Investments, which are reported at fair value or using the equity method, consisted of the following at September 30:

	20X2	20X1
Donor-restricted for research and capital	$477,102	$419,703
Donor-restricted endowment corpus	190,915	181,048
Accumulated realized and unrealized appreciation on endowment funds	83,262	67,191
Board-designated for various purposes	422,840	366,524
	$ 1,174,119	$1,034,466
U.S. government money market fund	$1,630	$3,864
U.S. government securities	81,689	70,172
U.S. equity securities	94,769	63,704
U.S. equity mutual funds	136,531	115,556
International equity securities	81,508	52,303
International equity mutual funds	194,805	161,929
Alternative investments	583,187	566,938
	$1,174,119	$1,034,466

Investment income (loss) consisted of the following for the years ended September 30:

	20X2	20X1
Investment income (loss), net	$2,150	$(576)
Realized and unrealized gains	134,014	80,987
	$136,164	$80,411

6.13 Note X: Investments

Investments are carried at estimated fair value and consist of the following at December 31, 20X2 and 20X1:

	20X2	20X1
Short-term investments	$1,934,893	$1,318,884
U.S. Treasuries	19,966,556	—
Fixed income:		
Mutual funds	569,171	556,730
Fixed-income securities	19,268,048	26,828,479
Corporate stocks — domestic	89,259,520	94,714,553
Community foundation	46,957	40,515
Private equity investments/hedge funds	159,326,361	154,766,328
	290,371,506	278,225,489
Less custodial fund investments	(12,953,521)	(11,695,431)
Total	$277,417,985	$266,530,058

Management is required to make certain estimates in the preparation of the financial statements. Among those significant estimates is the valuation of investments without readily determinable fair values. These estimates are subjective and require judgment regarding significant matters such as the amount and timing of future cash flows and the selection of discount rates that appropriately reflect market and credit risks. The

Organization believes that the carrying amounts of these investments are a reasonable estimate of fair value. Estimates, by their nature, are based on judgment and available information. Changes in assumptions could have a material impact on the financial statements.

Custodial fund investments consist of assets that are being held on behalf of other organizations.

Net realized and unrealized gains and losses on investments as reflected in the accompanying consolidated statements of activities for the year ended December 31 are as follows:

	20X2	20X1
Realized gains, net	$4,873,141	$23,436,224
Unrealized gains (losses), net	30,971,883	(13,835,544)
	$35,845,024	$9,600,680

Risk Factors

Liquidity risk — Liquidity risk represents the risk that the Organization may not be able to rapidly adjust the size of its portfolio holdings in times of high volatility and financial stress at a reasonable price. If the Organization were compelled to dispose of an illiquid investment at an inopportune time, the result may be a sale at a substantial discount to fair value.

The Organization invests in alternative investments, which can be highly illiquid. Under adverse market or economic conditions, the secondary market for certain of these alternative investments could further contract. As a result, the Organization could find it more difficult to sell these securities or may only be able to sell these securities at amounts lower than if such securities were more widely traded.

Currency and foreign exchange risk — The Organization may hold investments denominated in currencies other than the U.S. dollar. Thus, there is exposure to currency and foreign exchange risk because the value of the investments denominated in other currencies may fluctuate due to changes in currency exchange rates.

Interest rate and credit risk — The Organization's investment portfolio is subject to interest rate and credit risks for certain securities whose valuation would be affected by changes in interest rates. The portfolio is also subject to the risk of the issuer of the security becoming unable to pay interest or repay principal when it is due.

Market price risk — The value of securities held by the Organization may decline in response to certain economic events, including those events affecting entities whose securities are owned and included in the investment portfolio. Events affecting valuation may include (but are not limited to) economic changes; market fluctuations; regulatory changes; global and political instability; and currency, interest rate, and commodity price fluctuations. The Organization attempts to manage this risk through diversification, ongoing due diligence of fund managers, and monitoring of relevant economic conditions.

Concentration risk — Investments in multi-strategy hedge funds totaling $140,357,754 and $149,661,158 at December 31, 20X2 and 20X1, respectively, were held and managed by a single fund manager.

6.14 Note X: Security Lending [*portion of a longer note*]

The Organization participates in a securities lending program with its investment custodian, [*Custodian*]. This program allows [*Custodian*] to loan securities, which are assets of the Organization, to approved brokers. [*Custodian*] requires the borrowers, pursuant to a security loan agreement, to deliver collateral at least equal to 102 percent of the market value of U.S. securities loaned, and 105 percent of the market value of non-U.S. securities loaned, to secure each loan. In the event of a default by the borrower, [*Custodian*] shall indemnify the Organization by purchasing replacement securities equal to the number of unreturned loaned securities or, if replacement securities are not able to be purchased, [*Custodian*] shall credit the Organization for the market value of the unreturned securities. In each case, [*Custodian*] would apply the proceeds from the collateral for such loan to make the Organization whole.

As of December 31, 20X2, the market value of securities on loan to approved brokers was $11,897. Collateral received for securities on loan was invested in the [*Custodian Designated Portfolio*]. Total collateral of $12,216, received for securities on loan at December 31, 20X2, is held by [*Custodian*] on behalf of the Organization. Income associated with the securities lending program amounted to $39 for 20X2 and is included in net investment income. The following table summarizes the securities loaned and the related collateral as of December 31, 20X2:

Securities Loaned and the Related Collateral

	Fair Value	Fair Value of Collateral
Securities		
Government obligations	$172	$176
Corporate obligations	7,097	7,246
Common stocks — domestic	2,557	2,616
Common stocks — foreign	2,071	2,178
Total investments purchased with cash collateral	$11,897	$12,216
Investments Purchased With Collateral		
[*Custodian Designated Portfolio*]		$12,216

Disclosures Related to Derivative Instruments

6.15 The use of derivative instruments by NFPs has become more common in recent years. Disclosures may be included in the note to which the derivative instruments are relevant, such as investments or debt, or they may be included in a separate note.

6.16 FASB ASC 815-10-50 provides guidance on the disclosures required by entities that issue or hold derivative instruments.

6.17 Note X: Derivative Financial Instruments

The Academy invests in derivative instruments as a means to manage exposure to certain market risks and primarily through one investment manager. The Academy records all derivative instruments at fair value. Fair value adjustments are recorded and recognized as realized or unrealized gains (losses) in the accompanying consolidated statements of activities.

The Academy uses a variety of derivative instruments and contracts, including foreign currency contracts, futures, swaps, swaptions, and options for trading and hedging purposes, with each instrument's primary risk exposure being interest rate, credit, and foreign exchange, as well as a combination of secondary risk factors. Such contracts involve, to varying degrees, risk of loss from the possible inability of counterparties to meet the terms of their contracts.

The Academy enters into forward foreign currency contracts whereby it agrees to exchange one currency for another on an agreed-upon date at an agreed-upon exchange rate to target and manage exposure to fluctuations in currency markets.

The Academy enters into futures contracts whereby it is obligated to deliver or receive various U.S. government debt instruments at a specified future date. The Academy engages in futures to target and manage exposure to interest rate movements and spreads.

The Academy enters into interest rate swaps whereby it is obligated to either pay or receive a fixed interest rate on a specified notional amount and receive or pay a floating interest rate on the same notional amount. The Academy also uses call or put swaptions that bestow the Academy the right but not the obligation to enter into underlying swap positions. The floating rate is generally calculated as a spread amount added to or subtracted from a specified London Inter-Bank Offering Rate (LIBOR) indexed interest rate. The Academy enters into such contracts to target and manage interest rate exposure. The market value and unrealized gains or losses on interest rate swaps and swaptions are affected by actual movements of, market expectations of, and changes in current market interest rates.

The Academy enters into cross-currency swaps whereby it is obligated to pay interest or principal, or both, on a specified notional loan amount in one currency and receive interest or principal, or both, on the same notional loan amount in another currency. The Academy enters into such contracts to manage its interest rate and currency exposures. The market value and unrealized gains or losses on cross-currency swaps are affected by actual movements of, market expectations of, and changes in current market interest rates and exchange rates.

The Academy enters into credit default swaps to simulate credit positions that are either unavailable or considered to be less attractively priced in the bond market. The Academy uses these swaps to take an active long or short position with respect to the likelihood of an event of default. The reference obligation of the swap can be a single issuer, a "basket" of issuers, or an index. The underlying referenced assets can include corporate debt, sovereign debt, and asset-backed securities.

The buyer of a credit default swap is generally considered to be "receiving protection" in the event of an adverse credit event affecting the underlying reference obligation, and the seller of a credit default swap is generally considered to be "providing protection" in the event of such credit event. The buyer is generally obligated to pay the seller a periodic stream of payments over the term of the contract in return for a contingent payment upon the occurrence of a credit event with respect to an underlying reference obligation. Generally, a credit event for corporate or sovereign reference obligations means bankruptcy, failure to pay, obligation acceleration, repudiation or moratorium, or restructuring. For credit default swaps on asset-backed securities, a credit event may be triggered by events such as failure to pay principal, maturity extension, rating downgrade, or write-down. If a credit event occurs, the seller typically must pay the contingent payment to the buyer, which is typically the par value (full notional value) of the reference obligation, though the actual payment may be mitigated by terms of the International Swaps and Derivative Agreement (ISDA), allowing for netting arrangements and collateral. The contingent payment may be a cash settlement or a physical delivery of the reference obligation in return for payment of the face amount of the obligation. If the Academy is a buyer and no credit event occurs, the Academy may lose its investment and recover nothing. However, if a credit event occurs, the buyer typically receives full notional value for a reference obligation that may have little or no value. As a seller, the Academy receives a fixed rate of income throughout the term of the contract, provided that no credit event occurs. If a credit event occurs, the seller may pay the buyer the full notional value of the reference obligation.

Credit default swaps are carried at their estimated fair value, as determined in good faith by the Academy. As payment and performance risk increases, the value of a credit default swap increases. Conversely, as payment and performance risk decreases, unrealized gains are recognized for short positions, and unrealized losses are recognized for long positions. Any current or future declines in the fair value of the swap may be partially offset by upfront payments received by the Academy as a seller of protection if applicable.

Credit default swaps may involve greater risks than if the Academy had invested in the reference obligation directly. In addition to general market risks, credit default swaps are subject to liquidity risk and counterparty credit risk. The Academy enters into credit default swaps with counterparties meeting defined criteria for financial strength. The list of approved counterparties is reviewed periodically, and a potential counterparty is removed if it no longer meets specified criteria.

The Academy enters into options to take long or short positions on U.S. interest rates or currency exchange rates. The Academy enters into such contracts to target and manage its interest rate and currency exposure. The market value and unrealized gains or losses on these options are affected by actual movements of, market expectations of, and changes in current market interest rates and exchange rates.

Foreign Currency Contracts

As of June 30, 20X2 and 20X1, the Academy had foreign currency forward contracts with notional amounts totaling $2,387,719 and $8,793,593, respectively. Such over-the-counter (OTC) contracts involve, to varying degrees, risks of loss from the possible inability of counterparties to meet the terms of their contracts. Changes in value are recognized as realized or unrealized gains (losses) until the positions are closed.

Futures Contracts

As of June 30, 20X2 and 20X1, the Academy had futures contracts with notional amounts totaling $174,151,094 and $111,472,031, respectively. Such contracts involve centralized, third-party counterparties. Changes in value are recognized as realized or unrealized gains (losses) until the positions are closed.

Interest Rate Swaps

As of June 30, 20X2, the Academy did not have interest rate swaps. As of June 30, 20X1, the Academy had interest rate swaps in which the Academy was paying a fixed interest rate with notional amounts totaling $81,455,000. Such contracts involve centralized, third-party counterparties. As of June 30, 20X1, the cost-to-exit via countervailing positions was $186,992. Changes in value are recognized as realized or unrealized gains (losses) until the positions are closed.

Credit Default Swaps

As of June 30, 20X2, the Academy had credit default swaps with notional amounts totaling $600,000. As of June 30, 20X1, the Academy did not have credit default swaps. Such OTC contracts involve, to varying degrees, risks of loss from the possible inability of counterparties to meet the terms of their contracts. Changes in value are recognized as realized or unrealized gains (losses) until the positions are closed.

Swaptions

As of June 30, 20X2, the Academy had swaptions with notional amounts totaling $4.5 million. As of June 30, 20X1, the Academy did not have swaptions. Such OTC contracts involve, to varying degrees, risks of loss from the possible inability of counterparties to meet the terms of their contracts. Changes in value are recognized as realized or unrealized gains (losses) until the positions are closed.

Collateral for Financial Instruments

As of June 30, 20X2 and 20X1, the Academy had posted collateral for centrally cleared swaps in the amounts of $22,000 and $137,295, respectively.

As of June 30, 20X2 and 20X1, the Academy had posted collateral for futures and options in the amounts of $288,155 and $181,350, respectively.

Notional Amounts and Fair Values

The following table lists the notional amount and the fair value of the derivatives by contract type. The fair value is included within investments in the consolidated statements of financial position as of June 30, 20X2:

	Notional Amount	Fair Value Asset/ (Liability)
Derivative type		
Foreign currency contracts	$2,387,719	$18,329
Futures contracts	174,151,094	—
Credit default swaps	600,000	(34,472)
Swaptions	4,500,000	(4,587)
	$181,638,813	$(20,730)

The following table lists the notional amount and the fair value of the derivatives by contract type. The fair value is included within investments in the consolidated statements of financial position as of June 30, 20X1:

	Notional Amount	Fair Value Asset/ (Liability)
Derivative type		
Foreign currency contracts	$8,793,593	$(8,541)
Futures contracts	111,472,031	—
Swaptions	81,455,000	(186,992)
	$201,720,624	$(195,533)

Gains and Losses on Investments in Derivatives

The realized or unrealized gains (losses) on investments in derivatives by contract type included in the consolidated statements of activities for years ended June 30, 20X2 and 20X1 is as follows:

	20X2	20X1
Foreign currency contracts	$18,329	$(8,541)
Futures contracts	(178,290)	(3,668,550)
Interest rate swaps	—	(90,240)
Credit default swaps	5,854	—
Swaptions	1,616	—
	$(152,491)	$(3,767,331)

Counterparty Risk

The use of derivative instruments introduces the risk that a counterparty will not fulfill a contractual obligation. In order to manage the risk of OTC derivative contracts, including foreign currency contracts, credit default swaps, swaptions, and cross-currency swaps, the Academy's investment adviser vets counterparties on a firm-wide basis, uses master (such as ISDA) agreements and other collateral controls, and monitors counterparty exposure on a daily basis. The Academy's net counterparty exposure, quantified in the following paragraph, is equal to the excess market value of swaps, swaptions and credit default swaps, and net realized or unrealized gains (losses) for forward currency, over and above exchanged collateral. Derivatives cleared and traded via exchanges and centralized third-party counterparties include futures contracts, interest rate swaps, and options contracts.

For the years ended June 30, 20X2 and 20X1, the Academy's net counterparty exposure amounted to $15,577 and $8,542, respectively.

6.18 Note X: Derivatives [*portion of a longer note*]

The Association uses derivative financial instruments to hedge its exposure to foreign exchange risks arising from operational activities. The Association does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments. The Association recognizes all derivatives as either assets or liabilities in the combined statement of financial position and measures those instruments at fair value. Changes in the fair value of those instruments are reported in the combined statement of activities.

The Association entered into foreign exchange contracts in 20X2 to mitigate against potential losses on certain expenditures to be paid by non-U.S. or UK offices in 20X2.

Value of derivatives at deal rate	$(7,438)
Value of derivatives at year-end spot rate	7,360
Interest rate differential	(30)
Loss recognized in the combined statement of activities	**$(108)**

6.19 Note X: Derivatives [*portion of a longer note*]

The Foundation does not designate any derivatives as hedges. Thus, the changes in fair value of derivative instruments are reported in net realized and unrealized gains (losses) on investments in the statements of activities and changes in net assets. The Foundation accounts for derivative financial instruments as either assets or liabilities measured at fair value.

The Foundation uses derivative instruments to manage its exposure to market risks, including inflation, for income enhancement and to provide diversification without actual ownership of the underlying asset. The Foundation's management believes the use of such instruments in its investment management program is appropriate in providing for the long- and short-term financial needs of the Foundation. Though the use of these instruments reduces certain investment risks and generally adds value to the portfolio, the instruments themselves do involve some investment and counterparty risk.

Investment managers retained by the Foundation may enter into forward currency contracts with various counterparties, primarily to facilitate securities settlements. Forward currency contracts are over-the-counter contracts for delayed delivery of currency in which the buyer agrees to buy and the seller agrees to deliver a specified currency at a specified price on a specified date. Because the terms of forward contracts are not standardized, they are not traded on organized exchanges and generally can be terminated or closed out only by the agreement of both parties to the contract. During the period the forward contract is open, changes in the value of the contract are recognized as unrealized gains or losses. When the forward contract is closed, the Foundation records a realized gain or loss equal to the difference between the proceeds from or the cost of the closeout of the contract and the original contract price. As of December 31, 20X2 and 20X1, forward currency contract activity is not material to the financial statements.

The Foundation may enter into futures contracts to manage exposure to financial markets. Futures contracts are standardized contracts traded on an exchange to buy or sell a particular commodity or financial instrument at a predetermined price in the future. During the period the futures contracts are open, changes in the values of the contracts are recognized as unrealized gains or losses. When the futures contracts are closed, the Foundation records a realized gain or loss equal to the difference between the proceeds from, or the cost of, the closeout and the original contract price. At December 31, 20X2 and 20X1, the Foundation was not party to any futures contracts.

The Foundation may also enter into swap contracts as part of its investment strategy. Total return swaps involve the exchange by the Foundation with another party of respective commitments to pay or receive interest or total return based on the value of a security, index, or some other instrument applied to a notional amount throughout the lives of the agreements. Swaps may involve greater risks than if the Foundation had invested in the underlying security or index directly. In addition to the general market risks, swaps may be subject to greater liquidity risk and counterparty credit risk. The Foundation enters into swaps with counterparties that it considers to be well-established and that meet certain criteria for financial strength. The notional amount of swaps is not recorded in the financial statements. Swaps are carried at fair value in the statements of financial position. The change in fair value is recorded as an unrealized gain or loss until the termination of the swap, at which time, a realized gain or loss is recorded.

The notional and fair values of derivative investments as of December 31, 20X2 and 20X1 and the realized or unrealized gains and losses on derivatives for 20X2 and 20X1 were not material to the financial statements.

6.20 Note X: Energy Hedges

The University enters International Swaps and Derivatives Association agreements (ISDA agreements) to stabilize expected electricity costs over the long term.

The University determines the fair value of these agreements by obtaining quotes from an energy consultant generated by market transactions involving identical or comparable assets published on the New York Mercantile Exchange (NYMEX). The University has categorized the hedges as Level 2.

The agreements also contain provisions that would require the University to post collateral in the amount by which the fair value of the agreement liability exceeds certain thresholds, which are based on the University's credit rating.

Fair Value Measurements

6.21 FASB ASC 820, *Fair Value Measurement*, defines *fair value*, establishes a framework for measuring fair value, and details requirements for disclosures about fair value measurements.

6.22 As a practical matter, many NFPs include the fair value disclosures in the investment note because those financial instruments are the most likely to require additional disclosures as required by FASB ASC 820.

6.23 Note X: Fair Value Measurements

In accordance with accounting principles generally accepted in the United States of America, certain assets and liabilities are required to be measured at fair value on a recurring basis. For [*Entity*], the assets that are adjusted to fair value on a recurring basis are limited to the investment in certificates of deposit and investments held by the Foundation. [*Entity*] has no liabilities recorded at fair value.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Additionally, the inputs used to measure fair value are prioritized based on a three-level hierarchy. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- ***Level 1*** — Valuations based on unadjusted quoted prices for identical instruments in active markets that are available as of the measurement date
- ***Level 2*** — Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly
- ***Level 3*** — Valuations based on inputs that are unobservable and significant to the overall fair value measurement

Assets measured at fair value on a recurring basis as of June 30, 20X2 and 20X1, based on the three levels of inputs within the fair value hierarchy are as follows:

	Fair Value Measurement as of June 30, 20X2			
	Total	**Level 1**	**Level 2**	**Level 3**
Investment in certificate of deposit	$133,147	$ —	$133,147	$ —
Investments held by the Foundation	816,286		816,286	
Total	**$949,433**	**$ —**	**$949,433**	**$ —**

	Fair Value Measurement as of June 30, 20X1			
	Total	**Level 1**	**Level 2**	**Level 3**
Investment in certificate of deposit	$131,469	$ —	$131,469	$ —
Investments held by the Foundation	510,108		510,108	
Total	**$641,577**	**$ —**	**$641,577**	**$ —**

Investments held by the Foundation are recorded at fair value based on [*Entity's*] interest in the Foundation's investment pool, which consists of equity securities, fixed-income securities, money market funds, and other investment securities. There were no investment transfers between levels during fiscal years 20X2 and 20X1. The fair value of the investment in the certificate of deposit is measured using inputs other than quoted prices that are observable for the assets, including the stated interest rate and maturity and credit risk. Accounting principles generally accepted in the United States of America also require that certain assets and liabilities be measured at fair value on a nonrecurring basis, generally as the result of impairment charges. [Entity] had no assets or liabilities adjusted to fair value on a nonrecurring basis as of June 30, 20X2 and 20X1.

6.24 Note X: Fair Value Measurements and Disclosures

Assets and liabilities recorded at fair value in the balance sheet are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Pursuant to FASB ASC 820, *level inputs* are defined as follows:

- ***Level 1*** — Inputs that reflect unadjusted quoted market prices in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date, and when transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis. The types of investments in Level 1 generally include listed equities, mutual funds, and exchange-traded funds.
- ***Level 2*** — Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly. Inputs include quoted market prices for similar assets or liabilities in markets that are not active, markets in which there are few transactions, prices are not current, or prices vary substantially over time. Investments in this category generally include corporate debt, U.S. government debt, and less liquid securities, such as securities traded on certain foreign exchanges, as well as alternative investments that can be redeemed in the near term. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement.
- ***Level 3*** — Inputs that are unobservable for the asset or liability and that include situations in which there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimates. Investments in this category generally include equity and debt positions in private companies and real estate and ownership interests in alternative investments that cannot be redeemed in the near term.

The availability of observable inputs can vary from security to security and is affected by a wide variety of factors, including, for example, the type of security, whether the security is new and not yet established in the marketplace, the liquidity of markets and other characteristics particular to the security. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3.

The Foundation assesses the levels of the investments at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer in accordance with its accounting policy regarding the recognition of transfers between levels of the fair value hierarchy. There were no transfers during fiscal 20X2 and 20X1.

Fair value of financial instruments: The following methods and assumptions were used in estimating the fair values of significant financial instruments at June 30, 20X2 and 20X1:

Cash and cash equivalents: The carrying amount approximates fair value because the instruments are liquid in nature and have short-term maturities.

Contributions and bequests receivable: The carrying amount is based on estimated present values and approximates fair value.

Accounts receivable: The carrying amount approximates fair value because accounts receivable are generally short-term in nature.

Investments: The fair value is determined as subsequently described.

Amounts held in trust by others: The carrying amount, which approximates fair value, is based on the Foundation's share in the fair value of the underlying assets of the perpetual trusts and on the estimated present value of the anticipated cash inflows from the charitable remainder trusts.

Accounts payable and accrued expenses: The carrying amounts approximate fair value because of the short-term nature of the instruments.

Fellowships and awards payable: The carrying amount approximates fair value based on estimated present values of the anticipated cash outflows.

Fair value measurements: The following tables present the Foundation's fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30, 20X2 and 20X1:

		20X2		
Description	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Other Unobservable Inputs (Level 3)**
Investments:				
Marketable equity securities	$87,730,966	$87,730,966	$ —	$ —
Marketable debt securities	9,268,525	—	9,268,525	—
Non-U.S. government debt	129,569	—	—	129,569
U.S. government debt	10,219,238	—	10,219,238	—
Money market	3,967,920	3,967,920	—	—
Limited partnerships (1)	16,385,895	—	—	—
Total investments	$127,702,113	$91,698,886	$19,487,763	$129,569
Amounts held in trust by others	$6,604,549	$ —	$ —	$6,604,549

		20X2		
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Investments:				
Marketable equity securities	$81,083,528	$81,083,528	$ —	$ —
Marketable debt securities	13,367,138	—	13,367,138	—
Non-U.S. government debt	133,222	—	—	133,222
U.S. government debt	5,873,356	—	5,873,356	—
Money market	6,167,715	6,167,715	—	—
Limited partnerships [(1)]	16,278,581	—	—	—
Total investments	$122,903,540	$87,251,243	$19,240,494	$133,222
Amounts held in trust by others	$6,391,584	$ —	$ —	$6,391,584

[(1)] In accordance with the guidance provided by FASB *Accounting Standards Codification* (ASC) 820-10-35-54B, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment. The following are the valuation techniques used by the Foundation to measure different financial instruments at fair value.

Marketable equity securities and money market funds listed on a national securities exchange are stated at the last reported sales or trade price on the day of valuation.

Marketable debt securities, U.S. government debt, and non-U.S. government debt are valued based on the last reported bid or evaluation price provided by broker-dealers.

Investments in limited partnerships are valued at fair value based on the applicable percentage ownership of the limited partnerships' net assets as of the measurement date, as reported to the Foundation by the limited partnerships. In determining fair value, the Foundation uses, as a practical expedient, the net asset value provided by the limited partnerships. The limited partnerships value securities and other financial instruments on a fair value basis of accounting. The estimated fair values of certain investments of the limited partnerships, which may include private placements and other securities for which prices are not readily available, are determined by the general partner or sponsor of the respective limited partnership and may not be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

Amounts held in trust by others consist of the Foundation's interest in several perpetual trusts and charitable remainder trusts. The fair value of the Foundation's interest in perpetual trusts is based on the fair value of the underlying trust assets. The fair value of the Foundation's interest in charitable remainder trusts is determined at the net present value of the anticipated cash inflows, discounted at interest rates ranging from 6.0% to 8.0%, using actuarially based mortality tables as described in note X.

Financial instruments classified as Level 3 in the fair value hierarchy represent the Foundation's investments in financial instruments in which the Foundation has used at least one significant unobservable input in the valuation model. The following table presents a reconciliation of activity for the Level 3 financial instruments[3] for the years ended June 30, 20X2 and 20X1:

	20X2			
	Non-U.S. Government Debts	Amounts Held in Trust by Others	Total	20X1
Beginning balance, July 1	$133,222	$6,391,584	$6,524,806	$6,108,531
Remainder trust liquidation	—	(22,122)	(22,122)	(25,636)
Change in unrealized (depreciation) appreciation	(3,653)	235,087	231,434	441,911
Ending balance, June 30	**$129,569**	**$6,604,549**	**$6,734,118**	**$6,524,806**

The following table provides additional information on the investments in limited partnerships as of June 30, 20X2:

Investment Objective	20X2	Redemption Frequency	Redemption Notice Period
Long-short master fund [(a)]	$6,578,413	Monthly	30 days
Multi-strategy [(b)]	9,807,482	Bi-Monthly	90 days
	$16,385,895		

[(a)] This category seeks a performance target and not a guide to portfolio construction.

[(b)] This category seeks to provide exposure to more than 60 "hedge fund risk premiums" across 9 broad strategy groups with dynamic and disciplined investment process that aims to provide risk-balanced exposure to the underlying strategies.

As of June 30, 20X2, there were no unfunded commitments related to any of the investments in limited partnership held by the Foundation.

The following table presents quantitative information about Level 3 fair value measurements as of June 30:

[3]See footnote 1.

	20X2 Fair Value	20X1 Fair Value	Valuation Technique	Unobservable Inputs
Beneficial interest in perpetual trust	$5,509,423	$5,322,901	Market approach based on underlying marketable securities	None
Charitable gift annuities	1,095,126	1,068,683	Value of underlying assets and present value techniques	Rate of return Discount rate Life expectancy

6.25 Note X: Fair Value of Financial Instruments [*portion of a longer note*]

Investments, investments held in charitable remainder trusts, and assets held in trust by others, which are substantially comprised of debt and equity securities, are carried at fair value. The carrying amounts of cash and cash equivalents, receivables, accounts payable, due to annuitants, amounts held in custody for others, and long-term debt with variable interest rates approximate fair value at June 30, 20X2 and 20X1.

The fair value of long-term debt with fixed interest rates is based on recent trading activity and on rates assumed to be currently available for bond issues with similar terms, average maturities, and credit quality as determined by independent debt rating agencies.

6.26 Note X: Subsequent Event — Change in Fair Value

Subsequent to June 30, 20X2, volatility experienced in the financial markets has resulted in a significant decline in the fair value of certain investments. As of October 31, 20X2, the fair value of the investment portfolio declined by approximately $11,737,000 from June 30, 20X2.

Endowments and Investment Payout, Including the Total Return Concept

6.27 Paragraphs 13–13F of FASB ASC 958-205-45 describe the presentation of endowment funds in the financial statements.

6.28 The following example includes a reclassification of net assets with donor restrictions as a result of a donor's request to reclassify the original endowment to make it fully expendable for scholarships.

6.29 Note X: Endowment Funds

The [*Entity's*] endowment consists of 169 individual funds established for scholarships and educational programs. Its endowment includes both donor-restricted endowment funds and funds designated by the board to function as endowments. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Donor-restricted endowments are classified as net assets with donor restrictions and board-designated endowments are classified as net assets without donor restrictions.

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) was enacted in the state of [*State*] in 2006. Although UPMIFA does not preclude the [*Entity*] from spending below the original gift value of donor-restricted endowments, the [*Entity*] considers a fund to be "underwater" if the fair value of the fund is less than the sum of (*a*) the original value of initial and subsequent gift amounts donated to the fund and (*b*) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The [*Entity*] has adopted a policy to not spend from "underwater" endowments unless directed otherwise by the donor.

Endowment net asset composition by type of fund as of June 30, 20X2:

		With Donor Restrictions			
	Without Donor Restrictions	Original Gift Amount	Accumulated Gains (Losses) and Other	Total with Donor Restrictions	Total Funds
Donor-restricted funds	$ —	$38,044,381	$8,056,900	$46,101,281	$46,101,281
Board-designated funds	651,618	—	—	—	651,618
	$651,618	**$38,044,381**	**$8,056,900**	**$46,101,281**	**$46,752,899**

Term endowments, which total $697,387 at June 30, 20X2, are included in accumulated gains (losses) and other. *Term endowments* are 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, and they are both time- and purpose-restricted.

Changes in endowment net assets for the year ended June 30, 20X2:

		With Donor Restrictions			
	Without Donor Restrictions	Original Gift Amount	Accumulated Gains (Losses) and Other	Total with Donor Restrictions	Total Funds
Endowment net assets, beginning of year	$632,584	$35,924,567	$6,478,264	$42,402,831	$43,035,415
Investment return, net	49,958	—	3,369,005	3,369,005	3,418,963
Contributions	—	2,119,814	130,000	2,249,814	2,249,814
Amounts appropriated for expenditure	(30,924)	—	(1,920,369)	(1,920,369)	(1,951,293)
	19,034	2,119,814	1,578,636	3,698,450	3,717,484
Endowment net assets, end of year	**$651,618**	**$38,044,381**	**$8,056,900**	**$46,101,281**	**$46,752,899**

Endowment net asset composition by type of fund as of June 30, 20X1:

	Without Donor Restrictions	With Donor Restrictions: Original Gift Amount	With Donor Restrictions: Accumulated Gains (Losses) and Other	With Donor Restrictions: Total with Donor Restrictions	Total Funds
Donor-restricted funds	$ —	$35,924,567	$6,478,264	$42,402,831	$42,402,831
Board-designated funds	632,584	—	—	—	632,584
	$632,584	$35,924,567	$6,478,264	$42,402,831	$43,035,415

Term endowments, which total $576,785 at June 30, 20X1, are included in accumulated gains (losses) and other. *Term endowments* are 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 as both time- and purpose-restricted.

Changes in endowment net assets for the year ended June 30, 20X1:

	Without Donor Restrictions	With Donor Restrictions: Original Gift Amount	With Donor Restrictions: Accumulated Gains (Losses) and Other	With Donor Restrictions: Total with Donor Restrictions	Total Funds
Endowment net assets, beginning of year	$604,086	$34,848,107	$4,660,166	$39,508,273	$40,112,359
Investment return, net	59,494	—	3,606,248	3,606,248	3,665,742
Contributions	—	1,339,295	24,675	1,363,970	1,363,970
Amounts appropriated for expenditure	(30,996)	—	(1,928,370)	(1,928,370)	(1,959,366)
Reclassification	—	(262,835)	115,545	(147,290)	(147,290)
	28,498	1,076,460	1,818,098	2,894,558	2,923,056
Endowment net assets, end of year	$632,584	$35,924,567	$6,478,264	$42,402,831	$43,035,415

Funds with deficiencies: From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the [*Entity*] to retain as a fund of perpetual duration. Deficiencies of this nature exist in two donor-restricted endowment funds, which together have an original gift value of $62,780, a current fair value of $60,550, and a deficiency of $2,230 as of June 30, 20X2. In the prior year, deficiencies existed in two donor-restricted endowment funds, which together had an original gift value of $62,780, a current fair value of $59,930, and a deficiency of $2,850 as of June 30, 20X1. These deficiencies resulted from unfavorable market conditions that occurred shortly after the investment of new perpetually restricted contributions and continued appropriation of certain programs that was deemed prudent by the board.

Return objectives and risk parameters: The [*Entity*] has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. *Endowment assets* include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period, as well as board-designated funds. Under this policy, as approved by the board, the endowment assets are invested in a manner that is intended to produce results that exceed the spending rate and aggregate costs of portfolio management, the long-term inflation rate, and any growth factor that the board may, from time to time, determine appropriate, while assuming a moderate level of investment risk. The [*Entity*] expects its endowment funds, over time, to provide an average rate of return of approximately 5 percent net of inflation annually. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives: To satisfy its long-term rate-of-return objectives, the [*Entity*] relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The [*Entity*] targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending policies and how the investment objectives relate to spending policy: The [*Entity*] has a policy of appropriating for distribution each year 5 percent of its endowment fund's average fair value over the trailing 12 previous calendar quarters for the current fiscal year. In establishing this policy, the [*Entity*] considered the long-term expected return on its endowment. Accordingly, over the long-term, the [*Entity*] expects the current spending policy to allow its endowment to grow at an average of 2 percent annually. The [*Entity's*] policy is to not spend from underwater endowments unless directed otherwise by the donor.

