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August 11, 2015

Susan M. Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. 2015-230

Dear Ms. Cosper:

The Financial Reporting Executive Committee (FinREC) of the American Institute of Certified Public Accountants (AICPA) appreciates the opportunity to comment on the Financial Accounting Standards Board's (FASB or Board) April 22, 2015, Exposure Draft of Proposed Accounting Standards Update—*Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954): Presentation of Financial Statements of Not-for-Profit Entities* (proposed ASU).

FinREC supports the Board's intent to improve financial reporting and disclosure for not-for-profit entities (NFPs) with the goal of making financial statements more relevant, more informative, and better able to meet the needs of financial statement users. We believe that certain changes, such as the reduction of net assets categories from the current three (unrestricted, temporarily restricted, and permanently restricted) to two (without donor restrictions and with donor restrictions) and many of the proposed disclosure requirement changes, will serve to improve the clarity and usefulness of the information provided in the financial statements. However, we have some concerns regarding some of the provisions of the proposed ASU that would lead to a further divergence of the NFP financial reporting model from that of for-profit businesses.

Today, NFPs use a financial reporting model that is fundamentally based on the reporting model used by business entities. The primary users of not-for-profit financial statements include donors, creditors, board members, investors/bond holders, and others responsible for management of NFPs. In addition, there are two main classes of not-for-profit organizations: business oriented (for example, health care, higher education, and membership organizations) and contribution based (for example, social service organizations and foundations). Understanding that the primary objective of this proposed ASU is improved financial information for these constituents, FinREC considered the needs of these identified stakeholders and whether the changes being contemplated in the proposed ASU are expected to facilitate improved understanding of the financial condition of NFPs by these constituents. FinREC believes that it is in the best interest of financial statement users for a single “core” financial reporting model to apply to all of FASB’s constituents—public business entities, private companies, and NFPs—with incremental differences tailored as necessary for the unique circumstances and characteristics of NFPs and private companies. As a result, FinREC is concerned that certain changes in the proposed ASU—specifically those related to the proposed definition of an operating metric and changes in cash flow classifications—would result in uncoupling the not-for-profit financial reporting model from the model used by business entities.

FinREC appreciates FASB’s objective of accommodating a notion of availability in the definition of operations, but is concerned that the proposed two-measure approach would increase financial reporting complexity and cause confusion. Although FASB has two projects on its agenda that are expected to address similar issues for business entities, there are significantly different timetables for completing the business entities and not-for-profit projects. Consequently, FinREC is concerned that the potential exists for NFPs and business entities to end up with financial reporting models based on different conceptual taxonomies for reasons that are unrelated to any unique aspects of not-for-profit organizations or differences attributable to not-for-profit transactions. FinREC does not believe that reducing the comparability of the fundamental concepts underpinning U.S. financial reporting would be in the best interests of lenders, suppliers, and others who use financial statements to assess organizations’ ability to satisfy its obligations, irrespective of whether the entities are business enterprises or NFPs. Additionally, in capital markets, widening the differences in financial reporting between NFPs and their business entity sector counterparts (for example, healthcare) increases complexity for investors and creditors striving to understand the differences and similarities in financial condition, business risks, and cash flow prospects between entities.

FinREC believes it is possible to make changes to the statement of activities that would greatly improve the consistency of reporting among NFPs while maintaining consistency with the existing model for business entities, and leave open the possibility for potential future reconsideration of operating/nonoperating differences and cash flow classifications.

FinREC’s recommendation is to develop a measure for all NFPs that is similar to the performance indicator measure used by NFP health care organizations (HCOs) today. This measure would report “results of operations” for an NFP (a broader measure than the proposed operating metric). FinREC suggests captioning this measure as “excess of revenues over expenses” or similar title.

FinREC recommends defining the measure by identifying certain changes in net assets without donor restrictions that should always be presented outside of the results of operations for a period. Those changes in net assets are listed as follows:

*a.* Items excluded from the existing performance indicator of NFP HCOs today, modified as necessary to accommodate a wider spectrum of NFPs.

*b.* Increases or decreases in net assets without donor restrictions associated with investment returns on true and quasi endowments (including releases of restrictions on donor-restricted investment return from true endowments), with a reclassification above the measure of the amount appropriated for spending for the period. (The reclassification would be reported in financial statements of the period to which the appropriation relates.)

*c.* For NPOs that do not capitalize collections, decreases in net assets without donor restrictions arising from acquisition of collection items with unrestricted resources, or increases in net assets without donor restrictions associated with proceeds from sales of, or insurance recoveries related to, collection items that had been acquired with unrestricted resources.

The rationale for the exclusion of items *b* and *c* is provided in in our response to question 6 in appendix A, "Responses to Questions for Respondents in the Proposed ASU" and appendix B, "Proposed Alternative to the Operating Measures in the Proposed ASU."

FinREC believes that these changes would move the project forward in areas where changes in the financial reporting model of not-for-profit organizations is most needed and would allow for issues that transcend industry, such as presentation of interest expense and capital activity in the statements of activities and cash flows, to be addressed if FASB moves forward with standard-setting projects on financial performance reporting and cash flow statement classifications for all entities. This would result in allowing all entities (for-profit and NFP) to report a similar measure for results of operations, and in enhancing consistency with reporting by business entities. FinREC believes this would greatly benefit users of financial statements.

In summary, FinREC recommends that FASB move ahead with these changes and other incremental proposed improvements in the not-for-profit reporting model that are not-for-profit specific (for example, changes to the net asset classifications, reporting of underwater endowments, releases of restrictions on capital gifts), but suspend separate deliberations on those aspects that intersect with the projects for business entities (such as a prescribed operating/nonoperating distinction and changes to the cash flow categories) until FASB's direction with respect to business entities is clearer. If FASB decides to move the projects on financial performance reporting and cash flow classifications from its research agenda to its technical agenda, then issues related to mandating a defined operating/nonoperating distinction and changing the cash flow reporting model could be deliberated for NFPs at the same time as business entities. FinREC believes that the understandability of financial statements for investors, creditors, donors, board members, and other financial statement users will be improved if such changes are undertaken for all entities at the same time as part of a unified effort.

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Appendix A to this letter includes our responses to the questions for respondents raised in the proposed ASU.

Appendix B, "Proposed Alternative to the Operating Measures in the Proposed ASU," to this letter contains a possible alternative, as described in the response to question 6 in appendix A, to the operating measures included in the proposed ASU.

Appendix C, "Analysis of the Proposed FASB ASC Amendments in the Proposed ASU," to this letter contains a list of suggested edits to the proposed FASB *Accounting Standards Codification* (ASC) amendments section of the proposed ASU that are primarily editorial in nature but could impact consistency or understanding when implementing the proposed ASU. We believe that these items should be considered when drafting FASB ASC changes resulting from this project.

Representatives of FinREC, the AICPA Not-for-Profit Expert Panel, and the AICPA Healthcare Expert Panel are available to discuss our comments with Board members or staff at their convenience.

Sincerely,

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|---|---|
| Jim Dolinar | Cathy Clarke |
| *Chair* | *Chair* |
| FinREC | Not-for-Profit Expert Panel |

# Appendix A

## Responses to Questions for Respondents in the Proposed ASU

The AICPA is pleased to provide responses to the specific questions for respondents presented in the proposed ASU.

### Statement of Financial Position and Liquidity

**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.)**

Because 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 results in the loss of a measure of liquidity on the face of the financial statements, FinREC believes that, in addition to the disclosures proposed, segregation of assets limited as to use on the face of the balance sheet, as discussed in paragraph BC29(b) and our response to question 4, should be required to help mitigate the loss of information.

