

From: Daniel Figueredo [<mailto:DFigueredo@bpmcpa.com>]
Sent: Wednesday, July 11, 2012 2:27 AM
To: John Richter
Subject: RE: Request for input from FASB NFP Resource Group Members

Project: 2012-200-Disclosures about Liquidity Risk and Interest Rate Risk
Reference Number: 2012-200
2012-200-Disclosures about Liquidity Risk and Interest Rate Risk

Thanks for adding me to the distribution list. I've read over the exposure draft and listened to the podcast. My comments are as an individual and not on behalf of my firm.

In general, I think the new disclosures would be useful information for readers. The table that would be added for expected cash flow obligations seems like it would just reduce the multiple footnote tables we already have in our financial statements on lease commitments, debt obligations, etc. and have it all in one place. This seems like we would be condensing disclosures, which I'm in favor of.

The availability of liquid funds table is a little more tricky. As you've hinted to in your e-mail, this issue becomes a little more complex for nonprofits for the following reasons:

- Some donor-restricted funds may be liquid, but aren't necessarily available. There could be a number of purpose restrictions (i.e. constructing facilities, new programs, etc.) where funds won't be touched for a while and shouldn't be considered available for operations. I think we even have some guidance from the AICPA that states we should create a separate financial statement line item for cash or other assets for long-term purposes. You might even encounter some time restricted gifts that just need to wait until a future period before funds can be spent. These seem like they could probably be included in the table, but maybe under a different caption like "time-restricted cash".
- You would probably need to clarify guidance around board-designated reserve funds. I could see how funds from more general board-designated reserves, like a cash flow reserve, should be included in this table. Other reserves, like board-designated endowments or board-designated capital reserves may not be proper to include, as it might mislead the reader to thinking there are more funds available than there really are.
- Endowment funds should probably not be included in this table, except for maybe next year's endowment appropriation if a nonprofit has an established way of predicting that. Most nonprofits calculate their endowment appropriation at the beginning of the fiscal year anyway, so they would know the amount by the time they prepare financial statements.
- Some nonprofits that are struggling with liquidity have entered into agreements with donors of restricted contributions or endowments that basically allow them to borrow against the gift to support operations, with the understanding that the funds must be repaid at a later date. This might be a type of borrowing that would be appropriate to list as available in the table.
- You could also have some nonprofits that give their investable funds to a community foundation to manage and now instead of investments they have a beneficial interest in a trust. I could see how some of these beneficial trust assets could be liquid and should be disclosed in the table if

the funds are just investment reserves in a revocable trust. I don't know if the current definition would allow these funds to be included in the table, because the trust may not necessarily be readily convertible to cash. Other trusts are set up to be longer term and irrevocable, such as a community foundation holding an endowment on behalf of another nonprofit. These would make sense not to disclose in the table.

Another thing that came to my mind when thinking about liquidity and cash flows is that it would be helpful to readers to understand what funds are available to satisfy initiatives where there is restricted giving. Donors would likely be interested to understand how much of a project has been funded or might need to be covered by general operating funds. Some examples of initiatives might be:

- Construction campaigns
- Putting together an art exhibition
- Putting on a performing arts performance
- Running a dining room for the homeless

Donors are probably interested in the funding gap, because chances are that it will need to be covered by additional fundraising, borrowing or operating funds. Let's use the construction campaign as an example. Let's say that a nonprofit has a building they want to construct for \$50M and so far they've raised \$30M. It's probably important for a reader to know that there is still \$20M left to be raised and also understand the timing of when pledges will be paid. A lot of times, nonprofits need to seek additional gap financing to manage the cash flows, since pledges may not be paid for some time and they want to keep the construction moving forward. Having some sort of table that shows the available assets and related obligations, and periods in which the cash flows are anticipated might be helpful. This might be a bit of a challenge to implement, so maybe it might be something that could be covered in an MD&A section that isn't as stringent as GAAP reporting.

Please feel free to reach out if you have any questions regarding my comments.

Thanks,

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