6.30 Note X: Endowment Fund and Net Asset Classifications

[*Entity's*] Endowment Fund consists of various donor-restricted endowment funds and funds designated as endowment (quasi-endowment) by the Board of Trustees. Net assets associated with endowment funds, including funds designated to function as endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

[*Entity*] has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) adopted by the 2008 [*State*] legislature as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the [*Entity*] classifies as net assets with donor restrictions (*a*) the original value of gifts donated to the perpetual endowment, (*b*) the original value of subsequent gifts to the perpetual endowment, and (*c*) accumulations of earnings or losses to the perpetual endowment. In accordance with UPMIFA, [*Entity*] considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the Endowment Fund; (2) the purposes of [*Entity*] and the donor-restricted Endowment Fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of [*Entity*], and (7) the investment policies of [*Entity*].

The Board of Trustees of [*Entity*] may appropriate for expenditure or accumulate so much of the Endowment Fund as [*Entity*] determines is prudent for the uses, benefits, purposes, and duration for which the Endowment Fund is established. The amount appropriated, the spending policy, is a Board-approved percentage applied to the average fair value of the endowment fund assets during the prior three years. In cases when the fair value of endowment fund assets falls below the original value of the gifts donated to the perpetual endowment, the Board has limited, by policy, the appropriation to no more than 10% of the original value of the gifts donated to perpetual endowment. The Board-approved spending percentage was 5%, plus a specific appropriation of quasi-endowment funds of $471,009 and $420,200 for the fiscal years ended June 30, 20X2 and 20X1 respectively. Actual spending was approximately 2.39% and 3.33% for the years ended June 30, 20X2 and 20X1, respectively.

Endowment net assets as of June 30, 20X2 and 20X1 were as follows:

		20X2	
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds:			
Scholarships	$ —	22,468,688	22,468,688
Instruction, research, academic support, and student services	—	1,758,584	1,758,584
General institutional support	—	6,276,278	6,276,278
Property and equipment acquisition and maintenance	—	2,256,569	2,256,569
Board-designated (quasi) endowment funds:			
Scholarship support	11,558,431	—	11,558,431
General institutional support	8,244,018	—	8,244,018
Total endowment funds	**$19,802,449**	**$32,760,119**	**$52,562,568**

		20X1	
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds:			
Scholarships	$ —	$21,512,357	$21,512,357
Instruction, research, academic support, and student services	—	1,603,727	1,603,727
General institutional support	—	5,858,531	5,858,531
Property and equipment acquisition and maintenance	—	2,074,618	2,074,618
Board-designated (quasi) endowment funds:			
Scholarship support	4,621,615	—	4,621,615
General institutional support	7,311,515	—	7,311,515
Total endowment funds	**$11,933,130**	**$31,049,233**	**$42,982,363**

The changes in endowment net assets for the years ended June 30, 20X2 and 20X1 were as follows:

	20X2		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Endowment net assets, beginning of year	$11,933,130	$31,049,233	$42,982,363
Investment return:			
Investment income	380,610	1,032,425	1,413,035
Net appreciation (realized and unrealized)	1,997,442	1,932,349	3,929,791
Total investment return	2,378,052	2,964,774	5,342,826
Contributions	—	645,310	645,310
Change in donor intent	—	(1,173,960)	(1,173,960)
Board designations	6,173,960	—	6,173,960
Appropriation of endowment funds for expenditure	(682,693)	(725,238)	(1,407,931)
Endowment net assets, end of year	**$19,802,449**	**$32,760,119**	**$52,562,568**

	20X1		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Endowment net assets, beginning of year	$13,099,428	$30,300,756	$43,400,184
Investment return:			
Investment income	554,323	525,301	1,079,624
Net appreciation (realized and unrealized)	(990,522)	(230,293)	(1,220,815)
Total investment return (loss)	(436,199)	295,008	(141,191)
Contributions	—	1,428,826	1,428,826
Appropriation of endowment funds for expenditure	(730,099)	(975,357)	(1,705,456)
Endowment net assets, end of year	**$11,933,130**	**$31,049,233**	**$ 42,982,363**

From time to time, the fair value of endowment funds associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the [*Entity*] to retain as a fund of perpetual duration, also known as underwater endowments. As of June 30, 20X2 and 20X1, deficiencies of this nature existed in a single, donor-restricted endowment fund created with an original gift of $9,730. The fair value of assets held in the fund were $7,085 and $6,447 as of June 30, 20X2 and 20X1, respectively, which generated amounts underwater of $2,646 and $3,283, respectively. These deficiencies are reported in net assets with donor restrictions. These deficiencies resulted from unfavorable market conditions, which occurred shortly after the investment of the original gift in conjunction with continued appropriation for qualifying programs deemed prudent by the Board of Trustees.

[*Entity*] has adopted investment and spending policies for endowment assets intended to provide a predictable source of funding for programs supported by its endowment funds while attempting to maintain the purchasing power of those assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity, or for a donor-specified period of time, as well as Board-designated funds. Under these policies, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 Index while assuming a moderate level of risk. [*Entity*] expects that its endowment funds, over the long-term, will provide an average, annual rate of return of approximately 8%. Actual returns in any given year may vary from this amount.

[*Entity*] relies on a total return strategy in which returns are achieved through both capital appreciation (realized and unrealized gains) and current yields (interest and dividends). [*Entity*] has adopted a goal of diversified allocation, which places a greater emphasis on equity-based investing to achieve its long-term objectives while controlling risk. In establishing its spending policy of 5%, [*Entity*] considers the expected long-term rate of return as described previously and, accordingly, expects its endowment funds to grow at an average annual rate of 3 percent.

6.31 The following is an example of an entity that has a very small endowment. This entity presents the required information in paragraph form rather than the tabular presentations presented by entities with larger endowments.

6.32 Note X: Endowment

The Organization's board has interpreted the [*State*] Uniform Prudent Management of Institutional Funds Act as allowing the Organization to appropriate for expenditure or accumulate as much of an endowment fund as the Organization determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of a donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund are donor-restricted assets until appropriated for expenditure by the Organization. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

During the year ended September 30, 20X2, the Organization had seven donor-restricted endowment funds totaling $8,223 and one board-designated endowment fund totaling $341. During the year ended September 30, 20X1, the Organization had seven donor-restricted endowment funds totaling $7,427 and one board-designated endowment fund totaling $302. During the years ended September 30, 20X2 and 20X1, these endowments had a net investment return of $470 and loss of $731, and amounts appropriated for expenditure of $245 and $221, respectively.

6.33 Note X: Endowment Investment and Spending Policies [*portion of a larger note*]

[*Entity*] has adopted endowment investment and spending policies that attempt to preserve the endowment's assets. Under this policy, assets are expected to earn an average rate of return of inflation plus 4%, over a full market cycle. Actual returns in any given year may vary from this amount.

To achieve its long-term rate of return objectives, [*Entity*] relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). [*Entity*] targets a diversified asset allocation that places greater emphasis on fixed-income-based investments to achieve its long-term objectives within prudent risk constraints.

The Board of Governors of [*Entity*] determines the method to be used to appropriate endowment funds for expenditure. The Board limits the use of the endowment to years in which it has investment income. The portion of the prior year's investment income to be spent is determined at the first Board meeting in accordance with any donor-imposed restrictions. Accordingly, over the long term, [*Entity*] expects the current spending policy to allow for slow growth of the endowment.

The fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor endowment deficits exist, they are classified as a reduction of net assets with donor restrictions. [*Entity*] recorded no deficits for the years ended June 30, 20X2 and 20X1.

6.34 Note X: Spending Policy [*portion of a larger note*]

The Trustees of [*Entity*] have established an endowment fund spending policy, which attempts to balance the long-term objective of maintaining the purchasing power of the endowment with the goal of providing funds to underwrite the educational needs of current and future generations of students and to enhance the financial well-being of [*Entity*].

The spending policy is defined as follows:

- Annual spending rate of 3% to 6% of the previous June 30 fiscal year-end 12-quarter average market value
- A "cap" of 10% dollar growth over the prior year's actual spending in dollars
- A "floor" of 95% of the prior year's actual spending in dollars adjusted by the annual inflation rate as measured by the Consumer Price Index (CPI)

6.35 Note X: Endowment Spending Allocation and Investment Objectives [*portion of a larger note*]

The Board of Trustees of [*Entity*] determines the method to be used to appropriate endowment funds for expenditure. The spending allocation is applied at the individual unitized endowment fund level and is calculated at the rate of 5% of the average market value of each fund on a unitized basis. The average market value is calculated based on a rolling 3-year average of the market value of each fund on a unitized basis.
The corresponding calculated spending allocations are distributed in equal quarterly installments on the first day of each quarter from the current net total or accumulated net total investment returns for individual endowment funds. In establishing this policy, the Board of Trustees considered the expected long-term rate of return on its endowment. As of June 30, 20X2 and 20X1, the allocation from the endowment funds for operating support for fiscal years 20X3 and 20X2 amounted to $8,048,035 and $7,251,389, respectively.

Contributions Receivable

6.36 Many entities use the term *pledges* to describe this balance sheet item. The FASB ASC glossary refers to them as *promises to give*.

6.37 See FASB ASC 958-605-30-5 for a discussion of the determination of the discount rate if present value techniques are used to measure fair value. The rates stated in the sample notes should not be assumed to be the appropriate rate to use at any particular future time.

6.38 Contributions receivable are not subject to the standards in the "Pending Content" of FASB ASC 326, *Financial Instruments — Credit Losses*. Contributions receivable are initially measured at fair value, and are measured in subsequent periods using the guidance in FASB ASC 958-310-35.

6.39 FASB ASC 958-605-25-5A specifies that a contribution or promise to give is conditional if it has both of the following:

a. One or more barriers that must be overcome before a recipient is entitled to the assets transferred or promised

b. A right of return to the contributor for assets transferred (or for a reduction, settlement, or cancellation of liabilities) or a right of release of the promisor from its obligation to transfer assets (or reduce, settle, or cancel liabilities)

6.40 Note X: Contributions Receivable

Contributions receivable at June 30, 20X2 and 20X1 are as follows:

	20X2	20X1
Museum operations, programs, and endowment	$77,689	$145,607
Future periods — split-interest agreements	1,318	1,418
Capital construction and acquisition	234,726	274,824
	313,733	421,849
Less: Discount for present value	(12,572)	(17,564)
Allowance for doubtful accounts	(12,799)	(12,799)
	$288,362	$391,486
Amounts due in:		
Less than one year	$124,523	$179,232
One to five years	177,834	210,604
More than five years	11,376	32,013
	$313,733	$421,849

Initial fair values for multi-year pledges in fiscal year 20X2 and 20X1 are computed using a risk-free rate adjusted for a market risk premium or the credit worthiness of the donor. Rates range from 3.5% to 4.2%.

6.41 Note X: Conditional Promises to Give [*portion of a longer note*]

Conditional promises to give are not recognized in the accompanying consolidated financial statements and, if they are subsequently recorded, they may be restricted for specific purposes stipulated by the donors. There were no new conditional gifts received from donors during 20X2 and 20X1. Approximately $24,058,000 and $8,551,000 of conditional promises to give were recognized as revenue during 20X2 and 20X1, respectively, as donor-imposed conditions were met by [*Entity*]. Approximately $31,326,000 and $55,384,000 of conditional promises to give were outstanding at December 31, 20X2 and 20X1, respectively.

6.42 Note X: Conditional Promises to Give [*portion of a longer note*]

Conditional promises to give are not included as revenue or pledges receivable until such time as the conditions are substantially met. As of September 30, 20X2, the Organization had outstanding $25,934 in conditional promises to give, excluding public grants. Of the conditional promises to give outstanding, $20,583 is conditioned upon the raising of matching funds, and $5,351 is conditioned upon the completion of specific programmatic performance milestones. The Organization also had outstanding $498,475 in conditional promises to give directly related to public grants as of September 30, 20X2. Of the outstanding conditional promises to give related to public grants, $453,532 was awarded by U.S. government donors and $44,943 was awarded by multi-lateral agencies or other donors. Certain donors and grantors have paid in advance of meeting the conditions; in those cases, the amounts received that relate to conditions that have not yet been met are reported as refundable advances. As of September 30, 20X2, refundable advances totaled $32,450, which will be recognized in future years as contribution or grant revenue as the underlying conditions are met.

6.43 Note X: Pledges Receivable

Pledges receivable have been discounted using a range of discount rates between 0.11% to 4.11% for the years ended June 30, 20X2 and 20X1 and the following schedule of collections:

	20X2	20X1
Less than 1 year	$12,566,600	$15,247,400
Greater than 1–5 years	15,702,600	22,160,300
Greater than 5–10 years	9,378,000	15,869,000
Greater than 10 years	10,350,000	11,650,000
	47,997,200	64,926,700
Less: Allowance for doubtful accounts	(3,184,800)	(9,630,300)
Less: Discount	(6,763,000)	(7,469,800)
	$38,049,400	**$47,826,600**

The Foundation has conditional promises to receive pledges for the [*Entity's*] proposed museum based on donor-specified milestones, which are not reflected in the consolidated financial statements, as follows:

	20X2	20X1
Less than 1 year	$11,560,000	$2,060,000
Greater than 1–5 years	22,570,000	33,080,000
Greater than 5–10 years	1,000,000	—
Greater than 10 years	20,000,000	20,000,000
	$55,130,000	**$55,140,000**

In addition, the Foundation has promises to receive in-kind donations for the [*Entity's*] proposed museum, which are not reflected in the consolidated financial statements until received, as follows:

	20X2	20X1
Less than 1 year	$ —	$ —
Greater than 1–5 years	8,200,000	8,200,000
Greater than 5–10 years	—	—
Greater than 10 years	—	—
	$8,200,000	$8,200,000

6.44 Note X: Contributions Receivable

Contributions receivable are summarized as follows as of June 30:

	20X2	20X1
Contributions receivable expected to be collected in:		
Less than 1 year	$5,455,034	$5,820,570
1–5 years	17,703,631	16,761,703
Over 5 years	3,199,775	1,752,299
Gross contributions receivable	26,358,440	24,334,572
Less:		
Allowance for uncollectible	(200,000)	(200,000)
Unamortized discount for time value of money *	(1,737,764)	(1,529,884)
Net contributions receivable	$24,420,676	$22,604,688
* The discount rate used ranged from 2% to 6%.		

The preceding contributions receivable have been included in the following net asset categories as of June 30:

	20X2	20X1
Without donor restrictions	$2,466,080	$5,528,962
With donor restrictions	21,954,596	17,075,726
Total	**$24,420,676**	**$22,604,688**

Of total gross contributions receivable as of June 30, 20X2 and 20X1, approximately $22,935,000 and $23,162,000, respectively, are due from current and life members of the board of trustees of [*Entity*].

6.45 The presentation of contributions receivable by net asset categories as shown in the preceding example is not a required disclosure. It does, however, allow for articulation between this disclosure and the required liquidity and availability disclosure.

6.46 The following organization's contributions receivable are expected to be collected within one year. As such, no tabular disclosure is included.

6.47 Note X: Grants and Contributions Receivable

As of December 31, 20X2, grants and contributions receivable consisted of grants and contributions from foundations, government agencies, and corporate donors to be used for particular programs or general support, or both. The balances are expected to be collected within one year and are considered fully collectible.

6.48 Note X: Contributions and Grants Receivable

Contributions and grants receivable as of June 30 consist of the following:

	20X2	20X1
Contributions	$39,113,893	$36,186,135
Government grants	1,221,680	1,810,878
	40,335,573	37,997,013
Less unamortized discount	(2,109,350)	(2,083,839)
	38,226,223	35,913,174
Less allowance for uncollectibles	(1,072,673)	(1,132,058)
	$37,153,550	$34,781,116

These receivables are due as follows as of June 30:

	20X2	20X1
Due in less than 1 year	$14,664,783	$16,172,761
Due in 1–5 years	22,488,767	18,608,355
	$37,153,550	$34,781,116

Contributions receivable include donated product amounts of $11,403,245 and $12,142,448 as of June 30, 20X2 and 20X1, respectively.

Net contributions receivable includes two contributors in 20X2, and one contributor in 20X1 whose individual net outstanding contributions receivable are greater than 10% of the total net outstanding contributions receivable. As of June 30, 20X2 and 20X1, the net contributions receivable associated with these gifts totaled $16,648,122 and $13,396,781, respectively.

On October 1, 20Y8, a donor signed a gift agreement with [*Entity*] for a legacy commitment of the residual value of the donor's estate at time of death, not to exceed $100 million. This gift represents an unconditional promise and will be transferred to [*Entity*] within five years of the donor's death. Seventy percent (70%) of the gift is designated for charitable purposes over a five-year period, while the remaining thirty percent (30%) will fund a perpetually restricted endowment. Due to uncertainties regarding the residual value of the estate at the donor's death, this gift has not been recognized in the consolidated financial statements. Through June 30, 20X2, [*Entity*] has received $9,479,804 from the donor.

6.49 Note X: Bequests and Contributions Receivable

Bequests and contributions receivable consist of the following at year-end 20X2 and 20X1:

	20X2	20X1
Irrevocable trusts	$1,105	$1,897
Pledged gift agreements	34,565	28,494
	35,670	30,391
Allowance for uncollectible amounts	(1,807)	(1,086)
Total bequests and contributions receivable, net	**$33,863**	**$29,305**

Contributions receivable in the form of pledge gift agreements are unconditional promises to give. Pledges are recorded at the applicable risk-adjusted discount rates, which range from 2.76% to 10.66%, established in the year the gift was received and commensurate with the duration of the donor's payment plan.

Bequests and contributions receivable are expected to be collected as follows:

	20X2	20X1
Due in 1 year	$7,801	$7,436
Due in 2–5 years	17,580	17,660
Due in more than 5 years	25,695	14,588
	51,076	39,684
Unamortized discount	(15,406)	(9,293)
Net present value	35,670	30,391
Allowance for uncollectible accounts	(1,807)	(1,086)
Total bequests and contributions receivable, net	**$33,863**	**$29,305**

At December 31, 20X2, [*Entity*] has one conditional pledge in the amount of $1,754. [*Entity*] expects to record contribution revenue related to this pledge as the conditions are met within the next three years.

6.50 Note X: Legacies, Bequests, and Beneficial Interests in Trusts

[*Entity*] is a beneficiary under various wills, the total realizable value of which is not presently determinable. Such amounts are recorded as contributions when clear title is established, and the proceeds are clearly measurable. In the absence of donor-imposed conditions, [*Entity*] recognizes its beneficial interest in a trust as a contribution in the period in which it receives notice that the trust agreement conveys an unconditional right to receive benefits.

[*Entity*] is also the income beneficiary under various charitable term and perpetual trusts, the corpus of which is not controlled by the management of [*Entity*]. Although [*Entity*] has no control over the administration or investment of the funds held in the charitable term trusts, in accordance with generally accepted accounting principles, the current fair value of the beneficial interest in various charitable term trusts is recognized as an asset in the accompanying consolidated financial statements.

The beneficial interest in various charitable term trusts at September 30, 20X2 and 20X1 is reflected in the accompanying consolidated financial statements as $284,663,239 and

$280,998,866, respectively. During 20X2 and 20X1, the beneficial interest in various term trusts increased by $27,690,836 and $8,320,934, respectively.

In determining the fair value of [*Entity's*] beneficial interest in the various charitable term trusts, the assumed discount rates used in the present value calculations ranged from 2.63% to 7.63% and from 2.32% to 8.85% at September 30, 20X2 and 20X1, respectively, and the average discount rate was 7.4% and 8.52% at September 30, 20X2 and 20X1, respectively. Assumed investment returns for the various charitable term trusts that provide payouts based upon the fair value of assets over the life of the trusts range from 6.69% to 7.63% and from 7.44% to 8.85% at September 30, 20X2 and 20X1, respectively. The fair value of these computations resulted in estimated present values of $282,985,957 and $279,369,592 at September 30, 20X2 and 20X1, respectively. The value reflected on the consolidated statements of financial position at September 30, 20X2 and 20X1 is the lower of the expected future cash flows or the current fair value of the underlying assets.

In addition, one of [*Entity's*] affiliates is a beneficiary of three charitable remainder unit trusts, for which the affiliate will receive 50% of the income until September 2048. At that time, the proceeds of 50% of the market value of the unit trusts will be distributed to the affiliate. The value of the affiliate's portion of the charitable remainder unit trusts is $1,677,282 and $1,629,274 at September 30, 20X2 and 20X1, respectively.

[*Entity*] received distributions from various term trusts of $24,026,463 and $24,364,644 in 20X2 and 20X1, respectively, which are reported in the net assets released from restriction financial statement caption.

In addition to the charitable term trusts noted previously, [*Entity*] is also the beneficiary of several charitable perpetual trusts. The beneficial interest in the charitable perpetual trusts is reflected in the consolidated financial statements at the fair value of the underlying assets. The beneficial interest in charitable perpetual trusts at September 30, 20X2 and 20X1 was $44,927,424 and $41,049,934, respectively. [*Entity*] received distributions from various charitable perpetual trusts of $1,355,761 and $1,506,905 in 20X2 and 20X1, respectively, which are reported in the investment payout financial statement caption.

6.51 Note X: Deferred Gifts Receivable and Funds Held in Trust for Others

[*Entity*] has been named as the sole or participating beneficiary in several charitable remainder trusts and perpetual trusts held by third-party trustees. A *charitable remainder trust* is an arrangement in which a donor establishes a trust with specified distributions to be made to a designated beneficiary or beneficiaries over the trust's term. [*Entity*] will receive its share of the assets remaining upon the termination of the charitable remainder trust. A perpetual trust held by a third party is an arrangement in which a donor establishes and funds a perpetual trust administered by a third party other than the beneficiary or beneficiaries. Under the terms of the perpetual trust, the beneficiary or beneficiaries have the right to receive the income earned on the trust assets in perpetuity but never receive the assets held in the trust.

[*Entity*] has recorded the estimated fair value of its interests in the trusts' assets as net assets with donor restrictions, in accordance with the trusts' terms.

[*Entity*] is acting as an agent for funds held in trust for local councils associated with the pooled income fund and certain charitable remainder trusts. These funds are distributed to the local councils in accordance with donors' intentions.

[*Entity*] enters into agreements with donors to accept and administer charitable gift annuities, which provide for payments to the donors or their beneficiaries based upon specified annuity amounts. Assets held under charitable gift annuities are included in investments. Contribution revenue is recognized at the date the annuity contract is established after recording the liability for the present value of the estimated future payments expected to be made to the donor or beneficiary, or both. The liabilities are adjusted annually for changes in the life expectancy of the donor or beneficiary, amortization of the discount, and other changes in the estimates of future payments. The liabilities related to [*Entity's*] charitable gift annuities totaled approximately $198,000 and $192,000 at September 30, 20X2 and 20X1, respectively, and are included in accounts payable and accrued liabilities. The discount rate used to value new charitable gift annuities ranged from 5.1% to 9.2% at September 30, 20X2 and 5.1% to 9.0% at September 30, 20X1.

Other Receivables

6.52 FASB issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments (and other commitments to extend credit) held by a reporting entity at each reporting date. To achieve this objective, the amendments in this ASU replace the incurred loss impairment methodology currently used with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. FASB has issued several ASUs to make targeted improvements to the new methodology. For NFPs, ASU No. 2016-13 and its related ASUs are effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years.

6.53 For assets measured at amortized cost, which includes most trade and notes receivables, ASU No. 2016-13 eliminates the probable initial recognition threshold under current GAAP and requires entities to reflect the current estimate of all expected credit losses. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial assets to present those assets at the net amount expected to be collected. The new credit loss standards broaden the information that an entity must consider in developing its expected credit loss estimate for assets measured either collectively or individually.

6.54 In addition to past events and current conditions, entities should also consider reasonable and supportable forecasts that affect the collectibility of the reported amount. However, an entity may revert to historical loss information that is reflective of the contractual term (considering the effect of prepayments) for periods that are beyond the time frame for which the entity is able to develop reasonable and supportable forecasts. An entity may apply any method for measuring expected credit losses as long as the entity's method reasonably reflects its expectations of the credit loss estimate.

6.55 Because the effective date of ASU No. 2016-13 and its related ASUs is after the date of this publication, examples reflecting this change in guidance were not available.

6.56 Note X: Receivables

Receivables are presented at the gross, or face, amount due to [*Entity*], less an allowance for doubtful accounts. Management periodically reviews the status of all accounts receivable balances for collectibility. Each receivable balance is assessed based on management's knowledge of and relationship with the customer or donor and the age of the receivable balance. As a result of these reviews, receivable balances for which collection is deemed doubtful are charged to bad debt expense, and an allowance is recorded.

Receivables include unconditional promises to give grants and contributions, which are expected to be collected over multiple years. Promises to give grants and contributions due in less than one year are recorded at net realizable value. Promises to give grants and contributions due in more than one year are reflected at the net present value of estimated future cash flows using discount rates ranging from 1.44% to 1.71% at June 30, 20X2 and 20X1.

[*Entity*] also has an interest in pooled income funds, which will be collected over the terms of the underlying agreements, which vary and are based on the life expectancies of the related donors or beneficiaries. A commercial bank serves as the trustee and invests the underlying assets related to the pooled income funds, which totaled $64,726 and $67,137 at June 30, 20X2 and 20X1, respectively. Contribution revenue was recognized at the start of the pooled income fund agreements and equaled the net present value of the future receipts. The receivable for the interest in pooled income funds has been discounted to net present value using a rate of 2.35% at June 30, 20X2 and 20X1. Therefore, the net present value of the pooled income funds totaled $51,706 and $54,102 at June 30, 20X2 and 20X1, respectively.

Receivables consisted of the following at June 30:

	20X2	20X1
Grants and contributions receivable	$170,000	$433,270
Tenant improvement reimbursement	163,090	—
Publications and other income	102,604	48,611
Interest in pooled income fund, at fair value	64,726	67,137
Per-member payments	33,974	36,893
	534,394	585,911
Less allowance for doubtful receivables	(16,893)	(25,000)
Less discount to net present value	(15,579)	(18,658)
	$501,922	**$542,253**

Grants and contributions receivable are expected to be collected as follows at June 30:

	20X2	20X1
Amounts due in less than 1 year	$15,000	$183,270
Amounts due in 1–5 years	155,000	250,000
	170,000	433,270
Less discount to net present value	(2,559)	(5,623)
	$167,441	**$427,647**

6.57 Note X: Program-Related Investments

Program-related investments (PRIs) are strategic investments, beyond grants, made by the Foundation for the specific objective of furthering the Foundation's charitable purpose. The production of income is not the primary driver of a PRI.

The Foundation's loan portfolio includes both loans and convertible loans invested in not-for-profit and private sector entities. The majority of these loans are in support of its global strategies focusing on developing countries. They enable partner organizations to invest in increasing agricultural productivity, gain access to financial systems, and develop medical technology. The Foundation has also made loans in support of its U.S. strategies, providing low-cost capital support for charter school facilities. Interest payments are due on the outstanding loan amounts at interest rates generally ranging between 0% and 8%. Repayment of the outstanding loan amounts is scheduled through 2034.

The loans are summarized in the following table for the years ended December 31, 20X2 and 20X1 as follows:

	20X2	20X1
Loan receivable, gross beginning of year	$76,777	$65,850
Additional loans	47,121	20,959
Principal repayments	(7,596)	(10,032)
Loan-to-equity conversions	(6,500)	–
Gross subtotal, loans	109,802	76,777
Interest receivable	998	552
Loans and interest receivable, subtotal	110,800	77,329
Less discount and uncollectible allowance	(17,568)	(12,298)
Loan receivable, net end of year	**$93,232**	**$65,031**

6.58 Note X: Notes Receivable

[*Entity*] holds a promissory note, dated December 30, 20W0, for $675,000 from the [*Organization*] related to the construction of a parking facility in [*Location*]. The note has a fixed interest rate of 6%. Interest payments are to be made on December 27 of each year. The note matures on December 1, 2040. The note receivable, including accrued interest at June 30, 20X2 and 20X1, was $1,141,752 and $1,077,292, respectively.

[*Entity*] has adopted, as part of the compensation package to attract and retain talent, a home purchase loan program. Under the program, [*Entity*] extends loans to qualified employees. Individual notes cannot exceed $150,000, and no more than 10 notes can be outstanding at any point in time. As of June 30, 20X2 and 20X1, respectively, [*Entity*] held promissory notes from 6 employees and 5 employees for housing support. The notes have fixed interest rates ranging from 2.22% to 3.22%, payable monthly or on their respective anniversary dates of each year. The notes receivable, including accrued interest at June 30, 20X2 and 20X1, were $492,888 and $413,056, respectively.

6.59 Note X: Loans and Notes Receivable

The university is required to disclose the nature of credit risk inherent in the portfolio of financing receivables, its analysis and assessment in arriving at the allowance for credit losses (doubtful accounts), and the changes and reasons for those changes in the allowance for credit losses.

Long-term financing receivables as of June 30, 20X2, consist of the following (in thousands):

	Financing Receivables, Gross	Allowance for Doubtful Accounts	Net
Perkins loans	$45,734	$ —	$45,734
University student loans	11,547	($2,968)	8,579
Other student loans	14,272		14,272
Total student loans	71,553	(2,968)	68,585
Faculty and other loans	33,532		33,532
Total	**$105,085**	**$(2,968)**	**$102,117**

Long-term financing receivables as of June 30, 20X1, consist of the following (in thousands):

	Financing Receivables, Gross	Allowance for Doubtful Accounts	Net
Perkins loans	$47,350	$ —	$47,350
University student loans	15,761	(4,432)	11,329
Other student loans	14,271		14,271
Total student loans	77,382	(4,432)	72,950
Faculty and other student loans	33,182		33,182
Total	**$110,564**	**$(4,432)**	**$106,132**

Management regularly assesses the adequacy of the allowance for credit losses by performing ongoing evaluations of the student loan portfolio, including such factors as the differing economic risks associated with each loan category, the financial condition of specific borrowers, the economic environment in which the borrowers operate, the level of delinquent loans, the value of any collateral and, when applicable, the existence of any guarantees or indemnifications. The university's Perkins loans represent the amounts due from current and former students under the Federal Perkins Loan Program. Loans disbursed under the Federal Perkins Loan Program are able to be assigned to the federal government in certain non-repayment situations. In these situations, the federal portion of the loan balance is guaranteed. Included in other loans are loans related to the Federal Health Professional Student Loan Program and Loans for Disadvantaged Students.

Factors also considered by management when performing its assessment, in addition to general economic conditions and the other factors described previously, include, but are not limited to, a detailed review of the aging of the student loan receivable detail and a review of the default rate by loan category in comparison to prior years. The level of the allowance is adjusted based on the results of management's analysis. It is the university's policy to write off a loan only when it is deemed to be uncollectible.

The following table illustrates the aging analysis of receivables as of June 30, 20X2 (in thousands):

	1–60 Days Past Due	61–90 Days Past Due	> 91 Days Past Due	Current	Total Financing Receivables
Perkins loans	$1,164	$210	$6,865	$37,495	$45,734
University student loans	277	14	5,940	5,316	11,547
Other student loans	417	8	308	13,539	14,272
Total student loans	1,858	232	13,113	56,350	71,553
Faculty and other loans				33,532	33,532
Total	**$1,858**	**$232**	**$13,113**	**$89,882**	**$105,085**

The following table illustrates the aging analysis of receivables as of June 30, 20X1 (in thousands):

	1–60 Days Past Due	61–90 Days Past Due	> 91 Days Past Due	Current	Total Financing Receivables
Perkins loans	$1,174	$333	$6,719	$39,124	$47,350
University student loans	297	39	8,633	6,792	15,761
Other student loans	878	5	338	13,050	14,271
Total student loans	2,349	377	15,690	58,966	77,382
Faculty and other loans				33,182	33,182
Total	**$2,349**	**$377**	**$15,690**	**$92,148**	**$110,564**

Considering the other factors already discussed herein, management considers the allowance for credit losses to be prudent and reasonable. Furthermore, the university's allowance is general in nature and is available to absorb losses from any loan category. Management believes that the allowance for credit losses at June 30, 20X2 and 20X1, is adequate to absorb credit losses inherent in the portfolio as of these dates.

As part of the program to attract and retain exemplary faculty and senior staff, the university provides home mortgage financing assistance. Notes receivable amounting to $33,532,000 and $33,182,000 were outstanding as of June 30, 20X2 and 20X1, respectively, and are collateralized by deeds of trust. No allowance for doubtful accounts has been recorded against these loans based on their collateralization and prior collection history. At June 30, 20X2, there were no amounts past due under the faculty and staff loan program.

Determination of the fair value of notes receivable, which are primarily federally sponsored student loans with U.S. government-mandated interest rates and repayment terms and subject to significant restrictions about their transfer or disposition, could not be made without incurring excessive costs.

6.60 Note X: Student Loans Receivable [*portion of a longer note*]

The university participates in the Federal Perkins revolving loan program. The availability of funds for loans under the program has historically been dependent on reimbursements to the pool from repayments on outstanding loans. The Federal Perkins Loan program expired on September 30, 2017, so no new loans will be disbursed after the close of the 2018 award year. The outstanding loan balance was $12,950 and $12,819 at June 30, 20X2 and 20X1, respectively.

Funds contributed to the program by the federal government must ultimately be returned to the government so they are classified as liabilities under "Government advances for student loans" in the Consolidated Statements of Financial Position. Outstanding loans cancelled under the program result in a decrease in the liability to the government. The Distribution of Assets from the Perkins Loan Revolving Fund process replaces the existing Excess Liquid Capital process as part of the wind-down of the Federal Perkins Loan Program. The U.S. Department of Education has determined that asset distributions from the Perkins fund, which include the return of federal contributions to the Department, will begin after October 1, 2018.

