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Private Companies Practice Section

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September 11, 2015

Susan M. Cosper, CPA
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Re: April 22, 2015 Exposure Draft of a Proposed Accounting Standards Update (ASU), *Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954): Presentation of Financial Statements of Not-for-Profit Entities* [File Reference No. 2015-230]

Dear Ms. Cosper:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC has reviewed the ED and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC appreciates the Board's efforts to simplify and to improve the understandability, comparability and usefulness of the financial statement presentation model for not-for-profit (NFP) organizations. However, TIC has concerns that, as proposed, the Board may be creating a more complex framework, which may be less useful for certain NFP entities.

Although TIC supports some of the proposed changes, the committee disagrees with the Board's approach in three key areas, specifically, the development of intermediate measures of operations and the proposed definition of operating activities, the re-positioning of certain required disclosures from the face of the statement of financial position (hereinafter referred to as "balance sheet" for simplicity) to the notes and certain proposed quantitative liquidity disclosures. The TIC member firms did not always agree on how to resolve each of the above issues, but were unanimous in their belief that certain issues will warrant more outreach and consideration.

TIC's overarching recommendations regarding key issues include:

- Establishing more presentation requirements on the face of the balance sheet to focus the attention of financial statement users on the working capital of an NFP and any significant liquidity limitations/restrictions on the entity's net assets;

- Eliminating the proposed quantitative liquidity disclosures in favor of other cost-effective presentations that would be familiar to financial statement users; and

- Conducting further research and outreach activities on the issues related to intermediate operating measures and the proposed changes to the statement of cash flows, including the possibility of deferring consideration of them until the Financial Reporting Performance project for business entities has been completed. Among the considerations include whether the goals of the proposed standard would be compromised if this proposal leads to increased differences between not-for-profit financial reporting and for-profit financial reporting. Changes that increase such differences may be counterproductive to consistency and comparability.

Please see the specific comments section below for TIC's detailed views and responses on these and other issues discussed in the ED.

SPECIFIC COMMENTS

Statement of Financial Position and Liquidity

Question 1: Do you agree that the disclosures about the nature of donor-imposed restrictions and their effects on liquidity in notes to financial statements would help ensure that necessary information is not lost by combining the temporarily and permanently restricted classes of net assets into one donor restricted category for purposes of presentation in the statement of financial position (balance sheet)? If not, please identify the information lost and why it is necessary. (See paragraphs BC22–BC23 and BC27–BC32.)

TIC supports combining the temporarily and permanently restricted classes of net assets into one donor-restricted category on the face of the balance sheet. However, most TIC members with NFP experience do not support the Board's view that all liquidity information about the availability of resources could be provided more effectively in the notes than on the face of the balance sheet.

TIC understands that one of the purposes of this project is to provide better information that's easier to understand but would caution the Board against oversimplifying the statements and over-expanding the notes. TIC believes that a presentation alternative that favors simplicity in the balance sheet at the expense of voluminous note disclosure would hinder transparency given the diverse numbers and types of NFP stakeholders, which include boards, management, foundations, regulatory agencies, donors, beneficiaries and lenders, among others.

TIC also questions whether some of the specific note disclosures proposed will have the intended, value-added effect. Some of the users of NFP financial statements are not as sophisticated as lenders and investors and may not be able to visualize the full context of the NFP's liquidity position without having the benefit of descriptive balance sheet captions. For example, assessing an NFP's liquidity may be difficult for certain donors if all liquidity disclosures are moved to the notes without highlighting key liquidity restrictions or limitations on the face of the balance sheet.

Therefore, most TIC members recommend that the Board require some liquidity information to be disclosed within the net assets section on the face of the balance sheet. However, TIC also believes that there is no "one size fits all" presentation format that would be suitable for every NFP. Most TIC members agree that each NFP that has restrictions or limitations on its net assets, at a minimum, should be required to separately identify the following on the face of the balance sheet using a descriptive caption within the appropriate net asset class:

- Net Assets Without Donor Restrictions
    - Assets whose use is contractually or legally limited
    - Internal board designations

- Net Assets With Donor Restrictions
    - Endowment Funds ($x and $y of which were underwater in 20X2 and 20X1, respectively)

These requirements would provide transparent, readily identifiable measures of liquidity on the face of the balance sheet without adding significantly to complexity.

TIC's response to Question 4 below includes other suggestions for providing liquidity information on the face of the balance sheet.

