



May 10, 2017

Ms. Margaret Von Lienen
Acting Director
Exempt Organizations
Internal Revenue Service
1111 Constitution Avenue, NW
Washington, DC 20224

RE: Incorporation of Accounting Standards Update 2016-14 into Form 990, *Return of Organization Exempt from Income Tax*, and Instructions

Dear Ms. Von Lienen:

The American Institute of CPAs (AICPA) respectfully requests that the Internal Revenue Service (IRS) update Form 990, *Return of Organization Exempt from Income Tax* and the related instructions to reflect the financial statement reporting changes required under the Accounting Standards Update (ASU) 2016-14 (ASU 2016-14), *Presentation of Financial Statements of Not-for-Profit Entities*, issued by the Financial Accounting Standards Board (FASB).

A. Form 990 Reporting Requirements and the Impact of ASU 2016-14

ASU 2016-14 changes the way not-for-profit organizations (NFPs) classify net assets. Under the new standard, the three existing classes of net assets (unrestricted, temporarily restricted, and permanently restricted) are reduced to two:

- Net assets without donor restrictions
- Net assets with donor restrictions

The new reporting standard is effective for financial statements issued for fiscal years beginning after December 15, 2017, and early adoption is permitted.

The Form 990 instructions require organizations to generally use the same accounting method on the return (including Form 990 and all schedules) that it regularly uses to keep its books and records. The 2016 Form 990 reflects reporting for net assets based on the three existing asset classes prior to ASU 2016-14. Included within the unrestricted net asset category are board designated or quasi-endowments. Form 990, Schedule D, *Supplemental Financial Statements*, Part V includes reporting for board designated or quasi-endowments.

B. AICPA Proposal

The AICPA recommends that the IRS update the 2018 Form 990 to reflect the financial statement reporting changes required under ASU 2016-14, which are slated for incorporation into FASB Accounting Standards Codification Topic 958 (FASB ASC 958), for both donor restricted and quasi-endowments. In the event that Form 990 is not updated due to budgetary or other constraints, we request that, at a minimum, the IRS update the instructions to Form 990 and Schedule D to reflect the changes to FASB ASC 958 resulting from ASU 2016-14.

Changes to Form 990 and instructions – assuming Form 990 is revised

1. Part IV, Line 10

Update the trigger question for Schedule D to reflect the changed classification of net assets under FASB ASC 958, while still recognizing that the focus of the question is on reporting for donor restricted and board designated or quasi-endowments.

Recommendation: We have provided sample language below.

Did the organization, directly or through a related organization, hold assets in **donor-restricted endowments** (which includes both **term endowments** and those to be held in perpetuity) or in **board-designated (quasi) endowments**?

2. Part IV, Line 10, Instructions

Assuming Form 990 is updated as suggested above for Part IV, Line 10, we request that the IRS update the corresponding instructions to reflect FASB ASC 958.

Recommendation: We have provided sample language below.

Answer “Yes” if the organization, a **related organization**, or an organization formed and maintained exclusively to further one or more exempt purposes of the organization (such as a foundation formed and maintained exclusively to hold **endowment funds** to provide scholarships and other funds for a college or university described within section 501(c)(3)), held assets in **donor restricted endowment funds** or **board-designated (quasi) endowments** at any time during the year, whether or not the organization follows **FASB ASC 958** or reports **endowments funds** in Part X, line 28.

3. Part X

Update the net assets or fund balances portion of the balance sheet to reflect FASB ASC 958.

Recommendation: The checkbox items for net assets and fund balance reporting should refer to organizations that do or do not follow FASB ASC 958. We request a revision to Part X, Lines 27-34 to reflect FASB ASC 958 as follows:

- Line 27 – Net assets without donor restrictions
- Line 28 – Net assets with donor restrictions
- Lines 30-34 – Renumber as line 29-33

4. Part X, Instructions

Assuming Form 990 is updated as suggested above for Part X, we request that the IRS update the corresponding instructions to reflect ASU 2016-14.

Recommendation: We have provided suggested language below to update the instructions to reflect ASU 2016-14. Also, we ask that the IRS renumber the instructions for Lines 30-34 as Lines 29-33 to correspond with the change on the form as suggested above.

Net Assets and Fund Balances

FASB Accounting Standards Codification 958 (**FASB ASC 958**) provides standards for external financial statements certified by an independent accountant for certain types of nonprofit organizations. **FASB ASC 958** does not apply to credit unions, voluntary employees' beneficiary associations, supplemental unemployment benefit trusts, section 501(c)(12) cooperatives, and other member benefit or mutual benefit organizations.

While some states may require reporting according to **FASB ASC 958**, the IRS does not. However, a Form 990 return prepared according to **FASB ASC 958** will be acceptable to the IRS.

Organizations that follow FASB ASC 958

If the organization follows **FASB ASC 958**, check the box above line 27, and complete lines 27, 28, 32 and 33. Classify and report net assets in two groups (**net assets without donor restrictions** and **net assets with donor restrictions**) based on the existence or absence of **donor-imposed restrictions** and the nature of those restrictions. Enter the sum of the two classes of net assets on line 32. On line 33, add the amounts on lines 26 and 32 to show total liabilities and net assets. The amount on line 33 must equal the amount on line 16.

