

FINANCIAL ACCOUNTING SERIES



ACCOUNTING STANDARDS UPDATE

No. 2019-03
March 2019

Not-for-Profit Entities (Topic 958)

Updating the Definition of *Collections*

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

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Summary

Why Is the FASB Issuing This Accounting Standards Update (Update)?

The FASB became aware of a concern that the definition of the term *collections* in the Master Glossary of the *FASB Accounting Standards Codification*[®] is not fully aligned with the definition used in the American Alliance of Museums' (AAM) *Code of Ethics for Museums* (the Code). The definition used in the Code, which served as the basis for the guidance on collections in FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made*, was revised by the AAM after the issuance of Statement 116.¹ The FASB is issuing this Update to improve the definition of *collections* in the Master Glossary by realigning it with the definition in the Code. The FASB also is making a technical correction in Topic 360, Property, Plant, and Equipment, to clarify that the accounting and disclosure guidance for collections in Subtopic 958-360, Not-for-Profit Entities—Property, Plant, and Equipment, applies to business entities as well as not-for-profit entities, consistent with what was indicated in Statement 116.

Who Is Affected by the Amendments in This Update?

The amendments in this Update apply to all entities, including business entities, that maintain collections. However, accounting for collections is primarily an issue for certain not-for-profit (NFP) entities because collections often are held by museums; botanical gardens; libraries; aquariums; arboretums; historic sites; planetariums; zoos; art galleries; nature, science, and technology centers; and similar educational, research, and public service organizations that have those divisions.

What Are the Main Provisions?

The amendments in this Update modify the definition of the term *collections* and require that a collection-holding entity disclose its policy for the use of proceeds from when collection items are deaccessioned (that is, removed from a collection). If a collection-holding entity has a policy that allows proceeds from deaccessioned collection items to be used for direct care, it should disclose its definition of *direct care*.

¹When Statement 116 was issued (June 1993), the AAM was known as the American Association of Museums.

Current generally accepted accounting principles (GAAP) state that an entity need not recognize contributions of works of art, historical treasures, and similar assets if the donated items are added to collections and meet three conditions. One condition states that an entity must be subject to an organizational policy that requires that the proceeds from sales of collection items be used to acquire other items for collections. The amendments in this Update modify that condition so that the proceeds to be used to support the direct care of existing collections in addition to the current requirement that proceeds from sales of collection items be used to acquire other items for collections. Current GAAP also states that an NFP that holds works of art, historical treasures, and similar items that meet the definition of a collection has the following three alternative policies for reporting that collection: capitalization, capitalization of all collection items on a prospective basis (that is, all items acquired after a stated date), and no capitalization.

The amendments in this Update improve GAAP because they eliminate the diversity in practice that exists today between the application of the Master Glossary's definition compared with the definition that many entities use for accreditation purposes. In addition, using proceeds from deaccessioned collection items toward direct care better aligns with many entities' missions to specifically maintain their collections. Furthermore, aligning the definition and permitting proceeds to be utilized for the care of existing collections are consistent with the basis for conclusions in Statement 116 about the care and preservation of collections. The care and preservation of collections was a foundational element of the basis for permitting entities to not recognize contributed collections.

The requirement for a collection-holding entity to disclose its policy for the use of proceeds from deaccessioned collection items is an improvement because that information will inform financial statement users of how the entity defines collections for purposes of noncapitalization, specifically whether the entity applies a narrower definition than the Master Glossary's definition. If an entity allows deaccession proceeds to be used for direct care, the requirement for the entity to disclose its definition of direct care will allow financial statement users to understand the specific nature of expenditures considered to be direct care for that particular entity. If entities define direct care differently, users will be able to understand the differences in how entities apply proceeds from deaccessioned collection items to collections-related expenditures.

When Will the Amendments Be Effective?

The amendments in this Update are effective for annual financial statements issued for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. Early application of the amendments is permitted. The amendments in this Update should be applied on a prospective basis.

Amendments to the *FASB Accounting Standards Codification*[®]

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2 through 10. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

Amendments to Master Glossary

2. Amend the Master Glossary term *Collections*, with a link to transition paragraph 958-10-65-3, as follows:

Collections

Works of art, historical treasures, or similar assets that meet all of the following criteria:

- a. They are held for public exhibition, education, or research in furtherance of public service rather than financial gain.
- b. They are protected, kept unencumbered, cared for, and preserved.
- c. They are subject to an organizational policy that requires the use of proceeds from ~~of~~ items that are sold to be for the acquisitions of new collection items, the direct care of existing collections, or both ~~used to acquire other items for collections.~~

Collections generally are held by museums; botanical gardens; libraries; aquariums; arboretums; historic sites; planetariums; zoos; art galleries; nature, science, and technology centers; and similar educational, research, and public service organizations that have those divisions; however, the definition is not limited to those entities nor does it apply to all items held by those entities.