6.61 Note X: Program-Related Investments [*portion of a longer note*]

Program-related investments as of December 31, 20X2 include $104,429 of loans made to organizations, $138 of collateral deposits that serve to guarantee loans made by third-party lenders to organizations as a means of assisting them in achieving charitable objectives, and $1,192 of equity investments in sustainable forest management and carbon offset project companies. Interest rates on loans receivable range from 1% to 10.25% as of December 31, 20X2 and are generally repayable over 1–10 years. Management has reviewed the collectibility of all program-related investments and has determined no allowance is necessary as of December 31, 20X2.

Inventory and Prepaid Expenses

6.62 Similar wording would be used for most types of inventory, including those of college bookstores, museum gift shops, and so on. Although NFPs may use the last in, first out inventory method if they wish, in most cases, there is little incentive to do so because taxes are not normally a major concern, and the bookkeeping involved is time-consuming.

6.63 Note X: Inventory [*portion of Significant Accounting Policies note*]

Inventories consist of paper and material stock, publications in process, and printed publications and course material and are stated at the lower of cost or net realizable value. A moving average method is used for determining inventory cost. Inventories are reflected as a component of deferred costs and prepaid expenses in the accompanying combined statement of financial position.

6.64 Note X: Inventory [*portion of a longer note*]

Inventory consists of perishable and nonperishable foods and related products. Inventory acquired under the U.S. Department of Agriculture (USDA), [*State*] Emergency Food Assistance Program (SEFAP), donated inventory, and [*Specific*] program is stated at the following values:

	Valuation Methodology	
Inventory Type	**September 30, 20X2**	**September 30, 20X1**
[*Specific*] program	Cost (FIFO)	Cost (FIFO)
Donated inventory	$1.68/pound	$1.73/pound
SEFAP	Cost (FIFO)	Cost (FIFO)
USDA	USDA Provided Value	USDA Provided Value

Donated inventory items are valued at the approximate average wholesale value of one pound of donated product at the national level as outlined in the Product Valuation Survey Methodology prepared by an international CPA firm dated December 31, 20X1 and 20X0 prepared for [*Organization*] for use by member food banks.

6.65 Note X: Inventories [*portion of a longer note*]

Inventory is stated at the lower of cost or market based on the first-in, first-out basis. Inventory consists of bookstore merchandise and user licenses to a customized software package. The user licenses are purchased and maintained by [*Entity*] as inventory. When a student enrolls, they are assigned a user license, but the license is not removed from inventory. When a student graduates, the license is transferred permanently to the student, at which time, it is removed from inventory. If a student does not graduate and leaves [*Entity*], these licenses are reassigned.

6.66 Note X: Prepaid Expenses and Other Assets [*portion of a longer note*]

Prepaid expenses and other assets include inventories of retail store merchandise of approximately $280,000 and $283,000 as of June 30, 20X2 and 20X1, respectively, which are valued at the lower of cost or market, on a first-in, first-out basis.

6.67 Note X: Exhibitions [*portion of a longer note*]

The Museum capitalizes exhibition costs as they are incurred. Upon the opening of an exhibition, the capitalized costs are amortized on a straight-line basis over its estimated useful life of five years. The net unamortized exhibition costs are included in prepaid expenses and other assets on the consolidated statement of financial position.

Collections

6.68 The majority of museums do not capitalize their collections, but some museums do. Only collections that meet all of the following three criteria are eligible to not be capitalized: (*a*) they are held for public exhibition, education, or research in furtherance of public service rather than financial gain; (*b*) they are protected, kept unencumbered, cared for, and preserved; and (*c*) they are subject to an organizational policy that requires the proceeds of items that are sold to be for the acquisitions of new collection items, the direct care of existing collections, or both. Works of art, historical treasures, and similar assets that do not meet the three criteria are required to be capitalized.

6.69 An NFP that holds collections is required to disclose its policy for the use of proceeds from deaccessioned collection items. If the policy allows for the proceeds of deaccessioned collection items to be used for direct care, the NFP must disclose its definition of *direct care*. The term direct care is not defined in the accounting standards. To assist in making this determination, Q&A section 6140.27, "Definition of *Direct Care* of Collection Items," provides important characteristics to consider when an NFP determines which costs are considered direct care of collection items.

6.70 Some NFPs capitalize some, but not all, collection items. Certain disclosures are required regardless of whether collections are capitalized.

6.71 Note X: Art Objects and Library Collections

The value of the art objects in the permanent collection, and the holdings of the libraries, are excluded from the statements of financial position. Additions to the permanent collection are made either by gifts, bequests, or through purchases using [*Entity's*] acquisition funds. [*Entity's*] acquisition funds may be classified as donor-restricted in which either (i) the principal balance is to be held in perpetuity and only the income earned on principal balances may be used for acquisitions, or (ii) both the principal and income earned may be used for acquisitions; or classified as without donor restrictions, representing funds designated by the Board to be used for acquisitions.

The withdrawal of works of art from the collection of the [*Entity*] is performed in accordance with a formal policy initially adopted in 1975 and last revised in fiscal year 2020. The objects are generally offered for sale at a public auction and the proceeds from such dispositions are classified as donor-restricted for the purchase of works of art. Proceeds from the sale of collection items are used to purchase or commission works of art for the permanent collection or for the direct care of objects within its permanent collection. Direct care of the collection means investing in objects in the Museum's permanent collection by enhancing their life, usefulness, or quality, thereby ensuring they will continue to benefit the public. Direct care includes, but is not limited to, maintenance and protection, conservation, and management of the collection.

All works of art and certain library collections are held for public exhibition, education, or research; are protected, kept unencumbered, cared for, and preserved; and are subject to strict organizational policies governing their use. The value of the [*Entity's*] permanent collection is not subject to reasonable estimation. Therefore, they are not included in the statements of financial position.

6.72 Note X: Art Collection [*portion of a longer note*]

In accordance with industry practice, art objects purchased, donated, and bequeathed are included in net assets with donor restrictions at a value of $1. Contributions for the purchase of collection items, net assets released from restrictions to purchase collection items, the cost of all collection items purchased, the proceeds from deaccessioned art, and the proceeds from the sale of art that was not part of the collection but will be used for the purchase of collection items are reported as changes in net assets related to collection items purchased and sold in the statement of activities.

[*Entity's*] policy is to maintain and continue to acquire significant works of 20th and 21st century art in all mediums. From time to time, [*Entity*] may decide to deaccession objects in accordance with the law and [*Entity's*] Collection Management Policy. Deaccession proceeds are used for art acquisitions in furtherance of [*Entity's*] mission and are reported as net assets with donor restrictions in the statement of activities.

6.73 Note X: Collections

Included in collections and other assets are [*Entity's*] collections, which comprise art objects, artifacts of historical significance, and the research and photographic libraries that are held for exhibition and educational, research, and curatorial purposes. Collection items are recorded at cost if purchased or, if contributed, at appraised value at the date of contribution. As of June 30, 20X2 and 20X1, [*Entity's*] collection totaled $2,639,580 and $2,405,127, respectively.

Objects in [*Entity's*] collection may be subject to decreases in value due to changes in attribution. In addition, objects in [*Entity's*] collection may be subject to forfeiture or other claims made by individuals, for example, objects appropriated during the [*Historical*] era, or by countries related to the return of cultural property. [*Entity*] closely monitors these risks, and when it is determined that the value of an item may be impaired and the loss can be estimated, [*Entity*] adjusts the value of the assets by establishing a reserve. As of June 30, 20X2 and 20X1, [*Entity's*] reserve totaled $3,994 and $3,976, respectively.

The publication inventory, also carried as a component of collections and other assets, is carried at the lower of cost or estimated net realizable value, totaling $2,682 and $2,005 at June 30, 20X2 and 20X1, respectively.

6.74 Note X: Animal and Horticultural Collections

In accordance with customary practice among zoological organizations, animal and horticultural collections are recorded at the nominal amount of $1, as there is no objective basis for establishing value. Additionally, animal and horticultural collections have numerous attributes, including species, age, sex, relationship and value to other animals, endangered status, and breeding potential, whereby it is impracticable to assign value. Expenditures related to animal and horticultural acquisitions are expensed in the period of acquisition.

In an ongoing commitment to enhance the worldwide reproduction and preservation of animals, the [*Zoo*] shares animals with other organizations. Consistent with industry practice, the [*Zoo*] does not record any asset or liability for such sharing arrangements, as generally these arrangements are without monetary consideration.

6.75 Note X: Collections [*portion of a longer note*]

The College's collection consists of art objects that cover a broad range of history, media, and attitudes. It is held for public exhibition, preservation for future generations, scholarly research, and educational purposes. Contributed collection items are not reflected on the consolidated financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes. Donations of artwork are accepted with consideration to how they will benefit the campus learning environment. The collection items are subject to a policy that requires proceeds from their sales to be used for the acquisition of new collection items. During the fiscal years ending June 30, 20X2 and 20X1, no sales of collection items occurred, and no collection items were given away, damaged, destroyed, lost, or otherwise deaccessed.

6.76 Note X: Library, Art, and Garden Collections

The collections, which were acquired through purchases and contributions since [*Entity's*] inception, are not recognized as assets on the statement of financial position. The collections are held for public education or research in furtherance of public service, rather than financial gain.

Collections items are expensed when purchased. Contributed collections items are not reflected on the financial statements. The estimated fair value of contributed collections items amounted to $6.4 million and $1.26 million for the years ended June 30, 20X2 and 20X1, respectively.

[*Entity*] continually reviews its collections and may deaccession or acquire additional items. Proceeds from deaccessions are classified as net assets without donor restrictions, except when donor restrictions apply. The collections are subject to a policy that requires proceeds from deaccessioning to be used to acquire other items for collections.

During fiscal year 20X2 and 20X1, certain items of art were deaccessioned at auction. They had a value of approximately $13,000 and $287,000, respectively. The proceeds are restricted for future acquisitions of art.

Right-of-Use Assets and Lease Obligations

6.77 FASB ASU No. 2016-02, *Leases (Topic 842)*, recently changed the accounting for leases, primarily by the recognition of lease assets and lease liabilities by lessees for leases classified as operating leases under previous GAAP. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and an asset representing its right to use the underlying asset for the lease term (the right-of-use asset). The right-of-use asset and the lease liability are initially measured at the present value of the lease payments.

6.78 Leases continue to be classified as either operating or finance leases (previously referred to as capital leases). For finance leases, a lessee is required to recognize interest on the lease liability separately from amortization of the right-of-use asset. For operating leases, a lessee is required to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term generally on a straight-line basis.

6.79 These examples are for the disclosures required by the new lease standards. Note that if the disclosures appear incomplete, typically it is because the NFP chose to report the omitted information on the face of the financial statements.

6.80 Note X: Leases

[Presented as part of the Significant Accounting Policies note]

The Association applies Accounting Standards Codification ("ASC") 842, *Leases,* in determining whether an arrangement is or contains a lease at the lease inception. An arrangement is considered to include a lease if it conveys the right to control the use of identified property, plant or equipment for a period of time in excess of twelve months in exchange for consideration. The Association defines control of the asset as the right to obtain substantially all of the economic benefits from use of the identified asset as well as the right to direct the use of the identified asset.

The Association determined that all the existing leases are operating leases, which are included in Operating lease, right-of-use ("ROU") assets and Operating lease liabilities in the combined statements of financial position. ROU assets represent the Association's right to use leased assets over the term of the lease. Lease liabilities represent the Association's contractual obligation to make lease payments and are measured at the present value of the future lease payments over the lease term. ROU assets are calculated as the present value of the future lease payments adjusted for any lease payments made to the lessor at or before the commencement date, minus any lease incentives, and plus any initial direct costs.

ROU assets and lease liabilities are recognized at the lease commencement date. The Association uses the rate implicit in the lease if it is determinable. When the rate implicit in the lease is not determinable, the Association uses the incremental borrowing rate at the lease commencement date to determine the present value of the future lease payments. Lease terms may include renewal or extension options to the extent they are reasonably certain to be exercised. Lease expense is recognized on a straight-line basis over the lease term. To the extent a lease arrangement includes both lease and non-lease components, the components are accounted for separately.

[Presented as a separate lease note]

The Association has lease arrangements on office buildings across geographic regions globally. These leases are all classified as operating leases and typically have an original term not exceeding 15 years. Some leases contain multi-year renewal options, some of which are reasonably certain of exercise. Payments under these lease arrangements are all fixed. Lease expenses from operating leases were approximately $10,357,000 and $11,362,000 for the years ended December 31, 20X2 and 20X1.

The Association no longer plans to exercise the option to renew an office lease in the UK and plans to terminate the lease at its expiration in September 20X4. As a result, the lease was reassessed, and the lease liability was remeasured in 20X2, resulting in a decrease of $10,852,000 in both the ROU asset and lease liability. Additionally, the Association vacated a portion of its U.S. office space and marketed it for sublease. The Association applied ASC 360-10, *Impairment or Disposal of Long-Lived Assets to be Held and Used,* in determining the estimated fair value and the estimated impairment loss. Fair value was based on the expected future cash flows generated by the market participants, discounted at the incremental borrowing rate. The Association recognized an impairment loss of $1,958,000, as part of Supporting Activities – General Management in the accompanying combined statements of activities for the year ended December 31, 20X2.

Operating lease liability maturities (in thousands) as of December 31, 20X2, are as follows:

2023	$11,505
2024	11,090
2025	9,904
2026	9,475
2027	9,173
Thereafter	37,521
Total undiscounted lease payments	88,668
Less imputed interest	(10,569)
Total lease liability	**$78,099**

The weighted-average remaining lease term and discount rate related to the Association's lease liabilities as of December 31, 20X2, were 8.80 years and 2.85%.

6.81 Note X: Operating Leases

[Presented as part of the Significant Accounting Policies note]

The Organization leases office space and equipment used in operations. For many of these leases, the Organization is responsible for paying property taxes, insurance, as well as maintenance and repair costs. The Organization's real estate leases generally have initial lease terms of five to ten years or more and typically include one or more options to renew, with renewal terms that generally extend the lease term for an additional five to ten years or more. The Organization assesses renewal options using a "reasonably certain" threshold, which is understood to be a high threshold, and therefore the majority of its leases' terms do not include renewal periods for accounting purposes. For leases where the Organization is reasonably certain to exercise its renewal option, the option periods are included within the lease term and, therefore, the measurement of the right-of-use asset and lease liability. The payment structure of the Organization's leases generally includes annual escalation clauses that are either fixed or variable in nature, some of which are dependent upon published indices.

Certain leases include an option to terminate the lease, the terms and condition of which vary by contract. These options allow the parties to the contract to terminate their obligations typically in return for an agreed upon financial consideration amount. The Organization's lease agreements do not contain material residual value guarantees.

Subsequent to the lease commencement date, the Organization reassesses lease classification when there is a contract modification that is accounted for as a separate contract, a change in the lease term or a change in the assessment of whether the lessee is reasonably certain to exercise an option to purchase the underlying asset or terminate the lease.

[Presented as a separate lease note]

The Organization has noncancelable operating leases, which expire in various years through 2041. Most of these leases generally do not contain renewal options and require the Organization to pay all executory costs (property taxes, maintenance, and insurance). The Organization considers the renewal options in determining the lease term used to establish the right-to-use asset.

The Organization's right-of-use assets pertaining to these operating leases represent the right to use the facilities for their respective lease terms, and the corresponding operating leases liabilities represent the obligation to make lease payments arising from the respective leases. Such right-of-use assets and operating leases liabilities are recognized at each of the leases' commencement dates at the present value of lease payments over the lease term for leases with initial terms greater than a year. As these leases do not provide an implicit rate, the Organization utilized the incremental borrowing rate based on information available at the lease commencement date in determining the present value of lease payments. A right-of-use asset and operating lease liability are not recognized for leases with an initial term of 12 months or less, and the Organization recognizes lease expense for such leases over the lease term within occupancy expenses in the consolidated statements of functional expenses.

The components of lease cost included in the accompanying consolidated statements of functional expenses for the years ended December 31, 20X2 and 20X1 are as follows:

	20X2	20X1
Operating lease cost:		
Lease cost, leases with terms greater than one year	$5,042,653	$4,887,796
Short-term lease cost	426,104	171,753
	$5,468,757	$5,059,549

Other information related to the Organization’s operating leases and supplemental cash flows for the years ended December 31, 20X2 and 20X1 are as follows:

	20X2	20X1
Cash flows for operating lease costs for leases with terms greater than one year	$5,087,312	$4,854,827
Right-of-use leased assets obtained in exchange for new lease obligations	$4,204,110	$9,155,257
Weighted-average remaining lease term for operating leases	9.9 years	5.7 years
Weighted-average discount rate for operating leases	2.6%	2.6%

Future minimum lease payments as of December 31, 20X2 and 20X1 are as follows:

	20X2	20X1
20X2		$5,013,360
20X3	$5,189,100	4,743,914
20X4	5,142,230	4,688,139
20X5	5,212,889	4,749,717
20X6	5,294,495	4,822,060
20X7	5,414,062	
Thereafter	13,539,050	16,003,476
Undiscounted payments	39,791,826	40,020,666
Less interest component	(5,179,217)	(5,687,391)
Operating lease liability	**$34,612,609**	**$34,333,275**

6.82 Note X: Leases

The University is committed to minimum annual lease payments under several long-term noncancellable operating and financing leases for equipment, buildings and office space expiring at various dates through 21X1.

The University has entered into the following lease arrangements:

Finance Leases

These leases mainly consist of various equipment leases and a lease with the *[Commission]* to assume the operations of the *[Amphitheater]*. The lease agreement with the *[Commission]* expires in 20Y3, or in 20A4, if all options are exercised, at which time a second lease agreement with the *[Center]*, an institution of the state of *[State]*, commences. The lease with the *[Center]* expires in 21W1 and the University has assumed that all options will be exercised. Under the terms of both lease agreements for the *[Amphitheater],* the University is required to make certain capital improvements.

Operating Leases

The University has various equipment, vehicle, and real estate leases for office space and housing that expire in various years through 20B1. These leases generally contain renewal options for periods ranging from 2 years to 10 years and require the University to pay all executory costs (property taxes, maintenance, and insurance). The University is not reasonably certain the renewal options will be exercised and has not included them in the terms. Space leases contain customary escalation clauses, which are included in annual aggregate minimum rentals.

Short-Term Leases

The University has certain leases that are for a period of 12 months or less or contain renewals for periods of 12 months or less. The University does not include short-term leases within the statement of financial position because it has elected the practical expedient to exclude these leases from right-of-use assets — operating leases and operating lease obligations.

Operating Leases as Lessor

The University has various leases in which it is the lessor. The University leases to others portions of certain buildings owned for retail, office, and medical office purposes. Leases are generally ten-year terms or less and are classified as operating leases. These leasing arrangements are not material to the consolidated financial statements.

Lease Expense

The components of lease expense for the year ended June 30, are as follows:

(Dollar amounts in thousands)	20X2	20X1
Finance lease expense		
Amortization of right-of-use asset	$2,392	$1,776
Interest on lease liabilities	3,549	3,414
Operating lease expense	53,352	51,416
Short-term lease expense	2,078	633
Variable lease expense	1,428	(409)
Total lease expense	**$62,799**	**$56,830**

Other Lease Information

(Dollar amounts in thousands)	20X2	20X1
Cash paid for amounts included in the measurement of lease liabilities		
Finance leases — Financing cash flows	$1,232	$664
Finance leases — Operating cash flows	$1,695	$1,595
Operating leases — Operating cash flows	$53,030	$49,647
Right-of-use assets obtained in exchange for incurring lease liabilities		
Finance leases	$3,528	$3,909
Operating leases	$13,612	$54,713
Weighted-average remaining lease term		
Finance leases	83.4 years	86.4 years
Operating leases	7.3 years	7.6 years
Weighted-average discount rate		
Finance leases	4.3%	4.4%
Operating leases	1.5%	1.4%

Future Minimum Lease Payments

Future aggregate minimum lease payments as of June 30, 20X2, under finance and operating leases are as follows:

(Dollar amounts in thousands)	Finance	Operating
20X3	$3,327	$44,080
20X4	2,987	37,040
20X5	3,009	31,232
20X6	2,673	25,878
20X7	2,306	20,684
Thereafter	660,061	57,899
Undiscounted payments	674,163	217,604
Less amounts of interest	(587,405)	(14,738)
Lease liability	**$86,405**	**$202,866**

Lease Commitments

The University entered into a lease agreement for a 101,000 square feet medical office building. The lease is a 34-year term with five, five-year options to extend, with the estimated lease commencement date of May 23, 20X4. The University has the right of first offer years 6 through 18 and the right to purchase the building at fair market value years 19 and 20. The University has a commitment to pay minimum lease payments of $327,470,000 through the initial 34-year term.

Fixed Assets

6.83 Although NFPs may use accelerated depreciation if they wish, very few do because taxes are not usually a concern.

6.84 Depreciation need not be recognized on an individual work of art or historical treasure whose economic benefit or service potential is used up so slowly that its estimated useful life is extraordinarily long. See FASB ASC 958-360-35-3 for the criteria necessary to not depreciate these assets.

6.85 Note X: Property and Equipment

Property and equipment consist of the following as of June 30:

	20X2	20X1
Buildings	$19,909,806	$19,909,807
Land	2,080,740	2,076,350
Furniture and equipment	3,499,249	2,891,644
Property improvements	2,452,465	1,881,405
Automobiles	640,005	635,873
	28,582,265	27,395,079
Less accumulated depreciation	12,019,878	11,108,629
Property and equipment, net	**$16,562,387**	**$16,286,450**

Property purchased with federal funds may, in accordance with grantor agreements, be required to be returned to the federal government. However, because day-to-day control lies with the grantee, such assets have been included in the consolidated statements of financial position.

The Organization owns two properties, included in buildings, which are restricted as to use. One property was acquired on June 30, 20X1. This property is currently encumbered by $800,000 with the Department of Housing and Urban Development (HUD) through September 20X3, by $465,000 with the City of [*City*] through September 20X4, and by $600,000 with [*County*] County through September 20Y9.

The other property is currently encumbered by $854,500 with the City of [*City*] through 20Y5 and by $100,000 with [*County*] Resource Management through 20Z2.

6.86 When grants include amounts for the acquisition of fixed assets, the funder may retain legal title to the assets or the right to determine their disposition at the end of the grant period. In such cases, an NFP uses property owned by the funder to fulfill its obligations under an agreement with the funder. For example, some NFPs provide research or testing services using property owned by the entity that sponsors the research or testing. In many cases, the sponsoring entity transfers cash to the NFP rather than the property or equipment itself, with the directive that the cash be used to buy the property and equipment to be used in the transaction. The sponsoring entity will retain legal title to the property and equipment during the term of the arrangement. Chapter 9 of the AICPA Audit and Accounting Guide *Not-for-Profit Entities* states that

> [t]he NFP should report the receipt of cash from the sponsoring entity and the purchase of the asset as agency transactions (without recognizing revenue or expense). During the agreement's term, the use of the equipment that is owned by the sponsoring entity is recorded as revenue and expense . . . If the sponsoring entity transfers title at the end of the term, the NFP would report revenue, measuring the property at its fair value at that time.

Chapter 9 also states that "information should be provided about property and equipment acquired with restricted assets where the title may revert to another party, such as a resource provider."

6.87 Note X: Property and Equipment

Property and equipment acquired with [*Funder*] money are owned by the entity while used for general operations. However, [*Funder*] has the right to determine the use of these assets or the use of any proceeds resulting from the sale of these assets.

The cost of property and equipment purchased in excess of $500 is capitalized. Depreciation and amortization are provided in amounts sufficient to amortize the cost of the property and equipment over the estimated useful lives of the assets (ranging from 3–25 years) on a straight-line basis.

[*The preceding text would normally be part of a longer note detailing the components of property and equipment, including cost and useful lives by category.*]

6.88 Note X: Property and Equipment

Property and equipment consist of the following at June 30:	20X2	20X1
Building and improvements	$13,774,657	$13,444,414
Electronic systems improvements	1,277,384	957,229
Furniture and equipment	3,496,477	2,976,748
	18,548,518	17,378,391
Less: accumulated depreciation	8,631,693	7,778,425
	$9,916,825	**$9,599,966**

Depreciation expense was $853,270 and $729,846 for the years ended June 30, 20X2 and 20X1, respectively.

6.89 Note X: Property, Plant, and Equipment

At June 30, 20X2 and 20X1, property, plant, and equipment are as follows:

	20X2	20X1
Buildings	$555,495	$553,214
Leasehold improvements	8,565	8,131
Software, equipment, machinery, and furniture and fixtures	96,015	90,563
Total property, plant, and equipment at cost	660,075	651,908
Less: Accumulated depreciation	372,453	369,851
Property, plant, and equipment, net	287,622	282,057
Land, at cost	91,352	91,352
Undeveloped property	267,428	185,321
	$646,402	**$558,730**

Capitalized interest primarily related to bond financing from [*Entity's*] prior expansion project was included in fixed assets for the years ended June 30, 20X2 and 20X1 and totaled $14,348 and $15,524, respectively.

Undeveloped property includes costs related to a multi-year project comprising development, construction, and integration of a to-be-constructed [*Entity*]-owned condominium unit (part of a mixed-use facility adjacent to [*Entity*]) into the current galleries of [*Entity's*] main facility, construction and equipping new galleries at an adjacent property, and planning and design renovation changes to [*Entity's*] main facility.

6.90 Note X: Property and Equipment

Property and equipment valued at $5,000 or more are capitalized. Property and equipment are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. Depreciation is provided over the estimated useful lives on a straight-line basis. Gain or loss on disposition of assets is reflected in the consolidated statements of activities in other revenues, and the related asset costs and accumulated depreciation are removed from the respective accounts.

The estimated useful lives used in determining depreciation are as follows:

Land improvements	10–20 years
Building and improvements	30–45 years
Leasehold improvements	Life of lease or useful life of improvement, whichever is shorter
Furniture and equipment	3–20 years

The College reviews the carrying value of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Measurement of any impairment loss is based on the fair value of the asset. Generally, fair value will be determined using valuation techniques such as the present value of expected future cash flows. No loss for impairment of long-lived assets was recorded during the years ended June 30, 20X2 and 20X1.

6.91 Conservation Easements

Conservation easements represent rights to restrict the use, access, and development of certain properties. Support that is not donor-restricted and expenses are recognized in equal amounts based upon the appraised value of the easement. [*Entity*] is obligated to monitor easements to ensure that the restrictions are maintained. [*Entity*] monitors these easements in the normal course of its operations and associated costs are expensed as incurred.

The estimated value of easements is not included in the combined balance sheets because the easements do not represent a future economic benefit to the Organization.

[*Entity*] receives donor-restricted contributions that must be maintained perpetually on donated conservation easements in order to provide funding for ongoing monitoring costs in perpetuity.

6.92 Assets Whose Uses Are Limited

Assets whose uses are limited represent proceeds from bonds and operations, which are invested and restricted under bond indenture agreements for construction, debt repayment, an investment deposit requirement under a certain bond purchase agreement, and investments placed in trust for payment of self-insured claims.

Liquidity and Availability

6.93 FASB ASC 958-210-50-1A requires an NFP to disclose the following:

a. Qualitative information in the notes to financial statements that is useful in assessing an entity's liquidity and communicates how an NFP manages its liquid resources available to meet cash needs for general expenditures within one year of the date of the statement of financial position.

b. Quantitative information either on the face of the statement of financial position or in the notes, and additional qualitative information in the notes as necessary, that communicates the availability of an NFP's financial assets at the date of the statement of financial position to meet cash needs for general expenditures within one year of the date of the statement of financial position. Availability of a financial asset may be affected by any of the following: (*a*) its nature, (*b*) external limits imposed by donors, laws, and contracts with others, or (*c*) internal limits imposed by governing board decisions.

6.94 The term *general expenditures* is undefined. Because the determination of which expenditures are general expenditures affects the determination of whether a financial asset is available to meet cash needs for general expenditures, the additional qualitative information may need to include a description of how both general expenditures and availability of financial assets are determined by the NFP.

6.95 Note X: Liquidity

[*Entity*] receives contributions with donor restrictions to be used in accordance with the associated purpose restrictions. Contributions may include gifts to establish endowments that will exist in perpetuity; the income generated from such endowments is used to fund programs or support operations. In addition, [*Entity*] receives contributions without donor restrictions; such support has historically represented approximately 70% of annual operations, with the remainder funded by other revenue streams, including investment income without donor restrictions and appropriated earnings from investment income with donor restrictions (that is, endowment funds).

[*Entity*] considers investment income without donor restrictions, appropriated earnings from donor-restricted endowments, contributions without donor restrictions, and contributions with donor restrictions for use in programs that are ongoing, major, and central to its annual operations as available to meet cash needs for general expenditures. General expenditures include general and administrative expense, fund-raising expense, and grant commitments expected to be paid in the subsequent year. Annual operations are defined as total expense related to both program services and supporting services activities.

[*Entity*] manages its cash available to meet general expenditures through the following three guiding principles:

- Operating within a prudent range of financial soundness and stability
- Maintaining adequate liquid assets
- Maintaining sufficient reserves to provide reasonable assurance that long-term agreements or other commitments and obligations under endowments with donor restrictions will continue to be met, thereby ensuring the sustainability of [*Entity*]

[*Entity*] operates on a biennial budget cycle, which is approved by members at its [*Event*]. The most recent biennial budget for the years ending June 30, 20X3 through 20X4 was approved at the [*Event*] on July 1, 20X2. The Board of Directors meets several times each year to review the consolidated financial statements and approve unbudgeted expenses.

The following provides a summary of financial assets available for general expenditures at June 30:

	20X2	20X1
Cash and cash equivalents	$3,762,600	$3,434,442
Investments	7,427,784	6,187,779
Investments held to fund deferred compensation	50,438	100,434
Receivables	501,922	542,253
Subtotal financial assets	11,742,744	10,264,908
Amounts not available for general expenditures within 1 year:		
Net assets with donor restrictions	(1,145,705)	(1,460,382)
Investments held to fund deferred compensation	(50,438)	(100,434)
Receivables		
Interest in pooled income fund, at fair value	(64,726)	(67,137)
Amounts due in 1–5 years, net	(152,441)	(244,377)
	$10,329,434	**$8,392,578**

6.96 Note X: Liquidity and Availability of Resources

The Organization's financial assets available within one year of the consolidated statements of financial position date for general expenditure are as follows:

December 31,	20X2	20X1
Cash and cash equivalents	$10,397,711	$11,287,979
Investments — Other	22,177,828	21,052,666
Investments — Unliquidated donated stocks	16,660,002	—
Member receivables, net	2,134,025	2,057,509
Contributions receivable, net	9,398,231	3,977,044
Accounts receivable, net	415,237	579,016
Total financial assets available within 1 year	61,183,034	38,954,214
Less:		
Amounts unavailable for general expenditures within 1 year, due to the following:		
Restricted by donors with purpose restrictions	(21,064,130)	(10,078,055)
Restricted by donors in perpetuity	(3,801,730)	(3,801,730)
Retirement plan assets expected to be paid in 20X3	(1,781,000)	—
Total amounts unavailable for general expenditures within 1 year	(26,646,860)	(13,879,785)
Amounts unavailable to management without Board's approval:		
Board-designated for quasi-endowment	(1,023,262)	(948,438)
Board-designated for [*Program*]	(386,064)	(393,784)
Board-designated for donor-advised funds	(11,342,027)	(7,446,745)
Total amounts unavailable to management without Board's approval	(12,751,353)	(8,788,967)
Total financial assets available to management for general expenditure within 1 year	**$21,784,821**	**$16,285,462**

UNLIQUIDATED DONATED STOCKS

In December 20X2, the Organization received a large gift of stocks in a lightly traded company listed on the NASDAQ stock exchange. Although the standing Board's policy is to liquidate all stock gifts upon receipt, due to the large number of shares received and the low volume of shares traded daily, it was deemed imprudent to liquidate the shares quickly. Therefore, the Board approved a specific exception to the standing liquidation policy for this particular block of donated stocks and directed the Investment Committee to develop a prudent liquidation strategy. At December 31, 20X2, no shares of the donated stocks had been liquidated. As of March 14, 20X3, all the shares of the unliquidated donated stocks had been successfully liquidated via a liquidation plan approved by the Investment Committee. The proceeds were immediately reinvested in short-term investments.

Liquidity Management

The Organization maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Organization invests cash in excess of weekly requirements in short-term investments.

To help manage unanticipated liquidity needs, the Organization has a committed line of credit of $5 million that it could draw upon. Additionally, the Organization has board-designated net assets without donor restrictions that could be made available for current operations, if necessary, even if the Organization does not intend to spend these for purposes other than those identified.

6.97 Note X: Available Resources and Liquidity

[*Entity*] regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. [*Entity*] has various sources of liquidity at its disposal, including cash and cash equivalents, marketable debt and equity securities, and a line of credit. See note X for information about [*Entity's*] bonds that are intended for the construction of the new [*building*].

For purposes of analyzing resources available to meet general expenditures over a 12-month period, [*Entity*] considers all expenditures related to its ongoing program activities, as well as the conduct of services undertaken to support those activities, to be general expenditures. Student loans receivable are not included in the analysis because principal and interest on these loans are used solely to make new loans and are, therefore, not available to meet current operating needs.

In addition to financial assets available to meet general expenditures over the next 12 months, [*Entity*] operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the statement of cash flows, which identifies the sources and uses of [*Entity's*] cash and shows positive cash generated by operations for fiscal years 20X2 and 20X1.