FASB ASC 958-205, *Not-for-Profit Entities—Presentation of Financial Statements (FASB ASC 958)*, addresses reporting of donor-restricted endowments and board designated (quasi) endowments. Further, most states have enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). If the organization is subject to UPMIFA or **FASB ASC 958**, it may affect the amounts reported on lines 27 through 29.

Line 27. Net assets without donor restrictions

Enter the balance per books of **net assets without donor restrictions**. All funds without donor-imposed restrictions must be reported on line 27, regardless of the existence of any board designations or appropriations.

Line 28. Net assets with donor restrictions

Enter the balance per books of **net assets with donor restrictions**. Donors' restrictions may require that resources be used after a specified date (time restrictions), or that resources be used for a specified purpose (purpose restrictions), or both. Donors may also stipulate that assets, such as land or works of art, be used for a specified purpose, be preserved, and not be sold or donated with stipulations that they be invested to provide a permanent source of income.

Organizations that don't follow FASB ASC 958

If the organization does not follow **FASB ASC 958**, check the box above line 29 and complete lines 29 through 33. Report capital stock, trust principal, or current funds on line 29. Report paid-in capital surplus or land, building, or equipment funds on line 30. Report retained earnings, endowment, accumulated income or other funds on line 31.

Line 33. Total liabilities and net assets/fund balances

Enter the total of line 26 and line 32 on line 33. The amount on line 33 must equal the amount on line 16. The organization must enter a zero or a dollar amount on this line.

5. Schedule D, Part V

This portion of Schedule D is for reporting of endowment fund activity. We suggest that the IRS update Schedule D, Part V to reflect the terminology for endowments as reflected in the FASB ASC Master Glossary.

Recommendation: Modify Schedule D, Part V, Line 2c as follows:

Term endowment_____ %.

6. Schedule D, Part V, Instructions

Assuming Schedule D, Part V is updated as suggested above, the IRS should update the corresponding instructions to reflect FASB ASC 958.

Recommendation: We have provided suggested language below to update the Schedule D, Part V instructions to reflect FASB ASC 958.

Part V. Endowment Funds

Complete Part V if the organization answered “Yes” on Form 990, Part IV, Line 10. For Part V, the definitions of **endowment** and types of endowments are governed by **FASB ASC 958** and the FASB Master Glossary. Information reported in Part V should pertain to the aggregate of the donor-restricted assets held by the organization, organizations formed and maintained exclusively to further one or more exempt purposes of the organization, and organizations that hold endowment funds for the benefit of the organization.

Term endowment includes endowment funds established by donor-restricted gifts that are maintained to provide a source of income for either a specified period of time or until a specific event occurs.

Permanent endowments are endowment funds that are established by donor-restricted gifts and are maintained to provide a permanent source of income, with the stipulation that principal must be invested and kept intact in perpetuity, while only the income generated can be used by the organization.

Board-designated endowments or **quasi-endowments** result from an internal designation, and are generally not donor-restricted and are classified as net assets without donor restrictions. The governing board has the right to decide at any time to expend such funds.

Line 1a. Enter the beginning-of-year balances of the organization's **endowment** funds for the current year and prior year. The amounts entered should agree with the organization's total **permanent endowment, term endowment, and board or quasi-endowment** funds at the beginning of the current year and prior year.

Line 2. On lines 2a through 2c, enter the estimated percentage of the organization's total endowment funds at the current year end (as reported in line 1g, column (a))

held in (a) board designated or **quasi-endowment** funds, (b) **permanent endowment** funds, or (c) **term endowment** funds. The total of these three percentages should equal 100%.

7. Glossary, Form 990 Instructions

Update the Glossary to define the terms used in FASB ASC Master Glossary.

Recommendation: We have provided suggested language below to update the Glossary.

ASU 2016-14 Accounting Standards Update 2016-14 is codified in FASB Accounting Standards Codification 958, *Not-for-Profit Entities (FASB ASC 958)*.

Board-Designated Endowment Fund An endowment fund created by a not-for-profit entity's governing board by designating a portion of its **net assets without donor restrictions** as unrestricted net assets to be invested to provide income for a long but not necessarily specified period (sometimes called **quasi-endowment** funds).

Donor-Restricted Endowment Fund An endowment fund created by a donor stipulation (donors include other types of contributors, including makers of certain grants) requiring investment of the gift in perpetuity or for a specified term. Some donors or laws may require that a portion of income, gains, or both be added to the gift and invested subject to similar restrictions.

Donor-Imposed Restriction A donor stipulation (donors include other types of contributors, including makers of certain grants) that specifies a use for a contributed asset that is more specific than broad limits resulting from:

- The nature of the not-for-profit entity¹
- The environment in which it operates; or
- The purposes specified in its articles of incorporation or bylaws or comparable documents for an unincorporated association

Some donors impose restrictions that are temporary in nature, for example, stipulating that resources may be used only after a specified date, for particular programs or services, or to acquire buildings and or equipment. Other donors impose restrictions that are perpetual in nature, for example, stipulating that resources be maintained in perpetuity.