Question 2: Do you agree that the aggregated amount by which endowment funds are underwater should be classified within net assets with donor restrictions rather than net assets without donor restrictions? If not, why? (See paragraph BC24.)

Yes. TIC believes moving the underwater market downturns to unrestricted net assets is misleading to users about the true availability of unrestricted net assets. Further, the existing process of restoring those unrestricted net assets to temporarily restricted net assets (i.e., as the market recovers and the fair value of the assets in the endowment fund equals the required level) has also been a source of confusion for users.

Question 3: Do you agree that disclosures describing the NFP's policy on spending from underwater endowment funds, together with the aggregated original gift amount or the amount that is required to be maintained by donor or by law, would provide creditors, donors, and other users with information useful in assessing an NFP's liquidity and potential constraints on its ability to provide services without imposing undue costs? Why or why not? (See paragraph BC32.)

TIC supports the proposed requirements to describe the NFP's policy on spending from underwater endowment funds. These disclosures would provide valuable context for underwater endowments. The disclosure regarding a NFP's policy to reduce or discontinue spending is very important because it will help financial statement users distinguish those underwater endowments that were evaluated for sustainable spending and management cutbacks from those endowments that are otherwise healthy and are underwater simply as a result of market fluctuations in any given year. Therefore, disclosure of the spending policy would provide greater transparency surrounding the general health of the NFP and management's liquidity decisions.

TIC agrees with the Board's conclusion, described in paragraph BC32, that the current underwater endowment disclosure does not portray the potential impact on liquidity. TIC therefore supports the following disclosures proposed in paragraph 958-205-50-2:

> *For each period for which a statement of financial position is presented, an NFP shall disclose each of the following, in the aggregate, for all underwater endowment funds:*
>
> a. *The fair value of the underwater endowment funds*
> b. *The original endowment gift amount or level required by donor stipulations or by law that extends donor restrictions*
> c. *The aggregate of the amount of the deficiencies of each of the underwater endowment funds ((a) less (b)).*

TIC also believes the proposed disclosure of either the original gift amount or the level required by donor stipulations or by law rightfully provides alternatives to the disclosure of the original gift amount. TIC believes that the historical dollar value (original gift amount) of the endowment should not be a required disclosure as long as either the donor or the law has specified the amount that must be held in perpetuity. As the number of years between the original gift date and the current date grows, the original gift endowment amount loses relevance as a key measure or attribute. Furthermore, the information relating to the original gift endowment is not always readily available. Obtaining this information may be difficult or impossible for some NFPs. Therefore, the alternative disclosures in paragraph 2(b) above promote simplification without sacrificing decision-usefulness.

Question 4: Do you agree that providing information in notes to financial statements about financial assets and liabilities and limits on the use of those assets is an effective way to clearly communicate information useful in assessing an NFP's liquidity and how it manages liquidity without imposing undue costs? If not, why, and what alternative(s) would you suggest? (See paragraphs BC27–BC31.)

TIC supports the qualitative disclosure requirements that are proposed in paragraph 958-210-50-1A. Qualitative information about how the entity manages its liquidity position represents meaningful disclosure for financial statement users, such as donors, who would be interested in how well the NFP is exercising its stewardship responsibilities over long-term contributions. In addition, the NFP should have no trouble obtaining the information, especially since the entity is given a choice of the type of information to disclose.

TIC does not support the proposed quantitative disclosures in paragraph 958-210-50-1A (a)(2), which would require a NFP to establish a designated short-term time horizon and disclose amounts that are not available to meet cash needs within that time horizon because of either external limits or internal designations, appropriations and transfers made by the entity's governing board. TIC believes this disclosure is too granular to be useful and could be misleading for NFPs with seasonal variations within their annual cycles. The information would also seem to be stale by the time the financial statements are issued.

TIC believes the proposed quantitative disclosures in paragraph 958-210-50-1A (a)(2) should be eliminated in favor of other cost-effective presentations that would be familiar to financial statement users. Specifically, TIC recommends that each NFP be required to present:

- Either a classified balance sheet or, a balance sheet that presents a sequencing of assets and liabilities based on their nearness of conversion to cash or their nearness to maturity and resulting use of cash, respectively (as proposed in paragraph 958-210-45-8[a] and [b]); and
- A separate caption for assets whose use is limited. (According to paragraph 958-210-45-8(c) of the proposal, this disclosure could be presented in the notes. TIC believes the disclosure should be required on the face of the balance sheet.)

