

July 30, 2015

FASB Technical Director
Financial Accounting Standards Board
401 Merritt 7
Norwalk, Connecticut 06856-5116

Re: File Reference No. 2015-230

Dear Technical Director:

I appreciate this opportunity to respond to the proposed Accounting Standards Update, *Presentation of Financial Statements of Not-for-Profit Entities* (the Draft). My comments reflect my views as a former chief financial officer for a large regional not-for-profit entity, a current member of the finance committee for a very large faith-based not-for-profit entity, and a former auditor of small and medium size not-for-profit entities.

I have ordered my response with a few general comments followed by responses to the specific questions raised in the exposure draft.

General Comments

While I applaud the Board for taking on this project, I question the level of research that was done in order to put this topic on the agenda and then to develop the proposed amendments to current practice. It is my belief that many of the proposed amendments do not represent the views of the majority of the preparers, auditors, and users of the financial statements of not-for-profit entities.

I am providing the following demographic information to assist in evaluating the need for and potential usefulness of the proposed amendments and to put my responses in context. According to the latest information from the National Center for Charitable Statistics, there are 1,527,525 not-for-profit entities in the US and 1,056,912 (69%) of those represent entities organized under Internal Revenue Code (IRC) section 501 (c)(3). Of the 1,527,525 entities, 101,892 (7%) are private foundations with the remaining 368,721 (24%) representing other not-for-profit entities mostly those organized under IRC sections 501 (c)(4), 501 (c)(6), and 501 (c)(9). The vast majority of the 101,892 private foundations (94,852 or 93%) are involved in grant making.

In 2014, the *Nonprofit Sector in Brief* reported that 35% of the not-for-profit entities registered with the Internal Revenue Service (IRS) filed either Federal Form 990, 990 EZ, or 990 PF for 2012. Of the returns filed, 66% of the entities (190,249) reported less than \$500,000 in gross receipts. From an expense perspective, almost 87% of the entities reported expenses of \$1,000,000 or less and only 5% of the entities filing a return reported expenses in excess of \$10,000,000.

This information leads me to conclude that the vast majority of not-for-profit entities in the US are not large and many are in fact small. Even though a not-for-profit entity may have few revenues or expenses, there may still be a requirement for them to prepare external financial statements using generally accepted accounting principles (GAAP). For example, a number of not-for-profit entities receive federal or state grant funding which often requires the submission of audited annual financial statements. Likewise, foundations and community fund raising organizations often require financial statements to be prepared using GAAP and/or to be audited. Therefore, the proposed amendments will likely have a major effect on a large number of not-for-profit entities of all sizes most of which I expect to be small and medium size entities.

In my experience, many small and medium size not-for-profit entities (which is the majority of not-for-profit entities in the US based on the above noted statistics) invest the majority of their human, capital, and financial resources in mission driven program activities. This leaves few resources available for support functions. As such, the accounting and finance staff in these entities may have limited knowledge of accounting and financial

reporting requirements relating to not-for-profit entities. To compensate for this lack of internal expertise, entities often engage their external auditor to assist them in preparing their external financial statements. Few board members in these organizations use the external financial statements for internal decision making because there are often differences in the internal financial information and that prepared in accordance with GAAP. In addition, when auditors assist in preparing the external GAAP financial statements, the statements are often not available until six to nine months after the end of the not-for-profit entity's year end. Therefore, this stakeholder group may not be concerned with the proposed amendments because they rarely use the external GAAP based financial statements for decision making.

Based on my experience, the largest stakeholder group using the external GAAP based financial statements of not-for-profit entities is likely current or potential donors and grantors. Creditors, in my experience and based on the demographic information above, are likely the next largest stakeholder group but there are vastly fewer in this stakeholder group than in the donor and grantor stakeholder group. I have developed my comments to the proposed amendments with these stakeholders in mind.

