November 29, 2012

Financial Accounting Standards Board
Technical Director, File Reference No. 2012-220
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

RE: Invitation to Comment – Disclosure Framework

Ladies and Gentlemen:

The Accounting Practices Committee of the United States Conference of Catholic Bishops (USCCB) is pleased to offer its comments on the above referenced Invitation to Comment.

Our response is on behalf of 195 (Arch)dioceses and 574 religious institutes of the USCCB, Leadership Conference of Women Religious and Conference of Major Superiors of Men. These organizations operate and sponsor thousands of religious, educational, charitable and other not-for-profit entities throughout the United States, collectively known as the Catholic Church.

The USCCB Accounting Practices Committee consists of eleven members with an (Arch)diocesan affiliation, four members representing religious orders and five advisors from certified public accounting firms.

The Committee is very much in favor of the Board’s decision to establish a framework for financial statement disclosures. However, we feel that the discussion document does not adequately address not-for-profit organizations; its focus is primarily on publicly traded for-profit entities. One of the primary factors for disclosures, as proposed in the document, is whether the information would make a difference in a reader’s assessment about future cash inflows and outflows. We agree that this should be a primary factor for publicly traded for-profit entities, as investors in publicly traded companies are primarily interested in a financial return. However, donors to not-for-profit organizations are primarily interested in supporting the organization’s mission. Admittedly no entity can survive without positive cash flows over time and, thus, information about cash flows is also important to users of not-for-profit financial statements, but in a different context from that of publicly traded for-profit entities. We believe that the users of not-for-profit financial statements are interested in cash flows to the extent they impact operational efficiencies and long-term sustainability. Therefore, we recommend modifying this factor for not-for-profit organizations to address whether the information would make a difference in assessments about future cash inflows and outflows in the context of efficiency and sustainability by
readers of the financial statements. We anticipate that this is a "higher" threshold than is currently intended by the discussion document.

We generally agree with the notions of limiting disclosures to information that is unique to the entity or industry and, also, to information that is not apparent from the financial statements or available from other public resources, such as the entity's website.

With regard to specific sections of the discussion document, our thoughts are as follows:

G-1. Frequently not-for-profit organizations receive below market pricing for goods and services because the provider is a related entity and/or interested in supporting the organization's mission. Determining the "arms length" cost of such items may be difficult and subjective. Furthermore, we believe the information would not be relevant if there is no intention to replace the current arrangement with an "arms length" arrangement. Therefore, we recommend removing item (b).

G-2. We do not believe that item (c) is consistent with the factor to limit disclosures to information that is unique to an entity or industry. Therefore, we recommend removing item (c).

G-3. In addition to donor-imposed restrictions which are reflected in the statements, not-for-profit organizations often have restrictions on assets, especially liquid assets, which are not apparent from the financial statements. These could include legal requirements, e.g., funds for perpetual care of graves at a cemetery, or contractual provisions such as a loan agreement requiring a minimum amount of otherwise unrestricted cash be maintained by the borrower. We recommend that such restrictions on liquid assets be disclosed.

G-4. We agree that it would generally be helpful to disclose information about a not-for-profit organization's operations by line-of-business and/or by geographic areas.

L-1. We think there should not be many situations in which this question would provide useful additional information to users of not-for-profit financial statements provided disclosures under other accounting standards are being met, e.g., depreciation, investment, etc. We are concerned that the concept behind this question could, if taken to an extreme, lead to numerous unnecessary new disclosures.

L-2. This question has greater relevance to publicly traded companies than to not-for-profit organizations. As such, we recommend that this be more narrowly defined for not-for-profit financial statements.

L-3, as well as subsequent line-items and operational questions: We agree that the points raised herein could lead to improved disclosures. But, again, we note the focus on publicly traded companies. Many of these items may not provide needed information to the users of not-for-profit financial statements.

With regard to disclosure flexibility, we believe that the Board should establish minimum guidelines. We do not believe that the disclosures should be completely at the discretion of the preparer; however, we would be opposed to a long list of mandatory disclosures, which would most likely result in irrelevant information for many entities. We believe something in the middle is needed.
Regarding relevance, we believe that, in those matters where it has discretion, the not-for-profit organization should make the assessment as to whether the information would influence a user's decision about providing resources to the entity—both "good news" and "bad news" disclosures.

We have four suggestions with regard to the format and organization of disclosures:

A) We prefer to exclude information that is not important, as opposed to highlighting the important information while still including the less important data.

B) We suggest discontinuing the accounting policies and estimates notes (unless they are particularly significant as compared to other years, in which case we would include the information in the note about the financial statement line-item).

C) We do not think a financial statement format based on the three cash flow categories is desirable for not-for-profit organizations; instead, we prefer a format that facilitates the display of donor restrictions.

D) In considering the merit of financial statement disclosures, the Board should give careful consideration to the cost of both preparing the disclosure and the cost of auditing it.

Thank you very much for the opportunity to respond to this proposal. If you have any questions about our comments, we would be glad to elaborate on them.

Sincerely,

William G. Weldon, CPA
On behalf of the Accounting Practices Committee of the USCCB
Chief Financial Officer
Catholic Diocese of Charlotte