Question 5: Most business-oriented health care NFPs are required to present a classified balance sheet. Continuing care retirement communities and other NFPs may choose to sequence their assets and liabilities according to their nearness to cash as an alternative to using a classified balance sheet. As a result of the proposed requirement to provide enhanced disclosures of information useful in assessing liquidity, would there no longer be a need to hold business-oriented health care NFPs to the more stringent standard for their balance sheets? If not, why?

The existing requirement for business-oriented healthcare entities to prepare a classified balance sheet should be retained, since TIC believes that a classified balance sheet represents the best format for displaying a snapshot of an entity's working-capital position.

<u>Statement of Activities, Including Financial Performance</u>

Question 6: Do you agree that requiring intermediate measures of operations would provide users of NFP financial statements with more relevant and comparable information for purposes of (a) assessing whether the activities of a period have drawn upon, or have contributed to, past or future periods and (b) understanding the relationship of resources used in operations of a period to resource inflows available to fund those operations? Do you also agree that classifying and aggregating information in that way would not require major system changes? If not, why? (See paragraphs BC38–BC47.)

No. All TIC members agree that the intermediate measures of operations defined in this ED do not represent an improvement over current accounting, since they would not provide users of NFP financial statements with more relevant, comparable information. TIC is skeptical that one meaningful definition of operations for all NFPs can be developed since there are significant differences in operating activities among different NFPs.

Rather, at this time, TIC believes greater comparability could be achieved through a defined measure that would be analogous to net income from continuing operations (such as the existing performance indicator for health care entities). The performance indicator (ASC 954-225-45-7) is defined by excluding certain transactions and items. An equivalent measure for all NFPs should be defined in a similar manner. The presentation of intermediate measures (such as operating v. nonoperating subtotals) is currently, and should continue to be, optional. TIC believes this approach would reduce complexity while providing enhanced comparability among NFPs and may reduce differences between the NFP reporting model and the for-profit reporting model.

However, over the longer term, TIC would support the Board's efforts to develop an intermediate operating measure for NFPs. TIC understands that the FASB has a research project in process on financial performance reporting, which will include the development of an "operating performance metric" for the "performance statement." If based on that project, the Board approves a definition of operating activities and a defined measure of operations for business entities, those definitions could inform a similar project for NFPs.

TIC suggests that the Board conduct further outreach efforts, including field tests by NFP constituents, on the issue of intermediate measures of operations before finalizing this proposal. TIC also believes the Board should analyze the extent to which the financial performance reporting project for business entities may be a necessary precursor to similar efforts for NFPs.

Question 7: Do you agree that intermediate measures of operations should include only those (a) resource inflows and outflows that are from or directed at carrying out an NFP's purpose for existence and (b) resources that are available for current-period operating activities before and after the effects of internal governing board appropriations, designations, and similar actions? If not, why? (See paragraphs BC48–BC74.)

If the Board proceeds with the development of intermediate measures of operations, TIC would agree that it should include only those resource inflows and outflows that are from or directed at carrying out an NFP's mission. However, TIC believes that each NFP should have a certain level of flexibility to define the activities that are included or excluded from this measure. To promote some consistency, TIC could support a model that would define an agreed-upon number of exclusions from the measure.

TIC does not support the presentation of two subtotals relating to the availability of resources, as defined in subparagraph (b) of Question 7. TIC believes there should be only one intermediate measure of operations that would include only the change in net assets without donor restrictions inclusive of donor-restricted support that became available for use in the current period. The effects of internal governing board appropriations, designations, and similar actions should not appear on the statement of activities and would be disclosed only in the notes.

Question 8: Do you agree that all internal transfers (governing board appropriations, designations, and similar actions that make resources unavailable or available for operations of the current period) should be reflected on the statement of activities immediately after an intermediate measure of operations before transfers and immediately before an intermediate measure of operations after transfers? If not all internal transfers, on what basis would you distinguish between those transfers that should and should not be reflected and how would you make that distinction operable? Do you also agree that reflecting those internal decisions (or lack of them) on the face of the statement rather than in notes will help an NFP communicate how its operations are managed without adding undue complexities? Why or why not? (See paragraphs BC46–BC47 and BC67–BC74.)

