August 7, 2015

Ms. Susan Cosper  
Technical Director  
Financial Accounting Standard Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116


Dear Ms. Cosper:

I appreciate the opportunity to comment on File Reference No. 2015-230 Proposed Accounting Standard Update, Not-for-Profit (Topic 958) (the “Exposure Draft” or “ED”) issued by the Financial Accounting Standard Board (“FASB” or the “Board”). I am writing this comment letter as a preparer and a user and support the Board’s effort to develop a financial statements framework to improve the effectiveness and efficiency of financial statements presentation and disclosures. At the same time, I have several concerns with certain aspects of the framework as outlined in the proposed ED.

Statement of Financial Position and Liquidity:

I agree with the two classes of net assets and disclosures that can expand about the nature, amount and effects of various types of donor imposed restrictions, including information about the purposes for which resources can be used and the time frame for their use.

Question 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 alternatives would you suggest?

I agree that liquidity disclosure would be beneficial; however, because of the diversity of industries in the NFP sector, I suggest that Board not prescribe specific quantitative information for the note disclosure. I recommend having a disclosure of high level cash management practices and description of key elements of NFP’s cash management and forecasting process would provide sufficient and beneficial liquidity information to the financial statements users.

Statement of Activities, Including Financial Performance:

Question 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?

I disagree. Instead of reducing complexity, increasing comparability/consistencies and adding value, defining intermediate measures of operations in this manner and showing them before and after the
effect of internal transfers will add undue complexity, reduce comparability, increase significant inconsistencies and clutter the face of the financial statements without adding any value.

Question 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?

I disagree. I believe reflecting internal funding decisions as transfers on the face of the statement will add undue complexities and confusion. NFP financial statements already have their unique complexities of transferring funds between unrestricted and donor restricted net assets classes which is difficult for most users of NFP financial statements to understand. This will further add undue complexities and confusion along with cluttering the financial statement presentation without adding any value. This approach would result in subjective definitions being embodied in the body of core financial statements and would greatly impede the ability of financial statement users to assess performance in terms of both consistency and comparability over time and between entities.

Because internal transfers reflect intentions of the organization and not a transaction with an outside entity, I believe they could detract from comparability of statements and could be misleading, or subject to abuse.

Question 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?

Having only one option for reporting expirations of donor restrictions on gifts of cash or other assets to be used to acquire or construct long-lived assets would promote comparability. The expiration of donor restrictions on the basis of the placed-in-service approach is significantly easier to monitor and more closely aligns the release with the satisfaction of the donor’s wish for the long-lived asset to be acquired or constructed.

Question 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?

I do not agree with the proposed operating and non-operating sections on the statement of activities due to the undue complexity that the transfers between these sections will cause. Further, the
presentation suggested for gifts of, or for, long-lived assets will require significant implementation efforts for a relatively immaterial class of transactions when compared to our overall operations and mission of NFP organizations. The proposed operational metrics will not be valuable to financial statement users since the changes are not particularly meaningful.

**Question 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?

While I do understand the desire to further breakdown of the high level cost and put as much detail into the financial statements formats themselves, cost and benefit should be viewed in the context of all NFPs that will be impacted by this presentation requirement. Currently the reporting of functional expenses in financial statements differs from the reporting of functional expenses in federal Form 990. Requiring a detailed reporting of functional expenses in the financial statements can cause an apparent lack of consistency, reduce clarity, and increased burden for preparers of financial statements. In addition, lack of standard definitions for functional categories within each industry will result in a lack of consistency and comparability between organizations.

**Question 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?

Conceptually, I agree that interest expense is not an operating activity and would agree with locating interest expense in the financing section of the statement of cash flows if it were not for the new requirement of capital expenditures being classified as cash flows from operations. If capital expenditures are to be classified as operating cash flows, I believe that the debt issuance, principal payments and related interest on debt incurred for the purpose of purchasing or constructing of an asset should also be considered operating cash flows. The exposure draft requires that interest expense related to a constructed asset be capitalized along with the asset as operating, so I feel that it is inconsistent treatment to classify the remaining interest incurred over the life of the debt issuance as financing. If capital expenditures are to be classified as operating, I recommend that all directly associated transactions (debt issuance, debt principal payments, and interest expense) also be classified as operating.

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

**Question 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.

Conceptually, I agree that the direct method of presenting operating cash flows is more understandable and useful than the indirect method but I do not agree that NFPs should be the first industry to be required to convert to direct method. This change would establish a cash flow reporting requirement that is unique to NFPs. Thus, an NFP’s reporting of cash flows would differ from that of business enterprises and governmental entities. Creating differences in the format/preparation of cash flow
statements for different types of entities will not achieve the goal of increasing understandability and comparability, but will cause confusion. The readers of NFP financial statements, such as board of trustee members, potential donors, and parents will not benefit from having to understand two different types of cash flow statements. I support a common reporting framework for both for-profit and not-for-profit entities. The NFP organizations should follow, not lead the proposed new financial reporting framework.

In addition, long-lived assets are investments used over a number of years and vary significantly from one year to another. Reclassifying the purchases of property and equipment and proceeds from the sales of property and equipment from investing to operating activities will create significant fluctuation in operating cash activities, distorting the comparison overtime as well as among NFPs. Also I do not agree with reclassifying the contributions restricted to acquire long-lived assets from financing to operating because these activities relate to long term investment.

I recommend the new format disclosures should apply to NFPs, business enterprises and government entities all at the same time.

**Question 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.

I agree that the alignment of the operating activities between the statement of cash flows and the statement of activities will increase understandability. However, I do not agree that it is beneficial to classify capital expenditures as operating activities (see our response to Question 16). I also believe that the cash flow classification requirements should be considered for NFPs and for business entities concurrently. Creating differences in the format/preparation of cash flow statements for different types of entities will not achieve the goal of increasing understandability, but will cause confusion. The readers of our financial statements, such as board of trustee members, potential donors, and creditors will not benefit from having to understand two different types of statements.

In the ED, donated capital assets are transferred out of the operating section of the statement of activities. However, with the redefinition of the property, plant, and equipment acquisitions as operating activities rather than investing activities on the cash flow statement creates inconsistencies.

Conclusion – Readers have trouble understanding current NFP financial reporting model because most users do not have a background or experience with NFP entities. The proposed model will cause more confusion and clutter the face of statement of activities without adding additional benefit to the users.

Many stakeholders of not-for-profit organizations, including board members, creditors, and contributors, have for-profit backgrounds. The more that not-for-profit standards deviate from for-profit standards, the more difficult it will be for such stakeholders to understand the financial statements. Because of this, I do not support the proposed reporting of two intermediate measures of operations, changing the classification of elements contained in the statement of cash flows, and classification of interest expense outside of operations on the statement of activities.
To reduce the complexity of not-for-profit financial statements, the proposed standards decrease the net asset categories from three to two. While the proposed amendment may make the basic financial statements less complex, the notes to the financial statements would be expanded and thus more complex. Therefore, I am not convinced this change will achieve the goal. Since the current reporting model has been in use for over twenty years, users are generally familiar with the definitions and underlying external restrictions. Under the proposed amendments, users would have to find the relevant information within the notes to the financial statements—likely a more burdensome process. In addition, I have concerns that this change will make the basic financial statements less transparent.

I hope our comments are helpful to FASB in determining next steps.

Sincerely,

[Signature]

Neena Ali