

# Proposed Changes to Financial Accounting for Not-for-Profit Entities

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The Financial Accounting Standards Board (“FASB”) has issued an [exposure draft](#) of a Proposed Accounting Standards Update, *Presentation of Financial Statements of Not-for-Profit Entities*, which would make significant changes to the current reporting rules. The FASB believes that each of the proposed changes will improve the usefulness of the information provided to stakeholders, reduce the complexity of reporting, or both. One significant focus of the changes is to make clear which funds are available for expenditure in the organization’s discretion and which are not.

- **Classifying Net Assets:** The proposed rules would eliminate the distinction between assets with temporary restrictions and those with permanent restrictions. Rather, net assets would be placed in one of two categories: net assets with donor restrictions and net assets without donor restrictions. Enhanced disclosure in the notes to the financial statements would provide additional information about the restrictions imposed by donors, such as the nature, amounts and effects of such restrictions. FASB believes that the enhanced disclosure on donor restrictions and on unrestricted funds would provide useful information for assessing the effects that the donor limitations may have on liquidity, financial flexibility and allocation of resources.
- **Operating Activities:** The proposed rules would require not-for-profits to present a subtotal of operating revenues, support, expenses, gains and losses that do not have donor-imposed restrictions (before internal transfers). In addition, the proposed rules would require not-for-profits to include a subtotal that shows the effects of internal transfers resulting from governing board designations, appropriations, and similar actions that place or remove self-imposed restrictions on the use of assets that make them unavailable or available for current-period activities. Both of these subtotals would reflect “operating activities for the period,” which are activities that are directed at carrying out a not-for-profit’s purpose for existence and are available for current period operating activities.
- **Cash Flows:** The proposed rules would require that not-for-profits use the direct, rather than the indirect, method for reporting cash flows. In addition, the proposed rules would require that certain cash flows be categorized differently than they are under current guidance.

- **Increased Disclosure:** The proposed rules would require enhanced disclosure on a number of topics, including the following:
  - Management of liquidity and quantitative information about financial assets available to meet near-term demands for cash.
  - Amounts of operating expenses by nature and function.
  - Methods used to allocate costs among program and support functions.
  - Underwater endowment funds.

Comments on the exposure draft are due by August 20. For more information on the changes, click [here](#) for the full text of the draft and [here](#) and [here](#) for FAQs issued by FASB on the exposure draft.

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National Law Review, Volume V, Number 202

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