

Memo No. **Issue Summary No. 1***

Memo

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Project	EITF Issue No. 16-A, "Restricted Cash" (previously included in EITF Issue No. 15-F, "Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments")		
Project Stage	Initial Deliberations		
Dates previously discussed by EITF	May 14, 2015 EITF Educational Meeting; June 18, 2015; November 12, 2015		
Previously distributed Memo Numbers	Issue Summary No. 1, dated June 4, 2015, and Supplement No. 2, dated October 29, 2015, both generated under Issue 15-F		

Purpose of This Memo

1. The purpose of this memo is to assist Task Force members as they consider defining restricted cash and the classification and presentation of changes in restricted cash in the statement of cash flows.
2. This memo is structured as follows:
 - (a) Background Information
 - (b) Subissue 1 – Definition of Restricted Cash

*** The alternative views presented in this Issue Summary are for purposes of discussion by the EITF. No individual views are to be presumed to be acceptable or unacceptable applications of Generally Accepted Accounting Principles until the Task Force makes such a determination, exposes it for public comment, and it is ratified by the Board.**

- (c) Subissue 2 – Classification of Changes in Restricted Cash
- (d) Subissue 3 – Presentation of Cash Payments and Cash Receipts That Directly Affect Restricted Cash
- (e) Transition Method
- (f) Transition Disclosures
- (g) Appendix A – Draft Wording of Definitions
- (h) Appendix B – GAAP Specific to Not-for-Profit Entities and Health Care Entities
- (i) Appendix C – Definitions of Financing, Investing, and Operating Activities from the Master Glossary of the Codification
- (j) Appendix D – Illustrative Example of Alternatives in Subissues 2 and 3a

Background Information

3. Restricted cash was one of nine cash flow issues previously included in the scope of EITF Issue No. 15-F, "Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments." At its November 12, 2015 meeting, the Task Force decided to separate the restricted cash issue from the other eight issues, and create Issue 16-A to address restricted cash.
4. The lack of a definition of restricted cash in GAAP contributes to the diversity in practice in the classification of restricted cash on the balance sheet. Furthermore, diversity exists in the classification and presentation of changes in restricted cash on the statement of cash flows. Defining restricted cash is intended to reduce the diversity in both of those financial statements. To address that diversity, the staff has identified the following three Subissues:
 - (a) Definition of restricted cash (Subissue 1)
 - (b) Classification of changes in restricted cash (Subissue 2)
 - (c) Presentation of cash payments and cash receipts that directly affect restricted cash (Subissue 3)

5. At its June 18, 2015 and November 12, 2015 meetings, the Task Force discussed restricted cash, but did not reach any conclusions. The Task Force asked the staff to perform additional research and outreach as described in paragraphs 8 and 84 below. Since the November 12, 2015 meeting, the staff has performed additional outreach with members of the following groups:

Stakeholder Group	Stakeholder Type
FASB Advisory Groups:	
Investor Advisory Committee	Financial statement users
Not-for-Profit Advisory Committee	Financial statement preparers and auditors, and academics
Not-for-Profit Resource Group	Financial statement preparers, auditors, and users, and academics
AICPA Expert Panels:	
Not-for-Profit Entities Expert Panel	Financial statement preparers and auditors
Health Care Entities Expert Panel	Financial statement preparers, auditors, and users

6. Outreach also was conducted with a bankruptcy accounting professional from a Big Four accounting firm. Feedback received has been incorporated into the proponent and opponent views of each Subissue.
7. The FASB plans to issue an agenda Discussion Paper (DP) in the first half of 2016 seeking feedback from stakeholders on potential financial reporting topics, including the statement of cash flows. Potential solutions for the perceived issues in the cash flow statement that are being considered for inclusion in the DP are (a) to provide greater disaggregation of cash flows, (b) to reconsider the definitions of operating, investing, and financing activities, and (c) to retain the current definitions and provide additional classification guidance. Until the DP is issued for public comment and feedback is received from stakeholders, it is unknown whether and, if so, how any consensuses reached in Issue 16-A will be affected.

Subissue 1 – Definition of Restricted Cash

Previous Discussions at EITF Meetings

8. At its June 18, 2015 meeting, several Task Force members expressed concerns about addressing the classification of changes in restricted cash on the statement of cash flows without first developing a definition of restriction cash.
9. Although the Task Force did not reach a tentative conclusion on the definition of restricted cash at its November 12, 2015 meeting, the majority of Task Force members agreed that restricted cash should not include funds that are self-designated by management. However, there was disagreement among Task Force members about the scope of legal and contractual restrictions on cash. Some Task Force members supported the view that restricted cash should be narrowly defined and only include funds that are under the control of a third party, regardless of whether the funds are segregated or commingled with unrestricted funds; therefore, an entity does not have the ability to spend those funds without permission from the third party. Other Task Force members supported the view that cash that is subject to legal or contractual restrictions by a third party and restricted as to withdrawal or use by a third party, regardless of whether the funds are segregated or commingled with unrestricted funds, should be in the scope of the definition of restricted cash. Task Force members also had differing views on whether the definition of restricted cash should consider the severity of the consequences of noncompliance with the restrictions. There also was disagreement among Task Force members on their views on cash associated with compensating balance arrangements,¹ and how unremitted foreign earnings and bankruptcy should affect the presentation of restricted cash. As such, Task Force members requested that the staff perform additional research on those areas. The SEC Observer also suggested that the Task Force consider whether third-party restrictions on cash held by subsidiaries of a consolidated entity, including restrictions placed on the transfer of cash to other subsidiaries in the consolidated group, should be included in the definition of restricted cash. Additionally, certain Task Force members directed the staff

¹ A compensating balance arrangement can be described as funds that a borrower is required to keep on deposit in a financial institution in accordance with a loan agreement. For example, a corporation agrees to maintain \$1 million in its checking account at a bank in exchange for the bank agreeing to lend up to \$10 million to the corporation at 1 percent below the prime lending rate.

to further research the types of funds entities currently include in restricted cash in order to determine the extent of the diversity in practice. Furthermore, the Task Force advised the staff to consider the potential effect on not-for-profit entities (NFPs), the effect on the definitions of cash and cash equivalents, and the interaction with the guidance in Subtopic 210-10 about classification of current and noncurrent assets, as it conducts its research and outreach.

Staff Analysis and Outreach – Subissue 1

10. Consistent with the views of the Task Force, the majority of the stakeholders indicated that self-designated cash should be excluded from the definition of restricted cash because the self-designation could frequently change based on decisions made by management. However, multiple stakeholders in the healthcare industry indicated that if self-designated restrictions on cash are excluded from the definition of restricted cash, then unintended consequences could result for entities in the scope of Topic 954, Health Care Entities. Other stakeholders thought separate consideration should be given to NFPs because of their unique characteristics. For example, many NFPs designate cash for long-term investment purposes and that cash becomes part of the portfolio of assets held in a quasi-endowment fund and no longer presented as cash. The feedback on health care entities and NFPs are analyzed later in this memo.
11. The majority of the stakeholders indicated that cash that has legal and/or contractual restrictions imposed by a third party and is restricted as to withdrawal or use except for the specified purpose should be included in the definition of restricted cash. However, a concern was raised by a couple of stakeholders about whether compensating balance arrangements would fall under the definition of restricted cash because such arrangements may or may not restrict the withdrawal or use of cash.
12. Some stakeholders also raised concerns about the interaction between a GAAP definition of restricted cash and the disclosure requirements in SEC Regulation S-X, Reg. § 210.5-02, which states that separate disclosure shall be made of the cash and cash items that are restricted as to withdrawal or usage. Regulation S-X also states that the provisions of any restrictions shall be described in a note to the financial statements. Restrictions may

include legally restricted deposits held as compensating balances against short-term borrowing arrangements, contracts entered into with others, or company statements of intention with regard to particular deposits; however, time deposits and short-term certificates of deposit are not generally included in legally restricted deposits. In cases in which compensating balance arrangements exist but are not agreements that legally restrict the use of cash amounts shown on the balance sheet, Regulation S-X requires the notes to the financial statements to include a description of those arrangements and the amount involved, if determinable, for the most recent audited balance sheet and for any subsequent unaudited balance sheet required in the notes to the financial statement. Compensating balances that are maintained under an agreement to assure future credit availability shall be disclosed in the notes to the financial statements along with the amount and terms of such agreement.

13. Those stakeholders noted that because of the current lack of a definition of restricted cash, the description in SEC Regulation S-X, Reg. § 210.5-02, is sometimes used in practice to define it. While the majority of stakeholders indicated that self-designated cash should be excluded from a GAAP definition of restricted cash, that exclusion could cause confusion because Reg. § 210.5-02 requires disclosures of company statements of intentions with regard to particular deposits.
14. Additionally, multiple stakeholders raised concerns that depending on the definition of restricted cash, there could be unintended consequences for the definitions of *cash* and *cash equivalents*, as well as unintended consequences for the guidance in Topic 210 about the classification of current assets on the balance sheet. This feedback is analyzed later in this memo.
15. The FASB's XBRL staff provided a report of public business entities (PBEs) in the S&P 500 and determined that approximately 20 percent have disclosures about restrictions on cash. Those restrictions were primarily related to: self-designations, financing, litigation, insurance, capital expenditures, supplier purchase agreements, regulatory requirements, acquisitions, divestitures, securitizations, cash collateral holdings in derivative transactions, asset retirement obligations, and customer deposits on property sales. Many of those PBEs have multiple restrictions on cash. On the balance sheet, restricted cash is

presented as either a current or a noncurrent asset and, in some instances, the disclosures explain that the classification is based on the expected remaining duration of the restriction. Additionally, restricted cash is presented on the balance sheet as a separate line item, or it is included in prepaid expenses, other current assets, other long-term assets, or cash and cash equivalents. Based on the staff's review of the XBRL staff's report, the staff was unable to identify the extent of the diversity in practice because additional information that cannot be gleaned from the financial statements is needed. However, based on the staff's outreach, there appears to be at least some diversity with respect to self-designations.

Subissue 1a - Characteristics of Restrictions Placed on Cash

Question for the Task Force

1. When defining restricted cash, what should be the characteristics of the restrictions?

16. The staff has identified the following alternatives to address the characteristics of restrictions when defining restricted cash:

Alternative A – Restricted cash comprises all of the following characteristics:

- (a) Subject to a legal or contractual restriction by a third party
- (b) Restricted as to withdrawal or use, including restrictions that require the funds to be used for a specified purpose and restrictions that limit the purpose for which the funds can be used

Restricted cash may be held in a separate account or commingled with cash that is unrestricted.

Alternative B – Restricted cash comprises all of the following characteristics:

- (a) Subject to a legal or contractual restriction by a third party
- (b) Restricted as to withdrawal or use, including restrictions that require the funds to be used for a specified purpose and restrictions that limit the purpose for which the funds can be used
- (c) *Provides a sufficiently large disincentive for noncompliance*

Restricted cash may be held in a separate account or commingled with cash that is unrestricted.

Alternative C – Restricted cash comprises all of the following characteristics:

- (a) Subject to a legal or contractual restriction by a third party
- (b) Restricted as to withdrawal or use, including restrictions that require the funds to be used for a specified purpose and restrictions that limit the purpose for which the funds can be used
- (c) *Under the control of a third party.*

Alternative A

- 17. Proponents of Alternative A believe that the characteristics in Alternative A are likely broad enough to encompass the most prevalent forms of restrictions that are placed on cash by a third party and would provide relevant information about an entity's ability to use funds and the amount of limitations on an entity's cash. Additionally, proponents believe that the broad scope of the characteristics in Alternative A would increase comparability in financial reporting and reduce the diversity in practice.
- 18. Proponents also believe that restricted cash should not be defined based on the type or severity of penalties or consequences that could result if an entity violates the third-party restriction. This is because any such assessments would be based on management's judgment and could result in continued diversity in practice.
- 19. For the reasons described above, a majority of the stakeholders in the staff's outreach expressed support for Alternative A.
- 20. Opponents believe that Alternative A is too broad and would include situations in which management still has physical access to the cash whether the cash is in a segregated account or commingled with unrestricted cash, even though there are restrictions placed on it by a third party. Therefore, the entity still has the ability to withdraw or use the cash at any time, notwithstanding the potential penalty that might occur as a result of noncompliance. Opponents also believe that Alternative A would result in a restricted cash classification even when noncompliance with the restriction does not have a significant

effect on the entity. Opponents do not think that the cash should be presented as restricted on the balance sheet when an entity has the ability to control the cash.

