July 7, 2015

Financial Accounting Standards Board
Technical Director, File Reference No. 2015-230
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

RE: Exposure Draft: Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954) – Presentation of Financial Statements of Not-for-Profit Entities

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 proposed Accounting Standards Update.

Our response is on behalf of 195 Archdioceses and Dioceses and 547 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 that are CFO’s at the dioceses, four members representing religious orders and five advisors from major certified public accounting firms.

The Committee very much appreciates the opportunity to comment on this proposal. We have used the “Questions for Respondents” contained in the exposure draft as a general guide for organizing our comments.

1) Net Asset Classification

a) The APC is in agreement with the proposed change to two classes of net assets, and also supports the proposed terminology: with donor restrictions and without donor restrictions. The APC also believes that the proposed disclosures about the nature of donor-imposed restrictions in the notes will help ensure that necessary information is not lost by combining the temporarily and permanently restricted classes of net assets into one category on the face of the financial statements.

b) The APC is in agreement with the proposed change to record the amount by which endowment funds are “underwater” within net assets with donor restrictions.
c) The APC does not agree that a disclosure of the aggregate amount by which the endowment funds are underwater and the original gift amount (or amount required to be maintained by the donor or law) would provide useful information to users of the financial statements. Rather, we recommend disclosing the aggregate amount available for distribution. This information would be much more helpful to the users in assessing liquidity than knowing the amount “underwater”.

2) Liquidity

a) The APC objects to the proposed required quantitative disclosures about liquidity as much of the information is redundant to existing disclosure requirements (debt, leases, etc.). Alternatively, we recommend requiring a classified balance sheet. We believe this would be more straight-forward to the user in understanding an organization’s liquidity. In the preparation of a classified balance sheet, all resources with limitations which restrict or limit their availability for use would be reported as non-current, i.e., investments held in endowments should be separated between the amount available for distribution (current) and the amount not currently available for distribution (non-current).

b) The APC also objects to the proposed required qualitative disclosures about liquidity. This information is very subjective. While it may be appropriate for an accompanying Management Discussion and Analysis, it is not appropriate for the notes to the financial statements, which are subject to audit.

3) Statement of Activities/Intermediate Measure of Operations

a) The APC agrees that requiring intermediate measures of operations will provide users of NFP financial statements with more relevant and comparable information for better understanding the entity’s operations. Aggregating information into two distinct measures of operations will require some system changes. At this time, we are unable to determine how involved or complex these changes will be.

b) The APC agrees that the proposed criteria for the intermediate measure (mission related and available) is appropriate and workable. The APC generally agrees that certain internal designations that make resources unavailable or available for current operations – when prescribed by Board policies – 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. However, we are concerned that this could be abused and result in the manipulation of operating income. Therefore, we believe that safeguards need to be developed in conjunction with this standard to reduce the risk of such manipulation.

c) The APC does not agree that gifts of long-lived assets without donor restrictions should be reported as operating revenue. Since such assets do not represent funds that are available, the gift should be reported as non-operating revenue. If the asset is subsequently placed in service, it would stay as non-operating (which is consistent with the Board’s recommendation). If the asset is subsequently sold, there would be a transfer to operations, unless proceeds are used to replace the asset.
d) When gifts of cash that a donor has restricted for the acquisition or construction of long-lived assets are expended and the asset placed in service, the APC does not agree that the release of the donor restriction should be reported as an increase in operating activity and then reported as a transfer from operations to non-operating activities. We believe that the amount should be recorded directly to non-operating activities without an “in” and an “out” in the operating section.

e) The APC agrees with the proposed requirement to report expirations of donor restrictions on gifts of cash or other assets to be used to acquire or construct long-lived assets, based on the place-in-service approach.

f) The APC believes that the operating and non-operating activities of an organization should be presented in a single statement of activities. We believe that allowing a statement of activities that excludes either operating or non-operating activities could be misconstrued by users.

g) The APC objects to the proposed requirement that expenses be reported by both nature and function. Many Church organizations are highly complex with many entities being consolidated in the preparation of financial statements. In these environments, the cost to prepare this information far outweighs the minimal value of this information to the users of the financial statements. Alternatively, this could be presented as a recommended practice, as opposed to a requirement.

The APC also notes that numerous NFP organizations, especially those of smaller and medium size (e.g., a free-standing secondary school or a small college) have a core function which, if discontinued, would cause the collapse of all other functions (e.g., extracurricular activities) such an organization may have. If an organization has such a single core function, we do not see the need for reporting expenses on a functional basis.

h) The APC objects to the proposed requirement to disclose descriptions of the methods used to allocate costs on a functional basis. This information would only confuse users of the financial statements who do not have all the information necessary to make meaningful assessments of such allocation methodologies. It is the auditors’ role to review the basis for such allocations to ensure they are reasonable; the users of audited financial statements rely on the auditors’ assessment of such matters.

i) The APC agrees with the proposed requirement that investment income be reported net of external and direct internal investment expenses. We also agree that the disclosure of investment expenses is unnecessary, except for the amount of internal salaries and benefits that are netted against investment return, which we believe should be disclosed in the notes.

4) Statement of Cash Flows

a) The APC objects to the proposed requirement to use the direct method of presenting operating cash flows. We believe that the accrual basis of accounting is such a fundamental concept and so widely accepted, that presenting a financial statement solely on a cash basis will confuse users of the financial statements. We believe that
the indirect method, which essentially is a reconciliation from accrual basis to cash basis, is much more widely accepted. As such, at a minimum, we recommend that organizations be allowed the flexibility to choose either the direct or indirect method.

b) Given our position that the indirect method of presenting cash flows is preferable to the direct method, the APC recommends requiring that the amount for cash flows be reconciled to the amount of change in net assets. This option provides for an “overall” reconciliation of total change in cash to total change in net assets (as opposed to an intermediate measure) and, thus, would be a more straight-forward reconciliation that would be more understandable by financial statement users.

c) The APC believes that the current categorization of activities on the statement of cash flows (operating, financing and investing) is a reasonable classification approach that is widely accepted by users of financial statements. The APC also agrees with the reclassification of:
   (1) Cash flows resulting from payments of interest on borrowings as financing cash flows (as opposed to operating cash flows);
   (2) Cash flows resulting from receipts of interest and dividends on loans and investments other than those made for programmatic purposes as investing cash flows (as opposed to operating cash flows).

However, the APC objects to the proposed requirements to classify cash gifts received, and cash payments, related to long-lived assets as operating; and, also, the requirement to classify cash proceeds from the sale of long-lived assets as operating. Classifying these activities as operating is inconsistent with our recommended treatment on the Statement of Activities.

5) Effective Date

a) The APC recommends that the effective date be established as the first fiscal year that begins two years after the final issue date of the ASU. The APC believes that the exposure draft is sufficiently complex that many NFP organizations will need this much time, and maybe more, to retrain accounting staffs and obtain new or updated computer programs.

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,

Michael T. Weis, CPA
Chief Financial Officer
Catholic Diocese of Dallas
Chair, Accounting Practices Committee of the USCCB