In addition to presenting assets limited as to use, FinREC recommends disclosing the nature and amounts of net assets without donor restrictions. For example, disclosing the portion of net assets without donor restrictions that comprises net investment in plant would provide valuable information about an NFP's liquidity and whether an NFP is maintaining sufficient resources to comply with donor imposed restrictions.

**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.)**

FinREC agrees that aggregating both donor restricted unappropriated earnings, if any, and amounts related to underwater endowments into one net asset category, *net assets with donor restrictions*, along with the endowment principal, is appropriate. Disaggregating this information into multiple net asset categories was confusing to financial statement users, even in an environment prior to the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as the disaggregation required additional disclosure to communicate endowment status.

**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.)**

FinREC agrees that the disclosures described in paragraph BC32 would provide useful information about the aggregate fair value of an NFP's underwater endowment funds and management's intention with respect to future spending from those funds and how that might impact a NFP's liquidity. In an UPMIFA environment, with only Pennsylvania and Puerto Rico not having adopted a version of the act, the concept of historical gift value as it pertains to an NFP's ability to spend from an endowment is less relevant. As such, FinREC recommends that the Board remove the reference to original gift endowment amount in the proposed disclosure requirements and refer only to the amount that must be maintained in accordance with donor wishes or the NFP governing board's interpretation of applicable state law.

**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.)**

FinREC agrees that liquidity is an important concept that should be communicated in the financial statements and agrees that the proposed qualitative disclosures in FASB ASC 958-210-50-1A(b) would enhance the understanding of liquidity within the financial statements.

The proposed quantitative disclosure requirements in FASB ASC 958-210-50-1A(a), however, seem excessive and are outside the boundaries of general purpose financial statements. From an operational perspective, separating liabilities by the amount due in 30, 60, or 90 days is likely to be difficult for many NFPs. While payment dates for amounts included in accounts and notes payable is fairly straightforward, items such as variable repayments on a line of credit and the short-term portion of charitable gift annuities or amounts held for others are much more difficult. Separating these balances beyond what is due currently (less than one year) or long-term (more than one year) as is illustrated in the proposed FASB ASC 958-205-55-5(hhh) will likely be costly. In addition, FinREC is concerned that the proposed disclosures about near-term obligations are unduly complex, lack consistency, and do not provide commensurate incremental benefits, as the period of time covered by the proposed disclosures will, in many cases, have passed by the time the financial statements are issued. FinREC believes that quantitative liquidity information would be most clearly communicated through a combination of display and existing disclosure requirements, in lieu of the proposed disclosures in FASB ASC 958-210-50-1A(a). Therefore, FinREC recommends a classified balance sheet be required, as this presentation provides consistent, comparable information about an NFP's liquidity.

In addition to a classified balance sheet, FinREC also recommends incorporating guidance within FASB ASC 958, *Not-for-Profit Entities,* on presentation of assets limited as to use as noncurrent, as is currently required under FASB ASC 210-10-45 and 954-210-45-2. FinREC believes the presentation of assets limited as to use as noncurrent, combined with disclosures similar to current requirements around temporary and permanent donor restrictions, appropriately and effectively communicate information about an NFP's liquidity. Lastly, as noted in our response to question 1, FinREC believes requiring disclosures about the nature and amounts of net assets without donor restrictions should be required similar to the current disclosure requirements for net assets with donor restrictions.

If FASB does not adopt the recommendations above for all NFPs, FinREC believes that for business-oriented HCOs, retention of the existing requirements for preparation of a classified balance sheet, coupled with the exclusion from current assets of assets whose use is limited, should provide sufficient information to evaluate liquidity with or without amounts set aside for long term projects. This could possibly be supplemented in a schedule or note disclosure showing amounts and maturities over a period of years or an unaudited contractual obligations type note (similar to that required in Management's Discussion & Analysis)- containing information about how the entity manages liquidity.

**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?**

FinREC believes that the existing requirements related to preparation of a classified balance sheet by business-oriented HCOs are appropriate and should be retained. Because most of the resources for these organizations are derived from operating similarly to a business entity, effective management of working capital (as reflected in a classified balance sheet) is essential to their business health. In addition, because the classified balance sheet contributes greatly to financial statement users' understanding of changes in working capital and potential near term impact on liquidity, FinREC does not believe that a shift from industry-wide consistency to the inconsistency that would result from eliminating this requirement would be helpful to users of financial statements.

As discussed in question 4, FinREC believes that requiring a classified balance sheet in the Statement of Financial Position for all NFPs would provide more consistent, cost-effective, and useful liquidity information.

**Statement of Activities, Including Financial Performance**

**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.)**

FinREC fully supports FASB's objectives of providing better and more comparable information for users, but is concerned that reporting two intermediate measures of operations based on the proposed ASU's approach to distinguishing operating from nonoperating activities will not achieve the desired outcome of enhancing financial reporting.

FinREC believes that FASB's internal research, outreach to constituents, and discussions with the Not-for-Profit Advisory Committee (NAC) have identified a number of areas where NPOs believe more consistent reporting in the statement of activities could be useful. Discussions with NAC and with various constituencies have provided a valuable opportunity for those issues to be debated and thoughtfully considered. FinREC observes that there appears to be near-unanimity on the need for exclusion of certain items that, in many respects, mirror those that are excluded from the performance indicator reported today by business-oriented NFP HCOs. FinREC suggests that by focusing on those items and others that are similar, it would be possible to develop a broader measure of "results of operations" that would move the needle the majority of the way towards accomplishing FASB's goals and objectives, yet allow time for further deliberation on the issues of whether a further operating/nonoperating distinction should be required and, if so, how to draw the dividing line.

FinREC also appreciates FASB's objective of accommodating a notion of availability, but is concerned that the proposed two-measure approach would increase financial reporting complexity and cause confusion. The industry's views on the extent to which internal designations should be reflected on the face of the activity statement vary along a spectrum, from a lack of consensus around purely internal designations that have the ability to impact a measure, to widespread support for reflecting board decisions regarding appropriation of endowment funds that must be made based on statutory standards of "prudence." Thus, FinREC recommends limiting the presentation of board decisions on the face of the statement to the reporting of certain endowment activity, and reflecting other types of designations (such as those made for budget purposes) in note disclosures.

Based on those considerations, FinREC proposes for FASB's consideration an alternative "phased" approach that would address certain NFP-specific reporting issues now, and defer consideration of others that intersect with FASB's research project on financial reporting performance until FASB's direction with respect to business entities is clearer (see appendix B). If FASB ultimately decides to move the financial performance reporting project onto its active technical agenda, then issues related to mandating an operating/nonoperating distinction could be deliberated for NFPs and business entities at the same time. FinREC believes that the understandability of financial statements for investors, lenders, creditors, donors and other financial statement users would be improved if such changes were undertaken for all entities at the same time as part of a unified effort.

FinREC believes that its proposed approach would move the project forward in areas where change is most needed and would mitigate concerns pertaining to controversial issues such as interest expense and capital gifts. Also, because all NFPs (HCO and other NFPs) would report similar results of operations, consistency of reporting would also be enhanced. FinREC believes this would benefit users of financial statements.