Alternative B

21. Alternative B includes a characteristic that is incremental to Alternative A—a sufficiently large disincentive for noncompliance with the third-party legal or contractual restriction. While proponents of Alternative B largely support the characteristics described in Alternative A, they think that the significance of the consequences of not complying with the legal or contractual restriction should be considered. Proponents of Alternative B think that the cash is not restricted unless the consequences of noncompliance are sufficiently large enough to preclude management from violating the legal or contractual restriction.
22. The following examples illustrate the Alternative B proponents' views about the sufficiently large disincentive for noncompliance:
 - (a) Example 1: An entity (borrower) borrows \$10 million from a lender and is required to keep \$1 million on deposit in a financial institution in accordance with a loan agreement. The borrower is contractually restricted from withdrawing the \$1 million on deposit without prior approval from the lender. In the event the borrower withdraws the \$1 million on deposit without the lender's approval, the annual interest rate on the borrower's loan increases from 3.25 percent to 4.25 percent. In this example, proponents of Alternative B do not believe that the increase in interest rate provides a sufficiently large disincentive for noncompliance because the entity believes that it can invest its \$1 million in an instrument that earns more than it will pay on its loan with the resulting 1 percent increase in the interest rate. Therefore, the cash should not be presented as restricted cash on the balance sheet.
 - (b) Example 2: An entity (borrower) borrows \$10 million from a lender and is required to keep \$1 million on deposit in a financial institution in accordance with a loan agreement. The borrower is contractually restricted from withdrawing the \$1 million on deposit without prior approval from the lender. In the event the borrower withdraws the \$1 million without the lender's

approval, the outstanding balance on the \$10 million loan will be due immediately. In this example, proponents of Alternative B believe that the disincentive for noncompliance is sufficiently large because the entity does not have excess cash available to prepay the loan balance and, therefore, the cash should be presented as restricted cash on the balance sheet.

23. Opponents of Alternative B believe that a sufficiently large disincentive for noncompliance should not be a characteristic that distinguishes restricted cash from cash. The expectation is that cash and cash equivalents represent highly liquid funds that are available to be used by the entity. The sufficiently large disincentive characteristic could result in cash that is legally or contractually restricted by a third party for a specified purpose and restricted from withdrawal or use being presented as cash and cash equivalents because management determined that the disincentive was not sufficiently large, which opponents think could be misleading to financial statement users. Opponents also stated that they do not believe that accounting standards should be established based on the severity of the consequences that could result when an entity violates any legal or contractual restrictions.
24. Furthermore, opponents also think that what is deemed to be a sufficiently large disincentive for noncompliance is entity-specific and based on management's judgment. Therefore, diversity in financial reporting among entities could occur, even though the restrictions on cash may be similar or the same.
25. For the reasons described by opponents, there was no support among stakeholders in the staff's outreach for Alternative B.

Alternative C

26. In Alternative C, the cash must be under the control of a third party to be presented as restricted cash. Proponents of Alternative C think that when an entity has physical access to withdraw or use the cash, although by legal or contractual agreement they are restricted from doing so, the cash is not restricted. Those proponents also believe that if an entity has the ability to use the cash even if there would be a penalty imposed as a result of violating the legal or contractual agreement, then the cash is not restricted. Proponents of Alternative

C believe that only cash that is beyond the control of the entity represents restricted cash. Proponents also note that Alternative C is straightforward and would be easy to apply.

27. Opponents of Alternative C think that presenting cash that is under the control of a third party as restricted cash is a characteristic that is too limiting, and would not faithfully depict other cash that has legal or contractual restrictions. Rather, a broader definition that encompasses third-party restrictions placed on cash, regardless of whether that third party controls the cash, provides more relevant information about an entity's ability to use funds and the amount of limitations on an entity's cash.
28. For example, Insurance Company M requires ABC Company to establish a restricted cash account for the payment of future workers' compensation claims. The cash is restricted as to withdrawal or use except for its specified purpose and is under control of Insurance Company M. Insurance Company W requires XYZ Company to establish a restricted cash account for the payment of future workers' compensation claims. The cash is restricted as to withdrawal or use except for its specified purpose and is not under the control of Insurance Company W. There are no significant differences between the financial positions or the insurable risks of ABC Company and XYZ Company. Rather, the insurance companies simply have different terms in their agreements. Opponents of Alternative C think that because the cash in both examples is subject to a contractual third-party restriction for a specified purpose and is restricted from withdrawal or use, there should be no difference between the presentation of those cash amounts as restricted cash.
29. Opponents of Alternative C also expressed concern that cash that is under the control of a third party should not be presented as the reporting entity's cash under FASB Concepts Statement No. 6, *Elements of Financial Statements*. This is because Concepts Statement 6 states that one of the essential characteristics of an asset is that an entity can control others' access to it. Consequently, if the cash is controlled by the entity that placed the restriction on the cash, it must be a financial asset other than cash or restricted cash to the reporting entity.
30. For the reasons described by opponents, there was no support among stakeholders in the staff's outreach for Alternative C.

Staff Recommendation – Subissue 1a

31. The staff recommends Alternative A primarily on the basis that it is likely broad enough to include the most prevalent forms of restrictions that are placed on cash by a third party that would provide information about cash that is unavailable to be used by an entity. The staff also thinks that a sufficiently large disincentive for noncompliance should not be a characteristic that distinguishes restricted cash from unrestricted cash because what is deemed to be a sufficiently large disincentive for noncompliance is entity-specific and could result in diversity in financial reporting among entities, even in instances in which the restrictions on cash may be similar or the same. Furthermore, the staff thinks that limiting restricted cash to cash that is under the control of a third party would not faithfully depict other cash that has legal or contractual restrictions. Appendix A provides draft wording of the definitions of restricted cash for each of the three alternatives.

Application of the Alternative Definitions to Specific Fact Patterns

Bankruptcy

32. Upon filing for Chapter 11—reorganization bankruptcy—an entity (the debtor) must be able to use a secured party’s collateral or, in most situations, there would be no alternative but to liquidate the business. However, a debtor cannot use the secured party’s collateral until it receives consent from the secured creditors and authorization from the court. While each bankruptcy is unique, often it is in the creditors’ best interest for the debtor to continue its operations, so that the debtor will negotiate with the creditors and allow its cash (collateral) to be used for ordinary business expenses, such as paying employees’ wages and vendors. That arrangement is referred to as a cash collateral order. Cash that will be used to pay ordinary business expenses often remains in the general cash account and under control of the debtor. It is the staff’s understanding that in current practice, the cash in the general account is presented as cash and cash equivalents on the debtor’s balance sheet both before and after filing for bankruptcy. While there are certain types of cash restrictions that result in cash that is unavailable for use in current operations, in many bankruptcies, the cash *only* can be used to pay ongoing expenses in the ordinary course of business. Furthermore, it is the staff’s understanding that if an entity violates the cash collateral order, it could be subject to significant consequences for disobeying federal laws.

33. In this fact pattern, there is a legal or contractual restriction as a result of the cash collateral order that was negotiated with the creditors and authorized by the court, and the cash is restricted for the purpose of only paying expenses in the ordinary course of business. Therefore, under Alternative A (broadest definition), the debtor's general cash account would be considered restricted cash. Under Alternative B, if the entity determines that the consequences for disobeying federal laws represent a sufficiently large disincentive for noncompliance (which they likely would), the debtor's general cash account would be restricted. Under Alternative C (narrowest definition), the debtor's general cash account would not be considered restricted cash because the debtor has control of the account.
34. Also under a Chapter 11 bankruptcy filing, cash is sometimes set aside in escrow accounts for a specified purpose, such as for payment of professional fees incurred during bankruptcy or for certain debt repayment upon emergence from bankruptcy. Cash set aside in escrow accounts for such professional fees or debt repayment would meet the definition of restricted cash in both Alternatives A and C. Under Alternative B, the cash held in escrow accounts would meet the definition of restricted cash if there is a sufficiently large disincentive for noncompliance.

Restrictions on Cash between Affiliates in a Consolidated Entity

35. The staff reviewed a number of credit agreements filed with Form 8-K's and identified common language restricting transfers between affiliates. That common language often included provisions that allow for transfers between affiliates when there are transactions conducted in the ordinary course of business upon fair and reasonable terms obtained in an arm's length transaction. Additionally, the common language in the credit agreements did not explicitly refer to limitations on the transfers of cash; rather, the limitations were on all assets. Because of the provision in the credit agreement, the assets, including cash, are effectively not restricted as to withdrawal or use. Therefore, the cash would not be restricted cash under any of the alternatives.
36. If the credit agreement restricts the transfer of assets between affiliates and does not include any of the provisions as described in the preceding paragraph, the staff still thinks that the cash would not be restricted cash under any of the alternatives because the cash can be withdrawn or used for anything except for transfers to affiliates. The entity's ability

to freely use the cash for any purpose other than transferring to affiliates would not be fairly represented if classified as restricted cash. Furthermore, when applying the alternative definitions of restricted cash to the terms of the credit agreement, regardless of whether the financial statements are prepared at the consolidated entity level or on a standalone basis, the determination of whether cash is restricted or unrestricted should not be affected.

37. Additionally, the staff identified instances of a government restricting the transfer of cash to entities outside the respective government's jurisdiction, either entirely or by limiting the dollar amounts of the cash transfers. In those circumstances, the staff does not believe that the cash should be considered restricted cash under any of the proposed alternatives because the cash is not restricted as to withdrawal or use within its jurisdiction. Presenting the cash as restricted would not fairly represent the entity's ability to use the cash for any purpose within the respective government's jurisdiction.

Cash Associated with Unremitted Earnings in Foreign Subsidiaries

38. In response to the Task Force members' concern about whether cash associated with unremitted foreign earnings constitutes restricted cash, the staff has provided the following example. Cash accumulated from foreign earnings is being held by an Irish subsidiary of a U.S.-based company. Management of the company intends to indefinitely reinvest the cash rather than remit the cash back to the U.S. parent company. Should management change its plans to indefinitely reinvest and remit the cash to the U.S. parent, federal income taxes will be paid. Under all of the alternatives, the staff does not believe that the cash held by the Irish subsidiary would meet the definition of restricted cash because there is no legal or contractual restriction by a third party. While management may choose not to remit the earnings to the U.S. parent company to avoid any tax consequences, the entity has no restriction precluding it from using the cash within Ireland. The entity's ability to freely use the cash for any purpose within Ireland would not be fairly represented if classified as restricted cash.

Subissue 1b – Characteristics of Cash and Cash Equivalents in the Definition of Restricted Cash

Question for the Task Force

2. How should the characteristics of cash and cash equivalents be considered when defining restricted cash?

39. The Master Glossary definitions of *cash* and *cash equivalents* are as follows:

Cash

Consistent with common usage, cash includes not only currency on hand but demand deposits with banks or other financial institutions. Cash also includes other kinds of accounts that have the general characteristics of demand deposits in that the customer may deposit additional funds at any time and also effectively may withdraw funds at any time without prior notice or penalty. All charges and credits to those accounts are cash receipts or payments to both the entity owning the account and the bank holding it. For example, a bank's granting of a loan by crediting the proceeds to a customer's demand deposit account is a cash payment by the bank and a cash receipt of the customer when the entry is made.

Cash Equivalents

Cash equivalents are short-term, highly liquid investments that have both of the following characteristics:

- a. Readily convertible to known amounts of cash
- b. So near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

Generally, only investments with original maturities of three months or less qualify under that definition. Original maturity means original maturity to the entity holding the investment. For example, both a three-month U.S. Treasury bill and a three-year U.S. Treasury note purchased three months from maturity qualify as cash equivalents. However, a Treasury note purchased three years ago does not become a cash equivalent when its remaining maturity is three months. Examples of items commonly considered to be cash equivalents are Treasury bills, commercial paper, money market funds, and federal funds sold (for an entity with banking operations).

40. Stakeholders questioned what characteristics in the definition of *cash* should be considered when defining restricted cash, including, but not limited to, currency on hand and demand deposits with banks and other financial institutions. Those stakeholders also noted that third-party restrictions could exist on *cash equivalents* and that it would be misleading to exclude those cash equivalents from being presented as restricted. Therefore, either certain

characteristics of *cash equivalents* could be included in the definition of restricted cash, such as short-term, highly liquid investments that are readily convertible to known amounts of cash, or the Task Force could consider defining both restricted cash and restricted cash equivalents. The staff thinks that because discrete definitions of cash and cash equivalents exist in GAAP today, combining characteristics of both cash and cash equivalents into one definition (that is, restricted cash) could cause confusion.

41. *Cash* includes a characteristic that an entity may withdraw funds at any time without prior notice or penalty. The current definition of *cash* does not clarify how to classify funds that do require prior notification for withdrawal or include penalties for withdrawal thereby leaving a gap on how to classify certain funds. The potential definitions of restricted cash do not resolve this issue because cash accounts that require prior notification for withdrawal or include penalties for withdrawal do not necessarily mean that the cash is legally or contractually restricted by a third party as to withdrawal or use. The staff recognizes that there is a lack of clarity within the current definition of cash that is worth considering but believes that it is beyond the scope of this Issue.

Staff Recommendation – Subissue 1b

42. Because third-party restrictions could exist on *cash equivalents*, the staff recommends that definitions of both restricted cash and restricted cash equivalents be created so that it is clear that cash equivalents with restrictions should be presented in the same manner as restricted cash.
43. To facilitate the Task Force members in reaching tentative conclusions, Appendix A provides draft wording of the definitions of restricted cash and restricted cash equivalents, incorporating the alternatives on the characteristics of the restrictions in Subissue 1a with the characteristics of cash and cash equivalents. The staff recognizes that there is opportunity to modify this wording, depending on the conclusions reached by the Task Force.

