August 7, 2015

Technical Director, Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

By e-mail to director@fasb.org

Re: File Reference No. 2015-230, Presentation of Financial Statements of Not-for-Profit Entities

Piercey Bowler Taylor & Kern, Certified Public Accountants and Business Advisors (PBTK), is a regional firm with offices in Las Vegas, Nevada, and Salt Lake City, Utah. We are and have been independent auditors or accountants for a substantial number of not-for-profit organizations for many years. In addition, the undersigned is former treasurer of a national health charity and author of The Volunteer Treasurer’s Handbook: Financial Management Building Blocks for Not-for-Profit Organizations, available only in electronic form from PBTK. So we have considerable interest in the subject matter of the Board’s Exposure Draft (ED) of its proposed Accounting Standards Update No. 2015-12 to ASC Topics 958 and 954 entitled Presentation of Financial Statements of Not-for-Profit Entities, and we appreciate this opportunity and are pleased to comment in response to the ED. We also appreciate that the FASB’s objective in proposing these changes at this time is to improve its current requirements applicable to net asset classification by not-for-profit entities and the information presented in their financial statements and notes about liquidity, financial performance, and cash flows.

We are concerned primarily with overburdening smaller not-for-profit organizations, which are typically understaffed and lacking in financial reporting sophistication, with complex and difficult presentation and disclosure challenges that will provide little or no benefits to their donors and other financial statement users, and especially what we see as excessive quantitative detail intended to provide information about liquidity when there are no commercial lenders among those users. The latter part of our concern also applies to many larger reporting entities as well. Accordingly, we would prefer to see simplification of the Board’s proposal. We concur in substantially all, significant respects with the views of the dissenters, Chairman Golden and Vice Chairman Kroeker, as are set forth in paras. BC105-BC112 of the ED.

Thank you for the opportunity to comment on this proposal. We also take this opportunity to compliment and thank the FASB staff for providing the specific references to paragraphs within the Basis for Conclusions (BC) section of the ED, thus making it easy for us to respond as requested to the questions on the following pages with our concerns and other comments. We hope the FASB staff and the Board will consider our views and find them useful in their deliberations on these issues. We acknowledge that the FASB will make our comments publicly available online. Any questions about our comments may be directed to the undersigned at 702-384-1120 or hlevy@pbtk.com.

Very truly yours,

PIERCY BOWLER TAYLOR & KERN,
Certified Public Accountants

Howard B. Levy, Principal and Director, Technical Services

cc: Russell G. Golden, Chairman
Responses to Specific Questions Presented by the Board

Q1: Do you agree that the disclosures about the nature of donor-imposed restrictions and their effects on liquidity in notes to financial statements would help ensure that necessary information is not lost by combining the temporarily and permanently restricted classes of net assets into one donor restricted category for purposes of presentation in the statement of financial position (balance sheet)? If not, please identify the information lost and why it is necessary. (See paragraphs BC22–BC23 and BC27–BC32.)

We agree with para. BC23, which asserts that combining the permanently restricted and temporarily restricted classes would reduce unnecessary complexity. We have found in our practice that it is often a practical difficulty to classify certain contributions and the resulting net assets as permanently or temporarily restricted.

For example, in 2006, we struggled with an apparent anomaly in the provisions of then applicable FASB Statements 116 and 117 regarding the classification of certain net assets under circumstances not likely to be unusual. Because of the apparently untenable conclusion obtained from a literal interpretation of the literature, we made use of the FASB’s technical inquiry service to obtain comfort as to our tentative conclusion. It is our opinion that the proposed reduction in reportable classifications would eliminate these difficulties and, with adequate accompanying note disclosures of relevant information, as proposed, without sacrificing transparency for the benefit of users.