**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.)**

FinREC believes that the interpretation of activities that should be included within a mission dimension will vary by NFP, limiting comparability among organizations, even for those within various industry segments. Further, incorporating the "availability" dimension results in a loss of comparability and runs the risk of confusing readers of the financial statements. Although FinREC believes reporting an intermediate measure of operations is useful, basing it on the ambiguous and undefined notions of mission and availability will not achieve the FASB's goal of consistency and comparability. As noted in our response to question 6, FinREC believes that reporting a standardized "results of operations" that is the functional equivalent of the performance indicator used by NFP HCOs today would be preferable. For further views on the availability criterion, see our response to question 8.

**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 noted in our responses to questions 6 and 7, FinREC appreciates FASB's objective of accommodating a notion of availability, but is concerned that the proposed two-measure approach would increase financial reporting complexity and cause confusion. FinREC proposes eliminating the intermediate measure of operations after transfers and, along with it, the transfers category. As noted in our response to question 6, FinREC recommends limiting the presentation of board decisions on the face of the statement to the reporting of endowment activity (in the manner described in appendix B).

FinREC believes that information pertaining to other types of internal transfers (unrestricted net assets designated for specific purpose by board designation or appropriation) could be better communicated in a footnote schedule that rolls forward changes, similar in concept to a schedule of changes in owner's equity. Changes in designation to make previously designated net assets available for current period spending should be separately disclosed in the roll-forward disclosure.

**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.)**

We support the placed-in-service approach for releasing donor restrictions related to the acquisition of long-lived assets, unless specifically identified otherwise based on the donor's intent. For example, in certain cases where donors provide gifts of cash or other assets for construction of long-lived assets, the donor's intent may be that the restriction is released as the cash or other assets are expended to construct the asset (that is, as the funds are spent, before the constructed asset is placed in service). The proposed ASU does not distinguish between the treatment of gifts of cash or other assets used for the acquisition of a long-lived asset versus the construction of one. We recommend that the FASB clarify this in the final ASU. In addition, we believe that contributions related to long-lived assets should not be included as an operating activity since the asset itself is not available for current use, even if activities that support current operations are performed within the walls of the long-term asset.

**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.)**

FinREC does not agree that gifts of long-lived assets are operating revenue unless there is a plan to monetize such asset in the near term that has been approved by the board or established by board policy. As noted in our response to question 9, while operating activities normally are carried out using such contributed property, the asset itself cannot be fully consumed in the current period, absent a plan to liquidate such asset and use the proceeds in current operations. Similarly, we do not agree that monetary gifts for the acquisition of long-lived assets should be reported as operating revenue. FinREC regards such cash contributions as a method of financing that is unique to not-for-profit organizations, not part of operating activity. Presenting capital gifts in operating revenues and transferring those not monetized to non-operating activities would introduce unnecessary complexity to the statement of activities. As described in our response to question 6 and appendix B, FinREC believes that activity pertaining to capital gifts should be reported outside a broader measure of "results of operations," consistent with the approach used today by NFP HCOs.

**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.)**

FinREC believes NFP HCOs should continue to be required to report the performance indicator, and that any potential changes to this requirement should be considered in conjunction with contemplation of similar changes for business entities. FinREC notes that a standardized net income equivalent measure has been reported by NFP HCOs for over 40 years (since 1972, when the first "Hospital Audit Guide" was issued). FinREC is concerned that the magnitude of change associated with moving HCOs from a measure that is well understood and consistently applied, to a new measure based on concepts that have not previously been used in the United States, would be detrimental to financial statement users. FinREC has a similar view for other NFP business-oriented organizations that currently report a net income-based earnings measure. Standards for business-oriented NFPs that diverge unnecessarily from those used by investor-owned entities may contribute to misunderstanding among external users.

In the proposed ASU, the basis for the Board's decision to eliminate the performance indicator from U.S. GAAP appears to be based on (*a*) a determination that consistency in reporting between business-oriented HCO NFPs and other NFPs is more important than consistency with for profit counterparts, (*b*) a perception that a net income-based measure is not relevant for business-oriented HCO NFPs, and (*c*) a conclusion that the proposed metric would be more useful because it focuses on operating activity. FinREC's views on each of these matters are described below.

Regarding (*a*), FinREC does not share the view that consistency in reporting with other NFPs takes precedence over consistency with business entities. When FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations*, was implemented, the AICPA's Accounting Standards Executive Committee (FinREC's predecessor) believed that it was important for NFP HCOs to continue to apply performance criteria historically used in the health care industry in order to preserve consistency within the industry to the greatest extent possible; FinREC continues to hold that view today. FinREC notes that in its "pure" form, the not-for-profit financial reporting model is driven, in large part, by concepts associated with contribution accounting. FinREC does not believe that application of the "pure" form of this model to business-oriented HCOs (or, for that matter, to any NFP that receives little, if any, support from contributions) enhances the uniformity and usefulness of those entities' financial statements.

FinREC is aware that some NFP HCOs receive significant amounts of contributions or grant revenue (something of a hybrid-HCO). Such entities often have a mix of activities that extend beyond providing healthcare services to include activities such as education and research. Some of these hybrid-HCOs have elected to apply the NFP HCO reporting model even though they may not fall squarely within the definition of a business-oriented health care entity that obtains revenues from providing (or arranging for) health care services. FinREC does not believe that precluding business-oriented NFP HCOs from using a business reporting model in order to foster comparability in reporting with these hybrid-HCOs (at the expense of consistency with investor-owned entities) is helpful or useful to users of financial reports. FinREC is not aware of other situations in which the financial statements of NFP business-oriented HCOs within the scope of FASB ASC 954, *Health Care Entities*, would likely be compared with the financial statements of other types of NFPs.

Regarding (*b*), FinREC does not share the view that a net income-based performance metric is irrelevant to users of NFP HCO financial statements. FinREC understands that, frequently, NFP HCOs will have debt covenants based upon the performance indicator. However, FinREC also views the performance indicator as having a conceptually deeper importance, in that it is the linchpin of the "not-for-profit business reporting model" that serves as a bridge between NFP and business entity reporting. Elimination of the performance indicator would result in dismantling this model, which would result in loss of the use of business reporting concepts.

Regarding (*c*), FinREC does not share the view that reporting the proposed new measure would provide better information to users since it focuses on operating activity because the proposed measure would intermingle components of earnings, other comprehensive income, and discontinued operations within new operating/non-operating categories in a manner not previously used in the U.S. financial reporting system.

As described in our response to question 6 and appendix B, FinREC believes that requiring non-healthcare NFPs to report the "results of operations" measure described in FinREC's response to question 6 would be a better approach to achieving consistency among NFPs (as well as fostering greater consistency between the NFP and business entity reporting models). If the operating metrics aspects of the proposed ASU continue to be deliberated apart from similar discussions for business entities, FinREC believes NFP HCOs and other NFPs that report net income-equivalent performance measures should be excluded from the areas of the proposed ASU that overlap with FASB's business entity projects.

**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?**

We believe the current flexibility with respect to presentation of the statement of activities as either a single statement or two articulating statements, or a single column or multi-column format, should be retained. This flexibility allows organizations to choose the format that best suits their reporting needs in achieving transparency and clarity as they consider the needs of the users of their financial statements.

**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.)**

Primarily for the reasons presented in paragraph BC93, FinREC agrees that operating expenses should be presented by both function and nature, together with an analysis of all expenses, for certain NFPs but not all NFPs. Consistent with FinREC's original request to FASB for reconsideration of this issue, FinREC believes the disclosure should be limited to NFPs that derive their revenue primarily from voluntary contributions from the general public because it limits the requirement to situations for which the benefit most likely outweighs the cost. For NFPs that do not derive their revenue primarily from contributions, information about expenses generally is available to key users of the financial statements through means other than GAAP financial statements (for example, direct outreach to management, loan applications, grant applications, and board requests). For NFPs that would be required to report this analysis, we are supportive of providing flexibility to present by either classification on the face of the statement of activities with the other in the notes and FinREC also recommends extending that presentation flexibility to voluntary health and welfare organizations.