Subissue 1c – Interaction between the Potential Definitions of Restricted Cash and Subtopic 210-10 and Subtopic 954-305

Question for the Task Force

3. What amendments do Task Force members think should be made to Subtopic 210-10, Balance Sheet—Overall, and Subtopic 954-305, Health Care Entities—Balance Sheet?

44. Paragraph 210-10-45-4 contains limited guidance about assets that are restricted as to withdrawal or use, and states, in part:

The concept of the nature of current assets contemplates the exclusion from that classification of such resources as the following:

- a. Cash and claims to cash that are restricted as to withdrawal or use for other than current operations, are designated for expenditure in the acquisition or construction of noncurrent assets, or are segregated for the liquidation of long-term debts. Even though not actually set aside in special accounts, funds that are clearly to be used in the near future for the liquidation of long-term debts, payments to sinking funds, or for similar purposes shall also, under this concept, be excluded from current assets. However, if such funds are considered to offset maturing debt that has properly been set up as a current liability, they may be included within the current asset classification.

45. Similar guidance also exists for health care entities in paragraph 954-305-45-1, which is as follows:

Cash and claims to cash that meet any of the following conditions shall be reported separately and shall be excluded from current assets:

- a. They are restricted as to withdrawal or use for other than current operations.
- b. They are designated for expenditure in the acquisition or construction of noncurrent assets.
- c. They are required to be segregated for the liquidation of long-term debts.
- d. They are limited to use for long-term purposes by a donor-imposed restriction.

46. In Subissue 1a, Alternatives A through C include a characteristic that the cash is restricted as to withdrawal or use for either current operations or other than current operations. The staff thinks that when cash is restricted for use in current operations, restricted cash would

be classified as a current asset in accordance with the guidance in Topic 210. When cash is restricted for other than current operations, restricted cash would be classified as a noncurrent asset unless such funds are considered to offset maturing debt that has been properly set up as a current liability, in which case they may be included within the current asset classification in accordance with Topic 210.

47. Entities may be uncertain how to classify restricted cash when a portion of the restricted cash is expected to be consumed during the normal operating cycle and a portion is expected to be consumed outside of the normal operating cycle. The term *current assets* is used to designate cash and other assets or resources commonly identified as those that are reasonably expected to be realized in cash or sold or consumed during the normal operating cycle of the business. The staff thinks that entities could apply the definition of *current assets* and the guidance in Topic 210 to determine the appropriate classification, resulting in both current and noncurrent classification of the restricted cash.
48. Furthermore, in paragraphs 210-10-45-4 and 954-305-45-1, cash that is designated for expenditure in the acquisition or construction of noncurrent assets and cash that is segregated for the liquidation of long-term debts are both excluded from current assets. Stakeholders informed the staff that while the guidance does not indicate whether those designations are management-imposed restrictions or external restrictions on cash, practice has interpreted the guidance to mean that the restrictions on cash may be self-imposed. Stakeholders in the health care industry indicated that health care entities often designate cash for the expenditure or construction of noncurrent assets as a means of asset protection and present the noncurrent assets as either restricted cash or assets whose use is limited. If the definition of restricted cash excludes self-designated cash, those stakeholders are unclear about how to present self-designated cash.
49. Though current guidance is not specific on how to title designated or segregated cash on the balance sheet, the exclusion of self-designated cash from the definition of restricted cash could cause confusion or conflict with existing guidance in Topic 210 and Topic 954. Therefore, if the Task Force concludes that self-designated cash is excluded from the definition of restricted cash, then the Task Force could consider: (a) removing such guidance from Topic 210 and Topic 954 or (b) clarifying that while the definition of

restricted cash does not include self-designated cash, an entity would not be precluded from presenting outside of current assets, cash that is designated for capital expenditures and cash that is segregated for the liquidation of long-term debts, as long as those assets are not titled as restricted cash.

Staff Recommendation – Subissue 1c

50. The staff thinks that removing guidance from Topic 210 and Topic 954 related to restrictions and self-designations goes beyond the scope of this Issue, which is to conform the restricted cash definition to the guidance in Topic 210 and Topic 954. Removing the guidance in Topic 210 and Topic 954 would change the classification of items that are not restricted cash. Therefore, the staff recommends that the Task Force consider making minor amendments to the Topic 210 and Topic 954 guidance, as follows:

210-10-45-4 Restricted cash that is not expected to be withdrawn or used for current operations, and cash~~Cash~~ and claims to cash that are ~~restricted as to withdrawal or use for other than current operations,~~ are designated for expenditure in the acquisition or construction of noncurrent assets, or are segregated for the liquidation of long-term debts. Even though not actually set aside in special accounts, funds that are clearly to be used in the near future for the liquidation of long-term debts, payments to sinking funds, or for similar purposes shall also, under this concept, be excluded from current assets. However, if such funds are considered to offset maturing debt that has properly been set up as a current liability, they may be included within the current asset classification.

954-305-45-1 Restricted cash that is not expected to be withdrawn or used for current operations, and cash~~Cash~~ and claims to cash that meet any of the following conditions shall be reported separately and shall be excluded from current assets:

- a. They are restricted as to withdrawal or use for other than current operations.
- b. They are designated for expenditure in the acquisition or construction of noncurrent assets.
- c. They are required to be segregated for the liquidation of long-term debts.
- d. They are limited to use for long-term purposes by a donor-imposed restriction.

51. Additionally, the staff notes that GAAP generally does not require specific line item descriptions that should appear on the face of the balance sheet. The staff thinks that entities would not be precluded from using an appropriate description of cash that is designated for expenditure in the acquisition or construction of noncurrent assets or are segregated for the liquidation of long-term debts so long as those assets are not titled as restricted cash.

Subissue 1d – Point in Time Restriction and Compensating Balance Arrangements

Question for the Task Force

4. Should point in time restrictions be considered when defining restricted cash and restricted cash equivalents?

52. When reviewing various compensating balance arrangement disclosures, the staff identified the presence of point in time restrictions on certain compensating balance arrangements. There are also compensating balance arrangements under which the cash is restricted at all times. Point in time restrictions exist when only at a certain time, for example, the end of the reporting period, a compensating balance arrangement requires an entity to have a certain balance of cash.
53. For example, an entity enters into a compensating balance arrangement with a financial institution and is required to maintain \$1 million in a savings account at the end of each reporting period in exchange for the bank agreeing to lend up to \$10 million to the entity at 1 percent below the prime lending rate. The agreement does not legally restrict the withdrawal or use of cash except that at the end of each reporting period there is \$1 million in the savings account.

Staff Recommendation – Subissue 1d

54. While a third-party restriction on the withdrawal of cash does exist momentarily, the staff does not think that the cash should be classified as restricted cash under any of the proposed alternatives because the cash can be used for any purpose at any time other than the specified point in time. Stated differently, the entity is not precluded from using the cash

for any purpose between the points in time when the compensating balance requires a certain cash balance. The staff also thinks that classifying cash with a point in time restriction as restricted cash would not fairly represent an entity's ability to use the cash during the reporting period. Therefore, the staff recommends that the Task Force exclude point in time restrictions from the definitions of restricted cash and restricted cash equivalents.

Subissue 1e – Scope and Applicability to Different Types of Entities

Question for the Task Force

5. Which alternative does the Task Force prefer to address the scope of the definition of restricted cash?

55. The staff has identified the following alternatives to address the scope of the definition of restricted cash:

Alternative A – All types of entities should be included in the scope of the definition of restricted cash.

Alternative B – Exclude NFPs, in their entirety, from the scope of the definition of restricted cash.

Alternative C – Exclude certain types of transactions unique to NFPs (that is, donor-restricted gifts of cash) from the scope of the definition of restricted cash.

Alternative A

56. Proponents of Alternative A believe that financial reporting should be consistent among PBEs, private entities, and NFPs. Therefore, the definition of restricted cash should not exclude specific types of entities or industry-specific transactions from its scope. Proponents of Alternative A also believe that GAAP definitions should be principles-based, and think that if there are exclusions, the definition becomes less principles-based.
57. Opponents of Alternative A think that the scope of the definition of restricted cash should explicitly exclude donor-restricted gifts of cash that are received by an NFP for an

endowment fund.² Those opponents believe that the definition of *endowment fund*, which includes donor-restricted gifts of cash, is clearly stated in GAAP and well understood in practice. Opponents of Alternative A also think that cash received for an endowment fund that is temporarily held in an operating cash account until transferred to the endowment fund, should be excluded from the definition of restricted cash because paragraph 958-210-45-6 states that such cash should not be classified with cash or other assets that are unrestricted and available for current use and because adding reporting requirements with a definition of restricted cash would not increase the quality of financial reporting.

58. Additionally, opponents of Alternative A note that an NFP is required under existing GAAP to disclose information to enable users of financial statements to understand the following about its endowment funds, which includes both the NFPs *donor-restricted endowment fund*³ and its *board-designated endowment fund*.⁴ net asset classification, net asset composition, changes in net asset composition, spending policies, and related investment policies.
59. Opponents of Alternative A also think that it is unnecessary to include donor-restricted gifts of cash in an endowment fund in the scope of the definition of restricted cash because existing guidance requires a disclosure of the composition of the endowment fund, in total and by type of endowment fund, showing donor-restricted endowment funds separately from board-designated funds. Additionally, the type and amount of assets that constitute the endowment fund (for example, cash, fixed income securities, private equity) are required disclosures.

² The Master Glossary of the Codification defines *endowment fund* as an established fund of cash, securities, or other assets to provide income for the maintenance of an NFP. The use of the assets of the fund may be permanently restricted, temporarily restricted, or unrestricted. Endowment funds generally are established by donor-restricted gifts and bequests to provide either of the following:

- a. A permanent endowment, which is to provide a permanent source of income
- b. A term endowment, which is to provide income for a specified period.

³ The Master Glossary defines *donor-restricted endowment fund* as an endowment fund that is created by a donor stipulation requiring investment of the gift in perpetuity or for a specified time. Some donors may require that a portion of income, gains, or both be added to the gift and invested subject to similar restrictions. The term does not include a Board-Designated Endowment Fund. See Endowment Fund.

⁴ The Master Glossary defines *board-designated endowment fund* as an endowment fund created by an NFP's governing board by designating a portion of its unrestricted net assets to be invested to provide income for a long but unspecified period (sometimes call funds functioning as endowment or quasi-endowment funds). See Endowment Fund.

60. Similar to gifts of cash for an endowment fund, opponents of Alternative A also believe that cash received by an NFP with a donor-imposed restriction that limits its use to long-term purposes (for example, constructing a building) should be excluded from the scope of the definition of restricted cash because balance sheet guidance already exists that states that cash received with a donor-imposed restriction should not be classified with cash that is unrestricted and available for current use.
61. Furthermore, opponents of Alternative A indicated that explicit cash flow classification guidance exists for receipts of contributions that by donor stipulation are restricted for purposes of acquiring, constructing, or improving property, plant, and equipment, or other long-lived assets, or establishing or increasing an endowment fund.
62. Further analysis of the opposing views in Alternative A is included in the proponents' views of Alternative C.

Alternative B

63. Proponents of Alternative B believe that because NFPs possess unique characteristics that distinguish them from a business entity and NFP-specific guidance is well-established, NFPs should be excluded from the scope of the definition of restricted cash. Furthermore, if certain NFP-specific transactions are excluded from the definition, proponents of Alternative B question why other specific restrictions on cash also would not be excluded from the definition, such as cash restrictions in compensating balance arrangements and bankruptcy. For those reasons, proponents of Alternative B think that NFPs should be holistically excluded from the scope of the definition of restricted cash.
64. Opponents of Alternative B believe that because there are a number of restrictions on cash that are common among all types of entities (for example, restrictions on cash for financing obligations), NFPs, in their entirety, should not be excluded from the scope of the definition of restricted cash. Opponents of Alternative B think that there is adequate guidance for restrictions that are unique to NFPs, but guidance is needed for other types of restrictions on cash. Therefore, NFPs should not holistically be excluded from the scope of restricted cash.

Alternative C

65. Proponents believe that the scope proposed by Alternative C is appropriate because it would include cash restrictions that are common among PBEs, private entities, and NFPs, but would appropriately exclude donor-restricted gifts of cash received by NFPs, such as donor-restricted gifts of cash for an endowment and donor-restricted gifts of cash not included in an endowment fund, for the following reasons:
- (a) GAAP includes NFP-specific guidance on the definitions of certain terms unique to NFPs, the presentation and classification of donor-restricted gifts in the balance sheet, the classification of certain donor-restricted gifts in the statement of cash flows, disclosures about endowment funds, the composition of assets in an endowment fund, the liquidity or maturity of assets, noncompliance with donor-imposed restrictions, and the nature and amount of restrictions on the use of particular assets.
 - (b) Creating a definition of restricted cash is intended to assist entities in determining what restricted cash is composed of and to be an underlying basis to establish specific cash flow classification guidance for changes in restricted cash. Including donor-restricted gifts in the definition could change existing GAAP for NFPs, resulting in unintended consequences and an increase in cost and complexity.
66. Appendix B of this memo includes paragraphs from GAAP and proposed changes to GAAP that are specific to NFPs and NFP business-oriented health care entities that are relevant to the analysis of Alternative C. Proponents of Alternative C believe that the proposed changes to GAAP in Appendix B do not have a detrimental effect on their views in the previous paragraph because there is no loss of useful information to financial statement users. The staff notes that other proposed changes to GAAP on the statement of cash flows include classifying certain cash flows differently than how they are classified under current guidance and using the direct method of presenting operating cash flows. Those other proposed changes are not in Appendix B because the staff does not think that the proposed changes will have an effect on restricted cash.