We agree with the part of the proposal discussed in paras. BC27-B31 that would require disclosure of exposure to liquidity risk and how it is managed, but we believe that the ED largely overemphasizes the importance for general purpose financial reporting purposes of quantitative details intended for the benefit of lenders for assessing liquidity because, in our experience, there is very little institutional lending available to not-for-profit organizations except for asset-based lending that is generally secured adequately by real estate and quite long-term, therefore, less dependent on short- and medium-term liquidity that may be reasonably predictable. Accordingly, we believe such quantitative disclosures as are set forth as alternatives in para. BC29, including alternative (d), are less important for not-for-profit organization, in general, than for for-profit organization for which they are not required by GAAP but only for SEC issuers, outside the financial statements, in Management’s Discussion and Analysis.

We concur with the proposed disclosures discussed in para. B32 regarding so called “underwater” endowment funds. (See our response to Q3, below.)

Q2: Do you agree that the aggregated amount by which endowment funds are underwater should be classified within net assets with donor restrictions rather than net assets without donor restrictions? If not, why? (See paragraph BC24.)

We concur with the proposed classification within net assets with donor restrictions of the so called “underwater” amounts of endowment funds as discussed in para. B32 because we believe such presentation is more consistent with the apparent intent of the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

Q3: Do you agree that disclosures describing the NFP’s policy on spending from underwater endowment funds, together with the aggregated original gift amount or the amount that is required to be maintained by donor or by law, would provide creditors, donors, and other users with information useful in assessing
Responses to Specific Questions Presented by the Board (continued)

an NFP’s liquidity and potential constraints on its ability to provide services without imposing undue costs? Why or why not? (See paragraph BC32.)

Yes. We believe such disclosure would be consistent with the apparent intent of the UPMIFA and enable users to better assess compliance of the not-for-profit (NFP) organization therewith.

**Q4:** 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 alternative(s) would you suggest? (See paragraphs BC27–BC31.)

We support only the qualitative disclosures as to liquidity proposed in paras. BC27-31 but not the quantitative details proposed. See our response to **Q1.**

**Q5:** Most business-oriented health care NFPs are required to present a classified balance sheet. Continuing care retirement communities and other NFPs may choose to sequence their assets and liabilities according to their nearness to cash as an alternative to using a classified balance sheet. As a result of the proposed requirement to provide enhanced disclosures of information useful in assessing liquidity, would there no longer be a need to hold business-oriented health care NFPs to the more stringent standard for their balance sheets? If not, why?

We believe the presentation of financial statements of business-oriented health care NFPs should more closely resemble those of for-profit business entities (whether health care entities or not) than those of other NFPs because, typically, they have more clearly discernable operating cycles, and are less dependent on nonreciprocal transfers by donors and grantors and more dependent upon credit from commercial lenders, than are other NFPs. Accordingly, subject to rare exception, *i.e.*, only when their operating cycles are not clearly discernable, we believe they should continue to be required to prepare classified balance sheets without regard to any additional liquidity-related disclosures imposed upon them by any new standard.

The foregoing notwithstanding, we are in favor of allowing all NFPs the option at the discretion of management, as for-profit entities have, of reporting operations on a two-step basis (*i.e.*, as split between operating and nonoperating). Accordingly, as originally set forth in paras. 67 and 112 of FASB Statement 117 (and quoted in para. BC41 of the ED), we agree that a new standard should provide “ample latitude to sequence items of revenues and expenses in ways that permit organizations to report subtotals similar to other respondents’ descriptions of ‘operating income’ or ‘current operating income.’ Thus, ... [it] should not inhibit an evolution toward reporting such so-called operating measure if all or certain kinds of not-for-profit organizations or industries find that measure desirable for their specific circumstances.”

We do not believe, however, that the notion of *other comprehensive income* (OCI) should be introduced into the not-for-profit model as it affords users no practical benefit and especially in view of the fact that on July 29, 2015, the FASB announced that, to help it write consistent accounting standards, it decided to exclude a definition of (OCI) from the revised conceptual framework now in process, and it acknowledged OCI to be one of the most controversial terms in U.S. GAAP.