**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.)**

For entities that fall within FASB ASC 958, we agree that presenting investment returns net of expenses provides the most meaningful information to financial statement users.

**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.)**

FinREC agrees that the disclosure of all investment expenses is not necessary. Furthermore, FinREC believes that all disclosure of specific investment expenses should be eliminated. If the Board believes investment expense disclosures should be required, information consistent with what is required to be included in Form 990 and reconciled to the audited financial statements would be recommended as an alternative. We also request illustrative examples be provided in the final ASU.

**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.)**

We do not agree that interest expense should be reported outside of operating activities. While interest expense is not always directly related to mission support, how an organization chooses to finance its short and long term cash flow needs has an indirect and, therefore, important impact on operating activities. Today, management decides whether to classify interest costs as operating or non-operating. For many NFPs, interest often is considered an integral part of operating activities. A classification model that imposes a requirement on NFPs to report all financing-related expenses as non-operating is likely to cause confusion among preparers, users, and board members unless the change is made as part of a unified effort in which all U.SGAAP reporting entities are required to change to such a model at the same time.

FinREC's proposed alternative approach described in our response to question 6 and appendix B would require interest expense to be reported above the broader "measure of operations"; if NPOs wish to report the activity within that measure in operating and operating categories, FinREC believes that they should have the flexibility to classify interest expense in either category until the FASB considers similar issues for all business enterprises.

Additionally, should donor contributions for capital assets be considered operating activities, as proposed, we believe there should be conformity with the treatment of leased assets and financed assets.

**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).)**

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

- ***c.*** **Immediate write-offs of acquisitions of non-capitalized 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).)**

(a.) FinREC disagrees with the proposed implementation guidance. Equity transfers are intended to be the not-for-profit healthcare counterpart of certain paid-in capital transactions that occur between for-profit affiliates. According to the FASB ASC master glossary, "Equity transfers are similar to ownership transactions between a for-profit parent and its owned subsidiary (for example, additional paid-in capital or dividends)." We believe that transfers of this nature should be excluded from results of operations, consistent with their capital nature, as required by the health care performance indicator.

(b.) Under FinREC's alternative model proposed in the response to question 6 and appendix B, FinREC believes that the immediate write-off of such items should be included in the broader results of operations measure.

(c.) We do not agree that the immediate write-off of such items should be considered part of operations. Under the definition of a collection, these are assets which cannot be liquidated and made available for operations. Under FinREC's proposed alternative model, such items would be excluded from the broader results of operations measure.

**Statement of Cash Flows, Including Financial Performance**

**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.)**

As discussed in our opening comments, we recommend overarching changes to the statement of cash flows for topics not unique to NFPs be deliberated concurrently with for-profit entities. In order to avoid divergence of practice, FinREC recommends the direct method of presenting operating cash flow not be required, but instead that FASB continue providing an option for NFPs to use the indirect method. This option promotes understandability and consistency to users as the reconciliation to the change in net assets is a relevant metric to many NFPs and their board members, who many times operate in a for-profit environment. In addition, for organizations that present single year financial statements, the indirect method of cash flow provides perspective on changes in balance sheet accounts that one would not otherwise have.

If FASB decides to implement the direct method requirement for NFPs independently of considering such matters for business entities, FinREC believes that a reconciliation of changes in cash flows from operating activities should continue to be required. The reconciliation's information related to working capital changes and other sources and uses of cash supports evaluation of working capital management.

Many NFP's do not have the systems currently in place to implement a direct method of presenting operating cash flows. Because neither method is superior, but both have merit, the benefits of requiring the direct method do not outweigh the cost, and the option for either method should be retained until such a time as this topic is deliberated jointly for all entities; for-profit and NFPs alike.

**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.)**

As noted in our response to question 18, if the Board continues with the proposed ASU to require the direct method of cash flows, we believe that the indirect method's reconciliation should continue to be required in order to avoid the loss of relevant information. Should an NFP decide to utilize the indirect method of cash flows, we recommend that cash flows from operations be reconciled to the amount of the change in net assets as that amount captures all activity of the NFP.

**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.)**

As previously noted, we have a concern regarding the timing of this requirement and its applicability to only NFPs. We believe changes in areas that are not unique to NFPs (such as viewing capital expenditures as operating outflows) should only be made as part of a global revision to cash flow presentation requirements for all entities, not just NFPs, to promote a universal understanding of the amended requirements. To require classification changes for only NFPs alone would result in confusion for financial statement users, such as lenders and board members, many of whom also operate in a for-profit environment. Therefore, FinREC recommends that any changes to operating, investing, or financing cash flow classifications at this time, and in connection with this proposed ASU, be limited to items unique to NFPs.

**Effective Date**

**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.**

Based on the proposed ASU as written, the changes in presentation of the statement of activities may take considerable time for NFPs to thoughtfully consider the needs and preferences of the users of their financial statements and to reach appropriate conclusions regarding presentation. There are changes that will require development of policies or processes, or both, such as qualitative liquidity disclosures, board designations and related expenditures, and the interpretation of the mission dimension. Because the changes will be presented retrospectively, information will need to be gathered to re-frame all years presented. Some not-for-profit organizations, due to their particular reporting requirements, must present three years of information. As such, sufficient time should be allowed to provide for reporting system changes that will capture and accumulate the needed information for the retrospective presentation. Additionally, NFPs with debt covenants will need time to evaluate the impact on those covenants and communicate, coordinate, and potentially renegotiate the terms of the related agreements. FinREC recommends allowing sufficient time for NFPs to understand and apply the requirements of these and other significant changes underway in GAAP, such as revenue recognition and leases.

**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.**

In general, larger NFPs might be able to implement changes sooner than smaller NFPs will. However, the size and resources of an NFP that are devoted to finance and administration can vary across entities given certain restrictions that can be placed on funding sources. Simply relying on total assets or total revenue of an NFP as a determining factor for an earlier implementation date would not be the most effective criteria for setting such a precedent.

## Appendix B

## Proposed Alternative to the Operating Measures in the Proposed ASU

This appendix details FinREC's proposed alternative to the operating measures in the proposed ASU.

FinREC notes that an NFP's total change in net assets during a period is similar to comprehensive income of a business entity. Under its proposed approach, FinREC suggests that FASB initially focus on defining a subcomponent of the total change in net assets of an NFP during a period that would be analogous to earnings for a business enterprise. In essence, this would involve dividing the change in net assets without donor restrictions for the period into two broad display classifications—"results of operations" for the period and "other changes in net assets."

The "results of operations" embodied in FinREC's approach would be the functional equivalent of the performance indicator used by NFP HCOs. It does not represent "performance" in the traditional sense but, instead, focuses on the costs of carrying out an NPO's activities for the current period compared to the resources available in that period (that is, a change in operating net assets). Because the nature of many NFPs is distinctly different from business entities, different terminology could be used to caption the "results of operations" for NFPs (for example, "Excess of Revenue over Expenses").

FASB would define the measure by specifying certain changes in net assets without donor restrictions that should always be excluded from "results of operations" for the period. In effect, FASB would be defining a "performance indicator" for FASB ASC 958 entities that is similar to the performance indicator used today by FASB ASC 954 NFP HCOs (see markup below). Items that should be excluded from the FASB ASC 958 performance indicator would be the following:

*a.* Items excluded from the existing performance indicator of business-oriented NFP health care organizations, modified as necessary to accommodate a wider spectrum of NFPs.

