



August 10, 2015

Technical Director
File Reference No. 2015-230
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Proposed Accounting Standards Update – Presentation of Financial Statements of Not-for-Profit Entities

Thank you for the opportunity to comment on the exposure draft of the proposed accounting standards update for not-for-profit entities.

I represent Christian Investors Financial (CIF), a 501(c)(3) not-for-profit corporation affiliated with the Evangelical Free Church of America (EFCA). CIF's primary purpose is to provide real estate loans to EFCA and like-minded churches throughout the United States. CIF raises funds for the loans by offering interest-bearing notes. Unlike a typical NFP, we are not dependent on contributed resources. Rather, our operations are largely supported by our net interest income, which is the difference between the interest we earn on our loans and investments and the interest we pay to investors in our notes. In some ways we look and function like a credit union or cooperative, but technically are neither.

CIF is one of around 50 or so NFPs known as "Church Extension Funds". A Church Extension Fund is defined in the "North American Securities Administrators Association's Statement of Policy Regarding Church Extension Fund Securities" (NASAA SOP), which can be found at http://www.nasaa.org/wp-content/uploads/2011/07/39-Church_Extension_Fund_Securities.pdf. As required under the NASAA SOP, a Church Extension Fund must be organized and accounted for under U.S. GAAP as a not-for-profit organization.

I will limit my comments to those areas of the proposal that I believe will have the most impact on CIF and similar organizations. The most significant of these is the proposed treatment of interest income and interest expense on the statement of activities, and interest receipts and interest payments on the statement of cash flows. While I think we can make the argument that all of our interest income and expense meets the "Mission" and "Availability" tests for including as an operating item, there seems to be ambiguity in the proposed standard, and it would be helpful if that were addressed.

The "Summary and Questions for Respondents" section of the Exposure Draft contains the following under "What are the Main Provisions":

5. *Classify certain cash flows differently than how they are classified under current guidance, as follows:*

- a. *Classify as operating cash flows (rather than as investing cash flows)—those cash flows resulting from (1) purchases of long-lived assets, (2) contributions restricted to acquire long-lived assets, and (3) sales of long-lived assets.*
- b. *Classify as financing cash flows (rather than as operating cash flows)—those cash flows resulting from payments of interest on borrowings, including cash management activities.*
- c. *Classify as investing cash flows (rather than as operating cash flows)—those cash flows resulting from receipts of interest and dividends on loans and investments other than those made for programmatic purposes.*

We find items b. and c. in this section particularly problematic for organizations like ours, where interest receipts and interest payments are at the center of our operations. We note that in regards to classifying interest receipts as investing cash flows, there is an exception for interest resulting from programmatic purposes. Presumably, this would allow us to continue classifying interest received from our loan portfolio as operating cash flows and perhaps even interest received on our investment portfolio. However, we find no such exception for the classification of interest payments. In our organization, interest payments are directly related to our programmatic purposes, but a strict interpretation might require us to classify those payments as a financing cash flow rather than an operating cash flow. This would result in net cash provided by operating activities being overstated and not indicative of true operating cash flow.

Another similar problematic area of the proposed accounting standards has to do with the operating and non-operating classification on the statement of activities and discussed in Subtopic 958-205. I agree with the goal of presenting a consistent operating measure and including both operating and non-operating sections in the statement of activities. However, interest income and interest expense are clearly operating items for our organization given the nature of our activities. It is unclear to me whether interest income and expense could qualify as operating items under the proposed standards. While the proposed standards seem to recognize that operating income and expense classifications will vary depending on the nature of the organization, section 958-205-45-6 cites interest expense as an example of a non-operating expense. This is emphasized further the Background Information, Basis for Conclusions, and Alternative Views sections BC59-BC60. Further, the Board's Question for Respondents No. 16 states: "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?" As it pertains to our form of organization, we emphatically answer "No". The offering of debt securities to investors, and the payment of interest thereon, is part and parcel of our operations. Applying the standard strictly as proposed would be analogous to a bank or credit union classifying interest expense as a non-operating expense, which would of course not provide an accurate presentation of net operating income. The proposed standards, as I interpret them, would upset the "net interest income" model we use and significantly degrade the quality of our financial statements.

To rectify the above issues, we request that the Board consider either clarifying that "programmatic purpose" can apply to interest expense (payments) as well as interest income (receipts), or better yet, carving out an exception for NFPs whose primary activities involve receipt and payment of interest.

Another area of concern is around identifying a self-defined time-horizon used for managing liquidity and disclosure of liabilities due within that time frame. As an NFP that in many ways resembles a financial institution, managing liquidity is one of our top concerns and involves assessing many time frames and what-if scenarios. To disclose one specific time period would be overly simplistic, unrealistic, and potentially misleading to readers of our financial statements. In addition, the deposit-type liabilities on our balance sheet differ from most other types of liabilities. For example, demand deposits have no statement maturity or due date and have ongoing inflows and outflows. Time Deposits have a stated maturity date, but are usually subject to reinvestment at the discretion of the accountholder. So, for an organization like ours, the total liabilities due in a given time frame are not a good indication of cash that will actually be needed during that time frame.

We believe the current standards provide adequate information regarding liquidity, and applying the new proposed standards would not be helpful, at least in the context of our form of organization.

Thanks again for the opportunity to comment on the proposed standards and for your consideration of these comments.

Sincerely,

A handwritten signature in black ink that reads "Barry Case". The signature is written in a cursive, flowing style.

Barry Case, CPA - Vice President & CFO
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