Submitted 8/13/15

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

Question Text	Response	Status
* Please select the type of entity or individual responding to this feedback form.	Preparer	Completed
Other, please specify (Specified)		
* Please provide contact information for any follow-up questions.	(Filled in as Follows:)	Completed
Organization *	Baltimore Children's Museum, Inc	
First name *	Frederick (Rick)	
Middle initial	C	
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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	yes	Completed

paragraphs BC22–BC23 and BC27–BC32.)		
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.)	yes	Completed
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.)	yes	Completed
4. Do you agree that providing information in notes		Completed

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.)		
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	Even if there is additional information in the notes, I believe a classified balance sheet is still helpful.	Completed

balance sheets? If not, why?		
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? 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.)	Yes to all. Organizations sometimes have large year-to-year variances in revenue based only on revenue restricted for capital expenditures while operating revenue is consistent. This is a constant source of confusion for users. The new proposal isn't perfect but will help to alleviate that.	Completed
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	Well I can live with it. But there are some organizations that heavily depend on investment income to support their operations. That income is not mission related, but it is part of their "business model" of how they fund their mission related operations. Instead of user fees or contributions, they fund part of their operations through investments. I'm not sure why that should be segregated when for those organizations it is an integral part of how they fund the mission.	Completed

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.)		
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? 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		Completed

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 BC46–BC47 and BC67–BC74.)		
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? 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.)	yes	Completed

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)? 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.)	I don't think those items should ever be in operating revenue in the first place because they are not intended to fund current operations. However I can live with your proposal to put them in and then back them out.	Completed
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.)		Completed

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?	I find the two statement method confusing and I suspect other users would as well, so I would probably be in favor of eliminating that. However I acknowledge that there might be some cases I'm not considering where two makes more sense	Completed
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.)	No. I am adamantly opposed to requiring reporting of expenses by both natural and functional classification in a matrix format. The primary reason is that based on my experience both in public accounting and at my current employer (a non-profit), a lot of estimates often go into the functional allocation, and users just don't understand that. The use of estimates is of course a bigger issue than just non-profit functional expenses. I know a banker who refers to accounting as "the real world of make-believe" because there are many estimates involved in calculating numbers that people believe are exact. The reality is that most users of financial statements don't understand the extent to which estimates are sometimes used, and despite whatever we might try to explain in the footnotes, many people just look at the numbers and assume they are exact. By providing a matrix with more details, it implies to the users that there is more precision than what there really is. Providing more estimated numbers is not useful. While I am of course aware that we already have to do something similar in the Form 990, I would stop that if I could also. In addition, the type of organization can significantly affect the percentage of expenses between functions, which therefore affects the comparability between organizations. Most users don't understand that either. Finally, I am concerned that with more details required in the audited statements, it may require additional procedures to refine estimates, which diverts staff from their primary roles and may impose a financial burden. The sample footnote provided says that certain expenses were "allocated on the basis of time and effort studies." That's just totally unrealistic to expect organizations to do that.	Completed

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.)	yes	Completed
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.)	Yes, except that I can't comment on how costly it is to obtain	Completed
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	No, in most cases. If an organization borrows, for example, through a line of credit then I believe the interest expense is necessary to carry out the mission and therefore should be classified as operating. If the organization conducted a capital campaign to raise funds for working capital so it didn't need a line of credit, those expenses would be classified as operating. Those are the financing costs. So if an organization chooses to borrow instead, those financing costs should be treated the same way.	Completed

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.)		
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 BC62(a).) b. Immediate writeoffs of goodwill generally should be presented within		Completed

operating activities? If not, why? (See paragraph BC62(b).) 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).)		
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? If not, please explain why and suggest an alternative that might increase the benefits or reduce any operational	As you know the direct method for the Statement of Cash Flows is not widely used. In fact, in my years in public accounting as well as subsequent employment, I don't believe I ever saw anyone use it. While I agree that it theoretically provides useful information, I have two objections. First, you propose to require something of non-profits that you don't require of for-profit enterprises. There are enough necessary differences between for-profit and non-profit statements. Don't add another difference that isn't necessary. Second, the direct method is more difficult, may require upgrades to systems which may have a cost, and therefore places an additional, and I believe unnecessary, burden on non-profit organizations. If you really want the direct method to be used then require everyone to do it. Don't single out non-profits.	Completed

concerns or costs. (See paragraphs BC75–BC80.)		
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? 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. I never understood also requiring the indirect method reconciliation if you use the direct method anyway.	Completed

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 the two financial statements would not be sufficiently aligned, please indicate how their alignment might be further improved. (See paragraphs BC81–BC86.)	There is really no good answer to this because if you are going to require these changes to the statement of activities, then the non-profit statement of cash flows is going to be inconsistent with either the statement of activities or with for-profit cash flows. Both are problematic.	Completed
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.		Completed
22. Are there reasons for any		Completed

particular size or type of NFP to need a longer time frame to implement the proposed amendments in this Update? If so, please explain.		
Please provide any additional comments on the proposed Update:	I think that the proposal for two net asset classes, with and without donor restrictions, if fine, and probably better than what we use currently. But a related issue that has always been troubling is the "net assets released from restrictions" line item in the Statement of Activities. Many users don't understand what that means. Most people understand it when it is explained, but it is not easy to understand on its own for someone who does not have an accounting background. I think the problem is the terminology, not the concept. People without an accounting background can usually understand what assets and liabilities are, but net asset is purely a non-profit accounting term. I would suggest that the term "net assets released form restrictions" be replaced with more common and understandable language, such as "contributions (or investment income, etc.) released from restrictions" or "contributions transferred from restricted net assets." This would significantly enhance the ability of non-financial users to understand the statements.	Completed
Please provide any comments on the electronic feedback process:	easy to use (but very small font at least on my screen)	Completed
Below is a summary of your responses to the questions in this feedback form:	Not Answered	Not Answered
Thank you for your participation. If you are finished providing comments, click the 'Submit' button.	Not Answered	Not Answered