MUSKINGUM
UNIVERSITY

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Financial Accounting Standards Board
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Proposed Accounting Standards Update, *Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954): Presentation of Financial Statements of Not-for-Profit Entities*

Muskingum University welcomes the opportunity to offer its views on the proposed Accounting Standards Update "Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954): Presentation of Financial Statements of Not-for-Profit Entities." (ASU)

The proposal addresses improvements needed in Not-for-Profit (NFP) reporting, but many of the proposals appear to move NFP reporting away from stated goals of previous standards to create more uniformity among financial reporting, as many of the provisions of this standard seem to move NFP reporting away from general reporting standards. We believe that these changes can actually mask key trends that should be noted by a user of the financial statement.

The NFP industry does have many characteristics that cause it to be different from other, profit motivated industries. We applaud the proposed ASU's efforts to clarify the reporting on these differences. However all entities have certain common functions relating to general results of activities or income, expense and changes in equity and cash flows. Too frequently NFP organizations fail because they fail to recognize that they are subject to the general economic rules that apply to all organizations, 'business' or otherwise. The proposed ASU seems to extend reporting differences to areas that are not different; and would hinder the recognition by users of basic economic principles necessary to success. Most users of financial statements, whether they are donors or lenders, understand common economic/business principles and are very familiar with reporting for profit motivated entities. Mandating different reporting in areas such as in cash flows and the mandated reporting on operations actually increases the likelihood that a user will miss a trend that they would otherwise.

There have been several references in all of the presentations on this statement, including that presented by FASB staff in an online event on May 12, that provisions of this statement relate to the needs of members of the board of directors. We do not think it is the scope of this project on an external reporting standard to include the needs of these internal users. In other reporting pronouncements related to all entities, NFP and profit motivated there is no discussion of the needs of a board director, which are generally expected to be met with other internal/ad-hoc reporting.

Comments on specific provisions of the proposed ASU:

- The clarification on net asset reporting does help with a misunderstanding about current structure, specifically the temporarily restricted net assets category. This was especially confusing related to the reporting on endowment assets.
- As discussed above, creating differing standards for NFP organizations is not necessarily warranted in all areas. Specifically:
    - Changes related to the statement of cash flows should be addressed as a general standard. Nothing in the proposed solution is particularly addressed to the NFP industry. Many organizations, including our institution, argue that the direct method of cash flows actually causes more confusion since readers do not have the ability to reconcile the statement of cash flows to the statement of activities.
    - To this end, presenting cash flows in a direct format would appear in conflict with the information presented in the statement of activities. Now an entity would be required to spend time explaining the differences, when the indirect method actually provides this reconciliation from the statement of activities.
    - Natural and functional reporting also appears to place a unique reporting burden on NFP organizations that does not exist in other industries. Functional reporting is also prevalent in other industries that report on COGS, Selling, etc. Natural reporting is not mandated for profit motivated business enterprises.
    - The suggestions on reporting of operations do appear to allow for more consistent reporting, but reporting on operations should not be mandated. This is again a requirement that applies to NFP organizations only. Such a requirement for operations is not mandated for the profit motivated industry.
    - The use of *both* mission and availability measures in the statement of activities creates a statement with lines that further confuse the user of the financial statement, making it difficult to find the 'true' measure of operations.

These differences for NFP reporting create a statement that is overly complex, resulting in a statement that is confusing to the user. NFP organizations are already subject to regulation by many different agencies of federal, state and local governments, as well as other granting agencies. In many of these cases, the NFP has a unique reporting burden outside of the GAAP based financial statements. Compliance with the requirements create a cost and complexity that would add to an already heavy regulatory burden on NFP organizations. At a time when there is greater pressure to divert more resources to program, to comply with this reporting the proposed ASU requires the allocation of more resources to administrative cost.

While there are opportunities for improvement in NFP reporting, the proposed ASU seems to expand the scope and nature of reporting beyond that in the original charge. We recommend that the proposal remove those instances referred to above that create complex financial statements that differ so much from other entities as to create confusion to the user and additional cost to the NFP organization.

Sincerely,

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