As of June 30, 20X2, the following tables show the total financial assets held by [*Entity*] and the amounts of those financial assets that could readily be made available within one year of the balance sheet date to meet general expenditures:

Financial Assets:	
Cash and cash equivalents	$8,907,482
Accounts receivable, net	399,829
Contributions receivable, net	24,420,676
Student loans receivables, net	1,697,346
Investments convertible to cash in the next 12 months	62,094,458
Other long-term assets	92,507,502
Total	**$190,027,293**

Financial Assets Available to Meet General Expenditures Over the Next 12 Months:	
Cash and cash equivalents	$8,907,482
Accounts receivable, net	399,829
Current portion of contributions for general expenditures	5,455,034
Endowment payout for use over the next 12 months	3,190,033
Investments not encumbered by donor or board restrictions	37,985
Total	**$17,990,363**

6.98 Note X: Liquidity and Availability [*portion of a longer note*]

[*Entity*] has approximately $5,851,977 of financial assets available to meet cash needs for general expenditures. This consists of cash of $1,250,555; accounts receivable of $866,525; and board-designated endowments and endowments without donor restrictions of $3,734,897. [*Entity*] has liabilities of $777,316 at year-end. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure. [*Entity*] has a goal to maintain financial assets on hand to meet at least 90 days of normal operating expenses which, on the average, total approximately $1 million per month given full programmatic expenditures.

6.99 Note X: Availability of Financial Assets for General Expenditures

Resources available to [*Entity*] to fund general expenditures, such as operating expenses; interest and principal payments on debt, and internally funded capital construction; have seasonal variations related to the timing of billings; receipt of gifts and pledge payments; and transfers from the endowment. [*Entity*] actively manages its resources, using a combination of short-, medium-, and long-term operating investment strategies to align its cash inflows with anticipated outflows in accordance with policies approved by its Board of Trustees. As further described in note X, [*Entity*] may draw upon a revolving credit facility to manage cash flows. At June 30, 20X2, existing financial assets and liquidity resources available within one year were as follows (in thousands):

Financial assets available for general expenditures within one year	
Cash and cash equivalents	$40,527
Operating investments	103,819
Liquidity resources	
Revolving credit facility	20,000

Additionally, [*Entity*] has $1.3 billion in board-designed endowment, of which $866.9 million can be liquidated within one year; however, no liquidation is anticipated.

The Board has approved fiscal year 20X3 spending from the endowment, which is estimated to be $124.1 million.

Liabilities

6.100 In section 7, see "Expenses" for tax-related items; "Split-Interest Agreements, Including Related Assets and Liabilities" for annuity liabilities; and "Exchange Revenue and Deferred Revenue" for deferred revenue items.

6.101 The term *grants payable* is often used to describe amounts awarded by a funder (which may be a government, a for-profit, or an NFP) to a not-for-profit (and, rarely, a for-profit) recipient. This term, however, is used rather loosely in practice to refer both to contributions, as defined in the FASB ASC glossary, as well as to amounts which are not contributions, but rather payments for goods or (more often) services to be rendered by the recipient to the payor — properly referred to as *exchange transactions*. To make it clear which type of transaction is being described, this publication uses the term *contributions payable* when that is what is intended. The term *grant* is used here to refer to the award itself, not the related financial statement amounts.

6.102 In practice, most grantors include information about grants payable and grant expense in a single note. This is illustrated in the following examples.

6.103 Note X: Grants and Distributions

The Board of Directors authorized grants of $141,016,535 and $93,595,511 in 20X2 and 20X1, respectively, and program-related investments of $1.25 million and $0 in 20X2 and 20X1, respectively. In addition, distributions from organizational funds of $3,463,348 and $46,315,862 were made in 20X2 and 20X1, respectively, and are not included in grants expensed in the consolidated statements of activities.

Unconditional grants are expensed upon approval by the Board of Directors. Conditional grants, which are approved by the Board of Directors and payable upon the performance of specified conditions by the grantees, are expensed when the specified conditions are satisfied.

Changes in grants payable are as follows:

	20X2	20X1
Grants payable at beginning of year	$31,762,130	$27,812,798
Unconditional grants expensed	97,396,952	91,670,352
Payments made	(98,548,740)	(87,721,020)
Grants payable at end of year	**$30,610,342**	**$31,762,130**

Grants payable at December 31, 20X2, are scheduled to be disbursed as follows: 20X3 — $25,710,986, 20X4 — $4,350,046, and 20X5 and thereafter — $549,310. At December 31, 20X2 and 20X1, total authorized conditional grants were $1,661,258 and $6,975,981, respectively.

6.104 Note X: Grants Payable

Grant expense is recognized when a payment is made to a grantee or in the period the grant is countersigned, provided that the grant is not subject to significant future conditions. Conditional grants are recognized as grant expense and as a grant payable in the period in which the grantee meets the terms of the conditions. Grants payable that are expected to be paid in future years are recorded at the present value of expected future payments. At December 31, 20X2, grants payable were discounted using the year-end risk-free rate for each year grants were made, which ranged between 0.4% and 4.7%.

At December 31, 20X2 and 20X1, grants payable totaled $9,188,553 (discounted to $8,758,888) and $8,505,203 (discounted to $8,071,191), respectively. Grants payable activity consisted of the following:

	20X2	20X1
Grants payable balance, beginning of year	$8,505,203	$7,895,493
Current year activity:		
New and supplemental grants	5,166,039	4,975,376
Payments	(4,392,923)	(4,260,444)
Grant amendments and contingencies	(89,766)	(105,222)
Grants payable balance, end of year	**$9,188,553**	**$8,505,203**

As of December 31, 20X2, based on the specific grant agreements, grants payable are expected to be paid in the following years:

20X3	$3,477,295
20X4	2,384,424
20X5	1,278,769
20X6	416,752
20X7	170,926
Thereafter	1,460,387
	9,188,553
Less discount to reflect grant payable at present value	(429,665)
Grants payable, net	**$8,758,888**

6.105 Note X: Grants

The Foundation's grant activity for the years ended December 31, 20X2 and 20X1, is summarized as follows:

	20X2	20X1
Grants approved by the Board of Directors	$90,943,023	$83,113,562
Add (deduct) conditional grant activity and other:		
Conditional grants made	(575,000)	(620,000)
Conditions met on conditional grants made in prior years	445,000	–
Change in discounts on multi-year grants, net	(40,850)	(79,124)
Other	(19,835)	–
Matching gifts program	483,508	444,282
Conditional grant activity and other, net	292,823	(254,842)
Grant expense, net	**$91,235,846**	**$82,858,720**

Future minimum grant disbursements as of December 31, 20X2, are scheduled as follows:

	Unconditional	Conditional
20X3	$44,016,513	$750,000
20X4	5,883,334	–
20X5	450,000	–
Total	50,349,847	750,000
Less discounts on multi-year grants	(157,996)	–
Grants payable, net	**$50,191,851**	**$750,000**

6.106 Note X: Receivables Securitization Program

The Organization has an asset securitization program. The program is structured to sell the eligible account receivables, without legal recourse, to a third-party investor, through a wholly owned bankruptcy-remote special purpose entity that is consolidated for financial reporting purposes. The Organization continues servicing the sold receivables. Proceeds received under the securitization program are treated as secured borrowings. The maximum amount of the agreement is $125 million and $150 million for the years ended June 30, 20X2 and 20X1, respectively, and the total cost of the program approximates the 30-day LIBOR plus 1.0%. At June 30, 20X2 and 20X1, the amount of outstanding borrowings under the securitization program was $120 million and $128 million, respectively, and is included in other liabilities on the statement of financial position.

6.107 In cases such as the following, the auditor may need to consider whether the entity has maintained an appropriate composition of assets.

6.108 Note X: Loans From Endowment Fund

In September 20X0, the directors of the entity authorized the borrowing of up to $10 million from the endowment fund for necessary capital improvements to the [*Asset*]. This authorization was subsequently revised in May 20X1 to permit the use of borrowings in meeting current and future financial contingencies. The entity had borrowings of $8 million at June 30, 20X1, and $7.8 million at June 30, 20X2, under this arrangement. Interest expense in 20X2 was $730,000 and in 20X1 was $648,000.

In September 20X2, the executive committee authorized a 30-day loan of up to $6,000,000 from the endowment fund. The entity borrowed $6 million on September 14, 20X2, to repay its bank line of credit, as described in note X. This borrowing is scheduled to be repaid in full on October 13, 20X2.

6.109 Note X: Split-Interest Agreements

[*Entity*] receives contributions through its charitable gift annuity program whereby in exchange for gifts of cash or securities, [*Entity*] promises to pay a fixed annual amount for life to the annuitant.

The difference between the fair value of the assets received and the present value of the future distributions to the annuitant is recognized as contribution revenue.

Upon the death of the annuitant, any balance of the amount in the split-interest account reverts to [*Entity*].

[*Entity*] has received gifts under this program on which it is obligated to make annual annuity payments of approximately $1,617,000 in accordance with the agreements as of March 31, 20X2.

In addition, [*Entity*] has eight unitrust agreements on which the income is paid to the donor for life. Upon the death of the donor, the balance in the trust account shall be distributed to [*Entity*] for its general purposes.

Assets and liabilities related to [*Entity's*] split-interest agreements are as follows:

	20X2	20X1
Assets — investments	$25,384,279	$22,354,025
Less liabilities under split-interest agreements	13,571,591	14,934,675
	$11,812,688	**$7,419,350**

Asset balances at March 31, 20X2 and 20X1, exceeded the reserve requirements of the [*State*] State Insurance Commission as well as the reserve requirements of the relevant regulatory bodies in all other states that require a reserve fund and in which [*Entity*] issues gift annuities. Reserves are included in liabilities under split-interest agreements on the accompanying consolidated statements of financial position.

The present value of obligations under split-interest agreements was calculated using interest rates ranging from 2.5% to 8.5% and applicable Annuity Mortality Tables (either 1983A, 2000, or 2012AR).

Beneficial interests in trusts (BITs) are recorded based on the present value of the estimated future receipts from the trusts, using discount rates ranging from 1.32% to

5.34%. These rates approximate the rates of return on the assets held in the trusts and are commensurate with the risks that management associates with the ultimate collection of the trusts. The initial gift and any subsequent adjustments to the nonperpetual BIT's carrying value are recognized as contributions with donor restrictions. The restriction relates to the extended time period over which the gift is expected to be received and may also include purpose restrictions to benefit specific [*Entity*] programs.

Adjustments to reflect revaluations of the present value of estimated future payments and changes in actuarial assumptions are recognized in the consolidated statement of activities as changes in value of split-interest agreements.

6.110 Note X: Liabilities Under Split-Interest Agreements

As trustee, [*Entity*] administers irrevocable charitable trusts. These trusts provide the payment of lifetime distributions to the grantor or other designated beneficiaries. Some of these trusts have beneficiaries revocable at the discretion of the grantor, and these amounts are recorded as refundable advances. The amounts held in these trusts are recorded as liabilities under split-interest agreements. All trust income, deductions, and credits are reportable by the grantor for tax purposes. At the grantor's death, the remaining trust assets, if designated for [*Entity*], will be recorded as gifts. Any trust designated for other beneficiaries will be distributed in accordance with the trust agreement.

Other trusts are fully irrevocable. The present value of the lifetime beneficiaries' interests are reported as liabilities under split-interest agreements using federal discount and mortality tables. At the death of the lifetime beneficiaries, the trusts provide for the distribution of assets to designated remaindermen. The present value of [*Entity's*] remainder interest is reported as a contribution in the period received within net assets with donor restrictions, and as a reclassification to net assets without donor restrictions when released, unless the donor specified that it be used for a restricted purpose. Certain trusts contain provisions to distribute assets to remaindermen other than [*Entity*]. The portion attributable to other remaindermen is reflected as a part of liabilities under split-interest agreements on the consolidated balance sheet.

6.111 Note X: Asset Retirement Obligation

Under current accounting standards guidance, [*Entity*] must accrue for costs related to legal obligations to perform certain activities in connection with the retirement, disposal, or abandonment of assets. The obligation to perform the asset retirement activity is not conditional even though the timing or method may be conditional. The fair value of a liability for a legal obligation associated with an asset retirement is required to be recorded in the period in which the obligation is incurred. When the liability is initially recorded, the cost of the asset retirement is capitalized.

Substantially all of [*Entity's*] conditional asset retirement obligation relates to the estimated cost to remove certain materials from [*Entity's*] facilities. The future value of the asset retirement obligation as of June 30, 20X2 is estimated to be approximately $.89 million. The liability was estimated using an inflation rate of 4%. Because accounting standards required retrospective application to the inception of the liability, the initial asset retirement obligation was calculated using a discount rate of 5%.

Changes in the accrual for asset retirement obligation during the years ended June 30 are as follows:

	20X2	20X1
Balance — beginning	$428,811	$486,260
Adjustment of asset retirement liability	12,819	(48,995)
Settlement of asset retirement obligation	(24,004)	(8,454)
Balance — ending	**$417,626**	**$428,811**

6.112 Note X: Asset Retirement Obligations [*portion of a longer note*]

[*Entity*] has recognized a liability for the fair value of legally required asset retirement obligations (for example, asbestos remediation) associated with fixed assets that are owned by [*Entity*]. [*Entity's*] asset retirement obligations were $471 and $470 at June 30, 20X2 and 20X1, respectively, and is reflected in accounts payable and accrued liabilities in the accompanying financial statements. For City-owned buildings, by law and written agreement, the City is responsible for maintenance and repair of the buildings, which, supported by a long-term pattern of practice, include provision of funds for remediation costs associated with asbestos and other hazardous materials in those buildings. Therefore, [*Entity*] has not recorded a liability in its financial statements for asset retirement obligations associated with City-owned buildings.

6.113 Note X: Debt

Debt comprised the following at June 30:

	20X1	20X2
Variable Rate Debt		
[*Facility*] variable rate bonds	$128,000,000	$128,000,000
Fixed Rate Debt		
[*Facility*] fixed rate bonds	212,960,000	212,960,000
Fixed rate bond premium, net	16,745,100	17,821,200
	229,705,100	230,781,200
	357,705,100	358,781,200
Less: Unamortized debt issuance cost	(3,894,500)	(4,396,600)
	$353,810,600	**$354,384,600**

[FACILITY] BONDS

On October 22, 20X0, the [*Bank*] issued two series of revenue bonds with a par value of $340,960,000. The purpose of issuance is to (*a*) finance the [*Facility*] ($288,097,500); (*b*) repay the [*Location*] bonds ($35,000,000); (*c*) repay the promissory note ($28,000,000); (*d*) terminate the existing derivative instrument ($5,723,000); and (*e*) fund a portion of the bond issuance costs ($2,704,900). The first series issued, Series 20X0A, were fixed rate bonds with a par value of $212,960,000. The series generated a premium of $18,565,400. The Series A were issued in a variety of tranches with a portion maturing each year beginning on November 1, 20X5. The final tranche matures on November 1, 20Z5. The rates range from 2% to 5%, with an average coupon of 4.24%. Taking into account the bond premium, the effective interest rate is 4.14%. The second series issued, Series 20X0B, were variable rate bonds with a par value of $128 million. Series B matures in 20X5 but can be remarketed for up to an additional 25 years. The interest rate adjusts weekly and is calculated at 70% of LIBOR plus a spread of 0.95%. The interest rate at June 30, 20X2 and 20X1 is 1.81% and 1.28%, respectively. The bonds are collateralized by the revenue of [*Entity*]. The bond agreements include certain nonfinancial covenants, primarily pertaining to continuing disclosure requirements, which [*Entity*] was in compliance with at June 30, 20X2.

Aggregate principal payments for the next five years are summarized in the following amortization schedule:

20X3	$ —
20X4	—
20X5	—
20X6	132,220,000
20X7	4,425,000
	$136,645,000

[LOCATION] BONDS

On November 13, 20W3, the [*Finance Authority*] issued $35 million of Variable Rate Demand Refunding Revenue Bonds (20W3 bonds) on behalf of [*Entity*] for the purpose of refinancing [*Entity's*] existing bonds that were issued during 20V7. The bonds were originally scheduled to mature on July 1, 2032; however, these bonds were repaid on October 22, 20X1.

PROMISSORY NOTE

On March 1, 20W9, [*Entity*] entered into an unsecured promissory note with [*Bank*] for $28 million. The note requires monthly interest-only payments and is due on or before March 15, 20X3; however, this promissory note was repaid on October 22, 20X1.

DERIVATIVE INSTRUMENT

At the completion of the initial bond offering in 20V7, [*Entity*] entered into an interest rate swap with [*Financial Group*]. The swap has a notional value of $21 million and terminates on July 1, 2032; however, this swap agreement was terminated on October 22, 20X1. Losses on the derivative instrument are included in interest expense at June 30, 20X1.

FIXED RATE BOND PREMIUM

Fixed rate bond premium consists of the following at June 30:

	20X2	20X1
Bond premium	$18,565,400	$18,565,400
Less accumulated amortization	(1,820,300)	(744,200)
	$16,745,100	**$17,821,200**

DEBT ISSUANCE COSTS

Debt issuance costs consist of the following at June 30:

	20X2	20X1
Bond issuance costs	$4,731,400	$4,731,400
Less accumulated amortization	(836,900)	(334,800)
	$3,894,500	**$4,396,600**

Estimated future annual amortization expense associated with the preceding bond issuance costs is summarized in the following amortization schedule:

20X3	$502,200
20X4	502,200
20X5	502,200
20X6	263,400
20X7	142,000
20X8 and thereafter	1,982,500
	$3,894,500

6.114 Note X: Interest Rate Swap Agreements

In conjunction with the issuance of variable rate bonds, [*Entity*] has interest rate swap agreements with the following two counterparties: [*Bank 1*] and [*Bank 2*]. The swap agreements hedge [*Entity's*] floating rate exposure on outstanding debt through the exchange of floating rates for fixed rates. The fixed rates paid by [*Entity*] range from 3.42% to 3.74%. [*Entity*] expects that the floating rates it receives under the swap agreements will closely correlate with the floating rates on its variable rate bonds. The floating rates received on the swaps are based on percentages of three-month LIBOR designed to approximate the anticipated floating rate payments of [*Entity's*] tax-exempt bonds, though there is no guarantee that the two rates will not diverge. Management believes that such potential divergence does not create a financial risk that would materially affect [*Entity's*] financial position. The swaps, which are used to hedge the Series 20W71A Variable Rate Bonds, mature on April 1, 20Y3, and currently stand at a total notional amount of $244,770,000. They were originally entered into at a total notional amount at $275 million. The swaps, which are used to hedge the Series 20W8B and 20W9A Variable Rate Bonds, mature on October 1, 20Z7 and remain at the original notional amount of $270,475,000.

In accordance with FASB ASC 820, *Fair Value Measurement*, the interest rate swaps liabilities are reported at fair value totaling $120,605,000 and $156,786,000 as of June 30, 20X2 and 20X1, respectively, and are classified as Level 2 in the fair value hierarchy.

Net realized and unrealized gain (loss) on interest rate swap agreements are included in the accompanying statements of activities amounting to $36,181,000 and $62,858,000 for the years ended June 30, 20X2 and 20X1, respectively.

6.115 Note X: Interest Rate Swaps [*portion of a longer note*]

[*Entity*] uses interest rate swap contracts to manage the risk associated with fluctuations in interest rates on its variable rate debt. Pursuant to these agreements, [*Entity*] makes periodic payments to the swap counterparty at a fixed interest rate and receives payments at a variable rate computed in accordance with the contractual formula. [*Entity's*] policy is not to use financial instruments for trading or speculative purposes. Accordingly, it designates its interest rate swap agreements as hedges of the underlying debt. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps.

A substantial portion of [*Entity's*] interest-bearing debt carries a floating interest rate. Therefore, in the normal course of business, [*Entity*] is exposed to changes in short-term interest rates that can create uncertainty and variability in its cash flows. To mitigate this exposure, in June 20V9, [*Entity*] entered into a 30-year interest rate swap agreement, converting a notional $30,000 of floating rate debt into fixed-rate debt that bears interest at 3.905%, covering approximately two-thirds of the outstanding debt. In May 20W5, [*Entity*] entered into another interest rate swap agreement, converting the remaining one-third of outstanding floating rate debt into fixed-rate debt that bears interest at 2.81%. After giving effect to these interest rate swaps, [*Entity's*] outstanding debt is effectively at fixed rates at year-end 20X2.

For the valuation of the interest rate swaps, [*Entity*] used significant other observable inputs as of the valuation date (Level 2), including prices of instruments of similar maturities and characteristics. The fair value of the interest rate swaps is recorded within the consolidated statements of financial position at each period end. Changes in the fair value of the interest rate swaps are reported as unrealized gain or loss on interest rate swaps on the consolidated statements of activities and changes in net assets. The valuation of the swaps remaining at year-end resulted in an unrealized gain of $697,000 and $877,000 in 20X2 and 20X1, respectively. The fair value of the interest rate swap is included in accounts payable and accrued expenses in the consolidated statements of financial position and totaled $5,333,000 and $6,030,000 as of year-end 20X2 and 20X1, respectively. Providing that [*Entity*] holds the swap to maturity, the value of the derivative will be zero. The swap agreements can be terminated at the market rate at any time during the term of the agreement.

6.116 Note X: Interest-Free Loan

In January 20X2, the entity received an interest-free loan of $100,000 from a member of the board of trustees. The purpose of the loan was to pay operating expenses. The loan was repaid on December 31, 20X2. The contribution inherent in the interest-free loan has been recorded at fair value, based on an imputed interest rate of 6 percent, which is the entity's bank borrowing rate. Contribution revenue and interest expense of $6,000 has been reflected in the statement of activities.

6.117 FASB ASC 958-715 provides guidance on pension and other post-retirement benefits disclosure requirements.

6.118 Note X: Pension Benefits

[*Entity*] has a qualified, noncontributory defined benefit pension plan (the Plan) covering staff employees who meet the Plan's eligibility. Staff employees hired prior to January 1, 20W1, are eligible for the Plan. Staff employees hired after December 31, 20W1, and eligible faculty participate in a defined contribution plan in lieu of participation in the Plan. A supplemental retirement plan is provided for certain employees whose benefits are restricted under the qualified plans.

The following table sets forth the Plan's pension benefit obligation, plan assets, and funded status reconciled with the amounts set forth in the statements of financial position as of June 30, 20X2 and 20X1 (in thousands):

	20X2	20X1
Change in Benefit Obligation		
Benefit obligation — beginning of year	$168,401	$170,305
Service cost	2,829	3,068
Interest cost	6,641	6,514
Actuarial gain	(7,453)	(5,045)
Benefits paid	(9,914)	(6,441)
Plan amendments	(334)	—
Projected benefit obligation — end of year	160,170	168,401
Change in Plan Assets		
Fair value of plan assets — beginning of year	139,174	127,336
Actual return on plan assets	4,815	10,779
Employer contribution	5,000	7,500
Benefits paid	(9,914)	(6,441)
Fair value of plan assets — end of year	139,075	139,174
Funded status at the end of the year	$(21,095)	$(29,227)

The pension plan items not yet recognized as a component of periodic pension cost but included in net assets as of June 30, 20X2 and 20X1, are as follows (in thousands):

	20X2	20X1
Net actuarial loss	$45,698	$55,329
Prior-service cost	1,708	2,427
Net amount recognized	**$47,406**	**$57,756**

The accumulated benefit obligation as of June 30, 20X2 and 20X1, was $144.7 million and $151.0 million, respectively.

As of June 30, 20X2 and 20X1, components of net periodic benefit cost for the Plan consist of the following (in thousands):

	20X2	20X1
Service cost	$2,829	$3,068
Interest cost	6,641	6,514
Expected return on plan assets	(7,276)	(6,444)
Amortization of prior-service credit	385	385
Amortization of net actuarial loss	4,639	6,422
Net periodic benefit cost	**$7,218**	**$9,945**

Assumptions — Weighted-average assumptions used to determine the pension benefit obligation as of June 30, 20X2 and 20X1, are as follows:

	20X2	20X1
Discount rate	4.31%	4.00%
Salary growth rate	3.75%	3.75%

Weighted-average assumptions used to determine pension net periodic cost for the years ended June 30, 20X2 and 20X1, are as follows:

	20X2	20X1
Discount rate	4.31%	4.00%
Expected return on plan assets	5.34%	5.20%
Salary growth rate	3.75%	3.75%

Estimated Future Benefit Payments — The following pension benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands):

Years Ending June 30,	
20X3	$11,201
20X4	10,268
20X5	10,484
20X6	11,064
20X7	11,478
20X8–20Y2	57,379

Plan Assets — Investment objectives and policies are approved by [*Entity's*] Executive Committee based on recommendations by the Compensation and Benefits Committee and are achieved in partnership with external investment managers. The portfolio is designed to generate returns sufficient to meet obligations to beneficiaries at acceptable levels of risk. [*Entity*] determines the long-term rate of return on Plan assets by examining the Plan's asset allocation, historical capital market returns, and inflation assumptions. Historical returns and benchmarking data are also reviewed to ensure a reasonable and appropriate return assumption.

Plan assets are segregated into two separate investment pools: the retiree portion and the active portion. The assets of the retiree portion of the Plan are invested in a liability-driven investment strategy designed to match the duration and expected cash flows of the benefit distributions for certain retired Plan participants. The assets of the active portion of the Plan are invested to cover the future obligations due to the other Plan participants. The active portion of the Plan is invested in a mix of return seeking and liability hedging assets.

The asset allocation of the active portion of the Plan was as follows as of June 30, 20X2 and 20X1:

Asset category:	20X2	20X1	Target Allocation
Equity securities	75%	77%	75%
Fixed-income securities and cash and cash equivalents	25%	23%	25%
Total	**100%**	**100%**	**100%**

The Plan's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment. Investments in mutual funds traded on a national securities exchange are stated at the last reported sales price on the date of valuation. Institutional commingled funds are stated at fair value of the underlying securities or at net asset value (NAV), as determined by the administrator, based on readily determinable market values (in thousands). In accordance with GAAP (FASB ASC 820-10-35-54B), investments measured at the NAV or equivalents are not categorized within the fair value hierarchy.

The Plan's investments are classified as follows, based on fair values, as of June 30, 20X2 (in thousands):

	Investments Measured at NAV or Equivalent	Level 1	Level 2	Level 3	Total
Plan assets, at fair value:					
Cash and cash equivalents	$1,969	$ —	$ —	$ —	$1,969
Equity securities	41,467	25,545	—	—	67,012
Fixed-income securities	57,846	12,248	—	—	70,094
Total plan assets, at fair value	**$101,282**	**$37,793**	**$ —**	**$ —**	**$139,075**

The Plan's investments are classified as follows, based on fair values, as of June 30, 20X1 (in thousands):

	Investments Measured at NAV or Equivalent	Level 1	Level 2	Level 3	Total
Plan assets, at fair value:					
Cash and cash equivalents	$1,748	$ —	$ —	$ —	$1,748
Equity securities	34,262	30,555	—	—	64,817
Fixed-income securities	62,920	9,689	—	—	72,609
Total plan assets, at fair value	**$98,930**	**$40,244**	**$ —**	**$ —**	**$139,174**

Employer Contributions to Retirement Plans — [*Entity*] expects to contribute $5.0 million to its defined benefit pension plan in fiscal year 20X3. Employer contributions to the defined contribution plans totaled $5.3 million and $5.0 million, respectively, for the years ended June 30, 20X2 and 20X1. Employer contributions to the supplemental retirement plan totaled $332,000 and $316,000, respectively, for the years ended June 30, 20X2 and 20X1.

6.119 Note X: Retirement Plans

Substantially all employees of [*Entity*] are eligible to participate in defined contribution benefit plans. [*Entity*] contributes a specified percentage of each employee's salary to the plans. Contributions for the years ended June 30, 20X2 and 20X1, respectively, were $44,533 and $42,447.

Certain employees of [*Entity*] are eligible to participate in other benefit plans, including a defined supplemental executive retirement plan, deferred compensation arrangements, and supplemental retirement agreements. [*Entity*] has accrued $7,499 and $11,293 at June 30, 20X2 and 20X1, respectively, for liabilities associated with these plans. These liabilities are included in other liabilities and deferrals on the consolidated balance sheet.

6.120 Note X: Benefit Plans

[*Entity*] has a contract with [*employee type*] employed under a [*Union 1*] contract. The contract provides that [*Entity*] shall contribute to the [*Union 1*] Employee Benefit Plan, a 401(k) plan, an amount that is 5% of each [*employee type's*] gross compensation, plus an additional 7.5% of matching contributions. Contributions for [*employee type*] were approximately $380,000 and $327,000 for the years ended June 30, 20X2 and 20X1, respectively. The contract also provides [*employee type*] with severance pay upon termination if they have completed five years of employment with [*Entity*]. The liability for future [*employee type*] severance pay is estimated in accordance with the contract based on each [*employee type's*] current compensation and years of service.

[*Entity*] has a contract with [*employee type*] employed under a [*Union 2*] contract. The contract provides for 401(k) benefits under a union retirement plan and requires that [*Entity*] contribute 6% of gross pay to the [*Union 2*] plan. Retirement benefits expense for [*employee type*] was approximately $49,000 and $48,000 for the years ended June 30, 20X2 and 20X1, respectively. Additionally, the contract provides for health and welfare benefits and requires that [*Entity*] contribute 10% of gross wages to the union plan. The health and welfare benefits expense for [*employee type*] was approximately $81,000 and $69,000 for the years ended June 30, 20X2 and 20X1, respectively.

[*Entity*] has a contract with [*employee type*] employed under a [*Union 3*] contract. The contract provides for 401(k) benefits under a union retirement plan and requires that [*Entity*] contribute 6% of gross wages. Retirement benefits expense for [*employee type*] was approximately $13,000 and $11,000 for the years ended June 30, 20X2 and 20X1, respectively. Additionally, the contract provides for health and welfare benefits and requires that [*Entity*] contribute 10% of gross wages to the union plan. The health and welfare benefits expense for [*employee type*] was approximately $21,000 and $18,000 for the years ended June 30, 20X2 and 20X1, respectively.

Salaries of employees covered under collective bargaining agreements were approximately $6,036,000 and $5,751,000, representing 46% and 48% of salaries for the years ended June 30, 20X2 and 20X1, respectively.

[*Entity*] has a defined contribution plan to provide retirement benefits for all employees not covered by a collective bargaining agreement. Under the terms of the plan, it is optional for [*Entity*] to provide a matching contribution, which is based on an eligible employee's annual gross wages. [*Entity*] made matching contributions of approximately $90,000 and $89,000 for the years ended June 30, 20X2 and 20X1, respectively.

6.121 Note X: Accrued Vacation [*portion of Significant Accounting Policies note*]

Employees accrue vacation based on tenure and salary band. Unused vacation balances carry over to future years, subject to a cap. As of December 31, 20X2 and 20X1, accrued vacation obligations were approximately $3,966,000 and $3,409,000, respectively.

[*Entity's*] obligation for accrued vacation is included as a liability in the accompanying consolidated statements of financial position and represents the cost of unused employee vacation time payable in the event of employee terminations.

6.122 Note X: Service Credit Leave [*portion of a longer note*]

[*Entity*] provides certain severance and sick leave benefits under its Service Credit Program to all employees who meet certain age and service requirements. The present value of the Service Credit Leave obligation amounted to $3,954,000 and $4,338,000, respectively, at June 30, 20X2 and 20X1, which is included in accounts payable and accrued liabilities in the accompanying balance sheet. The liability is funded on a pay-as-you-go basis. Benefits paid and expenses recognized by [*Entity*] were $437,000 and $53,000, respectively, for the year ended June 30, 20X2 and $352,000 and $341,000, respectively, for the year ended June 30, 20X1.

6.123 Note X: Self-Insurance Reserve

[*Entity*] maintains a self-insured program for medical coverage as part of its employee benefits plan. [*Company*] provides claims administration as well as both individual and aggregate stop-loss coverage. Funding for this program is obtained through both employee and employer contributions for medical coverage and through earnings on designated assets held to pay claims. Investments designated by [*Entity*] for the insurance program amounted to approximately $1,112,000 and $1,189,000 as of June 30, 20X2 and 20X1, respectively, and were included in net assets without donor restrictions. As of June 30, 20X2 and 20X1, the actuarially determined liability associated with this program was approximately $1,112,000 and $1,189,000, respectively, and is determined as an estimated liability for self-insured claims in the accompanying consolidated statements of financial position.

6.124 Note X: Self-Insurance [*portion of a longer note*]

[*Entity*] maintains a self-insured program for its employee medical claims, which is administered by a third party. Certain retired employees have the option to purchase this insurance coverage by paying the computed premiums to [*Entity*]. Under the plan, coverage from an independent insurer is maintained for claims in excess of $125,000 per participant and $1 million in the aggregate. Expenses relating to the self-insured medical programs for the years ended June 30, 20X2 and 20X1 were approximately $5,181,000 and $4,734,000, respectively. The liability relating to the self-insured medical programs, included in accounts payable and accrued expenses as of June 30, 20X2 and 20X1, was approximately $539,000 and $444,000, respectively.

6.125 Note X: Self-Insured Medical Benefits and Workers' Compensation

[*Entity*] provides medical benefits through a self-insured plan, which is available to all employees of [*Entity*] who meet eligibility requirements for medical benefits. Accrued expenses include an incurred but not reported reserve of $1,050,000 as of June 30, 20X2, an estimate of amounts due and payable on existing claims for which [*Entity*] is self-insured, and current settlements are expected. For the plan year ended December 31, 20X1, [*Entity*] is self-insured with an aggregate stop-loss of $9,847,547. As of June 30, 20X2, [*Entity*] had net assets without donor restrictions of $1,178,089 designated for health insurance benefits, which consist of the cumulative amount of [*Entity*] and employee contributions toward health premiums that have exceeded expenses over the life of the plan.

[*Entity*] is self-insured for workers' compensation. As of June 30, 20X2 and 20X1, [*Entity*] has recorded a liability of $175,000 and $50,000, respectively, for claims incurred but not yet reported. The Workers' Compensation Reinsurance Association (WCRA) provides stop-loss coverage for aggregate claims in excess of $450,000. [*Entity*] has established a workers' compensation reserve as required by WCRA, which is included in investments on the balance sheets, of $949,488 and $1,010,515 as of June 30, 20X2 and 20X1, respectively.

6.126 FASB ASC 205-20 provides guidance for the accounting and reporting of discontinued operations. Under that guidance, in order to be considered a discontinued operation, a disposal must represent a strategic shift that has a major effect on the entity's operations and financial results.