*b.* Increases or decreases in net assets without donor restrictions associated with investment returns on true and quasi endowments that are invested as part of a single pool that, as a matter of institutional policy, is managed as if all resources within it are subject to state UPMIFA statutes. In the period in which an appropriation for spending will be used, a reclassification from below the measure to above the measure would be required for the amount appropriated. (For more on the basis for this position, see "Proposal for reporting endowment returns and appropriations" further below.)

*c.* For NPOs that do not capitalize collections, decreases in net assets without donor restrictions arising from acquisition of collection items with unrestricted resources, or increases in net assets without donor restrictions associated with proceeds from sales of, or insurance recoveries related to, collection items that had been acquired with unrestricted resources.

To further enhance comparability, FinREC recommends that FASB amend the existing guidance in FASB ASC 958-205-45-5 to require discontinued operations to be reported as a separate component of results of operations (that is, above the performance indicator as a separate component of income/loss), consistent with the reporting of discontinued operations by all other entities.

***Proposed Exclusions From a FASB ASC 958 Performance Indicator (Based on Markup of Existing FASB ASC 954 Performance Indicator)***

**958-225-45-x** Not-for-profit entities shall report the following items separately from the performance indicator:

a. Transactions with owners acting in that capacity.

b. Equity transfers involving other entities that control the reporting entity, are controlled by the reporting entity, or are under common control with the reporting entity, excluding items related to donated services from an affiliate.

c. Receipt of restricted contributions, including temporary restrictions, such as time or purpose, or permanent restrictions.

d. Contributions of, and net assets released from donor restrictions related to, long-lived assets.

e. Items that are required to be reported in or reclassified from other comprehensive income, such as gains or losses, prior service costs or credits, and transition assets or obligations recognized in accordance with Topic 715, foreign currency translation adjustments, and the effective portion of the gain or loss on derivative instruments designated and qualifying as cash flow hedging instruments.

~~f. Items that are required to be reported separately under specialized not-for-profit standards. These include the effect of discontinued operations, as discussed in paragraph 958-225-55-6.~~

g. For entities that classify marketable securities as trading or available for sale (other-than-trading) as described in 954-320-45-1(b), unrealized gains and losses on investments on other than trading securities~~, in accordance with paragraph 954-320-45-1(b)~~.

h. Investment returns restricted by donors or by law.

~~i. Investment losses that decrease unrestricted net assets if those losses reduce the assets of a donor-restricted endowment fund below the required level, as described in paragraph 958-205-45-22.~~

~~j. Investment gains that increase unrestricted net assets if those gains restore the fair value of the assets of a donor-restricted endowment fund to the required level, as described in paragraph 958-205-45-22.~~

k. An inherent contribution (see paragraph 958-805-25-31) that increases temporarily restricted or permanently restricted net assets, as described in paragraph 954-805-45-2.

<u>l. [NEW] For NFPs that manage quasi-endowments and donor-restricted endowments together as a single unified pool subject to a total-return investing strategy, the increases or decreases in net assets without donor restrictions associated with both (i) net assets released from restriction related to the pool's donor-restricted investment return and (ii) investment return attributable to the quasi-endowment portion of the fund. A reclassification into results of operations for the amount appropriated for spending should be reported in the period to which the appropriation relates. This provision applies only in situations where, as a matter of institutional policy: (i) the entire endowment pool is subject to investment requirements and constraints on spending consistent with state UPMIFA statutes; and (ii) total return on the pool is segregated into spendable and non-spendable components based on application of a single spending rate determined under the principles embodied in the UPMIFA statutes.</u>

<u>m. [NEW] For an NFP that does not capitalize its collections, transactions that existing GAAP requires to be reported separately from revenues, expenses, gains and losses – that is, costs of collection items purchased with unrestricted funds; proceeds from sale of collection items purchased with unrestricted funds; and proceeds from insurance recoveries of lost or destroyed collection items that were purchased with unrestricted funds.</u>

***Proposal for Reporting Endowment Returns and Appropriations***

State laws governing donor-restricted endowments (UPMIFA) impose statutory constraints on the extent to which endowment earnings and capital appreciation can be appropriated for spending in a given period. UPMIFA permits an institution's board to appropriate for expenditure only as much as it deems "prudent," and sets forth a list of factors that the board must consider in making appropriation decisions. UPMIFA laws are enforced by state attorneys general or other designated charity regulators.

Some NFPs have an institutional policy of managing, investing, and spending their quasi-endowment funds as if they were subject to UPMIFA statutes. In some situations, those quasi-endowment funds are invested together with the true endowment funds in a single pool and managed under the same total return strategy; appropriations for spending are determined by applying UPMIFA "prudent spending" guidelines to the pool as a whole, without regard to establishing separate spending rates for "true" or "quasi" components. Thus, investment activities associated with this pool gives rise to investment return during a period that, either by law or by institutional policy, cannot be utilized in the current period.

In these situations where donor-restricted and quasi-endowments are managed together as if the entire pool was subject to UPMIFA statutes, FinREC believes that all increases (or decreases) in net assets without donor restrictions associated with endowment return (both the reclassification from restricted funds and the investment return on unrestricted "UPMIFA-like" quasi-endowment resources) during a reporting period should be reported below the performance indicator. As amounts are appropriated for spending, they should be "recycled up" into operations of the period they are intended to support. At a minimum, the appropriation reclassification should represent the total amount appropriated by the board, without identifying quasi-endowment or true endowment portions. However, entities that wish to report separate reclassification adjustments for these components could do so.

## Appendix C

## Analysis of the Proposed FASB ASC Amendments in the Proposed ASU

This document is the result of an analysis of the proposed FASB ASC changes that were included in the proposed ASU. The purpose of this appendix is to identify items that are editorial in nature that impact consistency or understanding in implementing the proposed ASU, as presented. We believe that these items should be considered when drafting codification changes resulting from this project.

Note: Text in red represents potential changes to the wording in the proposed ASU. Text in ***bold italic*** highlights a particular portion of the text that the reviewer is referring to in the proposed ASU.

| **FASB ASC Reference** | **Comment** |
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| 230-10-45-12a and 12b | FASB ASC 230-10-45-21A has been superseded and moved to FASB ASC 958-230-45-5. FinREC recommends that the reference updated. |
| 230-10-45-25 | FinREC recommends that the reference to FASB ASC 958-230-***45-8*** should be FASB ASC 958-230-***45-6***. |
| 958-205-45-12 and BC73 | These two sections discuss assets moved out of operations because of an internal action to make the resources unavailable for current-period operations. Gifts-in-kind (GIK) are not included as an example. As such, it is not clear whether this concept should apply to GIK. The discussion and example specifically discuss contributions for long-lived assets (their placement into service and how these assets might be transferred from operating if made unavailable for current-period operations) and it seems the concept would also be applicable to GIK. Like contributions for long-lived assets, GIK would not be considered "placed in service" until it is distributed to beneficiaries or used in operations. FinREC recommends that GIK, like long-lived assets, be transferred out of current period operations until used in service. (See example on page 64 of the proposed ASU.) Otherwise, it will distort the excess/deficit operating metric based on the timing of when GIK is put into service. |