¹ As defined in the FASB ASC Master Glossary.

Endowment Fund An established fund of cash, securities, or other assets to provide income for the maintenance of a not-for-profit entity. The use of the assets of the fund may be with or without donor-imposed restrictions. Endowment funds generally are established by donor-restricted gifts and bequests to provide a source of income perpetuity or for a specified period. Alternatively, a not-for-profit's governing board may earmark a portion of its net assets (see **Quasi-endowment**).

FASB ASC 958 FASB Accounting Standards Codification 958 (**FASB ASC 958**) provides standards for external financial statements certified by an independent accountant for certain types of nonprofit organizations. FASB ASC 958 does not apply to credit unions, voluntary employees' beneficiary associations, supplemental unemployment benefit trusts, section 501(c)(12) cooperatives, and other member benefit or mutual benefit organizations.

While some states may require reporting according to FASB ASC 958, the IRS does not. However, a Form 990 return prepared according to FASB ASC 958 will be acceptable to the IRS.

Net Assets with Donor Restrictions The part of net assets of a not-for-profit entity that is subject to **donor-imposed restrictions**.

Net Assets without Donor Restrictions The part of net assets of a not-for-profit entity that is not subject to **donor-imposed restrictions**.

Quasi-endowment Net assets without donor restrictions designated by an entity's governing board to be invested to provide income for generally a long but not necessarily specified period. A **board-designated endowment**, which results from an internal designation, is generally not donor-restricted and is classified as net assets without donor restrictions. The governing board has the right to decide at any time to expend such funds. Also referred to as a **board-designated endowment**.

Term endowment An endowment fund established to provide income for a specified period.

The IRS should delete the following terms and associated definitions from the glossary and from the Form 990 and related instructions:

- Endowment (replaced by Endowment Fund)
- Permanent (true) endowment
- SFAS 116
- SFAS 117
- Temporarily restricted endowment

Changes to instructions – assuming Form 990 is NOT revised

If the Form 990 is not updated, we suggest that the IRS add instructions to specify how the net asset categories under FASB ASC 958 are reported on Form 990. We have provided sample language below.

1. Form 990, Part X

Include additional instructions before the instructions to Form 990, Part X, Line 27, for organizations that follow FASB ASC 958.

Recommendation: We have provided suggested language below to add to the instructions for Form 990, Part X.

Organizations that follow FASB ASC 958. If the organization follows **FASB ASC 958**, net assets should be reported in Part X as unrestricted, temporarily restricted or permanently restricted consistent with the organization’s footnote disclosures under **FASB ASC 958**, based on the following table:

FASB ASC 958 footnote	Report on Part X
Net assets without donor restrictions	Unrestricted net assets
Net assets with donor-imposed restrictions for time or purpose of expenditure	Temporarily restricted net assets
Net assets with donor-imposed restrictions that the resources be held in perpetuity, including and related unappropriated earnings and underwater endowment funds	Permanently restricted net assets

2. Schedule D, Part V, Line 2

Add an additional paragraph to the instruction for line 2 for organizations that follow FASB ASC 958.

Recommendation: We have provided suggested language below to update Schedule D, Part V, Line 2.

If the organization follows **FASB ASC 958**, amounts should be reported on Lines 2a, 2b, and 2c consistent with the organization’s footnote disclosure under **FASB ASC 958**.

3. Glossary, Form 990 Instructions

The Glossary should include a definition for ASU 2016-14.

Recommendation: We have provided suggested language below to update the Glossary.

ASU 2016-14 Accounting Standards Update 2016-14 now codified in FASB Accounting Standards Codification 958, Not-for-Profit Entities (**ASC 958**).

C. Conclusion

The AICPA recommends adjustment of the instructions and/or the forms as indicated above to properly incorporate the use of FASB ASC 958 into the use and filing of Form 990.

The comments and recommendations included in this letter were developed by the AICPA Exempt Organizations Taxation Technical Resource Panel and approved by the AICPA Tax Executive Committee.

The AICPA is the world's largest member association representing the accounting profession with more than 418,000 members in 143 countries and a history of serving the public interest since 1887. Our members advise clients on federal, state and international tax matters and prepare income and other tax returns for millions of Americans. Our members provide services to individuals, not-for-profit organizations, small and medium-sized businesses, as well as America's largest businesses.

We appreciate your consideration of our recommendations and welcome the opportunity to discuss them further. If you have any questions, please feel free to contact me at (408) 924-3508, or annette.nellen@sjsu.edu; Elizabeth E. Krisher, Chair, AICPA Exempt Organizations Taxation Technical Resource Panel, at (412) 535 5503, or bkrisher@md-cpas.com; or Ogochukwu Eke-Okoro, Lead Manager – AICPA Tax Policy & Advocacy, at (202) 434-9231, or ogo.eke-okoro@aicpa-cima.com.

Sincerely,



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Chair, AICPA Tax Executive Committee