August 14, 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 (the “Exposure Draft”)

Dear Ladies and Gentlemen:

The team here at Northeastern University is pleased to have this opportunity to share our comments and suggestions on the Exposure Draft. In developing these comments we have collaborated with many other colleges and universities as well as with representatives of several major certified public accounting firms. We have responded to each of the 22 "Questions for Respondents" on pages 7 through 11 of the Exposure Draft. We have included those responses in Appendix II to this letter. Appendix I to this letter provides a summary of our comments and suggestions and is organized as follows:

1. Proposals we support because we see them as real improvements over current practice.
2. Proposals about which we have comments and suggestions
3. Proposals which for reasons stated we believe should be postponed at this time.

Our comments are driven from the perspective of users and preparers of the financial statements of not-for-profit organization. As a higher education institution our user groups include parents, students, federal, state and other grant and research funding organizations, individual and corporate donors, lenders, bondholders and a variety of education and credit rating agencies. Most users of not-for-profit financial information have a much better understanding of for-profit financial statements where concepts of net income and changes in equity are presented in a more straightforward manner than not-for-profits have historically presented them. Overall the most important message to convey is what is our financial position and how did it change in the current accounting period. We see accomplishing this in as straightforward and simple manner should be the goal of the changes proposed in the Exposure Draft.

The major drivers of the changes in the net assets for a college or university are those that result from:

- Operating Results – the excess (shortfall) of all operating revenues over all operating expenses
- Philanthropy/Fundraising
- Investment Performance
The statement of activities should present these three drivers as clearly and succinctly as possible so the user can understand how each impacted the financial strength (net assets) of the organization. This is the goal we kept in mind as we commented on each of the proposals in the Exposure Draft.

We appreciate the opportunity to submit our comments on the Exposure Draft and would be happy to respond to any questions you may have.

Sincerely yours,

[Signature]

Attachments as stated
Appendix I

Northeastern University
Summary of Comments and Suggestions

1. Proposals We Support
   a. Balance Sheet
      i. Reducing the number of net asset classifications to two
      ii. Disclosures about liquidity – we believe using a classified balance sheet would provide the most meaningful information
      iii. Separately identifying and presenting assets whose life or use is limited (e.g. investments of bond sinking funds)
      iv. The proposed balance sheet treatment of “underwater endowments”
   b. Statement of Activities
      i. Use of “mission related and availability of resources” as the criteria for classifying an activity within operations. In higher education we would expect most activities to be mission related and therefore included in operations with the notable exceptions being long-term investment of endowment and similar assets and the acquisition and construction of fixed assets.
      ii. Use of a uniform measure of operations (except we believe there should be only one measure - see further comments below)
      iii. Reporting expenses using both the functional and natural categories in fact we would support presenting it in a separate statement or footnote as a matrix
      iv. Reporting investment return net of all investment expenses.
   c. Statement of Cash Flows
      i. We support the use of the direct method and, in fact, we have presented our financial statements using the direct method for several years.
      ii. If a single operating measure is ultimately required we could support using the indirect method as is done by all public companies starting with net income. Our preference, however, remains to use the direct method.

2. Proposals with our comments and suggestions
   a. Statement of Activities
      i. We disagree with the concept of having two operating measures. For public companies there is but one “net income” and GAAP and the SEC are quite clear on what should be included in it. We understand the arguments for having a before and after transfers total but quite simply that is more confusing than having a single operating measure that includes all operating revenue and all operating expense and does not include any capital items. If the nature of the transfers is adequately described then the reader can determine what impact they wish to ascribe to any particular transfer.
      ii. Interest is a significant operating expense for higher education and should be included in determining our operating measure. Bifurcating the statement of activities into mission based operating expenses and financing expenses is an interesting academic exercise that provides no practical value to the user of the financial statements. You still know how much interest expense is whether or not it is segregated. The far more useful amount is the operating measure that includes all operating expenses.
iii. With respect to internal investment expenses (primarily salaries and benefits of selected employees) we do not think they need to be separately disclosed as this is not really meaningful information and there would be little comparability from one institution to the next.

iv. Including capital contributions or gifts to acquire capital assets as operating revenues is also confusing and counterintuitive. They are not operating revenues and should not be presented as such.

v. We agree with the abolition of amortizing gifts for capital assets over the depreciable life of the related capital asset. We also feel that the release of the restriction on capital gifts could be accounted for as the funds are expended for the related capital asset rather than waiting until the asset is actually placed in service.

vi. We understand the distinction between the endowment spending formula amount which is derived from quasi endowments versus that which is derived from true endowment. We also agree that disclosure of the two components of the endowment payout amount in the footnotes would be useful. We do think that bifurcating the amounts in the Statement of Activities is confusing even to a sophisticated reader. The information about the endowment payout as a single amount on the face of the Statement of Activities is much more informative. The reader can determine what the total return from investment performance (net of fees) is and you can see how much is used for operations. Hence the difference is a real increase in net assets for the period.

b. Cash Flow Statement

i. Capital expenditures heretofore have been required to be shown as an investing activity. They are an important investing activity. They have been treated as an investing activity in all financial statements since the issuance of SFAS #95. While they certainly are mission related they are clearly not an operating activity. They are capital transactions and have been and will be perceived as such by all users of financial statements.

ii. Interest expense should be included as an operating expense in the statement of activities and likewise it should be deducted in the cash flow statement in determining cash flow from operations. As stated above, in higher education interest expense is a large operating expense. Excluding it from operating expenses will result in the overstatement of both the operating measure and cash flow from operations.