Amendments to Subtopic 360-10

3. Add paragraph 360-10-15-6 and its related heading, with a link to transition paragraph 958-10-65-3, as follows:

Property, Plant, and Equipment—Overall

Scope and Scope Exceptions

Impairment or Disposal of Long-Lived Assets

> Entities Holding Collection Items

360-10-15-6 Entities that hold **collections** shall follow the accounting and disclosure requirements in Subtopic 958-360 on not-for-profit entities—property, plant, and equipment.

Amendments to Subtopic 958-10

4. Add paragraph 958-10-65-3 and its related heading as follows:

Not-for-Profit Entities—Overall

Transition and Open Effective Date Information

> Transition Related to Accounting Standards Update No. 2019-03, *Not-for-Profit Entities (Topic 958): Updating the Definition of Collections*

958-10-65-3 The following represents the transition and effective date information related to Accounting Standards Update No. 2019-03, *Not-for-Profit Entities (Topic 958): Updating the Definition of Collections*:

- a. All entities shall apply the pending content that links to this paragraph to annual periods beginning after December 15, 2019, and to interim periods within annual periods beginning after December 15, 2020.
- b. Early application of the pending content that links to this paragraph is permitted for financial statements not yet issued or made available for issuance.
- c. An entity shall apply the pending content that links to this paragraph prospectively.

Amendments to Subtopic 958-360

5. Add paragraph 958-360-50-7, with a link to transition paragraph 958-10-65-3, as follows:

Not-for-Profit Entities—Property, Plant, and Equipment

Disclosure

> Works of Art, Historical Treasures, and Similar Assets

958-360-50-7 A collection-holding NFP shall disclose its organizational policy for the use of proceeds from deaccessioned collection items, including whether those proceeds could be used for acquisitions of new collection items, the direct care of existing collections, or both. If the collection-holding entity allows proceeds from deaccessioned collection items to be used for direct care, the entity shall disclose its definition of direct care.

Amendments to Status Sections

6. Amend paragraph 360-10-00-1, by adding the following items to the table, as follows:

360-10-00-1 The following table identifies the changes made to this Subtopic.

| Paragraph | Action | Accounting Standards Update | Date |
|-------------|--------|-----------------------------|------------|
| Collections | Added | 2019-03 | 03/21/2019 |
| 360-10-15-6 | Added | 2019-03 | 03/21/2019 |

7. Amend paragraph 958-10-00-1, by adding the following item to the table, as follows:

958-10-00-1 The following table identifies the changes made to this Subtopic.

| Paragraph | Action | Accounting Standards Update | Date |
|-------------|--------|-----------------------------|------------|
| 958-10-65-3 | Added | 2019-03 | 03/21/2019 |

8. Amend paragraph 958-360-00-1, by adding the following items to the table, as follows:

958-360-00-1 The following table identifies the changes made to this Subtopic.

| Paragraph | Action | Accounting Standards Update | Date |
|--------------------|---------------|------------------------------------|-------------|
| Collections | Amended | 2019-03 | 03/21/2019 |
| 958-360-50-7 | Added | 2019-03 | 03/21/2019 |

9. Amend paragraph 958-605-00-1, by adding the following item to the table, as follows:

958-605-00-1 The following table identifies the changes made to this Subtopic.

| Paragraph | Action | Accounting Standards Update | Date |
|--------------------|---------------|------------------------------------|-------------|
| Collections | Amended | 2019-03 | 03/21/2019 |

10. Amend paragraph 958-805-00-1, by adding the following item to the table, as follows:

958-805-00-1 The following table identifies the changes made to this Subtopic.

| Paragraph | Action | Accounting Standards Update | Date |
|--------------------|---------------|------------------------------------|-------------|
| Collections | Amended | 2019-03 | 03/21/2019 |

The amendments in this Update were adopted by the unanimous vote of the six members of the Financial Accounting Standards Board:

Russell G. Golden, *Chairman*
 James L. Kroeker, *Vice Chairman*
 Christine A. Botosan
 Gary R. Buesser
 Marsha L. Hunt
 R. Harold Schroeder

Background Information and Basis for Conclusions

BC1. The following summarizes the Board's considerations in reaching the conclusions in this Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

Background Information

BC2. Outreach from stakeholders, including members of the FASB's Not-for-Profit Advisory Committee, identified a concern that the Master Glossary's definition of *collections* is not fully aligned with the American Alliance of Museums' (AAM) definition. The AAM is the accrediting body for most museums in the United States. Under existing GAAP, an entity need not recognize contributions of works of art, historical treasures, and similar assets if the donated items added to collections are (a) held for public exhibition, education, or research in furtherance of public service rather than financial gain, (b) are protected, kept unencumbered, cared for, and preserved, and (c) are subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections. The Master Glossary's definition is currently narrower than the AAM's definition. Because of this difference, some entities are concerned that if they use the AAM's broader definition of *collections*, it may be considered a departure from GAAP.