67. Proponents of Alternative C also do not believe that all types of restrictions on an NFP's cash should be excluded from the definition of restricted cash (that is, NFPs, in their entirety, should not be scoped out of the definition). Proponents note that the types of restrictions placed on cash that are common among all entities should not be accounted for differently by an NFP.
68. Proponents of Alternative C believe that there is a clear definition of what constitutes an *endowment fund*. Therefore, proponents think that including donor-restricted gifts of cash that are in an endowment fund in the definition of restricted cash could result in an unnecessary amendment to the definition of *endowment fund*.
69. While proponents believe that there is a clear definition of what constitutes an *endowment fund*, some proponents expressed concern that it may be unclear whether donor-restricted gifts of cash intended for an endowment fund that have not yet been transferred from an NFP's general cash account, constitute cash that should be classified as part of the endowment fund. However, other proponents think that existing guidance is clear in that cash received with a donor-imposed restriction that limits their use to long-term purposes should not be classified with cash that is unrestricted and available for current use.
70. Proponents of Alternative C observe that from an operational perspective, an NFP typically manages endowment funds as a whole, including both donor-restricted gifts and board designated assets. Therefore, it would be confusing to users to present donor-restricted gifts of cash in an endowment fund on a line item in the balance sheet that is separate from other assets held in an endowment fund.
71. Proponents of Alternative C think that donor-restricted endowment funds should be excluded from the scope of the definition of restricted cash because GAAP requires robust disclosures that explains the restrictions on cash included in endowment funds.
72. Proponents also note that GAAP requires transparent disclosures about an NFP's investments, including assets held in an endowment and other investments, such as aggregate carrying amount, categorized by major type, significant concentration of market risk, and fair value disclosures.

73. Proponents of Alternative C believe that it is appropriate to exclude donor-restricted gifts of cash from the scope of the definition of restricted cash because donor-restricted gifts generally include limitations on the use of net assets⁵ rather than the use of specific assets (in this case, the cash contribution).
74. Proponents of Alternative C acknowledge that while less frequent in occurrence, there could be donor-restricted gifts of cash for which the cash itself cannot be withdrawn or used by the NFP for any reason other than the specified purpose. However, those proponents do not think that those donor-restricted gifts should be included in the definition of restricted cash because there is existing guidance that states that 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 unrestricted and available for current use. The kind of asset whose use is limited should be described in the notes to the financial statements if its nature is not clear from the description on the face of the statement of financial position.
75. Proponents of Alternative C note that NFPs are required to disclose in notes to the financial statement relevant information about the liquidity or maturity of assets and liabilities, including restrictions on the use of particular items, unless that information is provided on the face of the statement of financial position. Furthermore, if noncompliance with donor-restrictions results from an NFP's failure to maintain an appropriate composition of assets in amounts needed to comply with all donor restrictions, the amounts and circumstances are required to be disclosed.
76. Proponents of Alternative C also note that there is cash flow classification guidance that states that cash inflows from financing activities includes receipts from contributions and investment income that by donor stipulation are restricted for purposes of acquiring, constructing, or improving property, plant, and equipment, or other long-lived assets, or establishing or increasing a permanent endowment or term endowment.

⁵ The Master Glossary defines net assets as the excess or deficiency of assets over liabilities of an NFP, which is classified into three mutually exclusive classes according to the existence or absence of donor-imposed restrictions. See unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

77. Several proponents of Alternative C raised a potential concern that some cash received from donors (for example, a charitable gift annuity⁶) is restricted by state laws where a portion of the charitable gift annuity must be invested and is unavailable to be used in the current operations of the NFP. Charitable gift annuities may or may not be donor-restricted. While Alternative C would exclude donor-restricted gifts of cash received by an NFP, the alternatives in the preceding section of this memo include as a characteristic of restricted cash, cash that is subject to a legal or contractual restriction. Proponents of Alternative C think that if donor-restricted gifts are excluded from the scope of the definition of restricted cash, then it might be unclear as to whether the entire charitable gift annuity is excluded or whether the portion of the gift subject to state laws would meet the definition of restricted cash. Furthermore, charitable gift annuities that are not donor-restricted could still be subject to the definition of restricted cash because of the legal restriction (in this case, the state laws).
78. Proponents of Alternative C note that guidance exists that states that assets and liabilities recognized under split-interest agreements shall be reported separately from other assets and liabilities in the statement of financial position. Existing guidance also includes disclosures that require a description of the general terms of the agreements and restrictions imposed on the NFP by state laws. Because there is clear and existing guidance, proponents of Alternative C suggest that the definition specifically exclude all charitable gift annuities from its scope, including portions that are subject to state laws.
79. For the reasons described, the majority of the stakeholders in the staff's outreach expressed support for Alternative C because GAAP includes NFP-specific guidance on donor-restricted gifts of cash. However, several of those stakeholders think that it is important to specifically address the exclusion of charitable gift annuities.
80. Some opponents of Alternative C believe that financial reporting would be improved if all cash that is subject to a legal or contractual restriction imposed by a third party for a specified purpose and restricted as to withdrawal or use were reported as restricted cash.

⁶ The Master Glossary defines a charitable gift annuity as a transfer of assets to an NFP in connection with a split-interest agreement that is in part a contribution and in part an exchange transaction. The NFP accepts the contribution and is obligated to make periodic stipulated payments to the donor or a third-party beneficiary for a specified period of time, usually either a specified number of years or until the death of the donor or third-party beneficiary.

Other opponents of Alternative C would prefer that NFPs, in their entirety, be excluded from the scope of the definition because NFPs possess characteristics that are different from a business entity and existing NFP-specific guidance is comprehensive.

Staff Recommendation – Subissue 1e

81. Consistent with stakeholder feedback, the staff recommends Alternative C primarily because the staff thinks that the scope should include cash restrictions that are common among PBEs, private entities, and NFPs, but should exclude NFP-specific transactions (that is, donor-restricted gifts of cash) for which GAAP is well-established. The staff thinks that while some of the characteristics of donor-restricted gifts of cash are similar to or are the same as other types of restrictions on cash, the staff thinks that including donor-restricted gifts of cash in the scope of the definition would not consequently increase the quality of financial reporting.

Subissue 2 – Classification of Changes in Restricted Cash

82. Changes in restricted cash occur when restricted cash is established (for example, a transfer of cash from unrestricted cash to restricted cash) and when the restrictions are released (for example, a transfer of cash from restricted cash to unrestricted cash). Those changes in restricted cash also result in changes in cash and cash equivalents because of the transfers between restricted and unrestricted cash. Topic 230 requires presentation of the changes during the period in cash and cash equivalents. As addressed in Subissue 3, changes in restricted cash can also occur when cash payments are made directly from restricted cash and when cash receipts are deposited directly into restricted cash from a source outside the entity.
83. Entities presently classify the changes in restricted cash in operating, investing, or financing activities, or in a combination thereof. Stakeholders indicate that it is unclear whether the classification should be based on the nature of the cash flows or the purpose of the restriction.

Previous Discussion at an EITF Meeting

84. At its November 12, 2015 meeting, the Task Force did not reach a tentative conclusion on the classification of changes in restricted cash, but all Task Force members agreed that changes of the principal balances in restricted cash that affect cash and cash equivalents should *not* be classified based on the purpose of the restricted cash. Some Task Force members supported classifying changes in restricted cash based on the nature of cash flows (that is, as investing activities). Those Task Force members believe that an investing activities classification is fundamentally consistent with the underlying principles of presentation for the statement of cash flows and statement of financial position. That is, the statement of cash flows provides information on the change in liquid funds due to certain activities and the balance sheet classifies assets based on liquidity. Those Task Force members believe that combining restricted cash with cash and cash equivalents would be inconsistent with both of those principles because, in their opinion, restricted cash is not a highly liquid asset because it is unavailable for use in an entity's current operations. However, other Task Force members supported including restricted cash with cash and cash equivalents on the statement of cash flows. Those Task Force members noted that this alternative would resolve other classification and presentation issues related to restricted cash in the statement of cash flows. Certain Task Force members stated that they would be comfortable with including restricted cash with cash and cash equivalents on the statement of cash flows if adequate disclosures are required to provide information on the individual amounts. However, the Task Force decided that additional research and outreach was needed to reach a tentative conclusion on this Subissue.

Question for the Task Force

6. How should the changes of the principal balances in restricted cash be classified in the statement of cash flows when cash and cash equivalents have been affected?

Staff Analysis – Subissue 2

85. The staff has identified the following potential alternatives to address Subissue 2:

Alternative A – Changes of the principal balances in restricted cash that affect cash and cash equivalents should be based on the nature of the cash flows and, therefore, classified as investing activities on the statement of cash flows.

Alternative B – Include restricted cash with cash and cash equivalents on the statement of cash flows.

Alternative A

86. Under Alternative A, the classification of changes of the principal balances in restricted cash that affect cash and cash equivalents would be based on the nature of the cash flows. Proponents of Alternative A believe that Topic 230 requires that classification should be based on the nature of the cash flows. That is, inherent in the definitions of financing, investing, and operating activities, classification is based on the nature of the cash flow without regard to whether it stems from another item such as a transaction. In other words, the term “nature” in this context can be described as the characteristics or features that a cash receipt or payment exhibits without regard to whether the cash receipt or payment is linked to other transactions. For example, the nature of proceeds received by an entity from a debt borrowing that will be used to construct a building are financing inflows, which is consistent with the guidance that states that financing activities include proceeds from borrowings. Classifying the proceeds based on its use (that is, constructing a building) would result in cash inflows from investing activities, which is inconsistent with the guidance, as noted above.
87. In evaluating the nature of the cash flows related to restricted cash, the following descriptions of financing, operating, and investing activities in Topic 230 were considered (the actual Glossary definitions are included in Appendix C):

Financing Activities—The definition of *financing activities* includes, in part, obtaining resources from owners and providing them with a return and borrowing money and repaying amounts borrowed. The cash flows associated with both the establishment of and the release of the principal balances in restricted cash that are simply transfers between unrestricted and restricted cash are not representative of these activities.

Therefore, proponents of Alternative A think that the nature of the cash flows do not fit within financing activities.

Operating Activities—While the definition of *operating activities* is a residual category, meaning operating activities include all transactions and other events that are not defined as investing or financing, Topic 230 does state that operating activities generally involve producing and delivering goods and providing services. The cash flows associated with both the establishment of and the release of the principal balances in restricted cash do not directly relate to producing and delivering goods and providing services. Furthermore, cash flows from operating activities are generally the cash effects of transactions and other events that enter into the determination of net income. The cash flows associated with both the establishment and release of restricted cash that are simply transfers between unrestricted and restricted cash do not enter into the determination of net income. For those reasons, proponents of Alternative A think that the nature of the cash flows do not fit within operating activities.

Investing Activities—Cash flows from *investing activities* include the purchase and sale of equity securities, debt securities, and property, plant and equipment. Restricted cash generally results from a contractual requirement to commit money or to invest cash balances for a particular purpose and the contractual requirement limits an entity's ability to withdraw funds at any time.

88. Consequently, proponents of Alternative A believe that restricted cash is most analogous to an investment whose return of principal requires the satisfaction of conditions rather than a mere withdrawal demand. Accordingly, deposits and withdrawals of principal balances in restricted cash accounts represent the creation or return of investment. Therefore, the nature of the cash flows associated with both the establishment and the release of the principal balances in restricted cash most closely fits within the definition of investing activities.
89. Some proponents also referred to the AICPA Audit and Accounting Guide for Health Care Entities, which indicates that restricted cash is similar to an investment in that the holder's ability to withdraw restricted cash is contractually limited. As a result, deposits and

withdrawals of principal balance in restricted cash balances would be reported as investing activities in the statement of cash flows.

90. Proponents of Alternative A observe that determining the classification of cash receipts and payments based on the nature of the restriction results in a consistent cash flow classification and provides more decision useful information to financial statement users.
91. For those reasons, in outreach conducted prior to the November 12, 2015 EITF meeting, Alternative A was supported by five public accounting firms, three members of an FASB Advisory Group (two auditors and a user), and a preparer representing a large multi-national PBE. In outreach conducted after the November 12, 2015 EITF meeting, Alternative A was supported by four auditors, one preparer, and one user.
92. Opponents of Alternative A think that the information that is most important to financial statement users is the ultimate cash flows that affect an entity. Therefore, presenting changes in restricted cash that are internal transfers between an entity's restricted cash and its unrestricted cash, do not provide useful information because the transfers do not represent the ultimate cash flows of an entity. Some opponents do not think that transfers of cash from one account to another faithfully represents an entity's investing activities. Furthermore, some opponents of Alternative A are drawn to the simplicity of including restricted cash with cash and cash equivalents on the statement of cash flows because the economics are the same whether payments are made from or deposits are received into restricted cash, cash, or cash equivalents.