Statement of Financial Position and Liquidity

Question 1: Not-for-profit entities should be allowed to disclose the nature of donor-imposed restrictions on either the face of the statement of net assets or in the notes. It is my opinion that necessary information might be lost by combining temporary and permanently restricted net classes of net assets into one donor restricted category.

I am also concerned with reporting information relating to permanently restricted net assets in the notes as I believe it could be misleading for those using financial statements of not-for-profit entities with material endowments. In my experience, not all users of financial statements read the notes even though they are an integral part of the financial statements. The Basis for Conclusions notes the adoption of some form of the Uniform Prudent Management of Institutional Funds Act by almost all states makes the concept of permanently restricted net assets virtually obsolete. However, I do not agree with that conclusion nor do any of the donors with whom I have discussed this issue.

One of the most misleading things about the current reporting of classes of net assets on the statement of financial position is the treatment of capital assets. These assets are likely unrestricted in most not-for-profit entities and may represent a large part of the reported unrestricted net assets. Therefore, I would ask that the Board consider requiring the presentation of capital assets net of accumulated depreciation/amortization and net of any related outstanding debt. Such presentation could be a separate classification within net assets or as a sub component of net assets without donor restrictions. This approach is used by state and local governments and provides very useful information about their net position and indirectly about their liquidity.

As for the proposed nomenclature, I believe the words "with donor restrictions" and "without donor restrictions" better describe the classes of net assets than that currently used.

Question 2: It is my opinion that the amount by which donor-restricted endowment funds are underwater should be classified within "net assets with donor restrictions" classification. However, I believe the amount by which board designated endowment funds are underwater should be classified within "net assets without donor restrictions".

Question 3: The proposed disclosures relating to policies on spending from underwater endowment funds will provide useful information to users of a not-for-profit entity's financial statements. However, I would suggest the Board re-visit some of the currently required disclosures in this area to avoid duplicative and unnecessary information in the notes.

Question 4: Generally, I believe information relating to liquidity would be useful to users of not-for-profit entity financial statements but I do not believe the proposed amendments are necessary or appropriate and would be costly to implement and to report each year. Currently, public business entities provide liquidity information in their Management's Discussion and Analysis and other information filed with the Securities and Exchange Commission. GAAP does not currently require nonpublic business entities to provide the level of information that is proposed for not-for-profit entities. Therefore, I believe it is inappropriate to single out not-for-profit entities and require them to provide such information.

Such information may also create confusion among financial statement users as not-for-profit entities will likely establish various intervals for the proposed time horizon. For example, a child care entity that is grant driven may use a time horizon of 90 days because grantors provide reimbursement 60 days after the entity files its monthly reimbursement report with them. Another child care entity that charges a reasonable fee for its services may use a time horizon of 30 days because it receives payments for its services weekly and in advance.

As an alternative to the proposed amendments, I would request the Board consider requiring all not-for-profit entities to present a classified statement of net assets. I understand that some not-for-profit entities with diverse investment portfolios may argue that they cannot effectively parse their portfolio between current and noncurrent investments. However, based on the demographics provided, it appears most not-for-profit entities do not have significant investments and reporting them as current or noncurrent will not likely cause additional costs to be incurred. I believe reporting information in this manner will provide useful liquidity information without creating diversity in practice and confusion for users of these financial statements. In addition, the concept of current and noncurrent is one that is understood by the majority of financial statement users.

Question 5: The health care not-for-profit entities should continue to be required to present a classified balance sheet. Because I do not agree with the proposed liquidity disclosures (see comments for Question 4), the current requirement for health care entities will allow users of not-for-profit health care entities to continue to compare the financial position and results of operations of these entities with those of for-profit health care entities.

Statement of Activities, Including Financial Performance

Question 6: I am strongly opposed to requiring not-for-profit entities to present an intermediate measure of operations as well as an intermediate measure of operations that is the same for all not-for-profit entities. Not-for-profit entities are diverse in nature and users of not-for-profit entity financial statements vary greatly. The current option under GAAP permits a not-for-profit entity to present such a measure and to determine what that measure represents should be retained. In addition, the changes that would likely be required to an entity's financial management system may be costly to implement and to manage in future years.