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| 958-205-45-13A(a) | The paragraph includes the following sentence: "In rare circumstances, an NFP may not be able to fully expend donor-restricted contributions in the near term and, therefore, the governing board may consider long-term investment of those donor-restricted resources." FinREC believes that this paragraph needs additional clarification, such as: "In those circumstances, although the NFP's governing board designates those amounts as an endowment fund, the original donor restriction remains on the funds and they should be classified as net assets with donor restrictions." |
| 958-205-55-13 | The line titled, "Total revenues and gains without donor restrictions," has an amount in the total column that is a combination of amounts with and without donor restrictions. FinREC suggests that the phrase "without donor restrictions" be removed from the title or that there not be an amount included in the total column for this line. |
| 958-205-55-21B (b) | FinREC recommends that the reference to a separate statement should be a statement of functional expenses, not functional expenditures. |
| 958-205-55-21F (b) | In the detail of transfers, the amount of gifted property placed in service is $22,450, but the statement of activities (SoA) shows only $12,100. Where is the rest included on the SoA? |
| 958-205-55-21 Note G | The amount included in the table for amounts due within 60 days is $1,845, while the accounts payable balance is $2,570. Since the NFP uses 60 days because it represents the typical payments on its trade payables, it doesn't seem like over one quarter of the payables on the balance sheet at year end would not be due within 60 days. |
| 958-205-55-21 Note E | Because it is unclear how certain of the transactions in FASB ASC 958-205-55-5 are reflected in the statements, it's not clear whether the $740 for use in future periods (item i) should be included in the long-term investment pool. The same is true of amounts collected on pledges of $610 (item o) for use in future periods. |
| 958-205-55-36 | In the table, footnote reference (a) on the line titled "Net Depreciation" (which has been struck) should also be struck. On the line titled "Investment return, net" FinREC recommends that the footnote reference (b) be stuck as that footnote has been eliminated. |

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| 958-205-55-38 | This paragraph is supposed to be an example of the requirements in FASB ASC 958-205-50-1B(a).<br><br>This disclosure does not seem to address what the Board's interpretation is for spending on underwater endowments. Although the Board of Trustees of NFP A says that maintenance of purchasing power is not necessary under the law, that still doesn't mean that it can spend all of an endowment's funds. FinREC recommends that FASB consider a more overt disclosure regarding their spending policy on underwater funds. |
| 958-205-55-39 | In the table showing the endowment's net asset composition, the terms "perpetual" and "term" are used to describe donor-restricted endowments. It's not clear whether the amounts included under "perpetual" are only the portion of the endowments that need to be retained in perpetuity or whether they include appreciation on those funds. Also, unless those amounts included under "term" are truly term endowments, FinREC recommends that a different word should be used to describe the amounts. (The amounts appear to be term endowments and accumulated appreciation on all endowment funds). |
| 958-205-55-47 | The numbers in this table differ from the previous tables. Amounts in perpetuity are $97,759 in the second table and $97,959 in this table. The total of term endowments and appreciation in the second table is $39,589 and $39,389 in this table. |
| 958-210-50-1A | The reference to Note G in the first paragraph refers to information required by FASB ASC 958-720-45-15. That guidance relates to the presentation of expenses by nature and function. FinREC recommends that Note G, which relates to liquidity information, be referenced back to FASB ASC 958-210-50-1A. |
| 958-210-50-3 | FinREC recommends that the reference in subparagraph (f) should be FASB ASC 958-**210**-45-11, not FASB ASC 958-**10**-45-11. |

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| 958-225-55-7 | (1) Purports to illustrate the GAAP that requires display of a subtotal before effects of a discontinued operation, but the illustration doesn't reflect a subtotal above the "discontinued operations" line. (2) Based on reviewing FASB ASC 205-20-45-1A and following paragraphs, it is not clear whether the subtotal is still a general GAAP requirement, as there no longer appears to be reference to it; (3) Because the new criteria for discontinued operations (disc ops) are aimed at capturing a strategic shift that has a major impact on the entity's operations, how could a disc op ever be "nonoperating"? Also, the notion of classifying "disc ops" as operating or nonoperating seems a difficult concept to take. If FASB truly intends for that to be the case, FinREC believes further discussion is warranted in the final ASU. |
| 958-230-45-1 | The reference at the end of sentence seems incorrect. FinREC recommends that it should either refer to FASB ASC 958-230-**45-2** through **45-5** (which are the paragraphs that discuss classification) or include all subsequent paragraphs (that is, FASB ASC 958-230-**45-1** through **45-10**). |
| 958-320-45-9 | This paragraph references guidance in FASB ASC 958-205-45-10B. There is no such paragraph. Should this be FASB ASC 958-225-45-10B? |
| 958-605-55 | FinREC suggests that it would be helpful to have a GIK example after FASB ASC 958-605-55-61 to illustrate how to report receiving more GIK than used in services in a current year. For example, if $100 is received as a GIK contribution without donor restriction, but only $40 is used in services (distributed to beneficiaries or used in the operations of the NFP), is there an adjustment to transfer the remaining $60 out of operations given the limited "placed in service" amount? |
| 958-805-25-29 | (1) The paragraph indicates that the entity should classify the charge as operating or nonoperating based on whether the acquisition was undertaken for mission reasons; however, paragraph BC62(b) of the proposed ASU states that the Board concluded that such write-offs would always be operating due to a presumption that acquisitions would always be undertaken to further the entity's mission. Which is correct? (2) If an entity is required to evaluate mission versus non-mission in classification, then FinREC believes that FASB ASC 958-805-25-29 should revise the standard to explicitly state that it is recognized as an operating activity if it is undertaken to carry out the NFP's purpose for existence. |

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| 958-805-55-68 to 958-805-55-70 | Example 7 -- Entity S is an NFP (because it has contributions receivable). How likely is it that an NFP would acquire another NFP for "nonprogrammatic investing" purposes? FinREC recommends either (*a*) making Entity S a for-profit entity, or (*b*) illustrating the acquisition as a decrease in operating cash flows. |
| General | FinREC suggests that occurrences of "expenses" be reviewed throughout the proposed ASU to ensure that it does not need to have the qualifier "operating" or "nonoperating" added to be technically correct. |
| 230-10-45-12c and 13c | FinREC recommends that FASB consider adding a caveat that receipts from sales of property, plant, and equipment (PP&E) and purchases of PP&E are operating activities for NFPs, with a reference to FASB ASC 958-230-45-4a. |
| 230-10-45-16, 17 and 25 | See comments above. Paragraph ASC 230-10-45-10 may not be adequate to direct users to FASB ASC 958-230 without specific references. |
| 958-205-05-9 | This paragraph states "A **donor-imposed restriction** that limits the use of some or all of the investment return of **endowment funds** would require that those returns be classified as **net assets with donor restrictions**." FinREC believes this would also be true of a donor-restricted endowment with no purpose restriction until the investment return has been appropriated for expenditure. |
| 958-205-45-10 | FinREC recommends that FASB consider an example that includes a contribution with both a time and a purpose restriction to fully illustrate the concept. |
| 958-205-45-11 | This paragraph makes reference to a donor restriction not being fulfilled if it is "directly attributable to and reimbursed by a sponsored exchange arrangement." Given the current issues with how to treat sponsored arrangements under FASB ASC 606, would a change to this language be appropriate? |
| 958-205-45-13B | FinREC suggests edits to the following sentence to make it clear that quasi-endowments are not subject to UPMIFA or other laws. "Conversely, ~~for~~ an endowment fund that is created by a governing board from net assets without donor restrictions (board-designated endowment fund) is not subject to an enacted version of UPMIFA or trust law. ~~, that~~ The original fund and all investment returns are free of donor restrictions and shall be reported in the net assets without donor restrictions." |

