August 13, 2015

Technical Director
File Reference No. 2015-230
FASB
401 Merritt 7, PO Box 5116
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director@fasb.org

Re: Comment Letter on FASB Exposure Draft on Not-For-Profit Entities

Dear Director and Board:

On behalf of the Toledo Museum of Art, please accept the comments below for consideration in FASB’s proposed draft financial statement for not-for-profit entities. Thank you for the opportunity to comment, and we appreciate the hard work and thought process that went into your effort to improve the comprehensibility of the not-for-profit financial statements.

Although we understand the intent of the Board, in general we concur with the alternative views expressed by Messrs. Golden and Kroeker. We believe that the users of the financial statements would be better served if the effort in developing guidance for both not-for-profits and for-profits were coordinated to avoid unnecessary differences in reporting. Most of our board members and major donors work with for-profit entities within our community and to continue to create accounting and reporting differences will add to confusion rather than reduce it.

**Question 1:** 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.)

Yes, we agree that this change would not result in lost information.

**Question 2:** 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.)

Yes, we agree.

**Question 3:** 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 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 agree.

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

We respectfully disagree due to the subjectivity allowed in the guidance. By allowing the entity to select the time horizon in determining liquidity, the financial statement information would not be comparative from year to year or from entity to entity. Paragraph BC29 indicates that the Board considered the option to require a classified balance sheet as well as presenting assets whose use is limited. We believe that these options combined would provide a definitive and objective guide to presenting the assets as well as give the financial statement user the amount of detail necessary to determine liquidity.

**Question 5:** 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?

See our response to question 4.

**Question 6:** 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) 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.)

We agree that intermediate measures of operations could provide users of the financial statements with more relevant information, but we also believe classifications could be manipulated to suit desired results. We correspondingly agree with Messrs. Golden and Kroeker that the Board should address operating performance measures for both the not-for-profits and for-profit sectors in a coordinated effort to ensure that accounting and reporting differences are eliminated rather than created. Furthermore, we agree with several of the other commenters that the system requirements for this change could be significant and that software providers for not-for-profits are not always quick to respond to change.

**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? (See paragraphs BC48–BC74.)

See our response to question 6. Should the Board decide to proceed with the intermediate measures, we would also like to comment that we do not believe operations should only be defined based on a NFP’s purpose for existence. We also think that the nature of the transaction should be considered. There are many transactions that relate to an entity’s purpose that should not be included in operations and vice versa.

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

See our response to question 6. We also feel that the proposed presentation of transfers is confusing and would not be useful to financial statement users.

**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? (See paragraph BC66.)

We do not agree that the elimination of the placed-in-service approach would improve comparability. There are valid reasons to use either of the 2 currently approved methods, and both methods should remain as options.

**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? (See paragraphs BC72–BC74.)

We do not agree that gifts of, or for, property, plant and equipment should be considered operating revenue when received. This will result in skewed financial results, especially during capital campaigns.

**Question 11:** 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.)

See our response to question 6.

**Question 12:** 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 multicolon format should be retained or narrowed? If narrowed, why and in what ways?

We believe that the flexibility should be retained.

**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? (See paragraphs BC87–BC93.)

We agree that this would be useful information for the user, and because it is already required by the Form 990, we do not believe this would be an added burden to reporting.

**Question 14:** 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 agree that investment income should be reported net of expenses.

**Question 15:** 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.)

We do not agree that disclosing internal salaries and benefits are relevant to the financial statement user, and we are concerned that depending on the size of a NFP’s financial department this disclosure could result in the identification of the salaries of specific employees that are not otherwise required to be reported on the Form 990.

**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? (See paragraphs BC59–BC60.)

See our response to question 6.

**Question 17:** 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 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).)

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

c. Immediate write-offs 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).)

See our response to question 6. Specifically regarding the write-offs of the acquisition of items for a permanent collection, we do not agree that these should be included within operating activity. While it is obvious that acquiring a major piece of art by an art museum would be directly related to the purpose of the museum, the nature of the transaction necessitates that the write-off be considered non-operating. Acquisitions of art are opportunistic in nature and can range widely from year to year. If included in operations, the results would be skewed and comparability would be difficult. Furthermore, art museums are held to strict standards regarding how art accessioning and deaccessioning is handled. This is an industry specific issue and should be determined by the industry.

**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. (See paragraphs BC75–BC80.)

While we agree that the direct method of cash flows can be more understandable, we disagree that the expected benefits would justify the costs of implementation. We agree with Messrs. Golden and Kroeker that the statement of cash flows is currently aligned for NFP’s and for-profits. The changes proposed would result in further confusion. Until the for-profit sector is required to use the direct method, NFP’s should be allowed to select which method they would like to use.
**Question 19:** Does the indirect method's reconciliation of cash flows from operations to the total change in net 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.)

See our response to question 18.

**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. (See paragraphs BC81–BC86.)

See our response to question 18.

**Question 21:** 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 are not able to answer at this time. It depends on whether the changes could be accomplished with mapping or if it would require updated software.

**Question 22:** 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.

Change is difficult for all NFPs regardless of size or type due to limited funds and resources.

Thank you again for the opportunity to comment on the proposed guidance, and we look forward to seeing the final guidance. If you have any questions on our responses, please do not hesitate to contact us.

Sincerely,

Mary Siefke, CPA
Chief Financial Officer
Toledo Museum of Art