6.127 Note X: Retail Operations Closure

On March 31, 20X2, [*Entity*] closed its retail operations, including two retail stores. This disposal transaction was not a strategic shift and will not have a major effect on [*Entity's*] operations. Therefore, this transaction is not recorded as a discontinued operation in [*Entity's*] financial statements.

Net Assets

6.128 FASB ASC 958-210-45-9 requires that information about the nature and amounts of donor restrictions on net assets be presented, either on the face of the statements or in the notes. In addition, amounts and purposes of board-designated net assets are required to be presented.

6.129 Note X: Net Assets

Net assets consist of the following:

	June 30,	
	20X2	**20X1**
Net assets without donor restrictions:		
Undesignated	$5,205,400	$4,637,471
Donor-advised funds	12,296,330	13,150,421
Board-designated for debt repayment and other	2,276,000	1,326,000
Board-designated endowment	651,618	632,584
State-required annuity reserves	2,419,106	1,764,298
Pension benefit obligation	(12,656,444)	(14,091,648)
Net investment in property and equipment	36,994,566	37,972,266
Total net assets without donor restrictions	$47,186,576	$45,391,392
Net assets with donor restrictions:		
Subject to expenditure for specified purpose:		
Scholarships and grants	$3,432,393	$3,496,129
Academic, student programs, and support	1,644,555	1,310,902
	5,076,948	4,807,031
Subject to the passage of time:		
Contributions receivable from third-party trusts	294,465	333,917
Life income funds	794,844	893,343
	1,089,309	1,227,260
Subject to [*Entity's*] spending policy and appropriation:		
Accumulated gains and term endowments	8,056,900	6,478,264
Endowment funds restricted in perpetuity	38,044,381	35,924,567
	46,101,281	42,402,831
Subject to restriction in perpetuity:		
Perpetual trusts held by others	516,158	511,721
Annuity funds	—	14,365
	516,158	526,086
Total net assets with donor restrictions	52,783,696	48,963,208
Total net assets	**$99,970,272**	**$94,354,600**

[*Entity's*] governing board through specific action has created self-imposed limits on net assets without donor restrictions. The board has earmarked $2,927,618 for the following purposes as of June 30, 20X2. These net assets can be drawn upon if the board approves such action.

	June 30,	
	20X2	**20X1**
For investment as a board-designated endowment	$651,618	$632,584
For repayment of debt	1,500,000	1,000,000
Reserves for contingencies and future expenditures	776,000	326,000
	$2,927,618	**$1,958,584**

6.130 Note X: Net Assets

WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions are those net resources that bear no external restrictions and are generally available for use by [*Entity*]. [*Entity*] has grouped its net assets without donor restrictions into the following categories:

- Operating and property and equipment net assets represent net assets that are available for operations and bear no external restrictions, and amounts expended and resources available for property and equipment used in normal operations, net of related debt.
- Board-designated for endowment net assets represent [*Entity's*] investment in land that has been designated by the Board of Trustees as a portion of [*Entity's*] endowment.

WITH DONOR RESTRICTIONS

Net assets with donor restrictions represent amounts received or committed with donor restrictions, which have not yet been expended for their designated purposes (purpose-restricted); amounts with donor capital restrictions, which will be recognized when the assets are placed in service (capital restricted); amounts for general use in future periods (time restricted); and amounts received from donors with the stipulation that the principal will be held in perpetuity and only the investment income can be spent. In accordance with [*State*] law, all earnings and appreciation of a donor-restricted endowment are restricted until appropriated for expenditure by the Board of Trustees.

Net assets with donor restrictions are restricted as follows:

	20X2	20X1
Subject to expenditure for specified purpose:		
Scholarships	$239,293	$552,367
Other operating expenses	1,467,618	1,030,600
Promises to give, proceeds from which have been restricted by donors for the following:		
Other operating expenses	538,491	848,248
	2,245,402	2,431,215
Subject to the passage of time:		
Promises to give that are not restricted by donors but that are unavailable for expenditure until collected	1,403,023	2,087,568
Subject to [*Entity's*] endowment spending policy and appropriation:		
Investment in perpetuity (including amounts above the original gift amounts of $19,199,951 and $14,464,917 as of June 30, 20X2 and 20X1, respectively), which, once appropriated, is expendable to support:		
Educational programs	4,600,971	4,220,783
Scholarships	15,281,680	9,913,203
General use	2,630,358	2,378,958
	22,513,009	16,512,944
Total net assets with donor restrictions	**$26,161,434**	**$21,031,727**

Net assets were released from donor restrictions by incurring expenses that satisfy the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended June 30, 20X2 and 20X1:

	20X2	20X1
Expiration of time restrictions:		
Annual fund	$96,859	$108,362
Other purpose-restricted pledge payments	1,339,783	1,599,696
Satisfaction of purpose restrictions:		
Educational programs	406,395	55,819
Scholarships	171,151	552,367
	2,014,188	2,316,244
Restricted-purpose endowment spending distributions and appropriations:		
Scholarships	386,998	382,278
Total net assets released from restrictions	**$2,401,186**	**$2,698,522**

6.131 Note X: Restrictions and Limitation on Net Asset Balances

The board has designated $302,002,851 and $283,090,755 of net assets without donor restriction as funds functioning as endowment as of June 30, 20X2 and 20X1, respectively.

Net assets with donor restrictions are available for the following purposes as of June 30, 20X2:

Donor-Restricted Net Assets Not Invested in Perpetuity:	
Program support	$21,663,859
Advances for grants and contracts	2,885,840
[*Named*] Loan fund	343,544
Physical plant acquisitions	23,513,532
Accumulated earnings from endowment funds subject to donor restrictions	351,199,980
Split-interest agreements	28,971,930
Total Donor-Restricted Net Assets Not Invested in Perpetuity	428,578,685
Donor-Restricted Net Assets Invested in Perpetuity:	
Endowment	241,896,014
Underwater endowment	(865,342)
Split-interest agreements	11,595,562
Total Donor-Restricted Net Assets Invested in Perpetuity	252,626,234
Total Net Assets With Donor Restrictions	**$681,204,919**

Net assets were released from donor restrictions as expenses were incurred that satisfy the restricted purposes or by the passage of time or the occurrence of other events specified by donors, as follows, for the year ended June 30, 20X2:

Release of Restrictions:	
Operating:	
Scholarship support	$10,515,828
[*Program*] support	96,188
Other instructional support	9,338,796
Operating budget support	24,050,304
Total Operating Net Assets Released From Restriction	44,001,116
Nonoperating:	
Plant construction	20,613,985
Matured split-interest agreements	982,882
Student loans	18,444
Total Nonoperating Net Assets Released From Restriction	21,615,311
Total Net Assets Released From Restriction	**$65,616,427**

6.132 This entity has very few donor-restricted net assets and has chosen a narrative format to satisfy the disclosure requirements.

6.133 Note X: Net Assets [*portion of a longer note*]

Net Assets Without Donor Restrictions

Net assets without donor restrictions represent resources that do not have donor-imposed stipulations available to support [*Entity's*] operations. [*Affiliate*] has an operating reserve for use on specific projects subject to the Board of Directors' approval.

Net Assets With Donor Restrictions

Net assets with donor restrictions represent gifts that are limited in use by [*Affiliate*] in accordance with donor-imposed stipulations. These stipulations may expire with time or may be satisfied and removed by the actions of [*Affiliate*] according to the terms of the gift. As of December 31, 20X2, [*Affiliate's*] net assets with donor restrictions consist entirely of gifts from [*Entity*] restricted to the subsequent year's operations and depreciation expense incurred on capital projects. Net assets with donor restrictions of $41,542 were released from restriction due to the expiration of time restrictions during the year ended December 31, 20X2. [*Affiliate*] spent $1,063 of its $10,000 [*Entity*] capital grant, of which, $10,000 remains restricted as capital assets associated with the expenditures were not placed in service during the year ended December 31, 20X2. This restriction will be released as capital assets are placed in service.

6.134 Note X: Other Transfers [*portion of a larger note*]

[*Entity*] records reclassifications between net asset categories as other transfers. Other transfers primarily consist of donor clarification on previously undetermined restrictions and net proceeds from events that have a donor-restricted purpose.

6.135 Note X: Net Assets and Board-Designated Funding of Operations [*portion of a longer note*]

[*Entity's*] net assets without donor restrictions include certain amounts that the Board has designated as a reserve for operations. As part of [*Entity's*] annual budgeting process, the Board decides whether it is appropriate to increase or decrease operating revenues by transferring amounts from or to the nonoperating section of the consolidated statements of activities and changes in net assets. Amounts equal to the amounts transferred, if any, are then reclassified within the net assets section of the consolidated statements of financial position between Board-designated and undesignated. In the case of amounts transferred to operating revenues, the Board-designated amounts are decreased, and the undesignated amounts are increased by the amounts transferred. In the case of amounts transferred from operating revenues, the Board-designated amounts are increased, and the undesignated amounts are decreased by the amounts transferred. Allocations for operations from Board-designated reserves were $3,338 and $1,807 for the fiscal years 20X2 and 20X1, respectively.

6.136 Because many clubs sell capital stock to their members, disclosure about such equity may be made. See also a sample "Members' Equity" section of a statement of financial position in section 1 of this publication.

6.137 Some clubs repurchase a member's stock only when a new member has applied and paid for the stock, as disclosed in the following note.

6.138 Note X: Members' Equity

Members' equity is recorded at amounts specified in the bylaws for voting memberships. Upon the termination of a membership and the assumption of the membership by a new member, the withdrawing member is entitled to receive the greater of $3,500 or the book value of the membership ($4,239 and $4,188 at February 28, 20X2 and 20X1, respectively). As of February 28, 20X2 and 20X1, there were 12 and 14 members, respectively, who had requested termination of their membership upon application by a new member.

6.139 Other clubs will repurchase members' stock upon request, as disclosed in the following note.

6.140 Note X: Member Equity

The club has agreed to purchase its members' shares at $2,250 per share when members terminate their membership in the club. At September 30, 20X2 and 20X1, there were 287 and 274 shares, respectively, held by members. The obligation to redeem the shares is recorded as a liability on the balance sheet.

6.141 FASB ASC 480, *Distinguishing Liabilities from Equity*, requires an entity that has mandatorily redeemable equity shares to recognize a liability for the redemption.

Section 7

Disclosures Related Primarily to the Statement of Activities and Related Statements

7.01 These sample notes are not necessarily complete for any given entity's circumstances.

7.02 See also section 6 for notes describing balance sheet amounts, many of which have effects on the statement of activity.

Measure of Operations

7.03 According to FASB *Accounting Standards Codification* (ASC) 958-220-45-9, in addition to classifying revenues, gains, and losses within classes of net assets, within a class or classes of changes in net assets, an NFP may classify items as operating and nonoperating. Because this paragraph essentially permits each entity to define *operations* as it wishes, wide variety is found in practice among entities that choose to present such a measure. Disclosure of the definition used is required. In addition, if an NFP presents internal board designations, appropriations, and similar actions on the face of the financial statements, a note to financial statements is required to provide an appropriate disaggregation and description by type of these actions if not provided on the face of the financial statements. See also some of the sample statements of activities in section 2 of this publication.

7.04 Note X: Intermediate Measure of Operations [*portion of a longer note*]

The Organization has presented the consolidated statements of activities based on an intermediate measure of operations. The Operating Excess (Loss), After Transfers in the consolidated statements of activities includes all revenues and expenses that are an integral part of the Organization's programs and supporting activities, net assets released from restrictions to support operating expenditures, and transfers from and to Board-designated and other nonoperating funds to support current operating activities or set aside to support future operating activities.

The Board-designated, appropriations and transfers (from) to operations consist of the following:

Years ended December 31,	20X2	20X1
Board designation (from) to operations		
Board designation for [*Program*]	$7,720	$7,645
Board designation for operating reserve	—	2,007,000
Board designation for donor-advised funds	(3,895,282)	2,841,272
Board designation (from) to operations	(3,887,562)	4,855,917
Transfers — unliquidated donated stocks	(16,660,002)	—
Total board-designated, appropriations and transfers (from) to operations	**$(20,547,564)**	**$4,855,917**

The measure of operations includes support for operating activities from both net assets with donor restrictions and net assets without donor restrictions designated for long-term investment (for example, the donor-restricted and quasi-endowments) according to the Organization's spending policy. The measure excludes pension-related changes other than net periodic pension cost.

Because the Board-approved financial plan, for the periods represented, calls for no surplus or deficit on this line, a surplus represents results from operations for the period that were above plan, and a deficit represents results below plan.

7.05 Note X: Operating Activities [*portion of a longer note*]

Changes in net assets from operating activities in the consolidated statements of activities excludes nonoperating activities. *Nonoperating activities* include contributions added to endowment, contributions supporting major capital purchases, contributions and other activity related to charitable remainder trusts, and endowment investment return, net of amounts distributed to support operations in accordance with the spending policy. Additionally, investment return related to contributions supporting major capital purchases and charitable remainder trusts are included in nonoperating activities.

7.06 Note X: Measure of Operations [*portion of a longer note*]

The University's measure of operations as presented in the consolidated statements of activities includes revenue from tuition and fees, grants and contracts, health care services, contributions for operating programs, the allocation of endowment spending for operations, and other revenues. Operating expenses are reported on the consolidated statement of activities by natural classification.

The University's nonoperating activity within the consolidated statement of activities includes investment returns and other activities related to endowment; long-term benefit plan obligation funding changes; student loan net assets; and contributions related to land, buildings, and equipment that are not part of the University's operating activities.

7.07 Note X: Measure of Operations [*portion of a longer note*]

[*Entity*] includes in its measure of operations federal and private support and revenue and expenses that are integral to its core program services: collections; special exhibitions; education, retail shops, and public programs; and editorial and photography. The measure of operations excludes certain nonoperating activities such as nonoperating gifts and grants (endowment gifts and gifts for art acquisitions and capital projects), investment return less amounts designated for operations, acquisitions of works of art, and income tax and depreciation expense.

[*Entity's*] Board of Trustees appropriates only a portion of [*Entity's*] cumulative investment return for support of current operations and art acquisitions; the remainder is retained to support operations of future years and offset potential market declines. The amount appropriated is computed under [*Entity's*] spending policy and appropriated for use based on the underlying donor-imposed restrictions.

7.08 Note X: Measure of Operations [*portion of a longer note*]

The Museum includes in its measure of operations all revenue and expenses that are integral to its programs and supporting activities, net assets released from donor restrictions to support operating expenditures, and transfers from Board-designated and other nonoperating funds to support current operating activities. The measure of operations includes support for operating activities from both net assets with donor restrictions and net assets without donor restrictions designated for long-term investment (the donor-restricted and quasi-endowment) according to the Museum's spending policy. The measure of operations excludes endowment support for nonoperating and restricted operating activities; investment return in excess of (less than) amounts made available for current support; additions to restricted and designated net assets; pension-related changes other than net periodic pension cost; changes in net assets of split-interest agreements, after providing for any operating revenue or support; changes in net assets pertaining to acquisition and deaccession of collection items and related insurance settlements; fees received for art-lending activities; depreciation of capital expenditures, except for those related to auxiliary activities and acquired computer systems and equipment; gains and losses on disposal or sale of fixed assets; noncapitalized expenditures; liability recognition for legal obligations to perform asset retirement activity; the entire effect of interest rate swaps; interest expense related to taxable borrowings and certain miscellaneous charges and revenue unrelated to operating activities.

Revenue Recognition

7.09 The core principle of the revenue recognition standards in FASB ASC 606, *Revenue from Contracts with Customers*, is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those good or services. The standards also require enhanced disclosures about revenues that are aimed at allowing users to understand the nature, amount, timing, and uncertainty of revenue and cash flows from contracts with customers. Certain practical expedients are provided with regard to the disclosure requirements, including the exclusion of certain disclosures for contracts with durations of one year or less.

7.10 Most NFPs receive significant support from sources that are outside the scope of FASB ASC 606, including contributions, nonreciprocal grants and contracts, and investment income. Revenues from lease contracts and collaborative arrangements are also outside the scope of FASB ASC 606.

7.11 Note X: Revenue Recognition

REVENUE RECOGNITION

The University's revenues primarily consist of tuition revenue arising from educational services provided in the form of classroom instruction and online courses. Tuition revenue is deferred and recognized ratably over the period of instruction, which varies depending on the course format and chosen program of study. The University's educational programs typically are offered on a quarterly basis, and such periods coincide with the University's fiscal year.

The following table presents the University's revenues from contracts with customers disaggregated by material revenue category for the years ended June 30, 20X2 and 20X1 (in thousands):

	20X2	20X1
Degree Programs		
Tuition, net of discounts, grants, and scholarships	$451,646	$433,938
Other[1]	19,458	15,609
Total degree programs revenues	471,104	449,547
Non-Degree Programs Segment[2]	8,163	5,304
Total revenues	**$479,267**	**$454,851**

[1] Other revenue is primarily comprised of academic fees, sales of textbooks, other course materials, and other revenue streams.

[2] Non-degree programs revenue is primarily comprised of tuition revenue and placement fee revenue.

Revenues are recognized when control of the promised goods or services is transferred to customers in an amount that reflects the consideration the University expects to be entitled to receive in exchange for those goods and services. The University applies the five-step revenue model under FASB ASC 606 to determine when revenue is recognized.

Arrangements with students may have multiple performance obligations. For such arrangements, the University allocates net tuition revenue to each performance obligation based on its relative stand-alone selling price. The University generally determines stand-alone selling prices based on the prices charged to students and observable market prices.

At the start of each academic term or program, a liability (contract liability) is recorded for academic services to be provided, and a tuition receivable is recorded for the portion of the tuition not paid in advance. Any cash received prior to the start of an academic term or program is recorded as a contract liability.

Course materials available through the University enable students to access electronically all required materials for courses in which they enroll during the quarter. Revenue derived from course materials is recognized ratably over the duration of the course as the University provides the student with continuous access to these materials during the term.

Revenues also include certain academic fees recognized within the quarter of instruction, and certificate revenue and licensing revenue, which are recognized as the services are provided.

[MISSION-RELATED] FUND

The University maintains a [*Mission-related*] Fund, which allows new undergraduate students to earn tuition credits that are redeemable in the final year of a student's course of study if he or she successfully remains in the program. New students registering in credit-bearing courses in any undergraduate program receive one free course for every three courses that are successfully completed. Students must meet all the University's admission requirements and be enrolled in a bachelor's degree program. The University's employees and their dependents are not eligible for the program. Students who have more than one consecutive term of nonattendance lose any [*Mission-related*] Fund credits earned to date but may earn and accumulate new credits if the student is reinstated or re-admitted by the University in the future.

Revenue from students participating in the [*Mission-related*] Fund is recorded in accordance with FASB ASC 606. The University defers the value of the related performance obligation associated with the credits estimated to be redeemed in the future based on the underlying revenue transactions that result in progress by the student toward earning the benefit. The University's estimate of the benefits that will be redeemed in the future is based on its historical experience of student persistence toward completion of a course of study within this program and similar programs. Each quarter, the University assesses its methodologies and assumptions underlying these estimates, and to date, any adjustments to the estimates have not been material. The amount estimated to be redeemed in the next 12 months is $20.8 million and is included as a current contract liability in the balance sheet. The remainder is expected to be redeemed within 2–4 years.

The following table presents activity in the [*Mission-related*] Fund for the years ended June 30, 20X2 and 20X1 (in thousands):

	20X2	20X1
Balance at beginning of period	$37,400	$29,499
Revenue deferred	27,349	25,360
Benefit redeemed	(21,420)	(17,459)
Balance at end of period	**$43,329**	**$37,400**

UNBILLED RECEIVABLES — STUDENT TUITION

Academic materials may be shipped to certain new undergraduate students in advance of the term of enrollment. Under FASB ASC 606, the materials represent a performance obligation to which the University allocates revenue based on the fair value of the materials relative to the total fair value of all the performance obligations in the arrangement with the student. When control of the materials passes to the student in advance of the term of enrollment, an unbilled receivable and related revenue is recorded. Following adoption of FASB ASC 606 for fiscal year 20X2, the balance of unbilled receivables related to such materials was $1.1 million as of June 30, 20X2, and is included in tuition receivable.

7.12 Note X: Revenue From Contracts With Customers [*portion of a longer note*]

Revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by [*Entity*] and are recognized either over time or at a point in time. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred through a point in time in relation to total actual charges incurred. [*Entity*] believes that this method provides a useful depiction of the provision of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Revenue for performance obligations satisfied at a point in time are recognized when goods or services are provided to customers, and it is not required to provide additional goods or services.

[*Entity*] has elected to apply the optional exemption in FASB ASC 606-10-50-14(a) because all of [*Entity's*] performance obligations relate to contracts with a duration of less than one year. Under this exemption, [*Entity*] is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. Any unsatisfied or partially unsatisfied performance obligations at the end of the year are completed within days or weeks of the end of the year.

[*Entity*] determines the transaction price based on standard charges for goods and services provided, reduced by any discounts provided. [*Entity*] determines its estimates of discounts based on its discount policies and historical experience.

7.13 Note X: Revenue From Contracts With Customers

The following table provides information about significant changes in the assessments paid in advance and deferred revenue for the year ended December 31, 20X2:

Assessments paid in advance, beginning of year	$2,741,788
Homeowner assessments and fees revenue recognized	18,816,847
Collections of homeowner assessments and fees	(18,919,879)
Assessments paid in advance, end of year	$2,638,756
Deferred revenue, beginning of year	$793,880
Recreational programs, facility operations, and community events revenue recognized	6,767,215
Collections of program, facility, and community fees	(6,761,554)
Deferred revenue, end of year	$799,541

Contributions Received, Including Government Grants

7.14 See also the examples relating to contributions receivable in section 6.

7.15 FASB ASC 958-605-45-4A and 4B allow entities to apply the simultaneous release option to either or both of the following:

1. Unconditional donor-restricted contributions whose restrictions are met in the same reporting period that the revenue is recognized.
2. Conditional donor-restricted contributions whose conditions and restrictions are met in the same reporting period that the revenue is recognized.

To qualify for the simultaneous release option for item 1, an NFP must have a similar policy for reporting investment gains and income, report consistently from period to period, and disclose its accounting policy. To qualify for the simultaneous release option for item 2, an NFP need not elect a similar policy for other donor-restricted contributions or investment gains and income but must report consistently from period to period and disclose its accounting policy.

7.16 Note X: Contributions [*portion of a longer note*]

[*Entity*] receives contributed services, principally in the form of advertising, in addition to gifts-in-kind such as equipment and supplies. [*Entity*] records revenue and a corresponding expense for these contributed assets and services based on market rates for equivalent assets or services. In fiscal years 20X2 and 20X1, contributed assets and services totaled $418,011 and $2,505,836, respectively. A substantial number of volunteers have contributed significant amounts of time to [*Entity*]; however, no amounts have been reflected in the accompanying consolidated financial statements for such contributed services because these services do not meet the criteria for recognition as contributions under generally accepted accounting principles (GAAP).

Contributions received that relate to [*Entity's*] core activities are classified as net assets without donor restrictions. Gifts of cash and other assets are reported as donor-restricted support if received with donor stipulations that limit the use, for time or purpose, or both, of the donated assets. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues in net assets with donor restrictions and net assets released from restriction to reflect the expiration of such restrictions. Contributions received for specific events are recognized upon the occurrence of the event. Contributions for capital improvements are released from restriction when the capital asset is placed in service.

[*Entity*] receives corporate sponsorships for which revenue is recognized as both a contract with a customer and a contribution. In such instances, [*Entity*] determines the fair value of the benefit provided to the sponsor and records that portion as exchange transaction revenue and the remaining portion as a contribution.

Contributions are recognized at fair value as revenue when received or unconditionally promised. Conditional promises to give are not recognized as revenue until the donor conditions are substantially met. A discount based on management's estimates is added to the present value of contributions, which represents an additional factor in the fair value measurements. The discounts on those contributions are computed using an interest rate for the year in which the promise was received and considers market and credit risk, as applicable. Amortization of the discount is included in contribution revenue.

Contributions are reviewed for collectibility, and reserves for uncollectible amounts are established when needed. There was no allowance against contributions receivable at June 30, 20X2 or 20X1.

7.17 Note X: Revenue [*portion of a longer note*]

Pledges and contributions are recognized as revenues in the year in which an unconditional promise to give is received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. Restricted pledges and contributions that are to be used in the same period as donated are initially recorded as donor-restricted revenues. Bequests are recorded when the amount and timing of receipt of funds are known. Contributions of land, buildings, and equipment are generally recorded as board-designated net assets because no time restriction is assumed for their use.

7.18 Note X: Revenue and Expenses [*portion of a longer note*]

Revenue is reported as an increase in net assets without donor restrictions unless use of the related asset is limited by donor-imposed time or purpose restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets and liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is limited by a donor-imposed time restriction. Expirations of donor-imposed restrictions on net assets that are subject to the passage of time (that is, the stipulated time period has elapsed or the cash has been collected) are reported as net assets released from restrictions.

Contributions, including unconditional pledges, are recognized in the period received. Conditional pledges are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at estimated fair value. Contributions to be received after one year are discounted at an appropriate rate commensurate with the risk involved. Amortization of discount is recorded as additional contribution revenue.

Grant awards without substantial conditions are recognized in the period in which they are approved by the governing bodies. Grants to be paid after one year are discounted at an appropriate rate commensurate with the risk involved. Amortization of the discount is recorded as additional grant expense. Grants with substantial conditions are not recognized until the conditions on which they depend are met.

7.19 Note X: Contribution Revenue [*portion of a longer note*]

Contributions, including unconditional promises to give, are recognized in the period received. Contributions received are considered to be available for use unless specifically restricted by the donor. Amounts received that are designated for a future period or are restricted by the donor for specific purposes are reported as support that increases net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions.

Contributions that are restricted for a purpose specified by the donor are recognized as increases in net assets without donor restrictions if the restrictions are met in the same year as the contribution is received. Conditional contributions that are restricted for a purpose specified by the donor are recognized as increases in net assets without donor restrictions if the conditions and restrictions are met in the same period.

Contributions are reported at fair value, which is net of estimated uncollectible amounts. [*Entity*] uses the allowance method to determine uncollectible, unconditional pledges receivable. The allowance is based on experience as well as management's analysis of specific pledges made, including such factors as prior collection history, type of contribution, and nature of fund-raising activity. Contributions, including multiyear pledges and split-interest agreements, to be received after one year, are recorded at the present value of the estimated future cash flows. Subsequent changes in this discount resulting from the passage of time are accounted for as contributions in subsequent years. Revenue under charitable gift annuity arrangements is reduced by the estimated annuities to be paid by [*Entity*] over the beneficiary's lifetime. Irrevocable split-interest agreements, including charitable remainder trusts, charitable lead trusts, and perpetual trusts, are recorded as revenue when the trust agreements become irrevocable.

Conditional promises to give, including those received under multiyear grant agreements, are recognized as revenue when the conditions on which they depend have been substantially met.

7.20 Note X: Contributions [*portion of a longer note*]

Contributions are recognized as revenues at fair value in the period verifiably committed. Contributions whose donor-imposed restrictions are met in the same reporting period as the contributions are received are reported as revenues without donor restrictions. Contributions whose donor-imposed restrictions and conditions are met in the same reporting period are reported as revenues without donor restrictions.

Contributions scheduled to be received after one year are discounted at a risk-adjusted rate commensurate with the duration of the pledge, net of allowance for amounts deemed uncollectible. Amortization of the discount is included in contribution revenue. Unconditional promises to give are periodically reviewed to estimate an allowance for doubtful collections. Management estimates the allowance by a review of historical experience and a specific review of collection trends that differ from plans for individual accounts. Conditional promises to give are not included as support until the conditions are substantially met.

In the ordinary course of business, [*Entity*] receives pledges and contributions without any donor designation. These are accounted for as net assets with donor restrictions pending clarification from the donor. During 20X2 and 20X1, [*Entity*] received such clarification on several gifts and, as such, has reclassified them accordingly.

[*Entity*] reports contributions of land, buildings, and equipment as support that increases net assets without donor restrictions, unless the donor places restrictions on their use. Contributions of cash used to acquire or construct long-lived assets are reported support that increases net assets without donor restrictions to the extent the funds have been expended for the stipulated acquisition or construction; otherwise, the contributions are reported as support that increases net assets with donor restrictions.

7.21 Note X: Revenue Recognition [*portion of a longer note*]

Contributions received by [*Entity*] are recorded as public support that increases net assets with or without donor restrictions, depending on the existence or nature, or both, of any donor-imposed restrictions. All donor-restricted support is recorded as an increase to net assets with donor restrictions.

Net assets without donor restrictions are those that are free of donor-imposed restrictions but may be designated for specific purposes by action of the Board of Directors.

Net assets with donor-imposed restrictions that are temporary in nature arise from contributions and other inflows of assets whose use is limited by purpose-specific program restrictions or time restrictions, or both, imposed by the donor. When such a restriction expires through the accomplishment of the specific purpose or the passage of time, or both, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as revenues without donor restrictions. Donor-restricted conditional contributions are reported as revenues without donor restrictions if the conditions and restrictions are met in the same period.

Net assets with donor-imposed restrictions that are perpetual in nature result from contributions in which the donor requires that the principal of the contribution be maintained in perpetuity. Such net assets primarily include perpetual endowment funds and perpetual trusts. In accordance with the guidance provided in the [*State*] Prudent Management of Institutional Funds Act, [*Entity*] preserves the historical dollar value of donor-restricted (true) endowment funds, absent explicit donor direction to the contrary. As a result, [*Entity*] classifies as net assets with donor restrictions the original gift value of true endowments, plus any subsequent gifts and accumulations made in accordance with the directions of the applicable gift instruments.

GRANT REVENUE RECOGNITION

[*Entity*] receives grants from the U.S. government and various other grantors for direct and indirect program costs associated with specific programs and projects. The grants received from the U.S. government are subject to certain restrictions, which are met by incurring qualifying expenses for the particular program or project that is funded by the grant. Revenue from such grants is recognized when the funds have been expended on activities stipulated in the grant agreement. For unconditional grants, revenue is recognized as contribution revenue that increases net assets with donor restrictions at the time the grant is received or pledged, and the funds are released from restriction when the qualifying expenses have been incurred.

PLEDGES

Unconditional promises to give are recorded as public support that increases net assets with donor restrictions at the time the donor's commitment is received. Unconditional promises to give that are expected to be fulfilled within one year are recorded at their estimated fair value, less an appropriate reserve, if required. Multiyear unconditional promises to give are recognized at the estimated present value of the future cash flows, net of any necessary reserve. Conditional promises to give are not included as public support until such time as the conditions are substantially met.

7.22 Note X: Contributions [*portion of a longer note*]

Contributions that include unconditional promises to give are recognized as revenue at fair value when received or pledged. Fair value is estimated giving consideration to anticipated future cash receipts (after allowance is made for uncollectible contributions) and discounting anticipated future cash receipts at a risk-adjusted rate for the duration of the donor's payment plan. Amortization of the discount is recorded as additional contribution revenue. An allowance for uncollectible contributions is estimated based upon prior-year collection history and analysis of past-due amounts. Bequest income is recorded when the will has gone through probate, is declared legally valid, and the interests that [*Entity*] has in a decedent's estate are reasonably estimated and assured to be received.

The Board of Trustees has capped bequest income recorded in operating activities at $4,500. Additional bequests without donor restrictions in excess of the cap are to be used to make up any revenue shortfall, and any amounts not needed are placed in a board-designated fund that will address key strategic purposes as determined by the management team.

Contributions received with donor-imposed conditions are recognized as revenue when the conditions have been substantially met. Amounts received in advance of satisfying the donor-imposed conditions are reported as deferred revenue until the conditions are met.

7.23 Note X: Contributions, Grants, and Bequests

Contributions and grants to [*Entity*], including unconditional promises to give, are recognized as revenue upon the receipt of the earlier of either (*a*) unconditional pledges or commitments or (*b*) cash or other assets. Contributions are estimated giving consideration to anticipated future cash receipts (after allowance is made for uncollectible contributions) and discounting such amounts at a risk-adjusted rate commensurate with the duration of the donor's payment plan. In subsequent periods, the discount rate is unchanged, and the allowance for uncollectible contributions is reassessed and adjusted, if necessary. Amortization of the discounts is recorded as additional contribution revenue.

Contributions and grants are considered available for general use unless the donor restricts the use thereof, either by time or purpose or in perpetuity. Bequests are recorded when a will has been through probate and is declared valid, and the amount to be received can be reasonably estimated and payment is probable. Conditional contributions are recognized as revenue when the conditions on which they depend are substantially met.

Donated securities are recorded at their fair market value on the date of the gift and, except when otherwise required by the donor, are immediately sold. Because it is [*Entity's*] policy to sell donated securities upon receipt, the contributions are classified as operating activities in the statement of cash flows unless the donor restricts the use of the contributed resources to long-term purposes, in which case, those cash receipts are classified as cash flows from financing activities.

7.24 Note X: Federated Fund-Raising Agreements

The entity's divisions have agreements with various [*Charity*] agencies across the United States to participate in solicitations for contributions from employees of businesses and industrial communities.

The amount the entity recognized as support from the [*Charity*] campaigns of approximately $36,664,000 for the fiscal year ended June 30, 20X2, is based primarily upon formulas contained in the agreements. These amounts are net of [*Charity*]fund-raising expenses. The divisions received approximately $4,893,000 from other fund-raising entities for the fiscal year ended June 30, 20X2.

7.25 Note X: Federated Services

Support from the public received through allocations from federated services was as follows:

	20X2	20X1
[*Charity*] of [*City*]	$2,032,539	$2,062,542
[*Charity*] of [*Region*]	258,273	259,078
[*Charity*] of [*County*]	135,820	166,333
Other	271,132	296,913
	$2,697,764	**$2,784,866**

The $2,697,764 previously shown was pledged to the entity before September 30, 20X2, and has been recorded as "public support" in the statement of activities for fiscal 20X2. Such amount is paid to the entity over a period of months and is expected to be fully paid in fiscal 20X3. The $834,413 reflected in the statement of financial position at September 30, 20X2 as contributions receivable from the [*Charity*] represents that portion of the previous $2,697,764, which is unpaid at that date.