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| 958-205-45-6 | FinREC recommends that it may be helpful to include a cross reference to FASB ASC 958-720 for a discussion of determining "programs." |
| 958-205-55-4 | The paragraph includes the following statement: "for example, they require reporting information about the gross amounts of items of revenues and expenses and cash receipts and payments." Should the reference to gross amounts of items of revenues be reworded in light of FASB ASC 606? |
| 958-205-55-5(a) | FinREC recommends that FASB consider the following changes to this paragraph: "Not-for-Profit Entity A invested cash in excess of daily requirements in short-term investment instruments. Interest earned on these investments totaled $850, which is included in the net investment return on the statement of activities. The governing board ~~has~~ previously designated a portion of net assets without donor restrictions ~~unrestricted net assets~~ for long-term investment (quasi-endowment). Those assets ~~earned~~ had net earnings of $3,828~~, comprising $2,000 of dividends, interest, and rents and $1,828 of realized and unrealized net gains~~. The entity's governing board also appropriated $2,000 of accumulated earnings from the quasi-endowment to current operations." Given that it's no longer necessary to break out the components of investment return, the text should be changed. Also, the way this is worded assumes that no investment expenses are netted against these amounts in the example statement of activities in FASB ASC 958-205-55-13. |
| 958-205-55-5(hhh) | FinREC recommends that FASB consider the following changes: "In addition, amounts made unavailable by the governing board include $34,628 of board-designated ~~long-term investments~~ quasi-endowments which are included in long-term investments." Note DDD in the example refers to these amounts as quasi-endowments. |
| 958-205-55-21 Note D | There is a line item in the table of this example note for the payout from donor-restricted endowments, titled: "Release of appropriated endowment returns without purpose restrictions." FinREC recommends that FASB consider adding "or for which purpose restrictions were met." Otherwise, it seems that the entire payout was without purpose restrictions, which cannot be true because there are endowments to support each of the three programs that the NFP operates. |

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| 958-205-55-21 Note E | The first paragraph discusses investment returns as follows: "Investments are carried at fair value, and realized and unrealized gains and losses are reflected in the statement of activities." Should this be changed to say "Investments are carried at fair value and investment returns are reflected in the statement of activities"? If not changed, then FinREC recommends that FASB consider mentioning investment income along with gains and losses.<br><br>Also, the note says: "At June 30, 20X1 ~~19X1~~, $1,400 was invested short term, and during the year short-term investments earned $850." It's not clear if the $850 earned is part of the $1,400 in short-term investments at the end of the year. |
| 958-205-55-21C | FinREC recommends that FASB consider providing an example of a foundation that actually has investing as its mission so that itis clear that in some cases, an NFP may include investment returns in operations. That would be preferable to showing a format with nonoperating at the top. |
| 958-205-55-21D | FinREC recommends that FASB consider eliminating **"without donor restrictions"** from headings. The unrestricted nature of the activity is inherent in a "statement of operations." |
| 958-205-55-21D | If an NFP HCO wishes to report the traditional performance indicator, would it be able to use that amount as the bottom line of the first statement and the top line of the second statement? FinREC believes that was the intent, but is concerned that as presented, it might be interpreted as a requirement for the second statement (statement of changes in net assets) to always begin with or report that amount. FinREC suggests clarifying that flexibility is provided regarding the "cutoff point" between first and second statement. |
| 958-205-55-21E | FinREC recommends that the first sentence refer to a business-oriented health care entity. |
| 958-205-55-41 | FinREC recommends combining the three different tables (composition, changes, and reconciliation) that show the requirements for endowments. If not combined, the columns could be put in the same order. For example, in the first table, donor-restricted is first, then without donor restrictions follows. In the second, without donor restrictions is first and then donor-restricted follows. |

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| 958-205-55-50 | The example disclosure is as follows (emphasis added):<br><br>"Return Objectives and Risk Parameters<br><br>NFP A has adopted ***investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power*** of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds and the appreciation on those funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. NFP A expects its endowment funds, over time, to provide an average rate of return of approximately 8 percent annually. Actual returns in any given year may vary from this amount."<br><br>The example disclosure in FASB ASC 958-205-55-38 states that the law does not require the maintenance of purchasing power, yet that is included as a component of the NFP's decisions for investment and spending policies. Also, FinREC recommends that FASB consider clarifying that the endowment assets include the appreciation on all endowment funds (donor-restricted and quasi). |
| 958-225-45-1 (c) and 958-210-55-3 | For NFPs with relatively little or no contribution activity, reporting most or all of their net assets under the caption "net assets without donor restrictions" is not particularly meaningful. FinREC recommends that FASB perhaps alternative terminology for net assets that do not focus on donations could be provided for this category or the guidance could allow entities to use captions that best describe their circumstances. |
| 958-225-45-4 | The paragraph states: "Information about revenues, expenses, gains, losses, and reclassification of net assets ~~reclassifications~~ generally is provided by aggregating items that possess similar characteristics into reasonably homogeneous groups." FinREC recommends that FASB consider adding "transfers" to the list of items that may be aggregated based on similar characteristics. |

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| 958-225-45-8A | **"A statement of activities shall report all revenues, expenses, gains, losses, and other changes in net assets without donor restrictions as either operating activities or nonoperating activities."** FinREC recommends that FASB clarify that the operating/nonoperating requirement only applies to unrestricted activity, and does not apply to donor-restricted activity. |
| 958-225-45-8C | The paragraph states: "Classification of an item as revenues, expenses, gains, or losses does not determine whether the item is considered ~~inside or outside of the operating measure~~ operating or nonoperating; rather, the two dimensions of mission and availability contribute to this determination."<br>As "operating measure" is not a defined term, FinREC recommends that FASB consider the edits above in red. |
| 958-210-45-10 | The term *endowment* is currently defined in the master glossary with a cross reference to "endowment fund." The reference to term *endowments* has been deleted from the endowment fund definition in the proposed changes. FinREC recommends that FASB he inconsistency be resolved. |
| 958-225-45-10A | Is the phrase, ".....**previously transferred amounts to support fiscal needs of current operations**," saying that amounts transferred from operating to nonoperating in a prior year can be "brought back" into operations in a subsequent year? For example, if an NFP receives $100 gift in year x1 that its board designates for use in year x2 (and so transfers the $100 to nonoperating in x1), does the $100 gift reappear in year x2 as a transfer into operating from nonoperating? If so, is there an offsetting "transfer out" of nonoperating for $100? If so, how can something be transferred that was never there to begin with? If this is the intended accounting, this is a concept that has not existed in GAAP before so, FinREC believes it is necessary to provide a more robust discussion. |
| 958-225-45-10B | The intended meaning of this phrase in bullet c), **".....Additionally, all transfers need to be reflected outside of the op activities section....."** is not clear. It appears to be attempting to make the point that for all transfers in the operating category of operations, there must be a corresponding equal and offsetting amount of transfers reflected in nonoperating activities section. We suggest a clarification in the ASU. |
| 958-230-45-6 | FinREC recommends that FASB consider also adding FASB ASC 958-230-45-4d and 4f (for emphasis) as everything else from 958-230-45-4 (a, b, c and e) has been repeated. |