BC3. In the basis for conclusions of Statement 116 (issued June 1993), the Board's objective in defining *collections* was to exempt entities from requiring capitalization of works of art, historical treasures, and similar assets that are to be preserved and protected. The Board concluded that those items are assets regardless of the owner's intent to sell or hold the items as part of a collection. However, the Board decided that the information necessary to recognize those items as assets may not have been compiled in the past, may no longer be available, and may be too costly to obtain. Therefore, the benefit of the information gained by recognizing these items would not justify the cost to provide the information, resulting in the Board having to create a definition for collection items that would be exempt from recognition.

BC4. Statement 116 based the definition of *collections* on the AAM's Code (1991) and its *Accreditation Self-Study* (1989). The Board used the documents as a basis for the definition of *collections* because the documents are widely used by the types of organizations that hold collections. The Board decided in developing Statement 116 that it was relevant to have an organizational policy that requires

the proceeds from the sale of collection items to be used to acquire other items for collections because it demonstrates a commitment and a probability that the collections will and can be maintained.

BC5. The Code originally restricted use of the proceeds of the sale of collections to the acquisition of new collection items. However, there was strong opposition from museum professionals about the restriction because it conflicted with their respective missions to preserve their collections. Many professionals stated that caring for and preserving collections are equally as important as building their collections. Therefore, in November of 1993, after the issuance of Statement 116, the AAM modified its Code to allow the proceeds from the sale of collections to be used for the acquisition *or* the direct care of collections.

BC6. Current outreach confirmed that accounting diversity exists in practice because the definition of *collections* in the Codification is now narrower than that in the Code. Most NFPs that participated in outreach stated that their entities use the AAM's definition, rather than the Master Glossary's definition, and would prefer that the definitions be aligned. However, a few members of the Association of Art Museum Directors (AAMD) stated that they use the Master Glossary's definition of *collections*. During the outreach with those AAMD member entities, some preferred the definition to remain as it is in existing GAAP, while others preferred to include the concept of direct care. On March 28, 2018, the Board added a project to its technical agenda with the objective of eliminating the accounting and definitional diversity in practice by aligning the Master Glossary's definition of *collections* with the AAM's definition.

BC7. On June 26, 2018, the Board issued proposed Accounting Standards Update, *Not-for-Profit Entities (Topic 958): Updating the Definition of Collections*, for public comment, with comments due on August 10, 2018. The Board received 33 comment letters on the proposed Update. Overall, respondents generally supported the amendments in the proposed Update. Several respondents suggested that the Board clarify the meaning of *direct care*. Additional detail about feedback received on specific topics is included below.

Basis for Conclusions

Benefits and Costs

BC8. Overall, the Board concluded that the expected benefits of the amendments in this Update justify the expected costs. The amendments eliminate diversity in practice that exists today by aligning the Master Glossary's definition with the definition that many entities use for accreditation purposes. Therefore, entities will apply only one definition of *collections*, which should reduce costs for stakeholders. Furthermore, the Board concluded that the change to realign the definition is consistent with the basis for conclusions in Statement 116 about the

care and preservation of collections. The care and preservation of collections is the basis for the exemption of contributed collections from recognition.

Scope

BC9. The Board decided that the accounting for collections is an issue primarily for certain NFP entities because collections are primarily held by museums; botanical gardens; libraries; aquariums; arboretums; historic sites; planetariums; zoos; art galleries; nature, science, and technology centers; and similar educational, research, and public service organizations that have those divisions. However, the amendments in this Update are not limited to those entities. The amendments apply to all entities, including business entities, that maintain collections.

Updating the Definition of *Collections*

BC10. The Board decided that including the use of proceeds of deaccessioned collection items toward direct care in the definition of *collections* will improve GAAP because it eliminates diversity in practice that exists today between the application of the definition in GAAP compared with the definition that many entities use for accreditation purposes. In addition, the Board decided that including the use of proceeds from deaccessioned collection items toward direct care in the definition of *collections* better aligns with many entities' missions to specifically maintain their collections while not resulting in financial gain. At the time it was determining the definition of *collections* in Statement 116, the Board wanted to ensure that using proceeds from collections that were exempt from being recognized resulted in furthering public service and not financial gain. The Board decided that direct care will not result in an NFP's financial gain and furthers public service because maintaining collections relates to an entity's mission.

