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Comments on FASB Exposure Draft

Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954)

Presentation of Financial Statements of Not-for-Profit Entities

July 1, 2015

As a preface to my comments I would like to note that I read through the entire Exposure Draft, and participated in several presentations, both live and via the web regarding this topic. I am commenting on behalf of Macalester College, a four-year liberal arts college with a sizeable endowment. We currently use a Statement of Activities with an intermediate measure of operations that we believe does an excellent job of “telling the story” for a given fiscal year. An example of said Statement of Activities is attached for your reference. An example of our Statement of Cash Flows is also attached to illustrate a point we make below regarding endowment spend.

I won't be commenting on all sections of the Exposure Draft, as we are unsure of our stance on several of the topics. I will start by noting the areas with which Macalester College agrees:

1. Natural classification of expenses – we believe that this would be useful information to include in the financial statements. As a College, our \$100m in expenses are currently categorized into a few broad categories that don't give users much information.
2. Direct method of cash flows – the Statement of Cash Flows is disregarded by most users, and we don't believe the suggested switch to the direct method will change this. However, in comparison to the indirect method, we believe the direct method would be more useful to users.
3. Underwater endowed funds – we fully support moving these to the “With Donor Restrictions” section. It has been a hassle to reclassify them for financial statement purposes.
4. Intermediate measure of operations in the Statement of Activities – we believe an intermediate measure of operations is useful and important. As noted above, we currently employ one in our Statement of Activities. However, we are not in favor of the format presented in the Exposure Draft. I elaborate on this stance in the section below.

5. Investment expenses – we agree that not-for-profits have been inconsistent in reporting investment expenses, so we are in favor of reporting investment income, net of all expenses. However, we are not in favor of the requirement to disclose internal salaries and benefits. I elaborate on this stance in the section below.

Areas with which Macalester College disagrees are as follows:

1. Intermediate measure of operations in the Statement of Activities – as noted above, we are in favor of requiring an intermediate measure of operations. However, we do not agree with the prescribed format in the Exposure Draft. There are too many not-for-profits doing too many different things for a “one size fits all” approach. We suggest some loose guidelines that allow not-for-profits to determine what to include in operating versus non-operating. We, and our users, are very happy with our current Statement of Activities format and believe the Exposure Draft’s prescribed format would significantly deplete its usefulness and readability.
2. Investment expenses – as noted above, we are in favor of netting investment income and expenses, but we don’t believe any additional disclosure should be required. Our finance staff, as well as our investment office staff, are concerned with the requirement to disclose internal salaries and benefits. We believe that this information is sensitive, especially for a small investment office, such as ours. Also, not-for-profits that completely outsource their investment management would not be required to report anything.
3. Interest expense – we are not in favor of showing interest expense as non-operating. We believe all expenses should be presented in one section, so that users can easily see a not-for-profit’s total expenses. The fact that this would make the Statement of Activities and Statement of Cash Flows inconsistent is a very small concern that we don’t believe is reason enough for this change.
4. Liquidity – we believe this topic is too subjective and that any required reporting would result in widely inconsistent approaches amongst not-for-profits. We don’t believe disclosures about liquidity are necessary. Any bank issuing debt is going to go through their own process to determine liquidity anyway, and it’s not likely any other users would find this information useful.
5. Endowment and plant gifts in operations – we currently present all endowment and plant gifts as non-operating, and we believe this makes much more sense. Even with the caveat that these gifts can be moved to the non-operating section of the Statement of Activities via the Transfers section, we still believe the intermediate measure of operations would be less useful with these gifts running through it in any way. The amounts of these gifts can vary wildly from year to year, which would make the intermediate measure of operations jump up and down, when in reality, true operations may be very steady.

We would like to comment on one final item – endowment spend. Because we have a sizeable endowment, our endowment spend funds approximately 30% of our operating budget. Therefore, it is important that the spend be clearly reflected as moving from non-operating to operating. We realize the Exposure Draft provides for this option via the Transfers section, but we feel that this makes the nature of the activity unclear. Also, in the Statement of Cash Flows, there needs to be a mechanism to move the endowment spend to the operating section. Without it, our Statement of Cash Flows shows large negative operations, when, in actuality, we traditionally produce large positive cash flow from operations. We prefer the presentation we currently use for both our Statement of Activities as well as our Statement of Cash flows, examples of which are attached for your reference.

Thank you for your consideration,

A handwritten signature in black ink, appearing to read "D. Berglund", written in a cursive style.

Dave Berglund

Director of Accounting

Macalester College

St. Paul, MN

MACALESTER COLLEGE
Statements of Activities
Years ended May 31, 2014 and 2013
(in thousands of dollars)

