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Fraud Aid, Inc. [NFP, 501(c)(3)]

175 E. Delaware Pl. Apt. 6701 Chicago, IL 60611-7733 (312) 475-1438

July 16, 2012

Technical Director director@fasb.org Financial Accounting Standards Board

FASB File Reference No. EITF-12A

FASB Exposure Draft (ED): Not-for-Profit Entities: Classification of the Sale of Donated Securities in the Statement of Cash Flows (Topic 230), a consensus of the FASB Emerging Issues Task Force.

Dear FASB Technical Director:

Fraud Aid, Inc. is a not-for-profit entity that accepts donated securities and basically supports the ED.

We request clarification on how to apply criteria in the first sentence of ASC 230-10-45-21A i:

The "... ability to avoid significant investment risks and rewards through near immediate conversion into cash" is compatible with realizing significant gain or loss from the sale of donated securities.

For cash receipts from the sale of donated securities to be classified as operating cash flows, the proposal could provide that a donated security be sold within a reasonable range of its fair value at the close of the day during which the donated security was received; or that donated securities as a group be managed for sale within a reasonable range of fair value when received.

BC3 states in part that some NFP's with applicable policies "... consider those donated securities to be essentially equivalent to cash." BC5 states in part that: "... the receipt of a donated security and its near immediate conversion into cash is economically similar to the receipt of cash donations."

We find that investment risk from interest rate volatility^{iv} is inherent in securities. The next day yield^v can reflect significant events not foreseen the day before.

Question 1(b)vi Recommendations on scope

Cash equilvalents given fair value measurement and non-cash captions in the Statement of Cash Flows signal the need to either retitle or change the standards for the Statement of Cash Flows.

Gross cash flows reported as part of the "Change in cash" could indicate potential for liquidity risk.

STATEMENT OF CASH FLOWS (XYZ Not-For-Profit)	Year	Debits	Cr	edits
Excludes captions before "Change in cash"	Source of gross cash flows			
Change in cash				
Gross cash inflow	3,229,961 Add the debits in the SCF			
Gross cash outflow	-2,917,800 Add the credits in the SCF			
Change in cash	312,	161 3,229	,961	-2,917,800
Beginning cash	861	,941		
Ending cash	1,174,	102		

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If the Statement of Cash Flows were prepared timely, discussion of cash flow issues could be incorporated into monthly financial analysis and reporting. The value of the Statement would be clear.

Benefits from automation of the Statement of Cash Flows would increase if procedures for cash management were integrated into the automation and reporting.

Automation of reporting for cash and cash flows is likely cost effective in new accounting systems.

Spreadsheet based preparation compromises integrity in reporting the most important asset: cash.

Accounting needs to disclose how its duty to control cash is being fulfilled under current conditions.

Question 2vii (a) We agree.

(b) We prefer a reasonable range approach as explained above and otherwise agree.

Ouestion 4viii

If donated securities had been recognized as cash equivalents in prior periods and then sold at significant gain or loss, retrospective application to all prior periods presented upon the date of adoption may be necessary for fair presentation. We otherwise agree.

We believe that the work of the Emerging Issues Task Force on the Statement of Cash Flows is critical to its fair presentation and appreciate the opportunity to comment.

This comment was approved by the Board of Directors of Fraud Aid, Inc. with reliance on their volunteer treasurer/chief compliance officer who takes full responsibility for the content.

Sincerely,

Caroline Ann Walker, CPA (USA: IL, CA, WA), CFE

Treasurer and Chief Compliance Officer

Caroling hacker

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i FASB File Reference No. EITF-12A:

Amendments to the FASB Accounting Standards Codification®

3. Add paragraph 230-10-45-21A, with a link to transition paragraph 230-10-65-1, as follows:

230-10-45-21A Cash receipts resulting from the sale of donated securities by NFPs that upon receipt are directed for sale and for which the NFP has the ability to avoid significant investment risks and rewards through near immediate conversion into cash shall be classified as operating cash flows. If, however, the donor restricted the use of the contributed resource to a long-term purpose of the nature of those described in paragraph 230-10-45-14(c), then those cash receipts meeting all the conditions in this paragraph shall be classified as a financing activity. (Underlining included in the Exposure Draft.)

ii FASB File Reference No. EITF-12A: Background Information and Basis for Conclusions

BC3. NFPs receive donations to operate their programs. Many donations are made in the form of cash, but some donations are made in the form of securities. Although NFPs typically accept donations in the form of securities, many have institutional policies to immediately sell them to convert the securities to cash to be available for immediate use. Some NFPs that have such a policy consider those donated securities to be essentially equivalent to cash. (Underlining added.)

iii FASB File Reference No. EITF-12A:

BC5. The Task Force concluded that the receipt of a donated security and its near immediate conversion into cash is economically similar to the receipt of cash donations. Accordingly, the Task Force also concluded that characterizing the cash receipts from the sale of such securities as an investing activity would not provide relevant information about how an NFP obtains cash. Rather, characterizing those receipts as an investing activity might inappropriately suggest a degree of reliance on investing results and investment risks and rewards, which are not present. Because the securities in the scope of this proposed Update generally are accepted by the NFP to accommodate the donor's objectives rather than as a result of a strategic decision to invest in a particular entity or asset class, the Task Force does not consider the cash resulting from those transactions to be investing activities in the way that the statement of cash flows characterizes such activities. The Task Force concluded that determining whether the cash receipts from the sale of such donated securities are classified as an operating activity or instead are classified as a financing activity should be consistent with classifying receipts of cash donations. (Underlining added.)

- iv The Cyclical Volatility of Interest Rates, Keith Sill, Business Review: January-February 1996. FEDERAL RESERVE BANK OF PHILADELPHIA. TEN INDEPENDENCE MALL. PHILADELPHIA, PA 19106-1574 http://www.philadelphiafed.org/research-and-data/publications/business-review/1996/january-february/cyclical-volatility.cfm
- v Daily Treasury Yield Curve Rates: http://www.treasury.gov/resource-center/data-chart-center/interest-rates/pages/TextView.aspx?data=vieldYear&year=2009

vi FASB File Reference No. EITF-12A:

Question 1: Do you agree that the scope of this proposed Update should be limited to cash receipts of NFPs resulting from the sale of donated securities (a) that upon receipt are directed for sale and (b) for which the NFP has the ability to avoid significant investment risks and rewards through near-immediate conversion into cash? If not, should the scope be expanded by including donated assets other than securities and/or removing criterion (b)? Do you have another recommendation as to scope?

vii FASB File Reference No. EITF-12A:

Question 2: Do you agree that cash receipts of NFPs resulting from the sale of donated securities (a) that upon receipt are directed for sale and (b) for which the NFP has the ability to avoid significant investment risks and rewards through near-immediate conversion into cash should be classified as operating cash flows unless the cash receipts meeting conditions (a) and (b) must be classified as a financing activity because the donor restricted the use of the contributed resources to long-term purposes? Do you also agree that all other cash receipts of NFPs resulting from the sale of debt and equity securities not meeting those conditions would be classified as investing cash flows? If not, please explain why.

viii FASB File Reference No. EITF-12A:

Question 4: Do you agree that the proposed amendments should be applied prospectively but permit retrospective application to all prior periods presented upon the date of adoption? If not, please explain why.