3. **Proposals should be postponed at this time**

a. In the Statement of Activities the proposal clearly is characterizing gifts (capital contributions) to be used for the construction and/or acquisition of fixed assets as an operating revenue. This is not done anywhere else in GAAP.

b. In the Statement of Activities the proposal clearly is characterizing interest expense as a financing expense. This is not done in the income statement of any other entity.

c. In the Cash Flow Statement capital expenditures are clearly characterized as operating expenses. This is not done anywhere else in GAAP.

d. In the Cash Flow Statement interest expense is not deducted in arriving at cash flow from operations. This is not done anywhere else in GAAP.

e. In essence new GAAP financial reporting is being established in this Exposure Draft for not-for-profit organizations while from an economic perspective the for-profit world which dwarfs the not-for-profit world is setting a new precedent for financial reporting. Said more succinctly we think "the cart is being put before the horse" and believe it is inappropriate to be setting new GAAP financial reporting in this manner. We would strongly urge the FASB staff to
consider delaying these provisions until these matters can be discussed and resolved in a much broader forum.
Appendix II

Northeastern University
Responses to the Questions for Respondents

Statement of Financial Position and Liquidity

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.)

Agree. However the disclosure should not be any more detailed than the information already effectively required under FAS #117

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.)

Definitely 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.)

Agree. The degree to which we choose to spend them because permitted by law would impact a F/S users’ assessment of the “intended liquidity”.

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.)

Generally agree. However a much better solution would be to require a classified balance sheet would a more effective way to accomplish this. Certainly those assets that were not available because of any restrictions and therefore do not meet the definition of a “current asset” would classified as non-current assets.

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?

We believe that requiring a classified balance sheet is the best way to deal with these issues.

Statement of Activities, Including Financial Performance

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?

Agree – requiring a uniform intermediate measure of operations is long overdue there has been too much
manipulation in the past.

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.)

Agree – don’t think for our institution that this would require any system 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.)

Partially agree – the intermediate measure of operations should include all resources/revenue generated from operations and available for current period activities, resources routinely made available (i.e. formulative endowment spending amounts) for operations. Resources available for capital expenditures SHOULD NOT BE INCLUDED in operating revenue/resources.

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?

Disagree – there should be only ONE measure of operations and it should include all components. Clearly identifying those components that are transfers should be sufficient for the reader of the financial statements to determine what impact a transfer has on the measure of operations.

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 BC48–BC74 and BC67–BC74.)

Agree should be all transfers to be used for operations – it makes it clear right on the face of the statement what the impact of the transfers is.

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?

Agree. Yes we never thought amortizing the gift over the life of the asset made sense to begin with.

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.)

Partially agree. How the long lived asset is amortized should not be the basis of recognizing the receipt of the gift. They are two independent accounting attributes. However some assets can take years to construct so we believe that the donor restrictions are satisfied as the donor’s funds are expended to construct an asset not when the asset is placed in service.

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)?

Strongly DISAGREE - A gift for capital purposes should not be included in operating revenue.

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.)
Strongly DISAGREE. The gift for long-lived assets should never run through operations – not into and not out of operations. These relate to capital transactions which do not belong in operations.

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.)

Agree. A uniform required intermediate measure of operations is similar to “net income” for a for-profit entity. Neither GAAP nor the SEC has different “net income” definitions for various kinds of entities, neither should there be for different types of NFP entities.

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 multicolumn format should be retained or narrowed? If narrowed, why and in what ways?

We believe a single statement should be required however there should be flexibility to use a single or multicolumn format.

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.)

Agree that providing both types of information is useful. We do not believe that the current practice of providing either is flawed but providing both would make F/S more consistent and comparable.

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.)

Agree. The current practice is very inconsistent, frequently incomplete and in most cases does not provide meaningful comparable information.

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.)

It is almost impossible to capture and report all investment expenses. So much of it can be embedded in investee reports (e.g. hedge funds & mutual fund reports). Just disclosing internal salaries and benefits at best would provide incomplete and information that would not really be comparable among NFPs and therefore should not be required. Reporting investment income net of all investment expenses (internal & external) is the most relevant information.

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.)

DISAGREE. Interest and similar expenses are very much a cost of carrying out the NFP’s mission. I is absolutely an operating cost that should be deducted in determining the intermediate operating measure. To exclude it from operations would result in the overstatement of the operating measure.

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 BC82(a).)
DISAGREE. Ideally “equity transfers” should be distinguished from and not included in operating activities.

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

DISAGREE. Immediate writeoff of goodwill is really part of the related acquisition (ac Capital Transaction) which is not an operating activity and should not be included in operations.

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).)

DISAGREE these would distort operations and would prefer that they are not included. This is like an investment impairment and should be recorded in the same manner in non-operating section of the Statement of Activities.

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?

Agree. We already adopted the “direct method” in our financial statements several years ago.

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.)

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?

No, it does not provide any necessary information. Eliminating the reconciliation from total changes in net assets to cash flow from operations would eliminate the most confusing part of the current statement of cash flows for a NFP.

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.)

No, if the indirect method is retained or permitted then the reconciliation of Cash Flow from Operations should begin with “proposed intermediate measure of operations” similar to the reconciliation for business entities that begins with “Net Income”.

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 11 the two financial statements would not be sufficiently aligned, please indicate how their alignment might be further improved. (See paragraphs BC81–BC86.)

The presentation of the Cash Flow Statement for NFP should follow the basic principles used for business entities following closely the definitions of Cash Flow from Operations, Investing Cash Flows and Financing Cash Flows as originally defined in FAS #95. There should NOT be a different Cash Flow statement for NFP than Business Entities. Interest expense should be treated as an operating cash flow and contributions for long term investment should be treated a financing cash flow as they are currently.
Effective Date

**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 do not think there are.**

**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.

**We do not think there are.**