	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Activities:								
Revenues and other additions:								
Tuition and fees	\$ 90,305	-	-	90,305	\$ 87,520	-	-	87,520
Less: Student aid and scholarships	(44,822)	-	-	(44,822)	(44,574)	-	-	(44,574)
Net tuition and fees	45,483	-	-	45,483	42,946	-	-	42,946
Federal grants and contracts	1,672	-	-	1,672	1,756	-	-	1,756
State grants and contracts	208	-	-	208	244	-	-	244
Private gifts and grants	3,603	5,053	-	8,656	4,336	2,123	-	6,459
Sales and service of auxiliary enterprises	14,996	-	-	14,996	14,090	-	-	14,090
Other sources	1,171	46	-	1,217	1,177	54	-	1,231
Endowment payout	3,286	27,531	-	30,817	3,337	27,742	-	31,079
Realized and unrealized gains on investments	177	-	-	177	2	-	-	2
Loss on disposal of fixed assets	(246)	-	-	(246)	(102)	-	-	(102)
Net assets released from restrictions	31,419	(31,419)	-	-	30,989	(30,989)	-	-
Total operating revenues and other additions	101,769	1,211	-	102,980	98,775	(1,070)	-	97,705
Expenses:								
Program								
Instruction	38,708	-	-	38,708	36,237	-	-	36,237
Research	2,036	-	-	2,036	1,844	-	-	1,844
Public service	276	-	-	276	466	-	-	466
Academic support	10,818	-	-	10,818	10,623	-	-	10,623
Student services	20,386	-	-	20,386	20,043	-	-	20,043
Auxiliary enterprises	10,746	-	-	10,746	10,296	-	-	10,296
Institutional support	19,226	-	-	19,226	19,840	-	-	19,840
Total expenses	102,196	-	-	102,196	99,349	-	-	99,349
Change in net assets from operating activities	(427)	1,211	-	784	(574)	(1,070)	-	(1,644)
Non-operating Activities:								
Investment-related:								
Realized and unrealized gains on investments	\$ 9,350	75,271	2,109	86,730	\$ 10,670	87,132	124	97,926
Investment income	327	-	-	327	122	-	-	122
Endowment payout for operations	(3,286)	(27,531)	-	(30,817)	(3,337)	(27,742)	-	(31,079)
Change in beneficial interest in perpetual trust	-	-	2,782	2,782	-	-	3,703	3,703
Change in value of planned giving agreements	28	425	435	888	39	563	631	1,233
Gift-related:								
Private gifts and grants restricted for long-term investment	33	1,187	2,124	3,344	557	667	1,168	2,392
Private gifts and grants restricted for capital projects	446	837	-	1,283	75	2,100	-	2,175
Other:								
Change in value of interest rate swap	391	-	-	391	355	-	-	355
Net assets released from restrictions	6,200	(6,200)	-	-	17,909	(17,909)	-	-
Change in net assets from non-operating activities	13,489	43,989	7,450	64,928	26,390	44,811	5,626	76,827
Change in net assets	13,062	45,200	7,450	65,712	25,816	43,741	5,626	75,183
Net assets beginning of year	180,087	324,509	353,907	858,503	154,271	280,768	348,281	783,320
Net assets end of year	\$ 193,149	369,709	361,357	924,215	\$ 180,087	324,509	353,907	858,503

See accompanying notes to financial statements.

MACALESTER COLLEGE
 Statements of Cash Flows
 Years ended May 31, 2014 and 2013
 (in thousands of dollars)

	2014	2013
Cash flows from operating activities:		
Change in total net assets	\$ 65,712	\$ 75,183
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	8,297	7,050
Realized and unrealized gain on investments	(70,111)	(87,634)
Loss on disposal of fixed assets	246	102
Unrealized gain on interest rate swap	(391)	(355)
Private gifts and other income restricted for long term investments	(4,148)	(3,935)
Noncash contributions of marketable securities	(287)	(243)
Adjustment of actuarial liabilities for planned giving agreements	1,116	1,486
Change in value of beneficial interest in perpetual trust	(2,782)	(3,703)
Endowment payout	29,500	30,100
Change in assets and liabilities:		
Accrued investment income	(10)	519
Prepaid expenses	42	167
Notes and accounts receivable	(2,498)	(37)
Contributions receivable	762	816
Accounts payable and accrued expenses	(888)	3
Deferred revenue	(162)	90
Deposits	(68)	35
Net cash provided by operating activities	<u>24,330</u>	<u>19,644</u>
Cash flows from investing activities:		
Proceeds from sale of investments	98,811	141,969
Proceeds from sale of investments used for endowment payout	(29,500)	(30,100)
Purchase of investments	(80,026)	(120,427)
Purchase of land, building and equipment	(21,132)	(14,640)
Loss on disposal of equipment	(246)	(102)
Net cash used in investing activities	<u>(32,093)</u>	<u>(23,300)</u>
Cash flows from financing activities:		
Proceeds from issuance of bonds payable	3,995	14,730
Withdrawals from (deposits to) construction account, net	15,022	(15,022)
Bond premium from issuance of bonds payable	-	436
Principal payments on bonds payable	(8,144)	(3,702)
Payments made to beneficiaries of planned giving agreements	(831)	(779)
Change in government grant refundable	-	(17)
Noncash contributions of marketable securities	(613)	(1,142)
Private gifts, grants and other income restricted for long term investment	6,515	5,996
Net cash provided by (used in) financing activities	<u>15,944</u>	<u>500</u>
Increase (decrease) in cash and cash equivalents	8,181	(3,156)
Cash and cash equivalents at beginning of the year	27,289	30,445
Cash and cash equivalents at end of the year	<u>\$ 35,470</u>	<u>\$ 27,289</u>
Supplemental disclosure - cash paid for interest, including interest capitalized of \$246 and \$280, respectively	<u>\$ 3,425</u>	<u>\$ 3,288</u>
Noncash investing and financing activities:		
Purchases of land, building and equipment funded by accounts payable	<u>\$ 128</u>	<u>2,595</u>

See accompanying notes to financial statements.