**Q6:** Do you agree that requiring intermediate measures of operations would provide users of NFP financial statements with more relevant and comparable information for purposes of (a) assessing whether the activities of a period have drawn upon, or have contributed to, past or future periods and (b)
Responses to Specific Questions Presented by the Board (continued)

Understanding the relationship of resources used in operations of a period to resource inflows available to fund those operations? Do you also agree that classifying and aggregating information in that way would not require major system changes? If not, why? (See paragraphs BC38–BC47.)

Despite the caption, “Defining Intermediate Measures of Operations,” that precedes paras. BC48-BC50, we find the usage of the term intermediate measures of operations throughout the ED to be neither clearly defined or adequately explained in the ED, nor widely understood, and the term is confusing, at best. What we are able to discern from the language in the ED, however, tells us that unless it means merely distinguishing between operating and nonoperating revenues, expenses, gains, and losses that are without donor restrictions (as implied in para. BC 48), any mandated reporting with regard thereto may likely place excessive burdens on not-for-profits, which are typically understaffed and unsophisticated as to financial reporting matters except for the largest entities, to alter their accounting systems to enable them to provide such required information. In addition, depending on what might ultimately be mandated, we are doubtful whether any significant class of financial statement users would understand or know what to do with, or obtain any benefit from, such information. See our response to Q7.

Q7: 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? (See paragraphs BC48–BC74.)

We believe the distinction between operating and nonoperating, if opted by management for reporting operations, should more closely resemble that which is commonly used in for-profit reporting, i.e., that revenues, expenses, gains, and losses that are related to the organization’s typical operational activities (i.e., what it does) should be classified as operating while those related to investing and financing activities should be nonoperating. In our view, this classification should be without regard to the distinguishing factors listed as a–c. in para. BC49 and without regard to the presence or absence of donor restrictions, as implied by para. BC48. We believe that any information to be required as to resources available for current-period operating activities before and after the effects of internal governing board appropriations, designations, and similar actions, if significant and not easily presented in the balance sheet, should be solely matters for note disclosures.

Q8: 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? (See paragraphs BC46–BC47 and BC67–BC74.)

We have always discouraged from adopting the commonly used but not required presentation that is illustrated in FASB Statement117 (now ASC 958-205-55-13 and -14), which shows transfers from temporarily restricted to unrestricted categories as part of revenues, gains and other support. This has been because we believe the result of this practice is that total revenues, etc. are misleading because they are understated in the restricted and overstated in the unrestricted category. Accordingly, we concur with the ED that proposes that these and other internal transfers be excluded from (and shown below) both
Responses to Specific Questions Presented by the Board (continued)

totals, i.e., revenues, gains and other support, and costs, expenses and losses. If there is to be an intermediate measure of operations, whether optional or mandatory, we concur that such transfers should be required to be presented after such totals.

**Q9:** 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? (See paragraph BC66.)

We are in favor of eliminating the option and mandating the “placed-in-service” approach except when the expressed (or clearly evident and implied) intent of the donor is that the asset be held and used for its entire useful life or a specified portion thereof. We believe this approach is more consistent with economic reality when the continuing or continued use of the asset is subject to management’s discretion.

**Q10:** 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? (See paragraphs BC72–BC74.)

We believe gifts of, or for, property, plant, and equipment (long-lived assets) should be included in operating revenues when it is the intent of the donor that the gifted asset (or the proceeds from the sale thereof) be available for use in the organization’s operations. On the other hand, we believe they should be classified as nonoperating in a two-step presentation when it is the intent of the donor that the asset (or the proceeds from the sale thereof) are to be used for investment purposes.

We do not see the fact that the gifted long-lived asset is not immediately fully available to be utilized in the current period as particularly useful for financial classification purposes so long as its usage in operations at management’s discretion is not restricted. We believe requiring any accounting recognition to that fact to be unduly complex and without any discernable potential user benefit.

**Q11:** Do you agree that the addition of required intermediate measures of operations for all NFPs would make unnecessary the need for NFP business-oriented health care entities to also present their currently required performance indicator? Why or why not? (See paragraph BC99.)