As discussed in Question 7, TIC does not support presenting internal transfers, as defined above, on the face of the statement of activities. TIC believes the presentation of a second measure would be very confusing to most financial statement users and would lead to questions as to which subtotal was the true intermediate operating measure. The proposed change seems to create an unnecessary difference between NFP and for-profit accounting and seems contradictory to the Board's proposal to simplify the NPF balance sheet presentation. This change would also pose additional complexities for NFPs since it would require software changes to appropriately map the chart of accounts to the statement of activities. TIC therefore believes that note disclosure of internal transfers is sufficient.

Question 9: Do you agree that to promote comparability, the Board should eliminate one of the two optional methods for reporting expirations of donor restrictions on gifts of cash or other assets to be used to acquire or construct long-lived assets? Do you also agree that *requiring the expiration of those donor restrictions on the basis of the placed-in-service approach rather than the current option to present a release from restriction over the useful life of the acquired long-lived asset is most consistent with the underlying notions of the intermediate measures of operations? If not, why? (See paragraph BC66.)*

Yes, TIC agrees that the expiration of donor restrictions on gifts of cash or other assets to be used to acquire or construct long-lived assets should occur when the assets are placed in service. TIC also agrees that the Board should eliminate the current option to present the release of the restriction over the useful life of the asset.

Question 10: Do you agree that gifts of, or for, property, plant, and equipment (long-lived assets) should be considered operating revenue and support when received (or when placed in service in the case of a gift to acquire a long-lived asset)? Do you also agree that because the long-lived asset is not immediately fully available to be utilized in the current period, an NFP should be required to present a transfer from operating activities to other activities for the amount of the gifted asset or portion of the asset funded by restricted gifts? If not, why? (See paragraphs BC72–BC74.)

No. TIC believes that gifts of, or for, long-lived assets should not be considered operating revenue and support when received. Capital gifts more closely resemble investing activities since they expand an entity's capacity to provide future services or generate future revenues and should be classified as nonoperating activities. Furthermore, reflecting these contributions in operations can create significant inconsistencies in an organization's operations between fiscal years and would not emulate a true reflection of operating performance.

An exception to this may be on the occasion where there is an arrangement to liquidate the asset in the near term authorized by the NFP board. However, this exception was acknowledged in paragraph BC73.

Furthermore, the proposed transfers result in an awkward presentation that adds complexity and could be confusing to some financial statement users. A case in point is the proposed accounting treatment for equipment acquisitions, particularly equipment acquired with donor-restricted funds. On the sample statement of activities on page 64 of the ED, the same $1,500 acquisition appears three times—once as a release from net assets from donor restrictions into net assets without donor restrictions, then as a transfer out of operations, and finally again as a transfer into nonoperations. This has the effect of cluttering up the statement of activities and confusing readers, and the benefit the Board hopes to obtain (excluding the equipment transfer from the second operating measure, "operating excess, after transfers") does not appear to be worth it.

Therefore, TIC concluded that contributions of long-lived assets should not be presented as part of operating activities, even if the assets are to be used in the fulfillment of the NFP's mission.

Question 11: Do you agree that the addition of required intermediate measures of operations for all NFPs would make unnecessary the need for NFP business-oriented health care entities to also present their currently required performance indicator? Why or why not? (See paragraph BC99.)

No. TIC does not support the proposed intermediate operating measures. In addition, TIC believes intermediate operating measures should be developed as part of a larger financial statement presentation project for business entities before they are established for the NFP industry. Therefore, the health care performance indicator should be retained.

Question 12: Do you think the flexibility currently allowed by GAAP to present a statement of activities as either a single statement or two articulating statements and to use either a single-column or a multicolumn format should be retained or narrowed? If narrowed, why and in what ways?

Yes. TIC believes the format of the statement of activities should remain a preference depending on the needs of the users.

Question 13: Do you agree that reporting operating expenses by both their function and nature together with an analysis of all expenses (other than netted investment expenses) provides relevant and useful information in assessing how an NFP uses its resources and, thus, should be required? Why or why not? (See paragraphs BC87–BC93.)

TIC supports the requirement to show expenses both by function and by natural classification for charities and other donor organizations. Both presentations are relevant and appreciated by financial statement users for contribution-centric organizations, since it's difficult to assess the expenses of the organization without total program cost as well as a breakdown of salaries/wages, rent, depreciation, etc.

However, TIC does not support this requirement for all NFPs since it would not be cost beneficial for all NFP entities. Only those entities that primarily derive their revenue from contributions from the public should be required to present this information. TIC believes a statement of functional expenses would have little or no relevance to other NFPs (such as trade associations). Therefore, other NFPs should not have to incur the additional time and effort to prepare the extra financial statement and the extra cost to have the statement audited.