BC11. To address concerns raised by entities that are members of the AAMD or other entities that prefer to permit only the use of proceeds from the sale of a collection item to purchase new collection items, the Board clarified that an entity is allowed to apply a narrower policy than that in the Master Glossary's definition of *collections* if the entity determines that the restriction is necessary within its industry or within its organization.

BC12. The vast majority of respondents to the proposed Update supported adding the term *direct care* to the definition of *collections* to align the Codification's definition of *collections* with the AAM's definition and to reflect the equivalent importance of preserving and caring for collections with acquiring new collection items. Some respondents suggested that the Board provide additional guidance on direct care, such as a definition, indicators, and examples, to minimize the potential diversity in practice that may be created by allowing deaccession proceeds to be used for direct care.

BC13. To address that concern, the Board formed a working group to conduct additional research on direct care. The working group developed a description of direct care based on the AAM's white paper, *Direct Care of Collections—Ethics, Guidelines and Recommendations*. The Board considered including such a description in the amendments to the Codification but decided that an industry should be able to determine what it considers direct care, rather than the Board determining a policy within GAAP for what constitutes direct care. The Board indicated that adding a description of direct care could have resulted in a new misalignment between the Master Glossary's and the AAM's definitions and that additional language potentially could limit the usefulness of providing a general principle. The Board also expressed concerns about its capability to develop a description of direct care that applies to all types of collections entities may hold.

Disclosures

BC14. The Board decided to require that a collection-holding entity disclose its policies for the use of proceeds from deaccessioned collection items, including whether those proceeds could be used for acquisitions of new collection items, the direct care of existing collection items, or both. The amendments in the proposed Update would not have added or amended any disclosure requirements; however, the Board asked a question to respondents to the proposed Update about whether the disclosure of a museum's policy for the use of proceeds from deaccessioned collections should be required. Most respondents supported including this policy disclosure because it promotes transparency, clarifies the use of proceeds from deaccessioned collection items, and provides users with decision-useful information.

BC15. The Board also decided that if a collection-holding entity allows proceeds from deaccessioned collection items to be used for direct care, the entity is required to disclose what it considers direct care. The Board concluded that, in light of the Board's decision not to provide additional guidance on direct care, an entity should be required to disclose its definition of direct care to provide users with an understanding of the types of expenditures that an entity makes with the proceeds from deaccessioned collection items.

BC16. During its redeliberations, the Board discussed and considered requiring a quantitative disclosure of the dollar amount of total expenditures used for the direct care of collections or the dollar amount of expenditures used for the direct care of collections from the proceeds of deaccessioned collection items. The Board decided not to require either quantitative disclosure because it concluded that the expected benefits of providing this type of information would not justify the expected costs (for example, the cost to implement a system to track direct care expenditures). The Board also noted that the requirement in paragraph 958-360-45-5 to report proceeds from the sale of collection items separately, as an increase in the appropriate class of net assets, provides sufficient quantitative information.

Effective Date and Transition

BC17. The Board initially decided that the amendments in the final Update should be effective upon issuance of the final Update because of the nature and narrow scope of the amendments. Several respondents raised concerns about the effective date being upon issuance, stating that a transition period would be necessary for many entities to develop and implement appropriate policies. The Board agreed with this concern and decided that an entity should apply the amendments to annual periods beginning after December 15, 2019, and interim periods within annual periods beginning after December 15, 2020. Early application of the amendments is permitted.

BC18. The Board initially decided that the amendments in the final Update should be applied prospectively with an option for retrospective transition. Most respondents supported the proposed transition requirements; however, the Board ultimately decided to require prospective transition only. The Board concluded that there was no compelling reason to provide retrospective application, noting that entities are already making conclusions regarding their existing definitions of *collections* under existing GAAP and retrospectively applying this amendment to those prior conclusions is unnecessary. The Board also discussed how adding options to the transition method would have increased cost, which might have added unnecessary complications to this narrow-scope amendment.

Amendments to the XBRL Taxonomy

The amendments to the *FASB Accounting Standards Codification*[®] in this Accounting Standards Update require improvements to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). Those improvements, which will be incorporated into the proposed 2020 Taxonomy, are available through Taxonomy Improvements provided at www.fasb.org, and finalized as part of the annual release process.