As stated in our response to **Q5**, we believe certain characteristics of business-oriented health care NFPs warrant that the presentation of their financial statements more closely resemble those of for-profit business entities, whether health care entities or not, than those of other NFPs. Accordingly, we are not in favor of requiring intermediate measures of operations; on the contrary, we believe that such measures should remain optional.

**Q12:** Do you think the flexibility currently allowed by GAAP to present a statement of activities as either a single statement or two articulating statements and to use either a single-column or a multicolumn format should be retained or narrowed? If narrowed, why and in what ways?

We believe the multi-column option is most readable, understandable and, therefore, most useful, and available
Responses to Specific Questions Presented by the Board (continued)

alternatives should be eliminated in the interests of consistent reporting by similar entities thus making the financial statements of NFPs (other than business-oriented health care NFPs) more comparable as well.

Q13: 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? (See paragraphs BC87–BC93.)

We believe that reporting operating expenses by functional category should continue to be required and that reporting by natural category should be optional for all NFPs based on management’s assessment of the needs of users. Because for-profit business entities are not required to present expense details of expenses by natural category, we see no reason why certain NFPs should continue to be compelled to do so. Accordingly, we believe that the statement of functional expenses in which natural categories are now reported by only certain NFPs should no longer be a basic financial statement but rather, presentation in the form of a supplementary schedule should be optional at management’s discretion based on its assessment of the needs of its financial statement users.

Q14: Do you agree that requiring investment income to be reported net of external and direct internal investment expenses will increase comparability and avoid imposing undue costs to obtain information about all investment fees (for example, embedded fees of hedge funds, mutual funds, and funds of funds)? If not, why? (See paragraph BC100.)

We are in favor of the proposed simplification of reporting described in para. BC100 and concur with the Board’s belief that “the costs to obtain that information would exceed the benefit that it might provide to users of financial statements, in part because most users find the net investment return to be most relevant, comparable, and useful.”

Q15: Do you agree that the disclosure of the amount of all investment expenses is unnecessary but that disclosure of internal salaries and benefits that are netted against investment return is of sufficient relevance, not too costly to obtain, and thus should be required? Why or why not? (See paragraph BC101.)

Although we believe that donors, creditors, and other users of an NFP’s financial statements generally like to receive information about how an NFP utilizes its resources, including information about its expenses, we do not understand how they might find such information “to be particularly useful.” Consistent with our response to Q13, we see no reason why certain NFPs should be required to present expense details any more than for-profit business entities are. Accordingly, we believe that such details should be presented only option ally at management’s discretion based on its assessment of the needs of users.

Q16: 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? (See paragraphs BC59–BC60.)

Yes. See our response to Q7.

Q17: Do you agree with the following implementation guidance:

a. Equity transfers between NFPs that are under common control and are eliminated in a parent entity’s
Responses to Specific Questions Presented by the Board (continued)

Consolidated financial statements and equity transactions between financially interrelated entities should be presented within operating activities unless they are not available for current-period use in carrying out the purpose for the reporting entity’s existence? If not, why? (See paragraph BC62(a).)

We believe equity transfers and other equity transactions are financial, and thus, consistent with our response to Q7, should be classified as nonoperating in a two-step operating statement.

b. Immediate writeoffs of goodwill generally should be presented within operating activities? If not, why? (See paragraph BC62(b).)

Again, consistent with our response to Q7, we believe that goodwill writeoffs typically should be classified as operating in a two-step operating statement but that there could be certain exceptions based on facts and circumstances.

c. Immediate writeoffs of acquisitions of noncapitalized items for a permanent collection should be presented within the operating activity section if acquired with net assets without donor restrictions? If not, why? (See paragraph BC62(c).)