As noted above, I believe donors and grantors are the primary users of not-for-profit financial statements. Therefore, a not-for-profit entity should have the discretion to present the results of its operations in a manner that best suits the needs of their primary stakeholders. A standardized operating measure would not, in my opinion, provide useful information for the majority of stakeholders that use not-for-profit financial statements for resource allocation decisions.

Question 7: As stated above in my response to Question 6, I do not believe an intermediate measure of operations should be required nor should the components of any such required measure be standardized.

Question 8: I strongly believe the proposed amendments relating to a section in the statement of activities reporting internal transfers, designations, and appropriations would be confusing for most users of not-for-

profit financial statements. In addition, the initial and on-going costs to comply with such proposals do not justify the benefit to what I believe would be a very small group of financial statement users (see previously discussed demographic information).

Question 9: I support the use of the placed-in-service approach and the elimination of the option that currently allows a not-for-profit entity to adopt a policy that implies time restrictions on gifts of cash/other assets used to acquire or construct long-lived assets. However, I would ask that the Board provide transition guidance for those not-for-profit entities that do not currently use the placed-in-service approach due to the existence of an adopted policy relating to implied time restrictions. As stated in my response to Question 8, I do not support the proposed amendment relating to the segregation of internal transfers and other such transactions.

Question 10: As stated above, I do not support the proposed amendments relating to a standardized intermediate measure of operations and a separate section for internal transfers in the statement of activities. However, if the proposed amendments are indeed adopted, gifts of, or for, capital assets should not be considered operating revenue.

Question 11: Again, I do not support the required and standardized intermediate measure of operations that is proposed. The Board's conclusion that health care entities could present an additional statement of operations using the currently required measure of operations is ludicrous. This would necessitate additional effort and result in additional costs that would not likely provide useful information to those that use the financial statements of not-for-profit health care entities. If the proposed amendments are indeed adopted, I believe health care entities should be exempt from such a requirement. In addition, health care entities should continue to be required to present operations using the currently required measure.

The current operating measure required of health care entities is an accepted measure of operations by long-time users of the financial statements of not-for-profit health care entities. In addition, the currently required measure is comparable to that presented by for profit health care entities.

Question 12: Current reporting options ("columns" or "pancakes") for the statement of activities should be retained. As stated previously, not-for-profit entities and the users of their financial statements vary greatly. The current flexibility allows not-for-profit entities to provide useful information to the users of their financial statements.

Question 13: Reporting expenses by function and by nature provides useful and relevant information. Because such information is required for federal tax purposes, I do not not believe any additional costs would be incurred to present information in this manner.

However, I am confused as to why the Board did not propose to require all not-for-profit entities to present this information in a required statement as is currently required of voluntary health and welfare organizations. I believe it would be confusing for financial statement users to have to look in different locations for this information. In addition, I believe some not-for-profit entities (for example those with high amounts of support expenses, especially fund raising expenses) might mislead financial statement users by putting this expense information in the notes. As I stated earlier, I am not sure that all financial statement users read the notes that accompany the financial statements.

Question 14: Requiring that investment income be reported net of external and internal investment expenses will increase comparability and will not likely result in undue additional costs. I am concerned, however, that not-for-profit entities with internal staff that manage multiple portfolios (that is funds with and without various types of donor restrictions) might incur significant additional implementation and ongoing costs to report this information.

Question 15: I do not agree that it is unnecessary to disclose internal salaries and benefits netted against investment returns. This information would be useful if disclosed in the notes.

Question 16: In my experience, not-for-profit entities borrow to finance operations whether that be in the form of a mortgage on a building or a line of credit. Therefore, I believe such interest costs are operating activities. In addition, for profit entities consider such costs to be operating activities and I believe users of financial statements consider interest cost to be part of operations whether they be incurred by a for profit or not-for-profit entity.