7.26 Note X: Revenue From Government Grants

Federal awards received for the years ended June 30 consist of the following:

	20X2	20X1
SHOP	$5,788,721	$4,468,997
Capacity Build	4,358,432	5,807,493
AmeriCorps/Vista	4,963,554	4,797,344
USAID	1,124,411	1,524,493
Government grants per the consolidated statements of activities	**16,235,118**	**16,598,327**

7.27 Note X: Grants and Contracts

The major components of grants and contracts revenue for the years ended June 30, 20X2 and 20X1 were as follows:

	20X2	20X1
Government		
Direct	$72,687	$79,719
Indirect	21,225	21,952
Total government	93,912	101,671
Foundation, industrial, and other		
Direct	30,425	29,431
Indirect	3,899	4,154
Total foundation, industrial, and other	34,324	33,585
Total grants and contracts	**$128,236**	**$135,256**

[*Entity*] receives funding from state and federal government agencies for research and other programs conducted under government grants and contracts. The grants and contracts provide for reimbursement of direct and indirect costs. The recovery of indirect costs, also referred to as *facilities and administrative costs*, is recognized based on predetermined rates negotiated with the federal government, which are predetermined through fiscal year 20X3.

7.28 Note X: Government Grant Revenue [*portion of a longer note*]

Revenue related to grants that are considered reciprocal transactions or purchases of services, the results of which are turned over to the grantor, is recognized as the work under the contract is performed. Grants that are considered nonreciprocal transactions or gifts that further the programs of [*Entity*] are recorded when [*Entity*] receives notification of the grant award or gift, or, if conditions for performance are imposed, revenue is recognized when conditions have been met. Grants receivable are reviewed by management for collectibility, and reserves for uncollectible amounts are established when needed. There was no allowance against grants receivable at June 30, 20X2 or 20X1.

Pass-Through Gifts

7.29 Certain entities, such as community foundations, conduct fund-raising campaigns to raise funds for other (member) agencies. The amounts raised are usually distributed to the participating agencies based upon a predetermined formula. However, as part of the campaign, the foundation might receive contributions designated for one or more specified agencies. These should be accounted for as agency transactions, that is, a liability to the designated agency should be recorded using the guidance provided in FASB ASC 958-605. However, if the donor grants the foundation variance power, that is, the unilateral ability to override the donor's designation, the transaction should be treated as a contribution.

7.30 Note X: Organizational Funds [*portion of Accounting Policies note*]

The Foundation acts as fiduciary agent for various not-for-profit organizations. The Foundation's responsibilities as fiduciary agent include safeguarding of assets, keeping records of transactions, investment management, and ensuring appropriate fund distributions. The Foundation's policy as fiduciary agent is to record funds received as an investment and an equal liability. The Foundation, as fiduciary agent, has recorded $129,078,852 and $72,687,186 at December 31, 20X2 and 20X1, respectively, related to organizational funds in investments and an equal liability in organizational funds and other obligations in the consolidated statements of financial position. The Foundation does not include the change in investments and the change in organizational funds in the consolidated statements of activities.

7.31 Note X: Student Financial Assistance Programs [*portion of Accounting Policies note*]

The College participates in various programs administered by the Department of Education and state boards, and the College acts as an agent for the respective agencies. The governmental grant amounts reported exclude funds directly awarded and credited to students under the various federal and state programs; however, substantial portions of the tuition and fees revenue and collection of accounts receivable as of June 30, 20X2, are dependent upon the College's continued participation in the various programs.

7.32 Note X: Custodial Funds [*portion of Accounting Policies note*]

In 1983, a national board was convened to oversee distribution of funds through the Emergency Food and Shelter Program (EFSP), a separate congressionally authorized program of the Department of Homeland Security's Federal Emergency Management Agency (FEMA), and [*Entity*] was appointed fiscal agent. As fiscal agent, [*Entity*] is the custodian of the funds and is responsible for the administration and disbursement of grants as directed by the national board. EFSP is not consolidated into [*Entity's*] financial statements. Since 1983, Congress has allocated more than $4.40 billion to FEMA to provide emergency food and shelter to needy individuals throughout the country. [*Entity*] charged certain administrative expenses to EFSP totaling $307,209 and $304,000 for the years ended December 31, 20X2 and 20X1, respectively. As of December 31, 20X2 and 20X1, undistributed balances of $7,112,033 and $3,833,242, respectively, were included in the custodial funds with a corresponding liability in the accompanying consolidated statements of financial position.

[*Entity*] also acts as trustee for a planned giving investment program called a pooled income fund in which participants are entitled to income distributions. The market value of the pooled income fund pool at December 31, 20X2 and 20X1 amount to $134,004 and $125,526, respectively.

In addition, [*Entity*] acts as the trustee for a planned giving investment program called the charitable gift annuity program in which annuity payments are made to the named annuitants for life, and any residual value is restricted by the donor to benefit an [*Affiliate*]. The net present value of the liability for future annuity payments is $557,215 and $606,308 at December 31, 20X2 and 20X1, respectively. [*Entity*] accrues no liability beyond the assets of the funds. The market value of the charitable gift annuity pool is $710,536 and $799,710, including $64,609 and $59,877 of loss reserve (required by the state of [*State*]), at December 31, 20X2 and 20X1, respectively.

[*Entity*] also maintains two fiscal agent agreements with third parties on behalf of its members to provide donation-processing services related to certain employee giving campaigns (federated fund-raising campaigns). Because these campaigns are considered "fund-raising activity" of [*Entity's*] members, [*Entity*] records no revenue from the transactions but does record collected funds, not yet distributed by the third-party processors, as a custodial asset and custodial liability. As of December 31, 20X2 and 20X1, the fund's market value of $236,115 and $121,031, respectively, is included in custodial funds.

7.33 Note X: Donor Advised Giving [*portion of a longer note*]

Global Donor Advised Giving

The Global Donor Advised Giving Program (Program) is a component of net assets without donor restrictions and was established by the Board. Companies, foundations, and individuals contribute to the Program to achieve their philanthropic goals outside of the United States. The Program provides comprehensive grant-making services to ensure compliance with both U.S. and international laws, and [*Entity*] retains variance power of all contributions to the Program.

The Board maintains a policy that all Program contributions are to be set aside for use in satisfying program grants and other program service costs. Contributions to the Program were $32,237,858 and $35,575,265 for the years ended December 31, 20X2 and 20X1, respectively.

Grants (including program service expenses) made to organizations outside the United States from the Program were $28,357,093 and $38,689,637 for the years ended December 31, 20X2 and 20X1, respectively, which are included in the consolidated statements of activities.

The balance of unexpended Program contributions changed by $3,842,414 and ($2,978,658) at December 31, 20X2 and 20X1, respectively.

Other Donor Advised Funds

In 20X1, [*Entity*] executed an addendum to an existing fiscal agent agreement with a third party to provide donation-processing services related to a donor-advised giving program offered to various corporations and individuals. As with the Program, the Board maintains a policy that all donor advised fund (DAF) contributions are to be set aside for use in satisfying program grants and other program service costs.

Contributions to the DAF program were $48,207,747 and $18,098,007 for the years ended December 31, 20X2 and 20X1, respectively, which are included in the consolidated statements of activities.

Grants (including program service expenses) made to organizations from the DAF program were $48,154,879 and $17,960,621 for the years ended December 31, 20X2 and 20X1, respectively, which are included in the consolidated statements of activities.

The balance of unexpended DAF contributions was $52,868 and $137,386 at December 31, 20X2 and 20X1, respectively.

7.34 Donor-Advised and Designated Funds [*portion of a longer note*]

These assets represent amounts available for distribution in donor-advised funds and designated funds (the Funds). The Funds are established only for charitable, religious, or educational purposes and are used for the support of charitable organizations whose purposes are not contrary to the values of the Organization. Assets of the Funds include the initial gift made in creating the Fund, any subsequent property gifts made into the Funds, and all income and other proceeds from the foregoing property. The Organization recognizes income to the Funds when assets are contributed. The Funds are the property of the Organization and may be commingled with other funds held by it. The Organization has ultimate authority and control over all property in the Funds; however, some designated funds have donor-imposed restrictions. Grants from the Funds are initiated differently for donor-advised funds and designated funds. For donor-advised funds, donors typically recommend which other organizations should receive grants from their donor-advised fund. The Organization usually follows such recommendations, though it is not required to do so. All grants made to other organizations from donor-advised funds are recorded as gifts to other ministries under program expenses. For designated funds, agreements generally include terms stating the recommendations of the donor regarding the amount, timing, and purpose of the distributions to the Organization's programs, which the Organization typically follows. Donor-imposed restrictions are honored by the Organization. Grants of designated funds are recorded as program expenses.

Challenge Grants, Other Conditional Promises to Give, and Intentions to Give

7.35 Note X: Intention to Give [*portion of a larger note*]

In fiscal year 20X0 a certain donor confirmed his intention of contributing $5 million over a period of five years from a donor-advised fund. Through March 31, 20X2, [*Entity*] has received $2 million in contributions (from donor-advised fund) toward the intention. [*Entity*] has recognized as revenue for the year ended March 31, 20X2, the $1 million received during the year. The remaining anticipated contributions have not been recognized in the accompanying consolidated financial statements because they do not meet the criteria for recognition of contributions revenue under GAAP until payments from the donor-advised fund are received.

7.36 Note X: Matching Grants [*portion of a longer note*]

As of March 31, 20X2, [*Entity*] has received approximately $37.2 million of conditional commitments to make matching grants and contributions that have not been recognized in these consolidated financial statements. Approximately $14.4 million of these conditions have been met and recognized as support during the year ended March 31, 20X2. Revenues on these grants and contributions will be recognized by [*Entity*] in future periods as the matching requirements are met.

7.37 Note X: Conditional Contributions [*portion of a longer note*]

As of June 30, 20X2 and 20X1, [*Entity*] has received conditional contributions of approximately $68,694 and $15,579, respectively, in the form of matching grants or other conditions that have not been recognized as revenue in the accompanying financial statements because the conditions on which they depend have not been substantially met. As of June 30, 20X2, $26,667 of conditional contributions has been received and reported as deferred revenue.

7.38 Note X: National Endowment for the Humanities

During fiscal 20X1, the college received approval for an $800,000 challenge grant from the National Endowment for the Humanities (NEH). The grant will be used to establish perpetual endowments for the college's humanities programs, specifically in scholarships ($300,000), faculty ($300,000), and library ($200,000).

NEH will fund $200,000, which is contingent on funding by Congress, and the college is required to raise matching funds of $600,000 over a 3-year period, which commenced October 1, 20X1. The college's matching funds must include cash contributions of at least $200,000; the remaining $400,000 may include cash contributions or contributions other than cash.

At June 30, 20X2, the college has raised $161,331 in cash contributions. In anticipation of successfully meeting subsequent fund-raising requirements and future funding by Congress, such amounts have been recorded in a separate fund in the net assets with donor restrictions to be maintained in perpetuity.

7.39 Note X: Challenge Grant

In 20X1, the museum was awarded a $500,000 grant by the National Endowment for the Arts (NEA) to assist in the establishment of a 10-year term endowment for the fine arts exhibitions ($300,000) and to create a 10-year working capital reserve ($200,000). Under the terms of the grant, the museum must meet certain terms and conditions by June 30, 20X3, including the collection of $1,500,000 of eligible matching contributions designated for the fine arts endowment fund. As of June 30, 20X2, the eligible matching amounts are reflected in the financial statements as follows:

Collected	$400,000
Contributions receivable, from living donors	180,000
Bequests, from estates in the process of settlement	620,000
Total	**$1,200,000**

7.40 Note X: Bequests

[*Entity*] has been named as a beneficiary of several estates that are in various stages of probate. No income from future anticipated distributions has been recorded because the amounts and timing of future distributions are uncertain.

7.41 Note X: Testamentary Gift

In February of 20W8, the entity was notified of a gift through an estate. The gifted assets were placed in trust by the estate to be held while administration of the estate is completed. The assets consist primarily of common stock with a market value of $12,473,919 at the effective date of the gift, November 16, 20W9. As of August 31, 20X2 and 20X1, the estate has released approximately 75 percent of the assets of the trust. A portion of the released assets ($5,200,000 of common stock) was used to fund the frozen [*Employees'*] Pension Plan as discussed in Note [*number*]. The estate has provided for certain contingencies in its initial allocation of assets to the trust. However, the amount of the remaining distributions from the trust may be adjusted for any cost of estate administration in excess of the amounts estimated. Remaining distributions are expected in December 20X3. The entity recorded the estimated fair value of this contribution in fiscal 20X1 in the board-designated fund.

7.42 Note X: Capital Contributions Received

The entity was named as a beneficiary in the will of the late [*Donor*]. Pursuant to the will, certain assets of the estate are to be contributed to the entity as perpetual endowment, providing that such contribution qualifies for a charitable deduction on the estate tax return filed with the IRS. In 20X2, even though the audit of the estate tax return was not complete, the entity requested that the court require that the personal representative of the estate make a partial distribution of estate assets to the entity. To accomplish this transfer, the entity entered into agreements with the personal representatives of the estate and the trustees of the [*Donor*] trust. The agreements stipulate the assets were to be distributed to an escrow account and that the entity could buy and sell securities held in escrow, providing the principal balance originally received from the Estate is left in the escrow account. The investment income earned from the assets held in escrow can be transferred to the operating accounts of the entity and will increase the net assets without donor restrictions of the entity.

In connection with the agreements, partial distribution of assets of the [*Donor*] trust and estate was made on February 22, 20X2. This distribution has been recorded as revenue that increased net assets with donor restrictions at the fair market value of the assets of $27,664,000 on that date. In addition, estimated future distributions of $15 million are included in bequests receivable.

Contributions Other Than Cash and Marketable Securities[1]

7.43 In September 2020, FASB issued Accounting Standards Update (ASU) No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets.* The new standards address certain stakeholders' concerns about the lack of transparency about the valuation of gifts-in-kind. Specifically, the standards address concerns about

[1]Accounting Standards Update (ASU) No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, was effective for annual periods beginning after June 15, 2021. (That is, it is already effective.)

- the amounts of gifts-in-kind received and used by an NFP in conducting its programs and other activities and how those amounts affect ratios reported by the NFP, and
- how an NFP estimates the fair value of the gifts-in-kind it receives.

7.44 The presentation and disclosure requirements apply to gifts of nonfinancial assets, which are any assets other than cash or a contractual right to receive cash. (Examples of contractual rights to receive cash include investment securities and receivables.) Examples of nonfinancial assets are real property (such as land and buildings); tangible personal property (such as inventory, clothing, food, supplies, pharmaceuticals, furniture, and equipment); intangible assets (such as patents, royalties, copyrights, and most cryptocurrency); utilities; free rent; personal services, and advertising and other services that are not considered personal services. "Pending Content" in FASB ASC 958-605-50-1A requires NFPs to disclose the categories (types) of nonfinancial assets received. The categories presented by an NFP will be based on the specific activities of the NFP, an assessment of the needs of the NFP's financial statement users, and materiality.

7.45 "Pending Content" in FASB ASC 958-605-45-7A requires that an NFP present the revenue from contributed nonfinancial assets as a separate line item on the face of statement of activities, apart from contributions of cash and other financial assets. (For presentation examples, see some of the sample statements of activities in section 2 of this publication.)

7.46 "Pending Content" in FASB ASC 958-605-50 requires the following disclosures about contributions of nonfinancial assets:

- A schedule showing the amounts for each category (type) of contributed nonfinancial assets received, the total of which agrees with the amount recognized within the statement of activities
- The following information about each category of contributed nonfinancial assets:
  - Whether the contributed nonfinancial assets were monetized (sold) or were utilized during the reporting period
  - If the assets were utilized, a description of the programs or other activities in which the assets were used
  - The NFP's policy (if any) about monetizing rather than utilizing contributed nonfinancial assets
  - A description of any donor-imposed restrictions associated with the contributed nonfinancial assets
  - A description of the valuation techniques and inputs used to arrive at the estimate of fair value used to recognize the contribution revenue
  - The principal market (or most advantageous market) used to arrive at the fair value measure if it is a market in which the donor prohibits the NFP from selling or using the contributed nonfinancial assets

7.47 The above disclosures are in addition to the disclosures about contributed services that are required by FASB ASC 958-605-50-1 (which is now "Pending Content" in FASB ASC 958-605-50-1B).

7.48 Note X: In-Kind Contributions [*portion of a longer note*]

[*Entity*] records, as in-kind contributions, contributions of fund-raising material, informational material, or advertising, including media time or space for public service announcements or other purposes, that are used for [*Entity's*] benefit and that encourage the public to contribute to [*Entity*] or help [*Entity*] communicate its message or mission. [*Entity*] will not record a contribution in circumstances in which [*Entity*] is unable to have an active involvement in determining and managing the message and the use of the materials. In-kind contributions of $1,123,567 in 20X2 primarily relate to public service announcements for [*Entity*]. In-kind contributions of $876,543 in 20X1 primarily relate to public service announcements for the [*Specified*] Services and [*Program*]. These contributions are recorded at fair value, which is based on the number of airings and average market media prices obtained from the nation's largest media-buying sources. The in-kind contributions are, in effect, offset by like amounts included in public health education and advocacy for persons with disabilities and research expense in the consolidated statement of activities and changes in net assets as well as in printing and media expense in the consolidated statement of functional expenses.

7.49 Note X: In-Kind Contributions

[*Entity*] produces and distributes public service television, radio, and newspaper announcements that focus attention on [*Entity's mission*] issues. These public service announcements (PSAs) are distributed to radio stations and newspapers nationwide and presented free of charge. [*Entity*] has contracted with an independent outside agency to track the date and time that each PSA is presented. The estimated value of the PSA and related placement is based on similar services for the date, time, and market of the placement. For the year ended December 31, 20X2, [*Entity*] recorded $24,769,735 of contributed PSAs and other advertising-related expenses. These amounts are recorded in contributions revenue and program expenses in the consolidated financial statements.

[*Entity*] also receives donations of in-kind services, which are recognized if they create or enhance nonfinancial assets or require specialized skills, are provided by individuals having those skills, and would need to be purchased if not provided by donation. For the year ended December 31, 20X2, [*Entity*] received $3,754,951 in donated services, which were used in [*Program A*]. The fair value of the services was determined using median hourly rate for similar services in the U.S. Bureau of Labor Statistics data for the state in which the services were received.

[*Entity*] also receives donations of consumable equipment and supplies that are used in the daily operations of its [*Program B and Program C*]. For the year ended December 31, 20X2, [*Entity*] recorded $1,605,799 in donated consumable equipment and supplies. These amounts are recorded in contributions revenue and in [*Program B and Program C*] expenses in the consolidated financial statements.

7.50 Note X: Donated Services, Commodities, and Gifts-in-Kind [*Organization had two line items for contributions of nonfinancial assets on its statement of activities*]

[*Entity*] receives various forms of gift-in-kind (GIK), including media, food, non-food items such as books and household goods, in-kind services, and cryptocurrency. GIK are reported as contributions at their estimated fair value on the date of receipt and reported as expenses when utilized. GIK are valued based upon estimates of the market or wholesale values that would be received for selling the foods in their principal market considering their condition and utility for use at the time the goods are contributed by the donor. Except for cryptocurrency, donated GIK are not sold. Goods are only distributed for program use. Cryptocurrency is held only until sold by a third-party crypto donation platform.

Category	Types	Valuation	20X2	20X1
Media and broadcast time	Digital, broadcast, and public service announcements	Third-party estimates using billing rates normally charged to other customers in similar circumstances	$ 12,059	$ 29,037
Food and non-food items	Food, books, hygiene products, and household goods	U.S. wholesale prices of identical or similar items	41,378	27,289
In-kind services	Professional services such as human resources consulting, facilities, freight, and legal pro bono services	Standard industry pricing for similar services	1,395	1,088
Cryptocurrency	Digital currency	Proceeds from conversion to cash	1,664	5,403
Contributions of non-financial assets			56,496	62,817
Awards of commodities and freight (see below)			48,842	64,480
	Total		**$105,338**	**$127,297**
	With donor restrictions		$55,186	$68,898
	Without donor restrictions		$50,152	$58,399

In addition to the above, a substantial number of individuals have volunteered significant amounts of their time to program and supporting functions; however, these services do not meet the criteria for recognition in accordance with generally accepted accounting principles and, therefore, are not recorded in the accompanying consolidated financial statements.

Donated commodities under awards are reported at fair value and recognized as revenue and expense when the commodities are distributed for program purposes and received by the recipients. During the years ended December 31, 20X2 and 20X1, [*Entity*] was awarded certain agricultural commodities for famine relief and food aid, medical commodities for health programs, and nonfood items for distribution to beneficiaries. The commodities and related freight, where applicable, are detailed below:

Awarding Organization	Commodity Type	20X2	20X1
World Food Programme	Agricultural	$30,884	$27,037
The Global Fund	Pharmaceutical	8,126	9,070
United States Department of Agriculture (USDA)	Agricultural	5,057	10,076
USAID	Agricultural	4,388	3,712
Various organizations or vendors from USDA	Agricultural	258	13,446
Various organizations from USAID	Agricultural	128	—
Catholic Relief Services from USAID	Agricultural	—	792
Other private vendors	Other non-food	1	347
Total awards of commodities and freight		**$48,842**	**$64,480**

Food commodities supplied to [*Entity*] through U.S. government programs managed by the U.S. Agency for International Development (USAID) or the U.S. Department of Agriculture (USDA) are valued according to commercial prices paid as stated on the purchase order and ocean bill of lading. USAID/USDA food commodities are procured by the Farm Service Agency (FSA), the procurement arm of the USDA that purchases all food commodities on behalf of international nongovernmental organizations and the World Food Programme (WFP), on the U.S. commercial market using funds granted to [*Entity*].

Other WFP contracts procure commodities through the conduct of WFP's own competitive tender solicitations in various countries around the world. The value of those commodities is the amount WFP pays to its commercial vendors. The freight portion of the WFP commodity value is the amount WFP pays to carriers who are contracted through the solicitation of competitive offers.

7.51 Note X: In-Kind Gifts and Contributed Services

Note: This NFP presents two line items for nonfinancial contributions on the face of its statement of activities, as follows:

	Without Donor Restrictions	*With Donor Restrictions*
Contributions of nonfinancial assets — food donations		*70,739,223*
Contributions of nonfinancial assets — contributed services	*661,180*	

[*Entity*] receives donations of food for distribution through its food bank from the U.S. Department of Agriculture (USDA), the Commodity Supplemental Food Program (CSFP) and others. For the year ended September 30 20X2, contributed nonfinancial assets — food donations recognized in the statement of activities consisted of the following:

Source	Revenue	Utilization	Donor Restrictions	Valuation
USDA	$19,020,347	Food distribution	Program require-ments	Value given by USDA at time of order
CSFP	894,717	Food distribution	Program eligibility	Value given by USDA at time of order
Others	50,824,159	Food distribution	Program require-ments	$1.92 a pound per Feeding America
	$70,739,223			

The value of donated services is recognized as support at estimated fair market value at the time that the services are provided based on current rates for similar services. For the years ended September 30, 20X2, all donated services were expensed and consisted of the following:

	20X2
Auditing	$ 62,063
Legal	182,170
Consulting	100,000
Advertising	179,072
Fund-raising	82,800
Other	55,075
Totals	$661,180

7.52 Note X: Contributed Services and In-Kind Contributions [*single, separate line item on the face of the statement of activities*]

Contributed services and in-kind contributions are recorded at their fair value as of the date of the gift. [*Entity's*] consolidated financial statements include the following contributed services and in-kind contributions:

Donated Public Service Announcements (Television, Radio, Internet, and Newspaper) — [*Entity*] produces and distributes public service television, radio, internet, and newspaper announcements that focus attention on the free services [*Entity*] provides for [*Constituents*], the importance of the [*Federal legislation*], and [*Organ*] research. These public service announcements are distributed to television stations and newspapers nationwide who then provide airtime and print space to deliver announcements to assist [*Entity*] in its mission, free of charge. [*Entity*] has contracted with independent outside agencies to track the date and time that each public service announcement is run and to estimate the value of the announcement based on the date, time, and market. For the year ended June 30, 20X2, [*Entity*] recorded $33,744,644 of donated public service announcements, which were utilized in the Public Education program.

Donated Space — [*Entity*] is provided certain space free of charge in hospitals or office buildings operated by the [*Federal agency*]. [*Entity*] employees use this space to help [*Constituents*] monitor the delivery of high-quality and appropriate health care benefits and services and identify and secure [*Constituents'*] benefits and other benefits for injured and diseased [*Constituents*]. The value of this space is based on the square footage occupied by [*Entity*] at the estimated rental value per square foot. The estimated rental value is based on commercial real estate value guidelines for the location of the property. For the year ended June 30, 20X2, [*Entity*] recorded $1,222,745 of donated space, which is recorded in occupancy in the consolidated statement of functional expenses. The donated space was utilized in the Benefits and Medical Advocacy Services program.

Volunteer Services — [*Entity*] uses the following volunteers who provide specialized skills that would otherwise be required to be hired, if not provided by the volunteer: experts in the medical or social aspects related to [*organ*] injury or disease, or both, to evaluate grant proposals and review technical publications, and professional referees or officials and special services provided by companies at [*Entity's*] National [*Event*]. The services donated by these volunteers are valued at rates published by the federal government through the Bureau of Labor Statistics. For the year ended June 30, 20X2, [*Entity*] recorded $37,491 of volunteer services, which is recorded in "Other professional and consulting" in the consolidated statement of functional expenses. The volunteer services were utilized in the Research and Sports and Recreation programs.

In-Kind Contributions — [*Entity*] sponsors certain activities for which in-kind contributions are provided by corporations. The value of these in-kind contributions is recorded based on the market value of similar services in a similar location. For the year ended June 30, 20X2, [*Entity*] recorded $133,104 of in-kind contribution revenue, which is recorded in "Other professional and consulting" in the consolidated statement of functional expenses. The in-kind contributions were utilized in the Sports and Recreation programs.

There were no restrictions placed on the contributed services and in-kind contributions by the donors during the year ended June 30, 20X2.

Legal Services to [*Constituents*] — [*Entity*] formed a consortium in 19X1 with three [*beneficiary*] service organizations to recruit and train qualified attorneys to donate legal services to individuals who have otherwise been unable to find competent legal representation before the [*court*]. [*Entity*] does not record any value for these contributed services, as they are provided directly to the [*Constituents*].

7.53 Note X: Donated Services and Assets [*portion of a longer note; single, separate line item on the face of the statement of activities*]

[*Entity*] records in-kind support for various professional services received. Contributed professional services are recognized if the service received creates or enhances long-lived assets or is provided by individuals possessing specialized skills and would need to be purchased if not provided by donation. During the years ended June 30, 20X2 and 20X1, donated services of $25,333 and $105,728, respectfully, were recognized.

A substantial number of unpaid volunteers have donated significant amounts of their time to [*Entity's*] program services and fund-raising events. However, due primarily to the nature of the services provided, the value of such services has not been reflected in the accompanying financial statements.

Generally, donated assets are recorded at their fair value, estimated by using prices that would be received for selling similar products. During the years ended June 30, 20X2 and 20X1, donated assets of $54,340 and $44,875, respectfully, were recognized.

7.54 Note X: Contributed Nonfinancial Assets [*This NFP did not have a separate line item on the face of the statement of activities, as amounts were clearly immaterial.*]

During the years ended June 30, 20X2 and 20X1, contributed nonfinancial assets recognized within the consolidated statements of activities were as follows:

	20X2	20X1
Flight travel vouchers	$191,350	—
Food	63,799	$ 7,921
Computer equipment	55,000	88,000
Laboratory supplies	1,196	63,582
Other	—	3,380
	$311,345	$162,883

The Organization recognized contributed nonfinancial assets as revenue, including contributed computer equipment, food, laboratory supplies, and flight travel vouchers. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions.

The contributed flight travel vouchers were used primarily for staff travel expenses, including domestic travel to conferences and international travel for research expeditions. In valuing the flight travel vouchers, the Organization estimated the fair value on the basis of current market rates to purchase similar services at the time of donation.

Contributed food was used to support the Organization's fund-raising events [*event name*] and [*gala name*]. In valuing the food, the Organization estimated fair value on the basis of current market rates to purchase similar products at the time of donation.

The contributed computer equipment was used for general and administrative activities. In valuing the computer equipment, the Organization estimated the fair value on the basis of current market prices to purchase similar equipment at the time of donation.

The contributed laboratory supplies were used for research-focused programs, primarily within the Organization's [*Program*]. In valuing the laboratory supplies, the Organization estimated the fair value on the basis of current market prices to purchase similar supplies at the time of donation.

The other contributed nonfinancial assets were used to support the mission of the Organization, through programmatic, research, or general support. In valuing these donated goods and/or services, the Organization estimated the fair value on the basis of current market prices to purchase similar products and/or services at the time of donation.

A substantial number of volunteers have contributed significant amounts of time to the Organization. However, no amounts have been reflected in the accompanying consolidated financial statements for such contributed services do not meet the criteria for recognition as contributions under U.S. GAAP.

7.55 Note X: Contributed services merchandise and other in-kind donations *[single, separate line item on the face of the statement of activities with amounts in both the without donor restrictions and with donor restrictions columns*]

We recognized contributed nonfinancial assets within public support, including media communication and production services, resale merchandise for our gift shop, household goods for our Comfort House, and scientific peer review services for our extramural research grant process. These gifts-in-kind are reported as contributions at their fair value on the date of receipt and reported as expensed when utilized. They are valued based on estimates of market or resale values that would be received for selling the goods in their principal market, considering their condition and utility for use at the time the goods are contributed by the donor.

Our volunteers contribute significant amounts of time to our program services, administration, and fund-raising and development activities; however, the consolidated financial statements do not reflect the value of these contributed services because they do not meet the recognition criteria prescribed by generally accepted accounting principles.

Total contributed nonfinancial assets for the years ended December 31, 20X2 and 20X1 are as follows:

Category	Types	Valuation	Donor Restriction	20X2	20X1
Media communication and productions services	Digital, broadcast, and public service announcements	Third-party estimates using comparable billing rates	[*Disease*] prevention and screening	$28,658	$19,103
Gift shop	Resale merchandise	Selling price estimates	None	24,250	22,191
Comfort house	Household goods	Wholesale prices of identical or similar products	Use within Comfort House	4,046	170
Peer reviews	Professional review of extramural research grant process	Standard industry pricing for similar services	[*Disease*] research	1,708	1,128
Other nonfinancial contributions	Other goods and services	Varies by item valued	Other [*Disease*] programs	4,030	5,551
				$62,692	**$48,143**

Split-Interest Agreements, Including Related Assets and Liabilities

7.56 Note X: Perpetual Trusts and Split-Interest Agreements

[*Entity*] is a beneficiary of perpetual trusts administered by independent organizations. Under the terms of the trusts, [*Entity*] has irrevocable rights to receive portions of the income earned on the trust assets in perpetuity. [*Entity's*] beneficial interest in the perpetual trusts, at fair value, totaled approximately $26,825,000 and $25,706,000 at June 30, 20X2 and 20X1, respectively.

[*Entity*] received a life estate in 20X1, which a donor contributed real estate to [*Entity*] in exchange for the donor retaining the right to use the real estate until their death. The life estate is valued at a fair value of $1,515,000 at June 30, 20X2 and 20X1.

[*Entity*] is the beneficiary of charitable lead and remainder trust agreements held by independent trustees and [*Entity*]. Under the terms of the agreements, [*Entity*] has an unconditional right to receive all or a portion of specified cash flows from the agreements. The agreements are valued at fair value based on expected future cash flows and discounted present value at a risk-adjusted rate. As of June 30, 20X2 and 20X1, [*Entity*] applied a discount rate of 2.298% and 1.492%, respectively. [*Entity's*] beneficial interest is approximately $6,304,000 and $5,527,000 at June 30, 20X2 and 20X1, respectively.

[*Entity*] also has charitable gift annuity arrangements in which donors have contributed assets to [*Entity*] in exchange for a promise to pay a fixed amount for a specified period of time back to the donor. Gift annuity obligations represent the present value of future cash flows expected to be paid by [*Entity*] to the donors under these arrangements. Gift annuity liabilities of approximately $4,228,000 and $4,414,000 at June 30, 20X2 and 20X1, respectively, are reported on the consolidated statements of financial position. The required reserves of approximately $14,181,000 and $13,831,000 at June 30, 20X2 and 20X1, respectively, have been segregated in separate accounts and are recorded in investments on the statements of financial position, the use of which is limited to meeting the gift annuity obligations.

7.57 Note X: Split-Interest Agreements [*portion of a longer note*]

[*Entity*] has recognized the following types of split-interest agreements:

Beneficial Interests in Perpetual Trusts Held by Others

Donors have established and funded trusts that are administered by third-party trustees. Under the terms of these trusts, [*Entity*] has the irrevocable right to receive all or a portion of the income earned on the trust assets either in perpetuity or for the life of the trust. [*Entity*] does not control the assets held by the respective third-party trustees. Accordingly, [*Entity*] recognizes its interest in such trusts, based on the fair value of the trusts.

Charitable Remainder Trusts

Donors have established and funded trusts under which specified distributions are to be made to a designated beneficiary or beneficiaries over the trusts' terms. Upon termination of the trusts' terms, [*Entity*] receives its interest in the assets remaining in those trusts. Trusts are recorded as increases to net assets with donor restrictions at the fair value of trust assets, less the present value of the estimated future payments to be made under the specific terms of the trusts.

Charitable Gift Annuities

Donors have contributed assets to [*Entity*] in exchange for a promise by [*Entity*] to pay a fixed amount or percentage for a specified period of time to such donors or to individuals or organizations designated by those donors. Under the terms of such agreements, no trusts exist because the assets received are held by, and the annuity liability is an obligation of, [*Entity*]. The discount rates used to measure the liabilities ranged from 2.2% to 2.6% as of December 31, 20X2 and 1.4% to 2.2% as of December 31, 20X1.