Once again, consistent with our response to Q7, we do not see the presence or absence of a donor restrict to be relevant to the classification of expenses as operation or nonoperating. AS for goodwill writeoffs, we see the classification of an immediate writeoff of acquired but noncapitalized items in a two-step operating statement to be a facts-and-circumstances determination. Some guidance from the FASB would be useful.

Q18: 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. (See paragraphs BC75–BC80.)

We agree that the direct method of presenting the reconciliation operating cash flows is more understandable than the indirect method, but we do not agree that either method is useful. We point out that FASB Statement 95 (issued in 1988) expressed the Board’s preference for the direct method, but that in the 27 years, almost no one has adopted it, and there has been no apparent groundswell of user demand to do so. We believe this is because of user apathy to the relevance or importance of the operating cash flows reconciliation no matter which method is used. It is our view that either method of presenting reconciliation of operating cash flows (but especially the almost universally used indirect method) serves no greater purpose than to demonstrate that the preparers of the statements can add and subtract. Mostly, in our view, it clutters up the face of the statement. Accordingly, if the FASB sees user value in the information contained in such reconciliations, and chooses not to eliminate its requirement (our first choice) altogether, we believe it should move it to the status of required supplemental information (RSI) or optionally include it in the notes.

We acknowledge that the GASB has required use of the direct method in the financial statements of state and local governments since 1989. However, unless the reconciliation, if presented, were to be moved to RSI or the notes for the benefit of governmental grantor users that would like to see it, we see no reason to single out the NFP community among nongovernmental preparers to require its use by nongovernmental reporting entities when there is no discernible movement under way to require others to do so.

Q19: Does the indirect method’s reconciliation of cash flows from operations to the total change in net
Responses to Specific Questions Presented by the Board (continued)

assets provide any particular type of necessary information that would be lost if, as proposed, that method is no longer required? If so, please identify the potentially omitted information and explain why it is useful and whether it should be provided through disclosure rather than requiring use of the indirect method. If you suggest that requiring the indirect method is necessary, would you require that the amount for cash flows from operations be reconciled to the amount of the (a) change in net assets, (b) change in net assets without donor restrictions, or (c) proposed intermediate measure of operations before or after transfers? Why? (See paragraphs BC75–BC80.)

We disagree with the assertion in paras. BC75 and BC79 that “that information about an NFP’s financial performance can be improved significantly by using the direct method of reporting cash flows from operating activities [emphasis added]” and the underlying implication in para. BC76 that the information that would be presented in a reconciliation of operating cash flows using the direct method would be “useful in assessing financial performance” or “particularly important and sometimes crucial in assessing cash flow trends that affect an NFP’s liquidity.” Although admittedly more easily understood than the indirect method, we nevertheless view the reconciliation by either method as trivial detail. Accordingly, we believe that the value ascribed to the direct method, in terms of user utility is significantly overstated in the ED.

We hold these views because, as reflected in our response to Q18, we see no value to presenting a reconciliation of operating cash flows by either method, and therefore, see no loss of necessary or useful information by eliminating the option of presenting the indirect method, but we believe NFPs should not be singled out for this change. Accordingly, we concur with the views of the dissenting Board Chairman and Vice Chairman, as discussed in paras. BC107-BC111 and summarized in para. BC80, and we “prefer that the Board consider whether to require the direct method of reporting cash flows as part of a more comprehensive consideration of financial reporting that includes both NFPs and business entities.”

Q20: 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. (See paragraphs BC81–BC86.)

We refer you to our response to Q7 and suggest that sufficient alignment would result from following our recommended approach. The Board might consider requiring disclosure of significant differences, not just for NFPs, but for all financial statements on nongovernmental entities.

Q21: Are there any particular proposed amendments in this Update that would require a longer period to implement than other amendments? If so, please explain.

We prefer to address this question (and Q22) after the Board revisits the proposal and re-exposes a revised version based on adequate consideration of our comments and those of other respondents.

Q22: Are there reasons for any particular size or type of NFP to need a longer time frame to implement the proposed amendments in this Update? If so, please explain.

See our response to Q21.