Alternative B

93. In Alternative B, restricted cash would be included with cash and cash equivalents on the statement of cash flows. That is, transfers between cash and cash equivalents and restricted cash would not be presented in the statement of cash flows; only the ultimate cash outflow from the entity or deposits directly into restricted cash from third parties would be presented within the statement of cash flows. The effect of Alternative B on the statement of cash flows when compared to current guidance is that it would remove the line item that presents changes in restricted cash (that is, transfers between line items on the balance sheet), and it would affect the total being reconciled in the statement of cash flows because

restricted cash would be included with cash and cash equivalents. That approach is similar to GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, which states in part that a statement of cash flows should explain the change during the period in cash and cash equivalents regardless of whether there are restrictions on their use.

94. Proponents of Alternative B think that this approach would reduce diversity in practice and resolve all of the classification and presentation issues related to restricted cash in the statement of cash flows. That is, it would address the transparency concerns related to a noncash disclosure alternative, alleviate concerns about reporting changes in restricted cash as if they were changes in cash and cash equivalents when cash is not transferred to or from a segregated account, and obviate the need to determine whether changes in restricted cash should be classified based on the nature or the purpose of the restriction (that is, the ultimate cash outflow and deposits from third parties directly into restricted cash accounts would be classified based on their nature, consistent with the classification of other cash flows).
95. Proponents of Alternative B think that the information that is most important to financial statement users is the ultimate cash flows that affect the entity, and that sufficient information about the amount of cash that is restricted can be gleaned from the statement of financial position.
96. For those reasons, in outreach conducted prior to the November 12, 2015 EITF meeting, three members of an FASB advisory group (two preparers and an auditor) supported Alternative B because they thought that diversity in practice might be resolved by presenting restricted cash with cash and cash equivalents on the statement of cash flows.
97. In outreach conducted after the November 12, 2015 EITF meeting, Alternative B was conditionally supported by one user. The user thinks that it is appropriate to include restricted cash with cash and cash equivalents on the statement of cash flows only when the restriction relates to routine (operating) purposes, such as restrictions on cash for workers' compensation claims. The user did not think that it was appropriate to include restricted cash with cash and cash equivalents on the statement of cash flows when the restrictions are long term and non-routine. When the restrictions are long-term and non-

routine, the user prefers that the transfers between unrestricted cash and restricted cash be presented as a line item on the statement of cash flows.

98. Another user disagreed with classifying changes in restricted cash as an investing activity (Alternative A) and stated that an investing activities classification would be misleading and would adversely affect investor models to determine regular investing needs of a company from a cash flow perspective. That user conditionally agreed with Alternative B, but thinks that there is a loss of information because the statement of cash flows would not individually present the changes in restricted cash and changes in cash and cash equivalents. The user suggested that the presentation in Alternative B be combined with a requirement to provide supplemental information about changes in restricted cash so that there is no loss of information.
99. Opponents of Alternative B believe that this approach would represent a fundamental change because Topic 230 states that the primary objective of a statement of cash flows is to provide relevant information about the *cash* (as defined) receipts and payments of an entity during a period. Commingling cash that is unavailable to be used because of a third-party restriction (restricted cash) with cash that is highly liquid (cash and cash equivalents) on the statement of cash flows would result in a loss of information due to decreased transparency and, therefore, diminish the value of the information presented on the statement of cash flows. Proponents of Alternative B believe that similar to investments and their cash flows, which are presented separately from cash and cash equivalents, restricted cash and its cash flows also should be separately presented.
100. Opponents of Alternative B also believe that when a GAAP definition of restricted cash is established, restricted cash will be presented on a line item separate from cash and cash equivalents on the balance sheet. Therefore, greater cohesiveness would be achieved in the financial statements by presenting changes in restricted cash separate from changes in cash and cash equivalents on the statement of cash flows.
101. Subissue 3 addresses issues when cash payments are made directly from restricted cash and cash receipts are deposited directly into restricted cash. However, if the Task Force reaches a tentative conclusion supporting Alternative B, Subissue 3 does not need to be considered.

Staff Recommendation – Subissue 2

102. Some staff members recommend Alternative A and other staff members recommend Alternative B. Those who support Alternative A believe that:

- (a) Combining highly liquid cash (cash and cash equivalents) with cash that can only be used for a specified purpose (restricted cash) would diminish the value of the information presented on the statement of cash flows and would represent a fundamental change to the underlying principles of presentation for the statement of cash flows.
- (b) Because restricted cash will be presented separately from cash and cash equivalents on the balance sheet, greater consistency would be achieved by presenting changes in restricted cash separate from the changes in cash and cash equivalents on the statement of cash flows.
- (c) This approach provides better information to users about the changes (transfers in and out) in restricted cash.
- (d) The nature of the changes of the principal balances in restricted cash that affect cash and cash equivalents most closely fits within the definition of investing activities.

103. The staff members who support Alternative B acknowledge that including restricted cash with cash and cash equivalents in the statement of cash flows would be a fundamental change to Topic 230. However, those staff members believe that this alternative, coupled with a definition of restricted cash, resolves all classification and presentation issues related to restricted cash in the statement of cash flows. Additionally, Alternative B provides information about the ultimate cash flows during the period, which is important to financial statement users. Furthermore, those staff members note that existing disclosures required for PBEs and NFPs, along with the statement of financial position will provide users with additional restricted cash information to further facilitate analysis.

Subissue 3 – Presentation of Cash Payments and Cash Receipts That Directly Affect Restricted Cash

104. Sometimes, cash payments are made directly from a segregated restricted cash account to a source outside the entity and cash receipts are deposited directly into a segregated restricted cash account from a source outside the entity. Stakeholders indicated that it is unclear to them how to present and classify cash flows that directly affect restricted cash accounts because restricted cash is not included in the reconciliation of cash and cash equivalents on the statement of cash flows, and there is no specific guidance in GAAP. Therefore, some entities present direct payments made from and direct deposits received into restricted cash accounts as line items on the statement of cash flows (that is, those entities gross up the cash flows) and some entities provide a noncash disclosure. Subissue 3a discusses direct changes in restricted cash when the restricted cash is held in a segregated account.
105. Two of the alternatives in Subissue 1 include a characteristic that restricted cash may be held in segregated or commingled accounts. Consequently, under those alternatives, cash payments may be made from a commingled account to a source outside the entity and cash receipts may be deposited into a commingled account from a source outside the entity. Subissue 3b discusses changes in restricted cash when the restricted cash is held in an account commingled with unrestricted cash. The staff highlights the importance of considering the Subissues 3a and 3b concurrently because Subissue 3b is highly dependent on Subissue 3a.
106. If the Task Force reaches a tentative conclusion to include restricted cash with cash and cash equivalents on the statement of cash flows (that is, Alternative B in Subissue 2), Subissues 3a and 3b do not need to be considered because all changes in restricted cash would be reported in the same manner as changes in cash and cash equivalents.

Previous Discussions at EITF Meetings

107. At the June 18, 2015 EITF meeting, several Task Force members questioned whether and when cash payments and cash receipts can be made directly from and into restricted cash. Some Task Force members observed that those cash payments and receipts may be noncash items under existing guidance. Others suggested that it may be appropriate to

assume that the restriction lapses right before a reporting entity makes a cash payment directly from restricted cash; therefore, the direct cash payments would be presented in the body of the statement of cash flows as an inflow and a corresponding outflow.

108. At its November 12, 2015 meeting, the Task Force did not reach a tentative conclusion on the presentation of cash payments and cash receipts that directly affect restricted cash. While there was support for both alternatives, the majority of Task Force members agreed that their views on this Subissue are dependent on the results of the additional outreach and the Task Force's future conclusions on Subissues 1 and 2. As such, the Task Force asked the staff to perform additional research and outreach on Subissue 3.

Subissue 3a – Restricted Cash Held in Segregated Accounts

Question for the Task Force

7. How should the changes in restricted cash be presented in the statement of cash flows when cash payments are made directly from and cash receipts are deposited directly into a segregated restricted cash account?

Staff Analysis – Subissue 3a

109. The staff has identified the following potential alternatives to address Subissue 3a:

Alternative A – Require noncash disclosures.

Alternative B – Present cash payments made directly from and cash receipts directly deposited into a segregated restricted cash account in the body of the statement of cash flows.

Alternative A

110. Under Alternative A, cash payments made directly from and cash receipts directly deposited into a segregated restricted cash account would be disclosed as noncash activities, including noncash financing, investing, and operating activities. The staff recognizes that GAAP currently does not require disclosure of other noncash operating activities.

111. Proponents of Alternative A note that Topic 230 states that a statement of cash flows should explain the change during the period in cash and cash equivalents (as defined), and information about all investing and financing activities of an entity during a period that affect recognized assets or liabilities but that do not result in cash receipts or cash payments should be disclosed. Therefore, when direct changes in a restricted cash account do not affect cash and cash equivalents, those changes should not be presented in the body of the statement of cash flows. Rather, the information should be disclosed.
112. Proponents of Alternative A also observe that presenting the direct changes in a restricted cash account as a gross up in the statement of cash flows when they are not a change in cash and cash equivalents (as defined), could set a precedent that similar types of transactions also should be presented as a gross up in the statement of cash flows.
113. For the reasons noted above, in outreach conducted prior to the November 12, 2015 EITF meeting, Alternative A was supported by one public accounting firm, three members of an FASB advisory group (two auditors and one preparer), and three members of another FASB advisory group (one preparer and two users). In outreach conducted after the November 12, 2015 EITF meeting, one user supported Alternative A.
114. Opponents of Alternative A indicate that cash payments made directly from and cash receipts directly deposited into a restricted cash account represent actual cash flows of an entity and, therefore, it would be misleading to disclose cash flows of an entity as a noncash activity.
115. Opponents note that Alternative A could result in ultimate payments or receipts that are never presented in the statement of cash flows based on their nature. For example, workers' compensation claims paid directly from a segregated restricted cash account would never be reported as a cash outflow from operating activities in the statement of cash flows.
116. Multiple stakeholders included in the staff's outreach observed that applying the existing guidance would lead to a noncash disclosure because the direct changes in a restricted cash account do not affect cash and cash equivalents. However, those stakeholders expressed concerns that noncash disclosures tend to get overlooked by users and therefore it might provide better transparency to present the direct changes in restricted cash as a gross up in

the body of the statement of cash flows. Ultimately, those stakeholders were undecided about which alternative would most effectively address Subissue 3a.

Potential Interaction between Alternative A and NFP-Specific Guidance

117. If the Task Force reaches a tentative conclusion to require noncash disclosures (that is, Alternative A), the Task Force would need to consider a consequential amendment to the following guidance because those cash flows are required to be presented in the body of the statement of cash flows. Paragraph 230-10-45-14c states that cash inflows from financing activities includes:

Receipts from contributions and investment income that by donor stipulation are restricted for the purposes of acquiring, constructing, or improving property, plant, equipment, or other long-lived assets or establishing or increasing a permanent endowment or term endowment.

Alternative B

118. Alternative B would require that cash payments made directly from and cash receipts directly deposited into a segregated restricted cash account be presented in the body of the statement of cash flows. Therefore, cash payments made directly from a restricted cash account would be grossed up and presented as if there were a transfer to unrestricted cash (cash inflow) and then as a cash outflow from unrestricted cash for the payments made. Cash receipts directly deposited into a restricted cash account would be grossed up and presented as if there were a cash inflow to unrestricted cash and then as a transfer to restricted cash from unrestricted cash (cash outflow).
119. Alternative B does not address the classification of the cash flows because classification would be determined by existing guidance for the specific cash flow in question or by tentative conclusions reached by the Task Force on Subissue 2. For example, if a payment of principal on debt was made directly from a restricted cash account, the cash outflow would be classified as a financing activity, consistent with the guidance that states that cash outflows from financing activities includes repayments of amounts borrowed.
120. Proponents of Alternative B believe that the cash payments made directly from and the cash receipts directly deposited into a restricted cash account are actual cash flows of an entity and are different from the types of transactions described in the noncash investing

and financing activities guidance because those noncash investing and financing transactions result in no cash receipts or cash payments. For example, a common noncash investing and financing transaction involves acquiring assets by assuming directly related liabilities, such as purchasing a building by incurring a mortgage to the seller. In this example, there are no proceeds received from the borrowing and no cash payments made to the seller at the time the building is acquired. Because proponents of Alternative B believe that there is a clear distinction between cash flows that directly affect restricted cash and noncash transactions, cash payments made directly from and cash receipts directly deposited into a restricted cash account should be presented in the body of the statement of cash flows.