Split-interest agreements are recognized as revenue when notification of an irrevocable split-interest agreement exists and when fair value can reasonably be determined.

7.58 Note X: Charitable Gift Annuity Split-Interest Agreements

[*Entity's*] split-interest agreements with donors consist of charitable gift annuities for which [*Entity*] holds the assets. Assets held for the annuitants totaling $237,035 and $253,974 as of September 30, 20X2 and 20X1, respectively, are included in "Prepaid expenses and other assets" in the consolidated balance sheets. Contribution revenue is recognized on the date [*Entity*] establishes the donor accounts, after recording liabilities for the present value of the estimated future payments to be made to the donors or other beneficiaries, or both. When required by states, [*Entity*] maintains separate annuitant asset accounts, reserves, and specific investment allocations. As of September 30, 20X2 and 20X1, [*Entity*] satisfied all state reserve requirements. [*Entity*] records the associated charitable gift annuity split-interest agreements liabilities at fair value using (*a*) a single life actuarial rate, adjusted by an annuity adjustment factor, provided in Section 7520 of the Internal Revenue Code, as amended and (*b*) the applicable mortality table. Each year, [*Entity*] adjusts the estimated liability to reflect changes in the life expectancy of the donor (or other beneficiary) and amortization of the discount in subsequent periods. This change is recorded in "Other" in the "Nonoperating" section of the consolidated statements of activities. At September 30, 20X2 and 20X1, [*Entity's*] charitable gift annuity split-interest agreement liabilities totaled $98,599 and $103,932, respectively. These liabilities are reported in "Accounts payable and other liabilities" in the consolidated balance sheets.

7.59 Note X: Split-Interest Agreements

[*Entity*] is a party to various types of split-interest agreements. *Charitable gift annuities* are arrangements whereby a donor contributes assets in exchange for a promise from [*Entity*] to pay the donor a fixed amount for a specified period of time. Assets received are recognized at fair value, and an annuity payment liability is recognized at the present value of the future cash flows expected to be paid. Contribution revenue without donor restrictions is recognized as the difference between these two amounts. To calculate the present value of charitable gift annuities, the 1994 Group Annuity Mortality Tables and the actual rates in each annuity agreement were used. The value of charitable gift annuities of $564,135 and $609,095 at June 30, 20X2 and 20X1, respectively, is included in investments on the accompanying statements of financial position. The related liabilities of $292,463 and $319,426 at June 30, 20X2 and 20X1, respectively, are included in obligation under split-interest agreements on the accompanying statements of financial position.

Pooled income funds are arrangements whereby several donors' life income gifts are invested and pooled together, and each donor is assigned a relative number of units in the fund. Contribution revenue has been recorded at the fair value of the assets to be received, discounted at 6% over the estimated life expectancy of the donor. The difference between the fair value of the assets received and the revenue recognized is recorded as deferred revenue, representing the amount of discount for future interest. Until the donor's death, the donor is paid the actual income earned on the donor's units of the fund. Upon the donor's death, the value of the assigned units reverts to [*Entity*]. The value of pooled income funds of $10,109 and $29,681 at June 30, 20X2 and 20X1, respectively, is included in investments on the accompanying statements of financial position. The related liabilities of $1,605 and $5,925 at June 30, 20X2 and 20X1, respectively, are included in obligation under split-interest agreements on the accompanying statements of financial position.

A *beneficial interest in a perpetual trust* is an arrangement in which a donor establishes and funds a perpetual trust for the benefit of one or more nonprofit beneficiaries. The assets are administered and managed by an independent third party. Under the terms of these arrangements, [*Entity*] has the irrevocable right to receive the investment income earned on the trust assets in perpetuity. The value of these perpetual trusts of $448,027 and $446,157 at June 30, 20X2 and 20X1, respectively, is included in beneficial interest in perpetual trusts on the accompanying statements of financial position.

Additionally, various trusts have several different varieties and terms. With regard to these trusts under which [*Entity*] is a beneficiary, the assets are administered and managed by an independent third party. The value of such trusts of $496,954 and $532,742 at June 30, 20X2 and 20X1, respectively, is included in contributions receivable from charitable trusts on the accompanying statements of financial position.

During the fiscal years ended June 30, 20X2 and 20X1, respectively, [*Entity*] recorded contribution revenue related to split interest agreements of $13,226 and $13,158.

7.60 Note X: Split-Interest Agreements

Gifts Subject to Life Interests

[*Entity*] has entered into charitable gift annuity contracts with multiple donors. Under such contracts, donors transfer assets to [*Entity*] in return for promises by [*Entity*] to pay specific annuities to designated beneficiaries for their lifetimes. Under these arrangements, the obligation to make annuity payments is guaranteed by all the assets of [*Entity*]. Upon the death of a beneficiary, the annuity payment obligation ceases.

The changes in split-interest agreement liabilities are as follows for the years ended June 30:

	20X1	20X2
Beginning balance	$196,178	$171,242
New gifts	10,000	50,000
Change in value	16,769	5,798
Payments	(31,789)	(30,862)
Ending balance	**$191,158**	**$196,178**

Contributions implicit in these split-interest agreements are generally recorded as increases in net assets without donor restrictions, unless the donor has perpetually restricted [*Entity's*] use of future distributions of assets or imposed other donor restrictions on the use of the transferred assets.

The present value of gifts subject to life interests is calculated using interest rates and life expectancy tables (see Note X). These inputs to the fair value estimate are considered level 3 in the fair value hierarchy.

7.61 Note X: Amounts Held as Trustee or Agent Under Split-Interest Agreements

[*Entity*] has legal title, either in [*Entity's*] name or as trustee, to charitable remainder and lead trusts. No significant financial benefit can be realized until the contractual obligations are released. [*Entity*] also receives contributions for charitable gift annuity contracts. Actuarial methods are used to record these annuities and trusts using discount rates ranging from 1.20% to 9.40%. For charitable gift annuities and charitable remainder trusts, when a gift is received, the present value of future expected payments to the beneficiaries is recorded as a liability based upon life expectancy tables and current discount rate assumptions, and the remainder is recorded as a contribution. For charitable lead trusts, when a gift is received, the present value of future expected payments to [*Entity*], as lead beneficiary, is recorded as a contribution, and the remainder is recorded as a liability to the remainder beneficiaries. Contribution revenue recognized from charitable gift annuities and charitable remainder and lead trusts is classified as an increase in net assets with or without donor restrictions based on the existence or absence of time or use restrictions placed by the donor upon the university's interest in the assets. Annuity and trust assets are reported at fair value. Investment income and gains are credited, and beneficiary payments, direct costs of funds management, and investment losses are charged to the liability accounts, with periodic adjustments made between the liability and the net assets to record actuarial gains or losses resulting from changes in fair value and life expectancy. [*Entity*] maintains separate reserve funds adequate to meet future payments under its charitable gift annuity contracts as required by governing states' laws. The total amount held in separate reserve funds was $931,000 as of June 30, 20X2, and $904,000 as of June 30, 20X1.

7.62 Note X: Split-Interest Agreements

[*Entity*] is licensed by the State of [*State*] Department of Insurance as a Grants and Annuities Society. As such, [*Entity*] may issue charitable gift annuity contracts. [*Entity*] had 83 and 84 outstanding annuity contracts entered into with 58 and 61 separate donors as of year-end 20X2 and 20X1, respectively. The present value of the life annuities associated with these contracts is included in accounts payable and accrued expenses in the consolidated statements of financial position.

For charitable gift annuity agreements, [*Entity*] receives cash or marketable securities from a donor in exchange for an annuity to be distributed for a fixed amount over the lifetime of the donor or other beneficiaries. Upon the death of the annuitant or the annuitant's survivor, [*Entity*] is entitled to full use of the remainder. The issuance of gift annuities is regulated under the [*State*] Insurance Code. Pursuant to charitable gift annuity regulations, amounts held are invested in a trust account segregated from other assets and are within investment limitations, with equities allowed to comprise up to 50% of the reserve fund, and mutual funds allowed within that 50%. In addition, the reserves on the outstanding annuity agreements are at least equal to the reserves' present value of annuity liabilities calculated using the proscribed mortality table and discount rate assumptions. Charitable gift annuity assets are recorded at fair value. A liability is then recorded for the amount of the annuity payments payable to the donor based on the actuarial life of the donor. The liability for charitable gift annuity agreements is included in accounts payable and accrued expenses in the consolidated statements of financial position and totaled $7,764,000 and $7,411,000 at year-end 20X2 and 20X1, respectively. Changes in charitable gift assets and liabilities are included in the change in value of split-interest agreements in the consolidated statements of activities and changes in net assets.

[*Entity*] is the beneficiary of assets held in two irrevocable split-interest agreement pooled income funds administered by bank trustees. The assets of the pooled income funds are recorded at fair value. The difference between the fair market value of the assets in the pooled income fund and the present value of estimated future contributions to be received has been recorded as deferred revenue. The amortization of discount and changes in actuarial assumptions are included in the change in value of split-interest agreements in the consolidated statements of activities and changes in net assets.

[*Entity*] is the beneficiary in 33 irrevocable charitable trusts both in 20X2 and 20X1 for which [*Entity*] is not the trustee. Each trust names [*Entity*] as a residual beneficiary following the death of one or more life income beneficiaries. The fair value of the assets to be received under each trust, discounted for the estimated time until receipt, is recorded in beneficial interest in charitable remainder trusts included in split-interest agreements in the consolidated statements of financial position and in net assets with donor restrictions until trust termination. The current-year change in the valuation of beneficial interest in charitable remainder trusts is included in the change in value of split-interest agreements in the consolidated statements of activities and changes in net assets.

[*Entity*] estimates fair value of split-interest agreements by using net present value calculations with discount rates of 3.5% to 2.8% for 20X2 and 20X1 and estimated life expectancies based upon the mortality rate tables published by the IRS.

[*Entity*] has a beneficial interest in perpetual trusts held by a third-party trustee. Under the perpetual trust arrangements, [*Entity*] has recorded the assets and recognized donor-restricted contribution revenue at the fair value of [*Entity's*] beneficial interest in the trusts' assets. Distributions received on the trusts' assets are recorded as donor-restricted investment income in the consolidated statements of activities and changes in net assets. Subsequent changes in fair value of the beneficial interest in the trusts' assets are included in the change in value of split-interest agreements on the consolidated statements of activities and changes in net assets.

Exchange Revenue and Deferred Revenue

7.63 See section 6 for items related to investment income and gains.

7.64 Note X: Revenue Recognition [*portion of a longer note*]

Revenue from dues is recorded in the applicable membership period. Dues received in advance of the applicable membership period are recorded as deferred revenue and recognized in that future period.

Revenue from publications, professional development, conferences and professional examinations, and exemption fees is recognized when goods are shipped to customers or services are rendered.

Revenue from subscription-based products is deferred and recognized on the straight-line method over the term of the subscriptions, which is primarily for one year.

Revenue related to affinity contracts is recognized when the sale is recognized by the affinity partner, in accordance with the respective agreements.

Advertising revenue is recorded as print, or electronic publications are issued.

Revenue is recognized net of any related sales or value-added taxes.

Contributions and other assets are recorded with or without donor restrictions when received, depending on the existence of any restrictions. Conditional promises to give are not included as support until the conditions are substantially met.

A number of people have contributed significant amounts of time to the activities of [*Entity*]. The combined financial statements do not reflect the value of these contributed services because they do not meet the criteria for recognition.

7.65 Note X: Revenue From Contracts With Customers and Deferred Revenue [*portion of a longer note*]

[*Entity*] records revenues from contracts with customers as increases in net assets without donor restrictions to the extent that the earnings process is complete. Resources received under contracts with customers are recognized as deferred revenue to the extent that the earnings process has not been completed. These transactions primarily include sales of educational materials, conferences, subscriptions, royalty revenues, licensing fees, and advertising fees from journal publications. Receivables from contracts with customers are expected to be collected within one year and are recorded at net realizable value.

7.66 Note X: Revenue Recognition [*portion of a longer note*]

The University's significant revenue recognition policies are as follows:

Tuition and fees, net — Student tuition and fees are recorded as revenue during the year that the related academic services are rendered. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue. Student aid provided by the University for tuition and fees is reflected as a reduction of the transaction price for tuition and fee revenue. Student aid does not include payments made to students for services rendered to the University.

Grants and contracts — Revenues from sponsored grants and contracts, including facilities and administrative (F&A) cost recovery, are recognized when allowable expenditures are incurred under such agreements. F&A cost recovery represents reimbursement, primarily from the federal government, of F&A costs on sponsored activities.

Auxiliary enterprises — Auxiliary enterprises include athletics, residence halls, dining services, parking, and retail stores, which furnish goods and services to students, faculty, staff, and in some cases, the general public. Fee charges are directly related to the costs of goods provided or services rendered and are recognized accordingly.

7.67 Note X: Revenue Recognition [*portion of a longer note*]

Contributions, including unconditional pledges, are recognized as revenues in the period that donors make unconditional promises to give. Conditional contributions are not recognized until such conditions are substantially met.

Gifts of land, buildings, and equipment are reported as revenue without donor restrictions unless explicit donor restrictions specify how the assets must be used. Contributed long-lived assets with explicit time or purpose restrictions are reported as donor-restricted revenue.

Federal appropriations revenues are recognized as reciprocal transactions to the extent reimbursable costs are incurred. The unexpended portion of the appropriation, for which reimbursable costs have not been incurred, are reported as deferred revenue on the statement of financial position. Unused appropriations are refunded five years after the period of availability.

Revenue from subscriptions to [*Publication*] is recorded as income over the period of the related subscription. Costs related to obtaining subscriptions to [*Publication*] are charged to expense when costs are incurred.

7.68 Note X: Deferred Revenue

At June 30, 20X2 and 20X1, deferred revenue is as follows:

	20X2	20X1
Deferred membership revenues	$3,023	$1,744
Other	493	359
Deferred exhibition fees	—	143
	$3,516	$2,246

7.69 Note X: Deferred Revenue [*portion of a longer note*]

Deferred revenue consists of licensing fees related to [*Product*]. The licensing fees are received in advance of the period of service and recognized as deferred revenue. Licensing fees are recognized ratably over the period of service in accordance with the underlying agreements and have been included in publication sales and other income in the accompanying consolidated statements of activities.

7.70 Note X: Deferred Revenue [*portion of a longer note*]

Deferred revenue consists of registration and underwriting fees for training programs and conferences as well as deferred service revenue. [*Entity*] recognizes training programs and conference revenues upon the program or conference's completion. Unexpended training program, conference, and service revenues at year-end are deferred and recognized when the related expenditures occur.

7.71 Note X: Recognition of Exchange Transaction Revenue and Expenses [*portion of a longer note*]

Ticket sales are recognized as revenue during the period in which the related production is performed. Deferred production costs, including expenditures for scenery and costumes, represent production costs relating to future operas and are recorded as expense in the period when the specific production is performed. Miscellaneous project revenues and expenses are recognized in the period when the project is completed. Deferred revenues include ticket and miscellaneous project revenues related to future productions and other activities.

7.72 Note X: Deferred Lease Revenue

At June 30, 20X2, the Museum had $35,833,732 in deferred lease revenue associated with three long-term agreements. The agreements related to the lease of a building and land for the development of a [*Description*] museum, the related easement of adjacent land for construction of the [*Description*] museum, and an unrelated easement of other land for the design and construction of a subway extension. Lease revenue associated with the long-term agreements is recognized over the terms of the agreements with the unrecognized portions being reflected as deferred lease revenue on the statement of financial position.

Expenses

7.73 See additional expense-related disclosures in the preceding section," Exchange Revenue and Deferred Revenue."

7.74 Note X: Functional Allocation of Expenses [*portion of a longer note*]

The consolidated statement of functional expenses presents expenses classified according to the programs and supporting services for which they were incurred. The various programs and supporting services of [*Entity*] are as follows:

Health care — Programs designed to improve and protect the ability to provide high-quality [*type of health*] health care for all

Education — Programs designed to educate the public regarding [*type of health*]

Advocacy — Programs designed to empower all people to build the future they want and change cultural attitudes about [*type of health*]

Research — Programs designed to promote clinical research

Management and general — Involves the direction of the overall affairs of [*Entity*], which includes accounting, legal, administration, and related areas

Fund-raising — Involves the direction of the overall fund-raising affairs of [*Entity*] and shared fund-raising with [*Entity*] affiliates, which includes development and related areas

7.75 Note X: Allocation of Expenses [*portion of a longer note*]

[*Entity*] excluded depreciation and amortization and interest from the functional expense categories in the statements of activities for the years ended June 30, 20X2 and 20X1. Those expenses have been distributed to the functional areas of [*Entity*] as follows:

	20X2			
	Expenses Excluding Depreciation and Interest	Depreciation and Amortization	Interest	Total
Programs	$78,277,927	$15,435,699	$5,557,189	$99,270,815
General and administrative	11,341,521	575,066	—	11,916,587
Fund-raising	7,780,532	184,964	—	7,965,496
Total	**$97,399,980**	**$16,195,729**	**$5,557,189**	**$119,152,898**
	20X1			
Programs	$76,582,761	$15,966,609	$5,599,887	$98,149,257
General and administrative	13,340,968	594,845	—	13,935,813
Fund-raising	6,342,715	191,326	—	6,534,041
Total	**$96,266,444**	**$16,752,780**	**$5,599,887**	**$118,619,111**

7.76 Note X: Allocation of Joint Costs

[*Entity*] has allocated the joint costs of providing educational materials and activities that include a fund-raising appeal. Because only those activities that include both programmatic and fund-raising components are included in this allocation, the amounts that follow do not include all the expenses presented in the consolidated statement of functional expenses. This allocation is based upon the percentage of material in each mailing or television advertising related to the particular services as determined by content analysis. Total costs for mailing pieces and television advertising spots that requested financial support and served other program or management functions were allocated as follows for the year ended December 31, 20X2:

Programs	$28,833,262
Fund-raising	36,657,629
Membership development	1,371,788
	$66,862,679

7.77 Note X: Allocation of Joint Costs

[*Entity*] conducts a yearly direct mail campaign that entails the delivery of approximately 100 million pieces of mail that reaches 28 million, or 22% of American households. This campaign raises approximately $75 million annually and serves three goals.

1. Educate the American public on all aspects of [*Organ*] injury and disease. [*Entity*] was originally chartered by Congress to carry out several specific objectives, chief among them being "to acquaint the public with the needs and problems of [*Afflicted population*]." Secondary to that objective was to inform the public about the programs and services that [*Entity*] provides that address the unique needs of [*Population segment*] with [*Organ*] dysfunction. Those programs and services include representation before the federal government, assistance with the filing and development of complex disability claims, monitoring the quality of health care provided at Government Medical Centers, championing laws and policies that ensure equal opportunity and civil rights for [*Population segment*] with disabilities, and promoting research and education that mitigate the effects of [*Organ*] dysfunction and bring science and medicine closer to curing it altogether. Despite the prevalence of [*Organ*] dysfunction in general society, [*Entity*] continues to confront the awareness gap by providing calls to action within many of the direct mail pieces to encourage the public to become interested and involved in disability issues or [*Entity*] programs, many of which benefit [*Population segment*] in particular but also the greater disability community in general. This goal is reflected in the joint cost category entitled "Public Education."

2. Educate the American public on the history of [*Entity*]. Through their advocacy, [*Population segment*] who incurred a [*Organ*] injury began to live longer lives due to advances in medicine and science, enjoy greater access and independence thanks to prosthetic devices, architectural accessibility, and legislation that opened opportunities for [*Population segment*]. For the last 70 years, [*Entity*] redefined quality of life for [*Population segment*] who had suffered catastrophic disabilities and ensured holistic support for these [*Population segment*] as they recovered. This advocacy included the pursuit of benefits and provision of support networks for the [*Population segment's*] families and caregivers. This goal is reflected in the joint cost category entitled, "General and Administrative."

3. Provide [*Entity's*] programs with the resources to support [*Population segment*]. [*Entity*] does not collect membership dues while providing direct support to approximately 18,600 [*Population segment*] free of charge. [*Entity*] also represents approximately an additional 17,900 [*Population segment*], dependents, and survivors without charge. Without government assistance to provide its free direct support, [*Entity*] relies on the generosity of the public to continue its mission. Public support comes from a loyal donor base, and a growing new base inspired by [*Entity's*] impact, and provides [*Entity*] with the $33 million it needs annually to fully address the unique needs of [*Population segment*] living with [*Condition*] and its devastating effects through its programs and services. This goal is reflected in the joint cost category entitled, "Fund-raising."

For the years ended June 30, 20X2 and 20X1, [*Entity*] incurred total direct mail program costs of $63,431,266 and $59,440,891, respectively, for informational materials and activities that included fund-raising appeals, which were allocated as follows:

	20X2	20X1
Public education	$31,116,390	$30,633,561
Fund-raising	$30,092,018	$27,112,820
General and administrative	$2,222,858	$1,694,510

7.78 Note X: Allocation of Joint Costs [*portion of a longer note*]

[*Entity*] conducts activities that included requests for contributions as well as program components. Those activities included production of mailings and brochures. The mailings and brochures are produced at minimal cost, and such costs are classified in the advancement department as a component of fund-raising.

Special event expenses totaled approximately $161,000 in 20X2 and $141,000 in 20X1 and are considered joint costs. Special event expenses are netted against special event revenue as allowed under U.S. generally accepted accounting principles.

7.79 Note X: Expenses [*portion of a longer note*]

Direct costs associated with specific programs are recorded as program expenses. General and administrative expenses are unallocated in the statements of functional expenses and statements of activities.

[*Entity*] attained a functional allocation expense ratio of approximately 9.7 to 0.3 for program services versus supporting services for the years ended December 31, 20X2 and 20X1. The functional allocation expense ratio excludes donated services.

During the years ended December 31, 20X2 and 20X1, the Board approved that the Endowment Fund be used to finance all employee salaries, bonuses, health and welfare benefits, and pension contributions, the amount of which was $1,684,924 and $1,586,705 for the years ended December 31, 20X2 and 20X1, respectively, as shown in the accompanying statements of functional expenses, included in the salaries and insurance expense lines.

The costs of providing [*Entity's*] various programs and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

7.80 Note X: Advertising [*portion of a longer note*]

Advertising costs are charged to expense in the period incurred. Advertising expense was $1,830,500 and $5,488,500 for the years ended June 30, 20X2 and 20X1, respectively, and is included in (*a*) [*Program*] and related activities, and (*b*) educational and cultural expenses in the accompanying consolidated statements of activities and changes in net assets. In addition, [*Entity*] received a contributed advertising pledge of $250,000 for the year ended June 30, 20X0 for the [*Entity*] Museum. Contributed advertising is recognized as a Museum development expense of $62,500 in 20X2 and 20X1 in the accompanying consolidated statements of activities and changes in net assets.

7.81 Note X: Start-Up Activities

The entity will open a shelter in 20X3 to house the homeless. The entity will rent the facility. During 20X2, certain start-up costs were incurred to get the shelter ready to open. These costs included salaries and related costs, staff recruiting and training, rent, security, insurance, utilities, and consulting fees. These costs have been recorded as expenses in 20X2.

7.82 Presentation of Expenses

Expenses are reported in the consolidated statements of activities in categories recommended by [*Trade Association*]. The College's primary program service is instruction. Expenses reported as academic support, student services, institutional support, and auxiliary enterprises are incurred in support of this primary program service. Expenses that support more than one function, interest on indebtedness, and depreciation and amortization expense, are allocated based on the functions benefited. Institutional support includes fund-raising expenses totaling $2,383,763 and $2,416,050 for the years ended June 30, 20X2 and 20X1, respectively.

7.83 Fund-Raising Expenses [*portion of a longer note*]

Fund-raising expenses of $3,191,000 and $3,378,000 are included in "Institutional support" in the Consolidated Statements of Activities for the years ended June 30, 20X2 and 20X1, respectively, and include direct expenses associated with fund-raising activities and allocations for depreciation expense, interest on long-term debt, operation and maintenance of [*Location*] facilities, and information technology support.

7.84 FASB ASC 958-205-50-3 requires that if an NFP discloses a ratio of fund-raising expenses to amounts raised, it should also disclose how it computes the ratio.

7.85 Note X: Fund-Raising Expense Ratio

The following presents the entity's fund-raising expense ratio for the year ended June 30, 20X2:

Total support reported on the statement of activities	$1,085,282
Plus donor-designated gifts	227,944
Total	1,313,226
Less in-kind rent and services	(73,015)
Adjusted support	$1,240,211
Fund-raising expenses	$96,939
Fund-raising expense ratio	7.82%

Grants Awarded to Others

7.86 See also "Liabilities" in section 6 for examples of disclosures pertaining to the liability for unpaid grants.

7.87 In accordance with FASB ASC 720-25-25-1, grantors recognize grant expense only if the award represents an unconditional contribution to the grantee. If a grant is determined to be a conditional contribution, expense should be recognized by the grantor as the grant becomes unconditional.

7.88 Note X: Grants

Grants are recorded as an expense and a liability based on funds committed per the grant agreements once final approval by the grants department has occurred, and the grants are either unconditional or the conditions have been substantially met. No grant payments may be made prior to the final approval.

[*Entity*] granted approximately $11,840,000 and $14,144,000 during the years ended December 31, 20X2 and 20X1, respectively. The grants were spent in furtherance of the mission in the following program areas:

	20X2	20X1
[*Strategic Initiative*]:		
[*Program 1*]	$1,427,624	$2,682,675
[*Program 2*]	537,987	153,800
[*Program 3*]	782,696	1,169,070
[*Program 4*]	158,308	398,010
Total [*Strategic Initiative*]	2,906,615	4,403,555
Community outreach:		
[*Program 5*]	4,240,722	4,672,325
[*Program 6*]	949,000	875,474
[*Program 7*]	2,292,416	2,769,216
[*Program 8*]	37,600	45,600
[*Program 9*]	1,461,613	1,417,500
Other	2,500	118,500
Total community outreach	8,983,851	9,898,615
Grant refunds	(49,976)	(157,693)
Total amount granted	11,840,490	14,144,477
Other grant expenses	1,110,754	946,433
Total grant expenses	**$12,951,244**	**$15,090,910**

7.89 Note X: Grant Expenses [*portion of a longer note*]

Grant awards without substantial conditions are recognized in the period in which they are approved by the governing bodies. Grants to be paid after one year are discounted at an appropriate rate commensurate with the risk involved. Amortization of the discount is recorded as additional grant expense. Grants with substantial conditions are not recognized until the conditions on which they depend are met.

7.90 Note X: Grant Expense [*portion of a longer note*]

Grants are recognized when all significant conditions are met by grantees, all due diligence has been completed, and they are approved by staff or board committee. Grant refunds are recorded as a reduction of grant expense at the time [*Entity*] receives or is notified of the refund. Grants payable represent the present value of grants to be paid over a year and have been discounted at 2.11%.

For 20X2, included in grants expense are grants in the amount of $566 million that were transferred to other donor-advised fund providers. Included in contributions are gifts in the amount of $255 million that were transferred from other donor-advised fund providers.

7.91 Note X: Research Awards and Grants [*portion of a longer note*]

The Association awards funds each year to support [*disease*] and related research projects. The projects generally extend over a period of one to five years. The liability and related expenses are recorded when the recipients are notified of their awards, and the liability is reported as research awards payable in the balance sheet.

Awards that are expected to be paid in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed at the date of award using interest rates applicable to the years in which awards are granted, ranging from 2.3% to 2.8%. Accretion of the discounts is recognized as research — awards and grants expense, using the effective interest method, in the statement of functional expenses.

7.92 Note X: Awards and Grants [*portion of a longer note*]

Awards and grants expenses consist primarily of grants of one year or less awarded to affiliates and grants awarded to international partners. Grants are reported as an expense and liability in the period made, or if conditional, when [*Entity*] deems that the terms and conditions of the grant agreements have been substantially met.

Taxes and Tax-Exempt Status

7.93 See also "Contingencies and Other Uncertainties, Including Going Concern Questions" in section 5 and "Liabilities" in section 6.

7.94 Note X: Income Taxes [*portion of a longer note*]

[*Entity*] and [*Foundation*] are nonprofit organizations exempt from income taxes under Section 501(c)(4) and Section 501(c)(3), respectively, of the Internal Revenue Code. Both [*Entity*] and [*Foundation*] are subject to taxes on unrelated business income, as applicable. The LLC is treated as a disregarded (tax) entity.

[*Entity*] and [*Foundation*] file tax and information returns with the IRS and various states.

Management evaluated [*Entity's*] and [*Foundation's*] tax positions and concluded that each organization had taken no uncertain tax positions that require additional adjustment or disclosure to the accompanying consolidated financial statements. Generally, [*Entity*] and [*Foundation*] are no longer subject to income tax examinations by U.S. federal, state, or local tax authorities for tax years before 20W9, which is the standard statute of limitations look-back period.

7.95 Note X: Income Taxes [*portion of a longer note*]

[*Entity*] follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is "more likely than not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

[*Entity*] is exempt from income tax under Internal Revenue Code Section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the IRC. [*Entity*] has calculated an income tax provision that is immaterial for financial statement purposes. [*Entity*] has processes presently in place to ensure the maintenance of its tax-exempt status, identify and report unrelated income, determine its filing and tax obligations in jurisdictions for which it has nexus, and identify and evaluate other matters that may be considered tax positions. [*Entity*] has determined that there are no material uncertain tax positions that require recognition or disclosure in the consolidated financial statements.

7.96 Note X: Income Taxes

[*Entity*] is a nonprofit organization exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. As a 501(c)(3) organization, [*Entity*] is taxed only on unrelated business income. Investment earnings are the primary source of [*Entity's*] unrelated business income. Tax positions are recognized or derecognized based on a more-likely-than-not threshold. This applies to positions taken or expected to be taken in a tax return. [*Entity*] is not aware of any uncertain tax positions.

7.97 Private foundations are subject to a number of specific tax rules. Notes that address some of these rules are shown in the examples that follow.

7.98 Note X: Excise and Income Taxes

Excise and income taxes consisted of the following:

	20X2	20X1
Current excise taxes	$1,442,206	$1,480,041
Deferred excise tax*	2,592,279	164,550
Federal and state income taxes	40,362	941,988
	$4,074,847	$2,586,579

* [*Entity's*] deferred excise tax liability of $2,592,279 and $164,550, as of December 31, 20X2 and 20X1, respectively, is netted against its unrealized gains on the 20X2 consolidated statements of activities.

Current excise taxes are computed at a 2% excise tax rate on [*Entity's*] net investment income. Current federal and state income taxes are based on unrelated business income derived by the Foundation's pass-through investments. For federal income tax purposes, the Foundation's tax provision is $0. The Foundation does generate unrelated business income on a multistate basis and has calculated a state tax provision of $40,362, which represents its income tax liability net of withholding tax refunds received.

A deferred tax liability of $12,690,744 and $10,098,465, respectively, is reflected in the Foundation's December 31, 20X2 and December 31, 20X1 consolidated balance sheets due to the unrealized appreciation of certain investments.

7.99 Note X: Tax Status

The Fund is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code but is subject to a 1% or 2% (depending on whether certain criteria are met) federal excise tax on net investment income. For the year ended June 30, 20X2, that excise tax rate was 1%. The Fund is also subject to federal and state taxes on unrelated business income. In addition, the Fund records deferred federal excise taxes based upon expected excise tax rates on the unrealized appreciation of investments because such amounts would be realized for tax purposes when the investments are sold.

The Fund is required to make certain minimum distributions in accordance with a formula specified by the IRS. For the year ended June 30, 20X2, the Fund was required to distribute approximately $35 million. The Fund has an undistributed amount of approximately $10.5 million carried over to the next fiscal year.

In the Statement of Financial Position, the deferred tax liability of $82,993 at June 30, 20X2 resulted from expected federal excise taxes on unrealized appreciation of investments. For the year ended June 30, 20X2, there was a reduction of $1,481,658 in the deferred excise tax liability.

7.100 Note X: Federal Excise and Unrelated Business Income Tax

In accordance with the applicable provisions of the Internal Revenue Code (IRC), the Foundation is a private foundation and qualifies as a tax-exempt organization. Private foundations are liable for an excise tax of 2% (1% if minimum pay-out requirements prescribed by the IRC are met) on net investment income, excluding unrealized gains, as defined. The Foundation was subject to the 2% rate for the year ended December 31, 20X2. Deferred excise taxes arise primarily from unrealized tax basis gains on investments and are calculated at the effective rate expected to be paid by the Foundation.

The income from certain investments is subject to federal and state unrelated business income tax.

DISTRIBUTION REQUIREMENTS

The Foundation is subject to the distribution requirements of the IRC. Accordingly, it must distribute within one year after the end of each fiscal year 5% of the fair value of its investment assets, as defined. The investments included in the 5% distribution requirement are based on average monthly balances and are exclusive of those investments deemed to be held for charitable activities or program-related investments. In determining qualifying distributions, grant payments are considered on a cash basis, and certain expenses are considered as qualifying distributions. Management believes the Foundation has complied with the distribution requirements for the year ended December 31, 20X2.

[*Affiliate*] is a private operating foundation within the meaning of Section 509(a) of the IRC that makes its required charitable expenditures by sponsoring and managing its own programs. Pursuant to Section 4940(a) of the IRC, [*Affiliate's*] investment income, reduced by certain allowable expenses, is subject to excise tax at a rate of 1% of investment income. [*Affiliate's*] status as an operating foundation is determined annually by satisfying the income test and certain other numerical tests. Generally, a private operating foundation must make qualifying distributions of 4.25% of the average fair value of the foundation's investment assets directly for the active conduct of the activities for which it is organized and operating. [*Affiliate*] has met the requirements for private operating foundation status for the year ended December 31, 20X2.

7.101 Note X: Excise and Income Taxes

In accordance with the applicable provisions of the Internal Revenue Code (IRC), the Foundation is subject to an excise tax of 2% (1% if minimum pay-out requirements prescribed by the IRC are met) on its net investment income, excluding unrealized gains, as defined, and is subject to corporate income tax rates on unrelated business income. The Foundation was subject to the 1% rate in 20X2 and 20X1. In addition, the IRC requires that certain minimum distributions be made in accordance with a specified formula.