Question 14: Do you agree that requiring investment income to be reported net of external and direct internal investment expenses will increase comparability and avoid imposing undue costs to obtain information about all investment fees (for example, embedded fees of hedge funds, mutual funds, and funds of funds)? If not, why? (See paragraph BC100.)

Yes. TIC agrees that a requirement to report net investment return and eliminating the current requirement to disclose all investment expenses would reduce cost and complexity and enhance comparability. Obtaining the information needed to extract the various types of investment fees can be difficult. There is often a risk that management's list of fees incurred may be incomplete. TIC therefore believes the proposed change will save time and resources in an area that also has a high risk of inaccuracies.

Question 15: Do you agree that the disclosure of the amount of all investment expenses is unnecessary but that disclosure of internal salaries and benefits that are netted against investment return is of sufficient relevance, not too costly to obtain, and thus should be required? Why or why not? (See paragraph BC101.)

Yes. TIC members reported that it is rare for a NFP client to allocate internal salaries/benefits to investment costs. Generally, these costs are included with administrative operations. However, this information should not be difficult to obtain. TIC therefore would support a requirement to disclose internal salaries and benefits that are netted against investment return.

Question 16: Do you agree that interest expense, whether incurred on short-term or long-term borrowing, and fees and related expenses incurred for access to lines of credit and similar cash management and treasury activities are not directed at carrying out an NFP's purposes and, thus, should not be classified as operating activities? If not, why? (See paragraphs BC59–BC60.)

TIC members had divergent views on whether to classify interest expense for a NFP entity as operating activities. Arguments exist on both sides of this issue and are usually tied to how the operating metric is defined. As discussed in the response to Question 6 above, TIC believes this issue should be deferred until the larger project for business entities has been completed. TIC would therefore support a flexible approach to classification that would allow each NFP entity to classify interest expense as operating or nonoperating based on how each entity analyzes its borrowing activities.

Question 17: Do you agree with the following implementation guidance:

a. Equity transfers between NFPs that are under common control and are eliminated in a parent entity's consolidated financial statements and equity transactions between financially interrelated entities should be presented within operating activities unless they are not available for current-period use in carrying out the purpose for the reporting entity's existence? If not, why? (See paragraph BC62(a).)

   TIC believes that the classification of such transactions should be consistent with management's intent of the contribution. That is, if the intent of a transfer is to support operations, the transaction should be classified within operating activities. .

b. Immediate writeoffs of goodwill generally should be presented within operating activities? If not, why? (See paragraph BC62(b).)

TIC agrees that immediate writeoffs of goodwill should be presented within operating activities.

c. *Immediate writeoffs of acquisitions of noncapitalized items for a permanent collection should be presented within the operating activity section if acquired with net assets without donor restrictions? If not, why? (See paragraph BC62(c).)*

TIC does not agree that immediate write-offs of acquisitions of noncapitalized items for a permanent collection should be presented within the operating activity section as these items are purchased for long-term use and therefore should stay in non-operating activities. In TIC's view, the writeoff can't be an operating activity because if items in the collection are liquidated, the cash received would have to be used to purchase other items for collections.

Statement of Cash Flows, Including Financial Performance

Question 18: Do you agree that the direct method of presenting operating cash flows is more understandable and useful than the indirect method? Do you also agree that the expected benefits of presenting operating cash flows in that way would justify the one-time and ongoing costs that may be incurred to implement that method of reporting? If not, please explain why and suggest an alternative that might increase the benefits or reduce any operational concerns or costs. (See paragraphs BC75–BC80.)

Most TIC members would support use of the direct method of presenting operating cash flows as preferable to the indirect method. The direct method is more useful, and the cost to implement will generally not be significant once a template is developed in the first year of adoption. One TIC member has governmental and common interest realty association clients that have to use the direct method as a requirement of state law. Those clients have found that the direct method is actually easier to use than the indirect method.

However, TIC would not object if the Board decided not to require the direct method at this time, so that the Board could address the issue as part of a more comprehensive project for all entities.

Question 19: Does the indirect method's reconciliation of cash flows from operations to the total change in net assets provide any particular type of necessary information that would be lost if, as proposed, that method is no longer required? If so, please identify the potentially omitted information and explain why it is useful and whether it should be provided through disclosure rather than requiring use of the indirect method. If you suggest that requiring the indirect method is necessary, would you require that the amount for cash flows from operations be reconciled to the amount of the (a) change in net assets, (b) change in net assets without donor restrictions, or (c) proposed intermediate measure of operations before or after transfers? Why? (See paragraphs BC75–BC80.)