121. Proponents of Alternative B state that disclosure of direct cash payments and receipts as noncash activities could give the connotation that the transactions did not result in actual cash payments or receipts, which would be misleading to users. Several proponents of Alternative B also think that noncash disclosures tend to get overlooked by users, particularly when the noncash disclosures are in the footnotes to the financial statements rather than on the same page as the statement of cash flows. Therefore, proponents indicate that Alternative B would provide better and more transparent information to financial statement users about an entity's cash transactions and would increase financial statement comparability.
122. Proponents of Alternative B indicated that there are times when the restricted cash is in a segregated account and an entity, upon approval from the third party who is restricting the cash, instructs a financial institution to make a direct cash payment from the restricted cash account simply for administrative convenience rather than transferring the funds back to the entity's unrestricted cash account prior to disbursement. Therefore, whether the funds are transferred back to the entity's unrestricted cash account prior to disbursement or the disbursement is made directly from the restricted cash account, the economics are the same: the restriction lapses and the restricted cash becomes unrestricted right before the payment.
123. Some proponents of Alternative B analogize restricted cash to investments whose cash flows are an integral part of the statement of cash flows. Therefore, the cash flows

associated with the direct changes in restricted cash should be presented in the body of the statement of cash flows in the same manner as the cash flows of investments.

124. For the reasons stated above, in outreach conducted prior to the November 12, 2015 EITF meeting, Alternative B was supported by three public accounting firms, an auditor from an FASB advisory group, and a user. In outreach conducted after the November 12, 2015 EITF meeting, Alternative B was supported by two users, three auditors, and a preparer.
125. Opponents of Alternative B note that presenting direct changes in restricted cash in the body of the statement of cash flows would be misleading because the changes do not affect cash and cash equivalents. Opponents of Alternative B also observe that presenting direct changes in restricted cash as a gross up in the statement of cash flows could result in entities presenting other similar transactions that do not affect cash and cash equivalents in the same manner.
126. Appendix D provides an example illustrating the alternatives in both Subissues 2 and 3a.

Staff Recommendation – Subissue 3a

127. While the staff thinks that there is merit to both alternatives, the staff recommends Alternative B. The staff believes that because cash payments and receipts that directly affect segregated restricted cash accounts are actual cash flows of an entity, they should be presented in the body of the statement of cash flows. Disclosure of direct cash payments and receipts as a noncash activity implies that the transactions did not result in actual cash payments or receipts and could result in ultimate cash payments or receipts that are never reported in the statement of cash flows based on their nature, both of which would be misleading to users. Furthermore, because the staff thinks that restricted cash is investment-like, the direct changes in restricted cash should be presented in the same manner as the cash flows of investments.

Subissue 3b – Restricted Cash Held in Accounts Commingled with Unrestricted Cash

128. If the Task Force reaches a tentative conclusion supporting Alternative A or Alternative B in Subissue 1a, the staff thinks that the Task Force would need to consider Subissue 3b

because it could be unclear how to present restricted cash payments or cash receipts when the restricted cash is held in an account that is commingled with unrestricted cash. However, if the Task Force reaches a tentative conclusion supporting Alternative C in Subissue 1a, the staff thinks it may not be necessary for the Task Force to consider Subissue 3b. This is because the staff has not identified situations in which restricted cash that is under the control of a third party is held in an account that is commingled with unrestricted cash.

129. If the Task Force reaches a tentative conclusion that cash payments made directly from and cash receipts deposited directly into segregated restricted cash accounts should be presented in the body of the statement of cash flows (that is, Alternative B in Subissue 3a), the staff does not think it will be necessary for the Task Force to consider Subissue 3b. This is because the staff thinks that the only viable alternative for the presentation of cash payments made from and cash receipts deposited into a commingled account would be to also present those cash payments and receipts in the body of the statement of cash flows.
130. However, if the Task Force reaches a tentative conclusion to require noncash disclosures for cash payments made directly from and cash receipts deposited directly into segregated restricted cash accounts (that is, Alternative A in Subissue 3a), the staff thinks that it will be necessary to clarify how cash payments and receipts from a commingled account should be presented. The staff has identified the following alternatives:

Alternative A – Require noncash disclosures

Alternative B – Present cash payments made from commingled accounts and cash receipts deposited into commingled accounts in the body of the statement of cash flows.

Question for the Task Force

8. How should the changes in restricted cash be presented in the statement of cash flows when cash payments are made from and cash receipts are deposited into an account that is commingled with unrestricted cash?

Staff Analysis – Subissue 3b

Alternative A

131. Under Alternative A, cash payments made from and cash receipts deposited into a commingled account would be disclosed as noncash activities, including noncash financing, investing, and operating activities. This alternative errs on the side that changes in restricted cash held in a commingled account are made directly from restricted cash.
132. Proponents of Alternative A note that the economics of cash flows that directly affect restricted cash, whether segregated or commingled with unrestricted cash are the same. Therefore, the reporting for all cash payments and receipts of restricted cash should be consistent. That is, all cash payments made to and receipts from third parties arising from restricted cash arrangements should be treated as noncash disclosures.
133. Opponents of Alternative A indicate that cash payments made directly from and cash receipts directly deposited into a segregated restricted cash account are different than commingled accounts because the direct cash flows do not effect unrestricted cash.

Alternative B

134. Under Alternative B, cash payments made from and cash receipts deposited into a commingled account would be presented in the body of the statement of cash flows. This alternative errs on the side that changes in restricted cash in a commingled account effect unrestricted cash and therefore, should be included in the body of the statement of cash flows.
135. Proponents of Alternative B believe that for direct cash payments made from an account that includes restricted cash, the restriction lapses, the restricted cash becomes unrestricted cash, and then the payment is made. Additionally, for direct cash receipts deposited into an account that includes restricted cash, the cash is constructively received without restriction into unrestricted cash, the restriction is established, and then the cash becomes restricted cash. Because the economics of the transactions affect unrestricted cash, cash flows directly affecting accounts that include restricted cash should be presented on the statement of cash flows in the same manner as changes in cash and cash equivalents.

136. Opponents of Alternative B think that if the Task Force reaches a tentative conclusion to require noncash disclosures in Subissue 3a, choosing Alternative B would result in diversity in financial reporting because a restricted cash payment made directly from a segregated account would be disclosed as noncash while the same restricted cash payment made from an account commingled with unrestricted cash would be shown in the body of the statement of cash flows.

Staff Recommendation – Subissue 3b

137. If the Task Force reaches a tentative conclusion to require noncash disclosures for direct cash payments made from and direct cash receipts deposited into segregated restricted cash accounts (that is, Alternative A in Subissue 3a), the staff recommends Alternative A because the staff does not believe that there are differences between cash flows associated with segregated restricted cash accounts and commingled accounts. Because there are no differences, there should be consistent financial reporting for all cash payments and receipts of restricted cash.

Transition Method

Question for the Task Force

9. Which transition method does the Task Force want to require entities to apply?

Staff Analysis

138. The staff has identified the following potential alternatives:

Alternative A – Require retrospective transition.

Alternative B – Require prospective transition.

Alternative A

139. Retrospective transition would require the balance sheet and the statement of cash flows to be adjusted for each period presented to reflect the effect of applying the new guidance.

140. Proponents of retrospective transition think that it would increase the comparability and consistency of financial information between periods. Proponents believe that regardless of the definition of restricted cash that the Task Force chooses, the information needed to retrospectively apply the new requirements to all prior periods generally should be available. Furthermore, proponents think that because cash receipts and payments of restricted cash generally occur on an infrequent basis, the costs to apply the changes retrospectively should not be significant.
141. Opponents of retrospective transition think that in certain situations, it could be costly and complex for some entities to apply the new guidance retrospectively. For example, in situations in which an entity had multiple restrictions on its cash in prior years and those restrictions have since been released, the entity would need to determine whether those former restrictions would have met the definition of restricted cash in its prior period financial statements. Because those restrictions are no longer present, opponents think that it's unnecessary to apply the new guidance retrospectively because the prior information would no longer be meaningful to a financial statement user.

Alternative B

142. Prospective transition would require application to the first balance sheet and statement of cash flows reported after the date of adoption.
143. Proponents of prospective transition note that in instances in which an entity has multiple restrictions on cash, the restricted cash is commingled with unrestricted cash, and the restricted cash is not tracked separately for financial reporting purposes, it could be costly to recreate the information needed to retrospectively apply the new requirements to prior periods.
144. Opponents of prospective transition believe that the prospective transition method would introduce noncomparability because the balance sheet and cash flow information for periods before and after the date of adoption would be presented differently. As such, they think that the financial information resulting from prospective application of the new guidance would not result in meaningful financial information and could cause confusion for users.

Staff Recommendation – Transition Method

145. The staff recommends Alternative A, which is to require retrospective transition. The staff thinks that there would be a significant benefit to retrospective transition because it would enhance the interperiod consistency and comparability of financial information. Financial statement users commonly analyze the liquidity of the balance sheet and trends in operating cash flow, and a lack of comparability could impact a user’s analysis. Furthermore, the staff does not think that there would be significant costs to apply the guidance retrospectively because entities typically do not have a large number of restricted cash arrangements and the volume of transactions involving restricted cash is not significant.

Transition Disclosures

146. Subtopic 250-10, Accounting Changes and Error Corrections—Overall, requires the following disclosures in the period in which a change in accounting principle is made:

250-10-50-1 An entity shall disclose all of the following in the fiscal period in which a **change in accounting principle** is made:

- a. The nature of and reason for the change in accounting principle, including an explanation of why the newly adopted accounting principle is preferable.
- b. The method of applying the change, including all of the following:
 1. A description of the prior-period information that has been retrospectively adjusted, if any.
 2. The effect of the change on income from continuing operations, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), any other affected financial statement line item, and any affected per-share amounts for the current period and any prior periods retrospectively adjusted. Presentation of the effect on financial statement subtotals and totals other than income from continuing operations and net income (or other appropriate captions of changes in the applicable net assets or performance indicator) is not required.
 3. The cumulative effect of the change on retained earnings or other components of equity or net assets in the statement of financial position as of the beginning of the earliest period presented.

4. If **retrospective application** to all prior periods is impracticable, disclosure of the reasons therefore, and a description of the alternative method used to report the change (see paragraphs 250-10-45-5 through 45-7).
- c. If **indirect effects of a change in accounting principle** are recognized both of the following shall be disclosed:
1. A description of the indirect effects of a change in accounting principle, including the amounts that have been recognized in the current period, and the related per-share amounts, if applicable
 2. Unless impracticable, the amount of the total recognized indirect effects of the **accounting change** and the related per-share amounts, if applicable, that are attributable to each prior period presented. Compliance with this disclosure requirement is practicable unless an entity cannot comply with it after making every reasonable effort to do so.

Financial statements of subsequent periods need not repeat the disclosures required by this paragraph. If a change in accounting principle has no material effect in the period of change but is reasonably certain to have a material effect in later periods, the disclosures required by (a) shall be provided whenever the financial statements of the period of change are presented.

250-10-50-2 An entity that issues interim financial statements shall provide the required disclosures in the financial statements of both the interim period of the change and the annual period of the change.

250-10-50-3 In the fiscal year in which a new accounting principle is adopted, financial information reported for interim periods after the date of adoption shall disclose the effect of the change on income from continuing operations, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), and related per-share amounts, if applicable, for those post-change interim periods.

Questions for the Task Force

10. Does the Task Force believe that entities should follow the transition disclosures in paragraphs 250-10-50-1 through 50-3 to the extent applicable?

11. Are there any additional transition disclosures the Task Force believes are necessary?

Staff Analysis

147. Depending on the transition methodology selected by the Task Force, the staff does not believe that all of the disclosures in paragraphs 250-10-50-1 through 50-3 would be required because several may not be applicable to a particular transition methodology. For a change in accounting principle related to the balance sheet and the statement of cash flows, the disclosure about the nature of and the reason for the change in the first interim and annual period (paragraphs 250-10-50-1a and 250-10-50-2) would be applicable regardless of the transition method selected by the Task Force.
148. Additional transition disclosures may be applicable if the Task Force decides on retrospective transition. These additional disclosures include a description of the prior period information that has been retrospectively adjusted (paragraph 250-10-50-1b(1)) and some quantitative information about the effects of the accounting change to current period and prior periods on affected line items in the balance sheet and the statement of cash flows (paragraph 250-10-50-1b(2)).
149. Disclosure requirements in paragraph 250-10-50-1b(3) are not applicable because there would be no cumulative effect of a change in retained earnings or other components of equity or net assets as a result of applying the new guidance. Furthermore, disclosure requirements about indirect effects of a change in accounting principle in paragraph 250-10-50-1c are not applicable to changes in the presentation of line items on the balance sheet and statement of cash flows.
150. Disclosure requirements under paragraph 250-10-50-3 are not applicable to changes in the presentation of line items on the balance sheet and cash flow statement. That is, no interim disclosure regarding the effect of the change on certain line items on the income statement (that is, income from continuing operations, and net income and related per-share amounts) is applicable.
151. The impracticability provision in Topic 250 is applicable when there is no specific transition guidance in any Accounting Standards Updates. If the Task Force decides on Alternative A (that is, entities would be required to apply the new guidance retrospectively), a provision consistent with the impracticability provision in Topic 250 could be provided.