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| 958-230-45-7b | FinREC recommends that FASB consider adding to the investing example the cash returns as outlined in FASB ASC 958-230-45-2. |
| 958-230-50-1 | The receipt of gifts-in-kind is a significant source of non-cash operating activity for many NFPs. FinREC recommends that this be included as an example. |
| 958-320-45-4B | If investment revenue is outside of operations, would the gain/loss on a contribution donated and liquidated immediately be included as contribution revenue or as investment activity? How does this work with a direct method of cash flows? |
| 958-320-45-8 and 9 | These paragraphs do not really describe what happens to endowment return. By just reading them and not looking at the illustration, the paragraphs appear to convey that all endowment return is outside of operations and then shown as a board appropriation into operations between the two subtotals. However, the return flows into the operations through the release from restrictions (which was based on a board appropriation) and not a board appropriation between the two subtotals. |
| 958-350-45-1 | See comment on FASB ASC 958-805-25-29. Is there a presumption that acquisitions are always undertaken to further the entity's mission? In that case, goodwill impairment write offs would always be operating. |
| 958-805-25-28 & -29 | Both of these paragraphs make reference to FASB ASC 958-805-30-6. For continuity of review, FinREC recommends that FASB ASC 958-805-30-6 be included in the text. (This paragraph was included in the fatal flaw review document.) |
| 230-10-45-12 | FinREC recommends that FASB consider including "Cash receipts from interest and dividends for an NFP." |
| 230-10-45-15 | FinREC recommends that FASB consider adding "Cash payments to lenders and creditors for interest by an NFP." |
| 958-205-05-8 (and others) | UPMIFA is referred to as the Uniform Prudent Management of Institutional Funds Act of 2006. However, in the text of the Uniform Law the short title does not include the words "of 2006." FinREC recommends that these words be removed throughout the FASB ASC. |
| 958-205-45-5 | This paragraph refers to information required by GAAP and by applicable specialized accounting and reporting principles and practices. What would those be? |

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| 958-205-55-10(c) | FinREC recommends that FASB consider the following changes: "…The two-statement ~~approach of Format C~~ format focuses attention first on ~~changes in unrestricted net assets~~ the operating excess (deficit)." |
| 958-205-55-21 Note D | FinREC recommends that FASB consider the following changes: Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes, ~~or~~ by occurrence of ~~the passage of time~~ ~~or~~ other events specified by donors, or by the passage of time. |
| 958-205-55-21 Note E | The text below the second table (page 78) begins: "Laws and regulations allow…" What would those regulations be? |
| 958-205-55-21C and E | Why is the date 20X3? Is there an implication that this is the third year? |
| 958-205-55-21E | FinREC believes that descriptions in transfers category within operating activity are not particularly helpful. |
| 958-205-55-32 (a) | FinREC recommends that FASB consider a possible change to this sentence: "An NFP is required to disclose the information in paragraph 958-205-50-1B for each period for which it presents financial statements; however, for simplicity, the example disclosures provide information for a single period, 200Y." |
| 958-205-55-52 | FinREC recommends that FASB consider the following changes: "NFP A has a policy that permits spending from underwater endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations. The Governing Board appropriated for expenditure $75 from underwater endowment funds during the year, which represents 3 percent of the 12-quarter moving average, not the 5 percent ~~it~~ generally ~~draws~~ appropriated from its endowment." |
| 958-210-45-9 | FinREC recommends that FASB consider referencing to example disclosure in FASB ASC 958-205-55-21. |
| 958-225-45-1 (d) | FinREC recommends that FASB consider clariflying that transfers are not reclassifications. |

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| 958-225-45-5 | The paragraph includes the following sentence: "For example, fees from rendering services and income from investments are typically for general purposes of the NFP ~~generally are unrestricted~~; however, income from donor-restricted ~~permanent~~ perpetual or term endowments ~~may be donor restricted and~~ generally ~~would increase~~ **~~net assets with donor restrictions~~** is restricted for a specified purpose or to a future period. ~~either temporarily restricted net assets or permanently restricted net assets~~.<br>This explanation mixes use (for the general purposes of the NFP) and treatment (increases net assets with donor restrictions). FinREC recommends that FASB consider the edits in red. |
| 958-225-45-8 | The paragraph includes the following sentence: "For example, net gains on investment assets, to the extent recognized in financial statements, are reported as increases in net assets without donor restrictions~~unrestricted net assets~~ unless their use is restricted to a specified purpose, ~~or~~ a future period, or by law that extends donor restrictions."<br>The two "or"s may be confusing as the "by law" extension would still be for specified purpose or future period. FinREC recommends that FASB consider the edits in red. |
| 958-225-45-8A | The paragraph includes the following sentence: "A statement of activities shall report all revenues, expenses, gains, losses, and other changes in net assets as either operating activities or nonoperating activities."<br>Within the context of the operating measures, FinREC recommends that transfers be called out. |
| 958-225-55-12 through 55-15 | None of the examples show Operating excess (deficit) after transfers. FinREC recommends that FASB consider adding transfers for a more complete presentation of the Statement of Activities. |
| 958-225-45-13 | FinREC recommends that bullet d), **"A donor imposes restrictions on net assets without donor restrictions……"** would be clearer to say **"net assets that are otherwise without donor restrictions….."** |
| 958-360-45-5 | FinREC recommends that the insert in the first paragraph, "as **on** operating activity," should say "as **an** operating activity." |

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| Master Glossary | In general, FinREC recommends that should there be a mention or clarification in the glossary or elsewhere for the “Donor” term (that is, Net Assets with Donor Restrictions) to account for not-for-profit organizations that do not have donors? For example, what if they only have Members? |
| Master Glossary | Definition of “Operating Cash Flows of a Not-for-Profit Entity:” FinREC recommends that FASB consider whether “(its productive efforts)” is needed. One could argue that investing and managing an endowment is part of an NFP’s productive efforts. |
| Master Glossary | There is a definition for “Management and General Activities.” Should there also be definitions for program and fundraising activities? |
| 958-205-45-13 | The paragraph states: "A donor-restricted endowment fund results from a gift with a stipulation that those resources be invested either for a long, specified period of time or in perpetuity." What is meant by a "long" period? More than 1 year? 2 years? 5 years? |
| 958-205-45-2 | The paragraph states: "The operating section would report all changes in resources (net assets) that result from or are directed at carrying out an NFP’s purpose for existence…" FinREC believes that use of the term "directed at" could cause some readers to take the position that things like investment returns, while not a result of the NFP's purpose for existence, are certainly directed at carrying out that mission. |
| Master Glossary | Definition of “Board-Designated Endowment Fund:” Couldn’t “invested to provide income for a long…” be for any period of time? Why long period of time and how is that defined? ***Note:*** See similar comment for FASB ASC 958-205-45-13. |
| 958-205-55-49 | In this example disclosure, the term "fund of perpetual duration" is used. FinREC believes that the term is not defined and it's not clear what is meant by it. |
| 958-225-45-11 | The paragraph includes the following sentence: "Some limitations on an NFP’s use of an ***intermediate measure of operations*** are imposed by other Subtopics." FinREC recommends defining the terms "intermediate measure from operations" and "operating measure," especially with two operating measures. |
| 958-320-45-4B | FinREC recommends defining the term “mission-blind.” |

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| 958-205-55-5 through 958-205-55-21 | This example is hard to follow. The information in FASB ASC 958-205-55-5(a) - (v) is very detailed and would lead one to believe that you could actually map these transactions to the example statements. There is not, however, enough information to allow you to do that. For example, there is nothing that says how much was billed and collected for accounts receivable and accounts payable, etc. Also, in some instances, itis not clear if the cash coming in is subsequently reflected in "cash," "short-term investments," or "long-term investments." FinREC recommends that perhaps journal entries or some other means by which the transactions could be traced to the example statements would be helpful. |