TIC believes a reconciliation of cash flows from operations is a necessary disclosure and would favor retaining it even if the Board decides to require the direct method. The reconciliation informs users of significant swings in receivables and payables and provides some information on liquidity. For example, if a NFP had favorable cash flows in a particular year, the reconciliation can help users determine whether the positive cash flows resulted from delays in collecting last year's receivables or delays in paying this year's payables. Since approximately 50% of NFPs do not present comparative financial statements, the reconciliation can be especially useful in identifying such trends in single-year presentations.

Question 20: Do you agree that although operating activities is defined differently for the statement of cash flows than for the statement of activities, more closely aligning line items presented in the statement of cash flows with the proposed operating classification for the statement of activities will increase understandability even though that reporting would be somewhat different from current requirements for business entities? If you believe that operating items in the two financial statements would not be sufficiently aligned, please indicate how their alignment might be further improved. (See paragraphs BC81–BC86.)

TIC believes that the line items on the statement of activities and the statement of cash flows should be aligned as closely as possible. However, this goal cannot be accomplished until suitable definitions and classifications can be established for operating v. nonoperating accounts in the statement of activities.

TIC does not support the changes proposed in paragraph BC82, which would classify the cash purchase or sale of long-lived assets used for operating purposes as operating cash flows. TIC believes users' understanding of the financial statements will be improved if cash payments/receipts to buy/sell long-lived assets are segregated from on-going operational activities. TIC agrees with the Alternative View expressed in paragraphs BC106(c) and BC110 that expressed reservations about moving forward certain presentation and classification decisions for NFPs before similar classifications and presentations can be addressed in the broader context of public and nonpublic business entities.

Effective Date

Question 21: Are there any particular proposed amendments in this Update that would require a longer period to implement than other amendments? If so, please explain.

Some of the information needed for note disclosures (e.g., the liquidity disclosures) may take some additional time to extract, as clients may not be tracking information in the same way the disclosure requires. Some agencies that are not tracking functional expenses may need additional time to set up their systems to track the information or to evaluate how they may want to present their information in the required format. Understanding and implementing the two operating measures may also require a longer period to implement.

Question 22: Are there reasons for any particular size or type of NFP to need a longer time frame to implement the proposed amendments in this Update? If so, please explain.

TIC believes larger NFPs should be required to implement first, with an extra year allowed for smaller NFPs. The extra time would allow the smaller NFPs to benefit from the issues addressed and templates developed by the larger NFPs. In addition, smaller NFPs will need to rely on their CPA firms to provide implementation assistance. Given the magnitude of proposed changes in this ED, NFPs and practitioners will need extensive lead time to understand and receive training on the new presentation model.

TIC also believes another critical factor in determining the length of the transition period is the time needed by software vendors to make changes to their financial statement templates.

OTHER COMMENTS

Split-Interest Agreements

Page 36, last sentence in paragraph 958-30-45-7: The last sentence discusses the "availability for current period operations" as a means of determining whether the split-interest contribution should be recognized as operating or nonoperating activities. TIC believes the determination should be whether the contribution is directed to carrying out the purpose of the organization (a mission activity) rather than whether the revenue is available for current year operations. Many capital campaigns take several years, and they don't seem to have the same consideration for "current period operations."

Disclosure—Reporting Endowment Funds

Page 53, paragraph 958-205-50-1B (c), discusses investment policies and strategies. This and other sample disclosures are written at such a generic, vague level that they only add to the volume of the disclosure without providing information that is decision-useful for financial statement users. This, in turn, makes the overall endowment disclosure more difficult to use. If NFPs just adopt boilerplate language, adding new disclosures will not result in improved financial reporting.

TIC believes the Board should consider reducing the amount of disclosure regarding the endowment funds by paring it down to the elements most relevant to financial statement users. Disclosures regarding investment policies and strategies for large portfolios tend to be too complex to convey in a useful manner. If the proposed disclosure is retained in the final standard, the Board should perform outreach to determine what type of tailored information would be useful and should provide more illustrations in the application guidance.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

Scot Phillips

Scot Phillips, Chair
PCPS Technical Issues Committee

cc: PCPS Executive and Technical Issues Committees