Staff Recommendation – Transition Disclosures

152. If the Task Force reaches a tentative conclusion to require prospective transition, the staff recommends that the only disclosure requirement in the first interim and annual period should be the nature of and reason for the change in accounting principle (paragraphs 250-10-50-1a and 250-10-50-2).
153. If the Task Force reaches a tentative conclusion to require retrospective transition, the staff recommends that the disclosure requirements in the first interim and annual period would be the nature of and reason for the change in accounting principle (paragraph 250-10-50-1a and 250-10-50-2) and a description of the prior period information that has been retrospectively adjusted (paragraph 250-10-50-1b(1)). The staff does not believe that quantitative information about the effects of the accounting change to current period and prior periods (paragraph 250-10-50-1b(2)) would be relevant because the changes in the new guidance relate to presentation and classification only. Furthermore, the staff does not think that the new guidance would be impracticable to apply retrospectively because the information would be available and the new guidance does not require significant estimates of amounts.
154. The staff believes that these disclosure requirements would sufficiently explain the change in accounting principle. Therefore, the staff is not recommending any additional transition disclosures other than those outlined in the above paragraphs.

Appendix A: Draft Wording of Definitions

Appendix A provides draft wording of the definitions of restricted cash and restricted cash equivalents, incorporating the alternatives on the characteristics of restrictions on cash with the characteristics of cash and cash equivalents. The staff recognizes that there is opportunity to modify this wording, depending on the conclusions reached by the Task Force.

Restricted Cash

Alternative A

Restricted cash includes currency on hand, demand deposits with banks or other financial institutions, and other kinds of accounts that have the general characteristics of demand deposits that has all of the following characteristics:

- a. Subject to a legal or contractual restriction by a third party
- b. Restricted as to withdrawal or use, including restrictions that require the funds to be used for a specified purpose and restrictions that limit the purpose for which the funds can be used.

Restricted cash may be held in a separate account or commingled with unrestricted cash. See also cash.

Alternative B

Restricted cash includes currency on hand, demand deposits with banks or other financial institutions, and other kinds of accounts that have the general characteristics of demand deposits that has all of the following characteristics:

- a. Subject to a legal or contractual restriction by a third party
- b. Restricted as to withdrawal or use, including restrictions that require the funds to be used for a specified purpose and restrictions that limit the purpose for which the funds can be used
- c. The restriction provides a sufficiently large disincentive for noncompliance.

Restricted cash may be held in a separate account or commingled with unrestricted cash. See also cash.

Alternative C

Restricted cash includes currency on hand, demand deposits with banks or other financial institutions, and other kinds of accounts that have the general characteristics of demand deposits that has all of the following characteristics:

- a. Subject to a legal or contractual restriction by a third party
- b. Restricted as to withdrawal or use, including restrictions that require the funds to be used for a specified purpose and restrictions that limit the purpose for which the funds can be used
- c. Under the control of the third party.

See also cash.

Restricted cash equivalents

Alternative A

Restricted cash equivalents are short-term, highly liquid investments that have all of the following characteristics:

- a. Readily convertible to known amounts of cash
- b. So near their maturity that they present insignificant risk of changes in value because of changes in interest rates
- c. Subject to a legal or contractual restriction by a third party
- d. Restricted as to withdrawal or use, including restrictions that require the funds to be used for a specified purpose and restrictions that limit the purpose for which the funds can be used.

Restricted cash equivalents may be held in a separate account or commingled with unrestricted cash equivalents. See also **cash equivalents**.

Alternative B

Restricted cash equivalents are short-term, highly liquid investments that have all of the following characteristics:

- a. Readily convertible to known amounts of cash
- b. So near their maturity that they present insignificant risk of changes in value because of changes in interest rates
- c. Subject to a legal or contractual restriction by a third party
- d. Restricted as to withdrawal or use, including restrictions that require the funds to be used for a specified purpose and restrictions that limit the purpose for which the funds can be used
- e. The restriction provides a sufficiently large disincentive for noncompliance.

Restricted cash equivalents may be held in a separate account or commingled with unrestricted cash equivalents. See also **cash equivalents**.

Alternative C

Restricted cash equivalents are short-term, highly liquid investments that have all of the following characteristics:

- a. Readily convertible to known amounts of cash
- b. So near their maturity that they present insignificant risk of changes in value because of changes in interest rates
- c. Subject to a legal or contractual restriction by a third party
- d. Restricted as to withdrawal or use, including restrictions that require the funds to be used for a specified purpose and restrictions that limit the purpose for which the funds can be used
- e. Under the control of the third party.

See also **cash equivalents**.

Appendix B: GAAP Specific to Not-for-Profit Entities and Health Care Entities

Current GAAP	Proposed Changes to Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954), Presentation of Financial Statements of Not-for-Profit Entities
Statement of Cash Flows	
<p>230-10-45-14c states that cash inflows from financing activities includes receipts from contributions and investment income that by donor stipulation are restricted for purposes of acquiring, constructing, or improving property, plant, and equipment, or other long-lived assets or establishing or increasing a permanent endowment or term endowment.</p>	<p>230-10-45-14 Cash inflows from financing activities includes receipts from contributions and investment income that by donor stipulation are restricted for the purposes of acquiring, constructing, or improving property, plant, and equipment, or other long-lived assets or establishing or increasing a <u>donor-restricted endowment fund permanent endowment fund or term endowment</u>.</p> <p>958-230-45-4 <u>Cash inflows from operating activities includes cash receipts by an NFP from contributions that by donor stipulation are restricted for the purposes of acquiring, constructing, or improving property, plant, and equipment, or other long-lived assets (including acquiring or maintaining collection items, whether or not they are capitalized).</u></p>
Health Care Entities Cash and Cash Equivalents, Other Presentation Matters	
<p>954-210-45-4 Internally designated funds shall be reported separately from externally designated funds either on the face of the balance sheet or in the notes to the financial statements.</p>	No proposed changes
<p>954-210-50-2 When internally designated funds are reported separately from externally designated funds in accordance with paragraph 958-210-45-4, if the form of the assets is not evident from the description on the balance sheet, the form of the assets shall be disclosed in the notes to the financial statements.</p>	No proposed changes
<p>954-305-45-1 Cash and claims to cash that meet any of the following conditions shall be reported separately and shall be excluded from current assets:</p> <ul style="list-style-type: none"> a. They are restricted as to withdrawal or use for other than current operations. b. They are designated for expenditure in the acquisition or construction of noncurrent assets. c. They are required to be segregated for the liquidation of long-term debts. d. They are limited to use for long-term purposes by a donor-imposed restriction. 	No proposed changes
<p>954-305-45-3 Guidance Applicable to Not-for-Profit, Business Oriented Health Care Entities Only: For fiduciary purposes, separate checking or savings accounts may be maintained for restricted donations. However, unless required by paragraph 954-305-45-1,</p>	For fiduciary purposes, separate checking or savings accounts may be maintained for restricted <u>restricted donations with donor restrictions</u> . However, unless required by paragraph 954-305-45-1, such accounts are not reported on a line separate from other cash and cash equivalents because donor restrictions generally relate

<p>such accounts are not reported on a line separate from other cash and cash equivalents because donor restrictions generally relate to limitations on the use of net assets rather than on the use of specific assets. A columnar presentation that highlights the three classes of net assets (that is, permanently restricted, temporarily restricted, and unrestricted) is not precluded if the totals for the reporting entity as a whole are displayed.</p>	<p>to limitations on the use of net assets rather than on the use of specific assets. A columnar presentation that highlights the three <u>two</u> classes of net assets (that is, <u>without donor restrictions and with donor restrictions</u> permanently restricted, temporarily restricted, and unrestricted) is not precluded if the totals for the reporting entity as a whole are displayed.</p>
<p>NFP Split Interest-Agreements, Other Presentation Matters</p>	
<p>958-30-45-6 Assets and liabilities recognized under split-interest agreements shall be reported separately from other assets and liabilities in a statement of financial position.</p>	<p>No proposed changes</p>
<p>NFP Split Interest-Agreements, Disclosures</p>	
<p>958-30-50-1 The notes to financial statements shall include all of the following disclosures related to split-interest agreements:</p> <ul style="list-style-type: none"> a. A description of the general terms of existing split-interest agreements b. Assets and liabilities recognized under split-interest agreements, if not reported separately from other assets and liabilities in a statement of financial position c. The basis used (for example, cost, lower of cost or fair value, fair value) for recognized assets d. The discount rates and actuarial assumptions used, if present value techniques are used in reporting the assets and liabilities related to split-interest agreements e. Contribution revenue recognized under such agreements, if not reported as a separate line item in a statement of activities f. Changes in the value of split-interest agreements recognized, if not reported as a separate line item in a statement of activities g. The disclosures required by the Fair Value Option Subsections of Subtopic 825-10, if a not-for-profit entity (NFP) elects the fair value option pursuant to paragraph 958-30-35-2(b) or 958-30-35-2(c) h. The disclosures required by paragraphs 820-10-50-1 through 50-2 and 820-10-50-2B through 50-2E in the format described in paragraph 820-10-50-8, if the assets and liabilities of split-interest agreements are measured at fair value on a recurring basis in periods after initial recognition. 	<p>No proposed changes</p>
<p>958-30-50-2 Additional annuity reserves may be required by the laws of the state where the not-for-profit entity (NFP) is located or by the state where the donor resides. Legally mandated reserves shall be disclosed in the notes to financial statements. If state law</p>	<p>Limited changes proposed</p>

<p>imposes other limitations on the NFP, such as limitations on the manner in which some net assets are invested, those limitations also shall be disclosed in the notes to financial statements.</p>	
<p>NFP Presentation of Financial Statements, Disclosures</p>	
<p>958-205-50-1A An NFP shall disclose information to enable users of financial statements to understand all of the following about its endowment funds (both donor-restricted and board-designated):</p> <ul style="list-style-type: none"> a. Net asset classification b. Net asset composition c. Changes in net asset composition d. Spending policies e. Related investment policies. 	<p>No proposed changes</p>
<p>958-205-50-1B At a minimum, an NFP shall disclose all of the following information for each period for which it presents financial statements:</p> <ul style="list-style-type: none"> a. A description of the governing board’s interpretation of the law or laws that underlie the NFP’s net asset classification of donor-restricted endowment funds. b. A description of the NFP’s policy or policies for the appropriation of endowment assets for expenditure (its endowment spending policy or policies). c. A description of the NFP’s endowment investment policies, including all of the following: <ul style="list-style-type: none"> 1. Return objectives and risk parameters 2. How return objectives relate to the NFP’s endowment spending policy or policies 3. The strategies employed for achieving return objectives. d. The composition of the NFP’s endowment by net asset class at the end of the period, in total and by type of endowment fund, showing donor-restricted endowment funds separately from board-designated endowment funds. e. A reconciliation of the beginning and ending balance of the NFP’s endowment, in total and by net asset class, including, at a minimum, all of the following line items that apply: <ul style="list-style-type: none"> 1. Investment return, separated into both of the following: <ul style="list-style-type: none"> i. Investment income (for example, interest, dividends, rents) 	<p>Proposed changes to paragraph 958-205-50-1B are about the effects, if any, of underwater endowment funds on an NFP’s spending policy and its financial flexibility, and disclosures on investment returns.</p>

<ul style="list-style-type: none"> ii. Net appreciation or depreciation of investments. 2. Contributions 3. Amounts appropriated for expenditure 4. Reclassifications 5. Other changes. 	
NFP Presentation of Financial Statements, Implementation Guidance	
<p>958-205-55-7 A statement of financial position that sequences assets and liabilities based on their relative liquidity is presented. For instance, cash and cash equivalents of permanent endowment funds held temporarily until suitable long-term investment opportunities are identified are included in the classification long-term investments. Similarly, cash and contributions receivable restricted by donors to investment in land, buildings, and equipment are not included with the line items cash and cash equivalents or contributions receivable. Rather, those items are reported as assets restricted to investment in land, buildings, and equipment and are sequenced closer to land, buildings, and equipment. (Pursuant to paragraph 958-210-50-3, the kind of asset is required to be described in the notes to financial statements because its nature is not clear from the description on the face of the statement of financial position. That note is not illustrated in this Example.) Assets and liabilities also may be arrayed by their relationship to net asset classes, classified as current and noncurrent, or arranged in other ways.</p>	<p>958-205-55-7 A statement of financial position that sequences assets and liabilities based on their relative liquidity is presented. For instance, cash and cash equivalents of permanent <u>donor-restricted</u> endowment funds held temporarily until suitable long-term investment opportunities are identified are included in the classification long-term investments.</p>
NFP Balance Sheet, Other Presentation Matters	
<p>958-210-45-6 Assets may be restricted by donors. For example, land could be restricted to use as a public park. Generally, however, restrictions 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 unrestricted current use 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 shall not be classified with cash or other assets that are unrestricted and available for current use. The kind of asset whose use is limited shall be described in the notes to the financial statements if its nature is not clear from the description on the face of the statement of financial position.</p>	<p>958-210-45-6 Assets may be restricted by donors. For example, land could be restricted to use as a public park. Generally, however, restrictions 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 unrestricted <u>current use and without donor restrictions</u> 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 shall not be classified with cash or other assets that <u>have no donor restrictions</u> are unrestricted and <u>are available</u> for current use. The kind of asset whose use is limited <u>either by a donor-imposed restriction or by governing board designations</u> shall be described in the notes to the financial statements if it's—the <u>the nature of the restriction (that is, amount and purpose)</u> is not clear from the description on the face of the statement of financial position.</p>