Deferred excise taxes arise primarily from unrealized gains on investments. At December 31, 20X2, deferred federal excise tax is estimated at 2%, which is the maximum rate payable.

The provision for current and deferred federal excise and income taxes for the years ended December 31, 20X2 and 20X1, are as follows:

	20X2	20X1
Current	$2,454,334	$1,322,581
Deferred	3,662,000	(462,332)
Excise and income tax expense	**$6,116,334**	**$860,249**

7.102 The tax rules applicable to clubs are somewhat different from those applicable to most other NFPs.

7.103 Note X: Income Taxes

The Club is exempt from federal income taxes on member transactions and other activities related directly to its nonprofit purpose under Section 501(c)(7) of the Internal Revenue Code (IRC). The Club is subject to tax on unrelated business income as defined by the IRC.

The Club has evaluated its tax positions and has concluded that the Club had taken no uncertain tax positions that require adjustment to the financial statements. Generally, the Club is no longer subject to income tax examinations by the federal or [*State*] tax authorities for tax years ending before September 30, 20Y9.

7.104 Note X: Income Taxes

For income tax reporting purposes, the Club is taxed under Section 277 of the Internal Revenue Code. As such, the Club is required to segregate the results of its member-related activities from those which are nonmember-related activities and is separately taxed on each element.

Section 8

Financial Statements Prepared in Accordance With Special Purpose Frameworks

8.01 Many smaller not-for-profit entities choose to present their financial statements in accordance with a special purpose framework (SPF), often on the basis of cash receipts and disbursements. Also, for purposes of efficiency, some entities that prepare financial statements based on accounting principles generally accepted in the United States (GAAP) follow certain accounting policies that differ from GAAP in that the resulting differences are considered by management and by the auditor to be immaterial. The purpose of this section is neither to encourage nor discourage such practices, but merely to provide resources for those entities that may wish to obtain further information about this method of presentation. If cash basis statements are presented, use of titles and captions, including words such as *revenues* and *expenses*, may not be appropriate; words such as *receipts* and *disbursements* are preferable. See also the AICPA Audit and Accounting Guide *Not-for-Profit Entities*, and the practice aid *Accounting and Financial Reporting Guidelines for Cash- and Tax-Basis Financial Statements*,[1] for further discussion.

8.02 Although specific presentation and disclosure requirements for financial statements prepared in accordance with an SPF are not promulgated by any standard setting body, auditor requirements and guidance for SPF financial statements can be found in AU-C section 800, *Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*.[2] The guidance found in appendix B, "Fair Presentation and Adequate Disclosures," of AU-C section 800 may be especially helpful in determining the scope of disclosures necessary to achieve fair presentation in financial statements prepared in accordance with an SPF.

8.03 When special purpose financial statements contain items that are the same as, or similar to, those in financial statements prepared in accordance with GAAP, paragraph .18 of AU-C section 800 requires the auditor to evaluate whether the financial statements include informative disclosures similar to those required by GAAP. The auditor is also required to evaluate whether additional disclosures, beyond those specifically required by the framework, related to matters that are not specifically identified on the face of the financial statements or other disclosures are necessary for the financial statements to achieve fair presentation. Appendix B provides guidance in addition to paragraphs .A25–.A28 of AU-C section 800 on evaluating the adequacy of the disclosures

[1]Visit https://www.aicpa-cima.com/cpe-learning.
[2]All AU-C sections can be found in AICPA *Professional Standards*.

in financial statements prepared in accordance with an SPF, including matters related to the presentation of financial statements.

- If special purpose financial statements contain items for which GAAP would require disclosure, the financial statements may either provide the relevant disclosures that would be required for those items in a GAAP presentation or provide information that communicates the substance of that disclosure. Likewise, if GAAP sets forth requirements that apply to the presentation of financial statements, special purpose financial statements may either comply with those requirements or provide information that communicates the substance of those requirements, without modifying the format of the special purpose financial statements. This may result in substituting qualitative information for some of the quantitative information required for GAAP presentations, as follows:
  - Disclosure of the repayment terms of significant long-term borrowings may sufficiently communicate information about future principal reduction without providing the summary of principal reduction during each of the next five years.
  - Information about the effects of accounting changes and discontinued operations, if applicable, could be disclosed in a note to the financial statements without following the GAAP presentation requirements in the statement of results of operations, using those terms, or disclosing net-of-tax effects.
  - Instead of showing expenses by their functional classifications in certain industries, a statement of activities could present expenses according to their natural classifications, and a note to the statement could use estimated percentages to communicate information about expenses incurred by the major program and supporting services.
  - Instead of showing the amounts of, and changes in, classes of net assets without donor restrictions and with donor restrictions in certain industries, a statement of assets and liabilities could report total net assets, a related statement of activities could report changes in those totals; and a note to the financial statements could provide information, using estimated or actual amounts or percentages, about the restrictions on those amounts and on any deferred restricted amounts, describe the major restrictions, and provide information about significant changes in donor-restricted amounts.
- For special purpose financial statements, the following are illustrations of when GAAP disclosure requirements that are not relevant to the measurement of the item need not be considered.
  - Fair value disclosures for debt and equity securities would not be relevant when the basis of presentation does not adjust the cost of such securities to their fair value.
  - For a sponsor of a defined benefit plan, disclosures related to actuarial calculations for contributions to defined benefit plans would not be relevant in financial statements prepared in accordance with the cash or tax basis of accounting.

— Disclosures related to the use of estimates would not be relevant in a presentation that has no estimates, such as the cash basis of accounting.

Special purpose financial statements may not include a statement of cash flows. If a presentation of cash receipts and disbursements is presented in a format similar to a statement of cash flows or if the entity chooses to present such a statement, the statement would either conform to the requirements for a GAAP presentation or communicate their substance. As an example, the statement of cash flows might disclose noncash acquisitions through captions on its face.

8.04 The following is an example of a note used to describe a cash-basis presentation in financial statements prepared on a non-U.S. GAAP basis.

8.05 Note X: Basis of Accounting

The accounts of the entity are maintained on the cash basis [*or modified cash basis*] of accounting and, accordingly, do not include interest and dividends receivable; amortization of premiums; or discounts on fixed income securities, fixed assets, accrued interest expense, or other accrued liabilities. [*Add other items as relevant*.] [*Disclosure of the dollar effect of the omissions is optional.*]

Section 9

Information Outside of the Financial Statements

9.01 FASB *Accounting Standards Codification* 958-720-45-4 encourages, but does not require, presentation of "information about an [not-for-profit entity's] NFP's major programs (or segments)," and "related non-monetary information about program inputs, outputs, and results." It acknowledges, however, that such information is generally feasible only outside the basic financial statements. Part III (Statement of Program Service Accomplishments) of IRS Form 990 also requests such information. AU-C section 720, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*, and AU-C section 725, *Supplementary Information in Relation to the Financial Statements as a Whole*,[1] can provide guidance to the auditor with regard to other information that may be included in audited financial statements.

9.02 The determination of whether the auditor is within the scope of AU-C section 720 or AU-C section 725 is dependent upon both the type of information and the engagement. If certain information meets the definition of supplementary information in AU-C section 725 and the auditor is engaged to report on whether it is fairly stated, in all material respects, in relation to the financial statements as a whole, then AU-C section 725 applies. Otherwise, the information is considered other information, and the auditor's responsibility is described in AU-C section 720.

9.03 Paragraph .04 of AU-C section 725 defines supplementary information as "information presented outside the basic financial statements, excluding required supplementary information that is not considered necessary for the financial statements to be fairly presented in accordance with the applicable financial reporting framework. Such information may be presented in a document containing the audited financial statements or separate from the financial statements." Thus, AU-C section 725 applies when the information presented meets that definition and the auditor is engaged to report on whether that information is fairly stated, in all material respects, in relation to the financial statements as a whole.

9.04 When AU-C section 725 does not apply, AU-C section 720 addresses the auditor's responsibilities relating to other information, whether financial or nonfinancial information (other than financial statements and the auditor's report thereon), provided that information is included in an entity's annual report. Paragraph .12 of AU-C section 720 defines an annual report as

> a document, or combination of documents, typically prepared on an annual basis by management or those charged with governance in accordance with

[1]All AU-C sections can be found in AICPA *Professional Standards*.

law, regulation, or custom, the purpose of which is to provide owners (or similar stakeholders) with information on the entity's operations and the entity's financial results and financial position as set out in the financial statements. *An annual report contains, accompanies, or incorporates by reference the financial statements and the auditor's report thereon* and usually includes information about the entity's developments, its future outlook and risks and uncertainties, a statement by the entity's governing body, and reports covering governance matters. Annual reports include annual reports of governments and organizations for charitable or philanthropic purposes that are available to the public. [Emphasis added.]

9.05 In recent years, there has been a trend to publish, separately from the audited financial statements, an annual report with program highlights, accomplishments, detailed lists of grants awarded, and so forth. Examples of those types of annual reports are available elsewhere and are not included in this publication.

9.06 Following are examples of some presentations of nonfinancial statement information (some of it also includes selected financial data) with a numeric focus.

9.07 The following example provides a discussion of the financial results. Note that it includes a discussion of liquidity that, in many ways, mirrors the disclosure requirements for liquidity and availability information in FASB ASC 958-210-50-1A. The discussion here, however, contains more forward-looking information than might be included in a note disclosure.

9.08

Letter from the Treasurer [*Excerpts*]

The Association, along with 266 local affiliates, continued to deliver an exciting and valuable program to young people in 20X2. The following discusses sources, uses, and stewardship of the Association's resources during 20X2.

Net assets without donor restrictions:

Net Assets, Controlling Interest

The Association's controlling interest in its net assets without donor restrictions decreased by $6,479. The decrease in net assets was driven by payments made to the Employee Retirement Plan totaling $14,400 and claims and provision expense related to the General Liability program totaling $57,427. Offsetting the decrease in net assets were increases in investment income totaling $58,745.

Board-designated net assets comprise funds previously appropriated by the Board, such as for endowment, land, buildings, and equipment, and special program and administrative initiatives. Also included are funds related to the Retirement Benefit Trust (RBT), General Liability Insurance Program (GLIP), and self-funding events.

Revenues —

Fees increased in 20X2 by $24,426 primarily due to the 20X2 National [*Event*]. Excluding the national [*Event*], fees decreased by $4,900 largely due to a decrease in program fees.

In 20X2, the Association's Executive Board approved a registration fee increase from $24 to $33, effective December 1, 20X2. The fee increase did not result in a significant change because it was effective for only one month of the fiscal year. Also, in 20X2, the Association's Executive Board resolved to implement the family [*Program*] effective 20X3.

Contributions without donor restrictions increased from $8,621 to $10,638 in 20X2 mainly due to an increase in base contributions and individual giving.

Investment income without donor restrictions of $58,745 increased from $33,450 in 20X1. The total return for investments held in the endowment without donor restrictions was 15.75% during 20X2 compared with 8.82% during 20X1. The endowment and other investments without donor restrictions are among the designated assets within this portfolio, and these are overseen by a committee of the Board that also oversees donor-restricted investment portfolios. The related investment purchases and sales are primarily the result of the decisions of investment managers in fulfilling their investment mandates.

<u>Expenses</u> —

Total expenses increased by $19,864 to $283,604 in 20X2, up from $263,740 during 20X1. Of this increase, $33,221 relates to cost attributed to the 20X2 National [*Event*]. Offsetting the increase are declines in expenses attributed to pension and insurance cost of $13,564.

Net Assets, Noncontrolling Interest

Also, reported within net assets without donor restrictions is the local affiliates' noncontrolling interest in the Association Commingled Endowment Fund, LP (Partnership), which is managed by the Association Asset Management, LLC (AAM), the General Partner for the Partnership. Investment income reported for these local affiliates increased to $28,321 in 20X2 compared to $11,704 in 20X1. Overall, including the investment income, contributions, and withdrawals, the noncontrolling interest net assets without donor restrictions increased $70,012. Contributions and withdrawals were $53,891 and $12,200, respectively.

Restricted net assets:

Net assets with donor restrictions are either restricted in perpetuity (endowment) and may not be spent, or their use is restricted to a specific purpose or during a specific time period.

Donor-restricted contribution income increased to $27,863 for 20X2, an increase of $2,949 from 20X1 donation levels.

Donor-restricted investment income gains for 20X2 are $16,919 an increase of $9,264 from 20X1.

During 20X2, $34,799 of donor-restricted net assets were used for donor-specified purposes, compared with $26,871 in the prior year. $1,189 of the donor-restricted net assets were released from the requirement to hold them in perpetuity due to updated donor documentation received changing the nature of the restriction.

Overall, net assets with donor restrictions increased in 20X2 by $9,983 to a total of $219,397.

Total net assets:

The Association's total net assets increased in 20X2 by $73,516 compared to a decrease of $34,537 in 20X1.

Financial condition, liquidity, financing, and capital resources:

Liquidity

The Association has financial assets available within 12 months of the balance sheet date to meet cash needs for general expenditures, which include cash and cash equivalents, board-designated general endowment, and a line of credit. As of December 31, 20X2, cash and cash equivalents totaled $45,194, of which, $14,710 was set aside for property additions at the [*Location*].

Income from donor-restricted endowments is restricted for specific purposes and, therefore, is not available for general expenditure; however, our board-designated general endowment described in Note X has a spending rate for appropriating up to 5% of its endowment fund's average. The appropriation from the board-designated endowment is projected to be consistent with the $9,900 amount appropriated during 20X2.

Although the Association does not intend to spend from its board-designated endowment other than the amounts appropriated for general expenditure as part of its annual budget approval and appropriation, amounts from the board-designated general endowment could be made available.

Also available for general operations is a $75,000 line of credit, of which, $26,000 was used as of December 31, 20X2.

Management believes that cash generated from operations, together with the liquidity provided by existing cash balances and the line of credit, will continue to be sufficient to fund liquidity requirements during the next 12 months.

Financing

At its February 20X2 meeting, the Association's Executive Board approved a resolution to extend the current maturity date of the line of credit to March 20X5. Also, a resolution was approved that included converting $25,000 of the outstanding balance in the line of credit to a five-year term loan with a March 20X7 maturity date. The line of credit covenant requirements were amended, as well.

Principal and interest payment obligations were made as scheduled in 20X2. Also, all covenant requirements were met during 20X2. Management believes that cash generated from operations, together with liquidity from existing cash balances, the line of credit, and donor contributions, will continue to be sufficient for the repayment of debt as scheduled in 20X3.

Capital Resources

Capital is required to expand, improve, or replace the Association's properties, such as the [*Location*], its facilities, its distribution center and retail stores, and the rest of its infrastructure, to maintain a high level of service to its constituents.

The [*Location*] had property additions of $18,345 in 20X2. This was funded through donor-restricted contributions received for development of the [*Location*] and from cash generated from operations.

During 20X2, the Association added $13,707 in property additions to other properties. These capital investments were funded from existing cash balances.

Financial Condition

The Association's financial condition for 20X3 and the next few years will depend, in large part, upon three factors. The first is the outcome of the litigation discussed in Note X of this report.

The second lies with the success of securing donations for the [*Location*] project to continue to pay bond payments as scheduled and maintaining compliance with debt covenants. The third factor is the economy and legislation and their effect on market conditions and liquidity requirements. The Association's Executive Board, Advisory Council, and other dedicated volunteers and staff continue to work diligently to ensure that the Association successfully addresses these factors. A strong Association helps to make sure the [*Program*] remains effective and true to its mission.

9.09 The following example is from an organization that includes a library, art collection, and botanical garden. This summary of financial performance is presented before the audited financial statements in the organization's annual report.

9.10 Financial Overview

The Library experienced a remarkable year, with an increase in the number of visitors and members, coupled with strong donor contributions. A modest increase in the price of membership went into effect on July 1, 20X2, recalibrating the price to more accurately reflect the benefits provided at the various levels. The price change and the addition of nearly 2,000 member households helped drive this year's financial success.

Operating revenues exceeded operating expenses by approximately $520,000. Revenue from membership was $1.2 million higher than the previous year, with revenue from admissions some $887,000 higher as a result of heavy attendance. Several factors contributed to the large number of visitors: the "super bloom," the result of last winter's good rainfall, and many popular exhibitions. The Library Store exceeded prior-year sales by $208,000, with a contribution of $778,220 in net margin.

Even so, operating expenses came in over budget as a result of several one-time expenditures, such as the cost of the search for a new Library Director, critical but unbudgeted maintenance and repair work, costs associated with putting on the exhibition [*Artist*], and the costs associated with overtime and new hires.

The Library's total net assets as of June 30, 20X2, are at a new high of $669.4 million, up from last June's year-end balance of $628.2 million, the result of higher cash, pledges, and endowment balances. The balance sheet is very strong, with the growth of cash, short-term investments, and planned gifts and pledges. The fixed assets value decreased from $163 million to $151 million because of the depreciation of several new structures; the institution added very little to fixed asset structures or improvements this fiscal year. Finally, the institution dramatically reduced its substantial inventory of books following the decision to discontinue the Library Press. Many volumes were sold to wholesalers and authors or placed on consignment with a retail publisher. What remains are books now held as inventory for sale in the Library Store.

The endowment's growth this fiscal year was impressive, increasing in performance by 14.7% and benefiting, as well, by an influx of several new donor contributions totaling $6.3 million. The endowment's current value of $455 million is the highest value ever recorded on the Library's balance sheet, with the exception of FY20W8, when it stood at $462 million. With so much upside momentum in the markets, the Library's investments outperformed its benchmarks in every asset class for the last six months. The endowment performance reflects a variety of positive market trends; earnings are strong, inflation is low, interest rates are low, and the global economy is doing well. The endowment is a critical resource, representing 66% of our balance sheet and 42% of our annual operating budget.

9.11 The following discussion is presented before the audited financial statements in the entity's annual report.

9.12 Operating results for the fiscal year ended July 31, 20X2 were balanced. Expenses were $301 million, whereas contributed revenue was $148 million. These compared to $289 million and $141 million in the prior year, respectively.

Overall operating revenue, including contributions and bequests, and other development revenue released for operations in FYX2 totaled $301.1 million, compared to $294.1 million in FYX1. Operating revenue includes box office revenue from the [*City*] season, media revenue, presentations revenue, amounts drawn from the Association's endowment, and contributions and bequests, including net assets released from restrictions.

Box office revenues increased from $87.6 million in FYX1 to $88.5 million in FYX2. Media revenues decreased from $30.5 million in FYX1 to $28.9 million in FYX2. Presentation revenue was $7.5 million in FYX2, compared to $7.9 million in FYX1.

The Association reduced its authorized endowment spending rate from 6% in FYX1 to 5.5% in FYX2 as part of its plan to reduce the spending draw to 5% in FYX3.

Net assets were $179.2 million at the end of FYX2 and $137.4 million at the end of FYX1. The change in net assets was largely attributable to a $24.1 million decrease in the unfunded liability for the Association's defined benefit pension plan and to a $16.5

million increase in net assets relative to investment performance. The pension change, which directly affected net assets without donor restrictions, was caused primarily by an increase in the discount rate. Endowment contributions amounted to $2.9 million.

Financial and Statistical Highlights	FY20W8	FY20W9	FY20X0	FY20X1	FY20X2
Opera box office income	$89.3	$90.8	$90.5	$87.6	$88.5
Percent of box office capacity	70%	73%	69%	65%	66%
Other income	$76.8	$67.7	$70.5	$66.6	$64.1
Total earned income	$166.1	$158.5	$161.0	$153.6	$152.6
Compensation and employee benefits	$253.5	$246.3	$243.5	$227.9	$231.6
Other expenses	$73.3	$69.1	$66.2	$61.6	$69.5
Total expenses	$326.8	$315.4	$309.7	$289.5	$301.1
Gross before contributions without donor restrictions (including net assets released from restrictions)	($160.7)	($156.9)	($148.7)	($135.9)	($148.5)
Contributions without donor restrictions (including net assets released from restrictions)	$157.9	$135.0	$149.8	$140.5	$148.5
Excess (deficiency) of operating revenues over expenses	($2.8)	($21.9)	$1.1	$4.6	$0.0
Percent of expenses covered by contributions	48%	43%	48%	49%	49%
[*City*] Season opera performances	207	218	220	225	226
Other opera performances (parks, tours, concerts)	11	12	12	12	12
Presentations	64	64	65	65	64
Total performances	282	294	297	302	302

9.13 Management's Discussion and Analysis [excerpts]

The Discussion of Financial Results (the Discussion) includes highly summarized data and, therefore, should be read in conjunction with the accompanying consolidated financial statements, notes, and supplementary schedules. All figures presented within the discussion are consolidated and inclusive of the University and the University Health System (UHS).

Net Assets

The University's consolidated net asset base increased $1.6 billion in fiscal 20X2 to $15.0 billion as of June 30, 20X2. The increase reflects a 12.9% return on the University's Long-Term Pool (LTP) investments and a 11.4% return on UHS' Health System Pool (HSP) investments, positive operating results from both the University and UHS, and sustained philanthropic support from alumni and other donors in the post-campaign environment. Over the past 10 years, despite declines in fiscal 20W6 and fiscal 20X0, consolidated net assets have grown at a compound annual growth rate of 4%.

The operating results of the University and UHS are detailed independently later in the Discussion. Consolidated nonoperating activities resulted in a net increase of $1.3 billion to the net asset base in fiscal 20X2 (compared to a net increase of $1.2 billion in fiscal 20X1) and include the following:

- Total investment returns, including the LTP and HSP, of $1.5 billion and $1.3 billion for fiscal 20X2 and 20X1, respectively, less amounts distributed to support operations of $594 million and $529 million for fiscal 20X2 and 20X1, respectively
- Restricted contributions primarily received for endowment and capital projects, net of amounts released from restrictions ($61 million and $73 million for fiscal 20X2 and 20X1, respectively)
- Nonperiodic changes in defined benefit plans, which reflect positive investment returns on plan assets as well as increases in the discount rates used to value the obligations associated with the defined benefit pension and post-retirement health care plans
- Gains from the University's interests in perpetual trusts held by others

Operating Performance

The University's operating activities primarily include all revenues and expenses that support education and research efforts. The fiscal 20X2 operating results of the University declined $46 million compared to fiscal 20X1, reflecting a 6.0% increase in operating expenses partially offset by a 4.1% increase in operating revenues.

Total operating revenues for the University increased $117 million to $2.95 billion in fiscal 20X2. The following is a summary of the University's major revenue components:

- Grants and contracts revenue represents the largest component of University revenue ($1.1 billion and 39%). Revenue from these sources increased approximately 1% in fiscal 20X2.
- Net tuition and fees reflect gross tuition and fees net of student financial aid provided by the University. Gross tuition and fees ($829 million) increased $57 million, or 7%, compared to the prior year, reflecting modest rate increases and enrollment growth in certain programs. Student financial aid ($324 million) increased $29 million, or 10%, in fiscal 20X2, reflecting the administration's continued commitment to need-blind admission for undergraduates and strong financial support for graduate and professional students.
- Investment return designated for current operations consists of endowment spending distributions, returns on other invested funds, and distributions from perpetual trusts held by others, and increased $65 million, or 12%, in fiscal 20X2.

Operating expenses for the University increased $163 million to $2.86 billion in fiscal 20X2. The following is a summary of the major components of the University's operating expenses:

- Salaries, wages, and employee benefits represent $1.7 billion, or 59%, of the University's operating expenses. Labor-related expenses increased $103 million, or

7%, in fiscal 20X2. This increase primarily reflects fiscal 20X2 merit-based salary increases for faculty and staff as well as planned growth.

- Depreciation expense represented 8% of total operating expenses in fiscal 20X2 and increased $24 million compared to the prior year.
- Other operating expenses represented $243 million, or 9%, of University operating expenses in fiscal 20X2 and include various nonlabor expenses, most notably travel expenses, royalties, and public relations expenses.

Investments and Endowments

The University invests its assets across domestic and international asset groups, principally through investment advisory firms and partnerships. Growth of the investment and endowment base is a critical factor in maintaining the University's financial strength and flexibility to meet current needs and fund future initiatives.

The University's investment portfolio primarily consists of debt, equity, and other investments within the LTP and the HSP. The University's investments have grown significantly over the last 10 years and total approximately $13.8 billion as of June 30, 20X2. The University's endowment (including interests in perpetual trusts held by others), representing $8.5 billion of this total, supports the current and future operations of the schools, academic departments, libraries and other facilities, and student financial aid.

UHS accounts for $4.0 billion of the University's cash and investment portfolio, which primarily represents working capital, reinvested operating surpluses, and associated appreciation.

For fiscal 20X2, the LTP, in which 98% of the endowment (excluding perpetual trusts) is invested, returned 12.9%. The University seeks to achieve an annualized real rate of return of at least 5.0%, net of fees, to fund the LTP spending rate and to allow growth of the endowment after considering the effects of inflation. The total return on the HSP, a more liquid fund managed for UHS, was 11.4% in 20X2.

As the University's investment base has grown over the last 10 years, investment-related support has become a larger contributor to the current operations of the University. Investment returns supporting operations includes endowment spending, withdrawals from quasi-endowments, distributions from perpetual trusts held by others, and income from invested working capital that totaled $598 million in fiscal 20X2.

Other investment income is another major component of investment returns supporting current operations ($170 million in fiscal 20X2). Such support is generated through the corporate cash management strategies of the University and is released under protocols approved by the Board of Trustees.

Other investment income increased $59 million compared to fiscal 20X1 and primarily represents the fiscal 20X2 liquidation of invested working capital as well as the Board-approved funding of certain annual programmatic opportunities through the liquidation of investments.

Sponsored Programs

The University conducts research in a collaborative interdisciplinary environment among its schools. The School of Medicine is one of the largest biomedical research enterprises in the country, with programs focused on the causes, prevention, and treatment of human disease. Campus-based schools under the Provost continue to increase their research activity, primarily within Arts and Sciences, the School of Engineering, the School of Public Policy, and the School of the Environment.

The U.S. government is the largest source of grant and contract funding for the University, with 40% of this support from the [*Department*], the University's cognizant agency. Fiscal 20X2 government sourced revenue was $681 million, a $23 million, or 3.5%, increase compared to fiscal 20X1.

In addition to government-sourced grants and contracts, the University also received $396 million of research support from private sources in fiscal 20X2, a decline of $18 million, or 4%, compared to fiscal 20X1. This decline is primarily within the Research Institute due to shifting its portfolio to government-funded trials. The Research Institute remains the world's largest academic research organization, generating roughly 25% of the University's total grant and contract revenue.

Philanthropy

The generosity of alumni and friends in fiscal 20X2 helped the University remain at the forefront of academics, research, and patient care. Fiscal 20X1 marked the end of a seven-year comprehensive fund-raising campaign, which surpassed its original goal of $3.25 billion, raising $3.85 billion. The campaign provided critical long-term support for the University and established new annual cash receipts standards well in excess of $400 million (relative to historic highs of $380 million).

Capital Spending and Debt

Over the last decade, the University has made significant investments in land, buildings, and equipment. The University invested more than $1.5 billion over the last five years, affecting in excess of one million square feet of new or renovated living, teaching, and research space.

Capital spending by the University in fiscal 20X2 totaled $305 million, a 13% decline from fiscal 20X1. Major capital activity in 20X2 for the University reflects significant investments in undergraduate housing. Other noteworthy capital projects supporting the arts, sciences, and other campus activities included the completion of the new [*Arts Center*], and ongoing construction of the [*Building*] and [*Alumni Center*].

The University has issued various forms of debt as a primary source of capital project funding. Formal comprehensive debt policies provide guidelines for the use of long-term financing, commercial paper, and derivative transactions (in the form of interest rate and other swaps) in order to optimize the debt portfolios. Outstanding debt for the University remained at $2.1 billion for fiscal 20X2 after two years of increases to finance construction as well as refinance existing debt ($225 million and $243 million in fiscal 20X1 and 20X0, respectively).

Looking Ahead

In fiscal 20X3, the administration's focus will remain on operating effectively and efficiently to protect and advance the University's current financial health and commitment to our most important priorities. These include the following:

- Continued investment in the sciences as a primary component of the new academic strategic plan
- Continued focus on the affordability of a University education and supporting the University's ongoing commitment to need-blind admissions for undergraduates
- Completion of ongoing capital projects, particularly supporting undergraduate housing and the sciences

The administration will continue to proactively address financial and other challenges by operating with a strong sense of fiscal responsibility and prudent decision-making, while directing the University's resources to areas of highest priority and need.

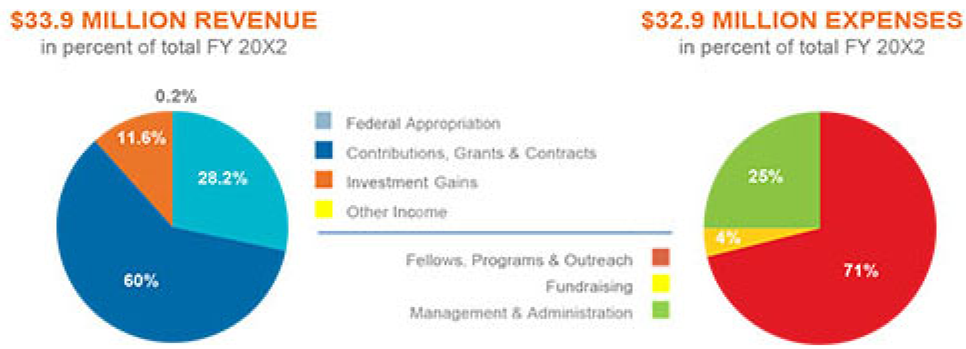
9.14 Bar charts, pie charts, and graphs are often used in connection with presentations of this kind of information. The following example uses graphics to communicate the entity's results.

9.15 Financial Summary

Fiscal year ending September 30, 20X2

[*Entity's*] funding matrix underwriting operations includes the direct federal appropriation; donor contributions; grants and contracts from private and governmental entities; and investment income. These resources fund mission-related activities including policy research, constructive debate, and dissemination of actionable ideas to key stakeholders and audiences, including policymakers and the general public.

[*Entity's'*] most valuable asset is its human capital. Staff professionals and fellows, both residential and non-residential, combine to offer expertise and insights that have lasting effect. This leads directly to overall institutional performance. Financial results from operations remain strong, continuing a legacy of sound stewardship and the leadership's commitment to excellent resource management.



Financial Position (in thousands of dollars)	
Assets	
Cash and fund balance with Treasury	$7,342
Receivables	38,816
Prepaid costs	296
Equipment, furniture & leasehold improvements	1,620
Entity Memorial	225
Investments	10,681
Endowment assets	38,550
Total Assets	**$97,530**
Liabilities	
Accounts payable & accrued expenses	$3,060
Grants payable	1,643
Unexpended appropriation & deferred revenue	2,881
Total Liabilities	**$7,584**
Net Assets	
Without donor restrictions	$20,109
With donor restrictions	69,837
Total Net Assets	**$89,946**
Total Liabilities and Net Assets	**$97,530**

Financial Activities (in thousands of dollars)	
Revenue	
Unrestricted operating revenue	$15,180
Restricted operating revenue	16,041
Endowment revenue net of payout	2,703
Total Revenue	**$33,924**
Expenses	
Research fellowships & fellow services	$6,849
Program projects, conferences & outreach	16,515
Total program services	**$23,364**
Fundraising	$1,363
Management	8,150
Total supporting services	**$9,513**
Total Expenses	**$32,877**
Change in Net Assets	**$1,047**

9.16 Letter From the Chief Financial Officer [*Excerpts*]

20X2 Financial Results

Program and Support Services

Program services. Support from the Organization to its affiliates and programming partners worldwide grew 6% in 20X2 to $907 million. In one vital area of our work — response to the global refugee crisis — we provided support to 5.3 million refugees and internally displaced people. This was part of our broader response to global disasters, through which we assisted approximately 16 million people, along with many in the United States affected by Hurricanes Maria and Florence.

Fund-raising and administrative support services. In 20X2, our overhead rate remained at 14%. We continue to focus on efficient fund-raising and management activities, exemplified by the deployment of a new enterprise resource planning system that will improve organizational effectiveness and efficiency.

Contributions, Grants, and Other Revenue

Private cash revenue. Revenue from private cash donations decreased 3% to $552 million. Revenue from individual sponsors remained constant in 20X2, allowing us to sustain resources to this programming similar to the prior year. Donations from other sources decreased, primarily reflecting lower contributions from estate giving and large foundations (which vary more from year to year than other private cash revenues).

Grants and gifts-in-kind. Grants from the U.S. government and the United Nations World Food Program (of which we continued to be the largest distribution partner) increased 9% to nearly $329 million, due primarily to an increase in cash grant programs. Grant funds are an important resource to expand our ability to serve the most vulnerable children in fragile and difficult places. Gift-in-kind revenue grew 6% in 20X2 to $168 million.

Increase in net assets. Net assets from operating activities grew $7 million during the year. This growth in net assets strengthens financial capacity and provides stability to meet future program commitments and other obligations. The Organization has sufficient financial liquidity and reserves for the next year to fulfill our ongoing commitments as we distribute resources for program services quickly and effectively.

Financial Accountability, Governance, and Stewardship

The Organization is committed to the wise use of the resources entrusted to us. We strive to model excellent stewardship and governance, understanding that strong governance, accountability, and transparency help us achieve the greatest impact with these resources.

We believe impact is one of the most important measures of the effectiveness of a charity in carrying out its mission. We tailor programs for each context to deliver the greatest impact, continually monitor and evaluate programs to determine how children's lives are improving, and measure the impact our programs have on child well-being, including access to clean water, health and nutrition levels, and educational achievement. We take an integrated, holistic approach in tackling the root causes of poverty, enabling us to achieve greater effectiveness and sustainability in our programming.

The Organization is dedicated to maximizing the impact of the cash contributions we receive. We leverage those contributions to obtain additional gifts-in-kind and food resources — making even greater transformation possible through community and sponsorship program activities. Each dollar of cash donated to the Organization yields more than a dollar of value for the communities we serve, even after factoring in fund-raising and administrative costs.