Question 17a: As stated previously, I do not agree with the proposed intermediate standardized measure of operations or the proposed section for internal transfers. However, if that proposed guidance is adopted, I do not agree with the proposed amendment that would require the specified equity transfers to be presented as operating activities. I believe the current presentation requirements relating to equity transfers provide for consistent reporting by all not-for-profit entities. This consistent presentation, therefore, minimizes the potential for confusion among financial statement users.

Question 17b and 17c: Again, I do not agree with the proposed intermediate standardized measure of operations or the proposed section for internal transfers. However, if that proposed guidance is adopted, immediate writeoffs of goodwill and noncapitalized items for a permanent collection should generally be presented as operating activities.

Statement of Cash Flows, Including Financial Performance

Question 18: Statements of cash flows presented using the direct method are easier to understand and, therefore, likely to provide more useful information than those presented using the indirect method. In addition, I believe the one-time and ongoing costs to implement the direct method of reporting cash flows justify the increased usefulness and understandability of the statement of cash flows.

However, I do not believe it is appropriate to require not-for-profit entities to present the statement of cash flows using the direct method when public and nonpublic business entities are allowed to present the statement using either the direct or indirect method. Therefore, I believe not-for-profit entities should continue to be allowed to choose the method used to present their statement of cash flows.

Question 19: Reconciling cash flows from operations to the total change in net assets does not provide any information that would be lost under the proposed amendments. However, as noted above, I do not believe not-for-profit entities should be singled out as the only entities required to present the statement of cash flows using the direct method.

Question 20: I strongly oppose defining operating activities differently for the statement of cash flows than for the statement of activities. It is my very strong opinion that such different definitions will cause confusion among users of not-for-profit entity financial statements. In addition, the additional costs to gather this data using the two definitions in the proposed amendments do not justify whatever benefits the Board may perceive accrue due to such differing definitions.

Effective Date

Question 21: I believe the proposed amendments relating to (1) liquidity disclosures (particularly those related to the entity's time horizon) and (2) presenting the statement of cash flows using the direct method will require a longer period to implement than other proposed amendments. Not-for-profit entities with which I am personally involved or familiar with do not currently capture such information with their existing financial management systems. In some cases, popular off-the-shelf financial management systems used by many not-for-profit entities are not capable of capturing such information. If adopted as proposed,

these amendments may require not-for-profit entities to purchase new financial management systems, make significant modifications to existing systems, or gather the proposed data manually.

Question 22: Smaller not-for-profit entities are highly likely to require a significantly longer time frame to implement the proposed amendments. These entities typically do not have staff with the accounting and financial reporting experience necessary to prepare financial statements under the existing financial reporting framework. As such, they often use their auditor to assist them in preparing their external financial statements. In all likelihood, the proposed amendments would require these entities to work long and close with their auditors to develop systems to gather the information necessary under the proposed amendments and then to prepare the financial statements.

To summarize my primary position on the proposed amendments, the majority of the not-for-profit entities in the US represent a diverse group of small to medium size entities with various beneficiaries and stakeholders. The largest stakeholder group is likely the current and potential donor and grantor. Therefore, many of the proposed amendments will not provide these users any more useful information than that required in the current financial reporting model. In addition, because I believe not-for-profit entities are as diverse in their operations as they are in their missions, I am adamantly opposed to any proposed guidance that would (1) eliminate currently available financial reporting options and (2) require standardized reporting of operating and nonoperating information. I also believe the cost of many of the proposed amendments will not justify the perceived benefits to users of not-for-profit entity financial statements.

Again, I appreciate the opportunity to provide my comments on the above noted Draft. Should you have any questions, please feel free to contact me at lkmdennis@gmail.com or lynda.dennis@ucf.edu.

Sincerely,

s/ Lynda M. Dennis

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