<p>958-210-45-7 If not disclosed in the notes to financial statements, the following information shall be displayed on the face of the statement of financial position:</p> <p>a. Relevant information about the nature and amount of limitations on the use of cash and cash equivalents (such as cash held on deposit as a compensating balance)</p> <p>b. Contractual limitations on the use of particular assets.</p>	<p><u>958-210-45-7A An NFP shall provide additional information useful in assessing its liquidity position in a note disclosure that includes both quantitative and qualitative information about an entity's liquidity position.</u></p>
<p>958-210-45-8 Information about liquidity shall be provided by any of the following:</p> <p>a. Sequencing assets according to their nearness of conversion to cash and sequencing liabilities according to the nearness of their maturity and resulting use of cash</p> <p>b. Classifying assets and liabilities as current and noncurrent, as defined by Subtopic 210-10 (required by paragraph 954-210-45-1 for statements of financial position prepared by not-for-profit, business-oriented health care entities)</p> <p>c. Disclosing in notes to financial statements relevant information about the liquidity or maturity of assets and liabilities, including restrictions on the use of particular assets.</p>	<p>Limited changes proposed</p>
<p>958-210-45-12 As illustrated in paragraph 958-205-55-7, cash and cash equivalents of permanent endowment funds held temporarily until suitable long-term investment opportunities are identified may be included in the classification long-term investments.</p>	<p>No proposed changes</p>
<p>NFP Balance Sheet, Disclosures</p>	
<p>958-210-50-1 A not-for-profit entity (NFP) shall disclose in notes to financial statements relevant information about the liquidity or maturity of assets and liabilities, including restrictions on the use of particular items, unless that information is provided on the face of the statement of financial position.</p>	<p>A not-for-profit entity (NFP) shall disclose in notes to financial statements relevant information about the liquidity or maturity of assets and liabilities, including restrictions and self-imposed limits on the use of particular items, <u>in addition to information provided on the face of the statement of financial position, if shown, in accordance with paragraph 958-210-45-8 unless that information is provided on the face of the statement of financial position.</u></p> <p><u>958-210-50-1</u> An NFP shall disclose the following in the notes to financial statements:⁷</p> <p>a. <u>Quantitative information useful in assessing an entity's liquidity position that shall include the following information:</u></p>

⁷ At its December 11, 2015 meeting, the Board discussed the proposal for providing qualitative and quantitative information useful for assessing liquidity and potential alternatives. The Board directed the staff to explore an approach that would require, like the proposal, qualitative information about how the NFP manages its liquidity and liquidity risks, but provide alternative ways of presenting quantitative information. This approach would emphasize information about assets that are liquid and available at the balance sheet date.

	<ol style="list-style-type: none"> 1. <u>The total amount of financial assets.</u> 2. <u>Amounts that are not available to meet cash needs within a self-defined time horizon for managing its liquidity (for example, 30, 60, or 90 days) because of either of the following:</u> <ol style="list-style-type: none"> i. <u>External limits</u> ii. <u>Internal _____ designations, appropriations, and transfers made by the NFP's governing board</u> 3. <u>The total amount of the financial liabilities that are due within the same self-defined time horizon used in (2) above.</u> <p>b. <u>Qualitative information about how the entity manages its liquidity position also shall be disclosed.</u></p>
<p>958-210-50-2 An NFP shall disclose all of the following, if present, in the notes to financial statements:</p> <ol style="list-style-type: none"> a. Unusual circumstances, such as special borrowing arrangements, requirements imposed by resource providers that cash be held in separate accounts, and known significant liquidity problems b. The fact that the NFP has not maintained appropriate amounts of cash and cash equivalents to comply with donor-imposed restrictions (see paragraph 958-450-50-3) c. Information about significant limits resulting from contractual agreements with suppliers, creditors, and others, including the existence of loan covenants. 	<p>958-210-50-2 An NFP shall disclose all of the following, if present, in the notes to financial statements <u>and may include that information in the qualitative disclosures:</u></p> <ol style="list-style-type: none"> a. Unusual circumstances, such as special borrowing arrangements, requirements imposed by resource providers that cash be held in separate accounts, and known significant liquidity problems b. The fact that the NFP has not maintained appropriate amounts of cash and cash equivalents to comply with donor-imposed restrictions (see paragraph 958-450-50-3) c. Information about significant limits resulting from contractual agreements with suppliers, creditors, and others, including the existence of loan covenants.
<p>958-210-50-3 Section 958-210-45 discusses the following items that are required to be included in the notes to financial statements if they are not provided on the face of the statement of financial position:</p> <ol style="list-style-type: none"> a. A description of the kind of asset whose use is limited (see paragraph 958-210-45-6) b. Information about the nature and amount of limitations on the use of cash and cash equivalents (see paragraph 958-210-45-7(a)) c. Contractual limitations on the use of particular assets (see paragraph 958-210-45-7(b)) d. Information about the nature and amounts of different types of permanent restrictions (see paragraph 958-210-45-9) e. Information about the nature and amounts of different types of temporary restrictions (see paragraph 958-210-45-10). 	<p>958-210-50-3 Section 958-210-45 discusses the following items that are required to be included in the notes to financial statements if they are not provided on the face of the statement of financial position:</p> <ol style="list-style-type: none"> a. A description of the kind of asset whose use is limited (see paragraph 958-210-45-6) b. Information about the nature and amount of limitations on the use of cash and cash equivalents (see paragraph 958-210-45-7(a)) c. Contractual limitations on the use of particular assets (see paragraph 958-210-45-7(b)) d. Information about the nature and amounts of different types of permanent <u>restrictions that affect how and when, if ever, the resources (net assets) can be used</u> (see paragraph 958-210-45-9) e. <u>Subparagraph superseded by Accounting Standards Update 2015-XX. Information about the nature and amounts of different types of temporary restrictions (see paragraph 958-210-45-10).</u> f. <u>Information about additional limitations placed on net assets, such as information about the amounts and purposes of board designations of net assets without donor restrictions required.</u>

NFP Statement of Cash Flows, Implementation Guidance	
958-230-55-2 Not all assets of NFPs that meet the definition of cash equivalents 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.	No proposed changes
NFP Investments, Disclosures	
958-320-50-2 For each period for which a statement of financial position is presented, an NFP shall disclose the aggregate carrying amount of investments by major types, for example, equity securities, U.S. Treasury securities, corporate debt securities, mortgage-backed securities, oil and gas properties, and real estate.	No proposed changes
958-320-50-3 For the most recent period for which a statement of financial position is presented, an NFP shall disclose the nature of and carrying amount for each individual investment or group of investments that represents a significant concentration of market risk, such as risks that result from the nature of the investments or from a lack of diversity of industry, currency, or geographic location.	No proposed changes
NFP Contingencies, Disclosures	
958-450-50-2 noncompliance with donor-imposed restrictions shall be disclosed if either of the following is true: a. There is a reasonable possibility that a material contingent liability has been incurred at the date of the financial statements. b. There is at least a reasonable possibility that the noncompliance could lead to a material loss of revenue or could cause an entity to be unable to continue as a going concern.	No proposed changes
958-450-50-3 If the noncompliance results from a not-for-profit entity's (NFP's) failure to maintain an appropriate composition of assets in amounts needed to comply with all donor restrictions, the amounts and circumstances shall be disclosed.	No proposed changes

Appendix C: Definitions of Financing, Investing, and Operating Activities from the Master Glossary of the Codification

Financing Activities:

Financing activities include obtaining resources from owners and providing them with a return on, and a return of, their investment; receiving restricted resources that by donor stipulation must be used for long-term purposes; borrowing money and repaying amounts borrowed, or otherwise settling the obligation; and obtaining and paying for other resources obtained from creditors on long-term credit.

Investing Activities:

Investing activities include making and collecting loans and acquiring and disposing of debt or equity instruments and property, plant, and equipment and other productive assets, that is, assets held for or used in the production of goods or services by the entity (other than materials that are part of the entity's inventory). Investing activities exclude acquiring and disposing of certain loans or other debt or equity instruments that are acquired specifically for resale, as discussed in paragraphs [230-10-45-12](#) and [230-10-45-21](#).

Operating Activities:

Operating activities include all transactions and other events that are not defined as investing or financing activities (see paragraphs [230-10-45-12](#) through [45-15](#)). Operating activities generally involve producing and delivering goods and providing services. Cash flows from operating activities are generally the cash effects of transactions and other events that enter into the determination of net income.

Appendix D: Illustrative Example - Alternatives Presented in Subissues 2 and 3a

Subissue 2: Classification of Changes in Restricted Cash, and

Subissue 3a: Presentation of Restricted Cash Held in Segregated Accounts

Facts: In 2013, the entity incurs a workers' compensation liability of \$100 and is required by its insurer to establish a restricted cash account for future payments associated with those claims. The restricted cash is to be segregated in a separate bank account until the restriction is released or the cash payments are made for workers' compensation claims. In 2014, \$100 of cash payments are made for those claims. Prior to the payment of the claims, \$100 was transferred from the restricted cash account to the unrestricted cash account, therefore, the claims were paid from the unrestricted cash account.

Also in 2013, the entity is required by its lender to establish a segregated restricted cash account for the future payment of long-term debt in the amount of \$500. The restricted cash is to be invested in an interest-bearing account until the restriction is released (that is, the cash is used to pay the debt). In 2014, \$500 a cash payment is made to pay the debt, directly from the segregated restricted cash account. The entity had no other cash, cash flows or income during 2013 or 2014.

Subissue 2, Alternative A (changes in restricted cash should be classified based on its nature, that is, investing activities)

Statement of Cash Flows		
	2013	2014
Cash flows from operating activities:		
Net income (loss)	\$ (100)	\$ -
Depreciation	-	-
Increase (decrease) in workers' comp. liability	<u>100</u>	<u>(100)</u>
Net cash provided by (used in) operating activities	-	(100)
Cash flows from investing activities:		
Capital expenditures	-	-
Transfer (to) from restricted cash account	<u>(600)</u>	<u>600</u>
Net cash provided by (used in) investing activities	(600)	600
Cash flows from financing activities:		
Proceeds from issuance of common stock	-	-
Payment on long-term debt	-	<u>(500)</u>
Dividends paid	-	-
Net cash provided by (used in) financing activities	-	(500)
Net increase (decrease) in cash and cash equivalents	(600)	-
Cash and cash equivalents at beginning of year	<u>600</u>	<u>-</u>
Cash and cash equivalents at end of year	<u>\$ -</u>	<u>\$ -</u>
Supplemental Disclosure of Noncash Financing Activities		
Payment on long-term debt	-	<u>\$ (500)</u>

Subissue 3a, Alternative B (gross-up)
The \$500 direct payment from the restricted cash account for payment on debt would be presented as: (1) a transfer from restricted cash to unrestricted cash in investing activities, and (2) a cash outflow for financing activities.

Subissue 3a, Alternative A (noncash disclosure) The \$500 direct payment from the restricted cash account for payment on long-term would be presented as a noncash financing activity because the cash payment did not result in a change in cash and cash equivalents, which is reconciled to in the statement of cash flows.

Subissue 2, Alternative B (include restricted cash in the cash and cash equivalents line)

Statement of Cash Flows		
	2013	2014
Cash flows from operating activities:		
Net income (loss)	\$ (100)	\$ -
Depreciation	-	-
Increase (decrease) in workers' comp. liability	<u>100</u>	<u>(100)</u>
Net cash provided by (used in) operating activities	-	(100)
Cash flows from investing activities:		
Capital expenditures	-	-
Net cash provided by (used in) investing activities	-	-
Cash flows from financing activities:		
Proceeds from issuance of common stock	-	-
Payment on long-term debt	-	<u>(500)</u>
Dividends paid	-	-
Net cash provided by (used in) financing activities	-	(500)
Net increase (decrease) in cash, cash equivalents and restricted cash	-	(600)
Cash, cash equivalents and restricted cash at beginning of year	<u>600</u>	<u>600</u>
Cash, cash equivalents and restricted cash at end of year	<u>\$ 600</u>	<u>\$ -</u>

Balance Sheet		
	2013	2014
Cash	-	-
Restricted cash	<u>600</u>	<u>-</u>
Total assets	<u>600</u>	<u>-</u>
Liabilities	600	-
Equity	-	-

Balance Sheet		
	2013	2014
Cash	-	-
Restricted cash	<u>600</u>	<u>-</u>
Total assets	<u>600</u>	<u>-</u>
Liabilities	600	-
Equity	-	-