FOUNDED BY BRIGHAM AND WOMEN'S HOSPITAL
AND MASSACHUSETTS GENERAL HOSPITAL

August 14, 2015

Technical Director,
Financial Accounting Standards Board,
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

File Reference No. 2015-230

To whom it may concern:

Partners HealthCare System, Inc. (We, Partners, or the System) appreciates the opportunity to comment 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 (ED)*. We support the Financial Accounting Standards Board's (FASB) continuing effort to improve the usefulness of the information provided by financial statements for stakeholders.

Background

Before addressing the specific questions outlined in the ED, we believe it is important for the FASB to understand our perspective when considering the potential impact of the fundamental changes proposed to the financial reporting model. Partners is a conduit bond obligor which operates academic medical centers and community acute care facilities, physician organizations and practices, inpatient and outpatient non-acute and mental health facilities, graduate level programs for health professions and a licensed managed care organization. In addition, Partners is a nonuniversity-based nonprofit private medical research enterprise and is a principal teaching affiliate of the medical and dental schools of Harvard University.

Presently, Partners elects an intermediate measure of operations, "income from operations" within our statement of operations based on management's judgment of those activities that are major, ongoing and central to our core mission. In addition, nonoperaring gains (expenses) generally consist of programs funded through philanthropy, gifts, investment return and changes in fair value of derivative instruments.

Audience

While not all inclusive, the following list highlights the diverse nature of the users of our financial statements: donors, regulators, investors and creditors (e.g., bond holders, banks, vendors, etc. – collectively referred to as investors), rating agencies and board members. Like many not-for-profit (NFP) health systems within the US, we routinely access the capital markets. Investors and rating agencies are accustomed to receiving financial reporting consistent with for-profit (FP) financial reporting. To illustrate some of our concerns with the ED and the impact on our financial reporting, we have focused our response through the lens of our investor and rating agency community.

Response

Overall, Partners supports the FASB's efforts to improve, simplify and make financial statements more useful to the user community. There are certain aspects of the ED that we believe would accomplish the goal of more useful information. However, we have numerous concerns with certain aspects of the ED as proposed. From our perspective, the foundation of the ED -- that it is more important for all NFPs to apply a consistent financial reporting model -- is in our opinion flawed for the reasons outlined within this letter. Respecting the FASB's point of view, we believe that given the wide scope of activities NFPs engage in,

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requiring a rigid and rules based reporting model would cause confusion for business type NFPs, especially those active in the capital markets. Borrowers will likely incur incremental costs to renegotiate definitions of key metrics for covenant compliance. In addition, given the increasingly complex nature of large NFP health care systems which often have FP subsidiaries, joint ventures or other business arrangements, eliminating comparability to FP peers could lead to confusion for the users of financial statements.

Comparability
For Partners, a key measure of financial performance is our intermediate measure, income from operations. Although health care organizations may differ on specific components, income from operations is a commonly used metric to compare performance across both FP and NFP health care organizations. Whereas many NFPs may be primarily supported by contributions, Partners is a business oriented NFP reliant on fee for service revenue. Given our size and complexity, we more closely resemble a public registrant. As we compete with our FP and NFP peers for investor dollars, we believe it is critical that comparability between FP and large NFPs be maintained. Conduit bond obligors, who tend to attract financially savvy investors and are subject to routine regulatory reporting requirements and rating agency reviews, should apply a financial reporting model that is consistent with FP organizations. Until all organizations are required to adopt a more stringent reporting model, we recommend the current comparability between FP and NFP organizations be maintained. Partners is concerned that should NFPs adopt the proposed reporting model but the FASB does not undertake a similar initiative to completely revamp the reporting model for FP organizations, then the lack of comparability would be permanent.

Balance Sheet
Partners supports some of the proposed changes related to presentation and disclosures of donor restricted net assets. In particular, combining temporarily and permanently restricted net assets into a single reporting category would be beneficial to the users of the financial statements and eliminate confusion. Given the changes with UPMIFA and donor's intentions for gifts to be used to support the organization, the distinction between temporary and permanent restriction is blurred. The overall focus should be on the entire portfolio of donor restricted funds. For example, we have permanently restricted endowed funds given years ago which have grown substantially due to investment performance. From a detailed record keeping stance, we track the original corpus and accumulated gains separately to facilitate financial reporting. If the financial reporting requirements were to change, we could simplify our internal reporting without losing our ability to report to donors. Discussions with donors would also be simplified as there would no longer be a need to articulate the accounting distinction between temporary and permanent, which if you are not an accountant, can be a challenging concept especially if a fund is underwater. In addition, we agree with the proposal to classify underwater endowments within "net assets with donor restrictions." This correlates to our interpretation of UPMIFA and better reflects the substance of how funds are administered. Care should be given to how extensively current footnote disclosure is expanded and should be considered in the overall context of footnote disclosures. Removing information from the face of the financial statements and then requiring enhanced footnote disclosure would not necessarily simplify financial reporting for preparers and could offset the benefits discussed above. Any new disclosure would likely require the design of new internal controls and a redesign of systems to capture the new information. Further, external auditors would be required to perform audit procedures in order to opine on the financial statements, including the footnotes as whole.

In our opinion, the proposed expansion of liquidity disclosures beyond those required of FP organizations would not provide additional value to disclosures already required in financial statements. As discussed above, we believe comparability to FP organizations is of greater importance to the users of our financial statements rather than comparability to contribution dependent NFPs. We believe the classified balance sheet provides important information to investors about our liquidity and ability to repay our obligations. Expansion of footnote disclosures is not as easy as adding another table. Internally, our regularly prepared liquidity analysis is subjective, requires significant management judgment and is dependent on a deep and thorough understanding of the liquidity risk of our underlying investment portfolio, current

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operations and future plans. Further, we do not believe liquidity is a static metric; we assess various liquidity risks on our operations throughout the year. To spread the workload throughout the year, this analysis is not always done at the end of our fiscal year. To include such information in audited financial statements, we would have to change the timing of our work, further increasing the workload on our staff during the year-end audit period. In addition, we believe there would be a significant increase in audit procedures and costs, as our assumptions would be challenged and debated, without commensurate benefit to the user community at large. We believe our investors currently have sufficient insight into our liquidity through our financial statements, continuing disclosure requirements, quarterly press releases and annual credit review with rating agencies which assess our credit risk.

Statement of Operations
Related to the proposed changes within the statement of operations, there are three primary concerns: 1) the proposed accounting for internal transfers; 2) equity transfers as operating revenue; and 3) including gifts as operating income.

The proposed accounting for internal transfers is an area of significant concern as the application of the proposed accounting would be complex, subjective and susceptible to manipulation (unintentional or intentional). Requiring additional information on Board/management decisions on the face of the statement of operations would add no value and in fact, would add confusion to the financial statements. Many factors go into the decision as to whether amounts are classified as ILATU (investments limited as to use, our functional equivalent of Board designated and externally limited funds) such as timing of planned capital improvements or amount of funds available to support future research. We believe the current balance sheet presentation of ILATU is a better presentation of our internal designations rather than distorting the statement of operations.

Generally, investors pierce through the balance sheet classification and view ILATU along with other investments as funds available to repay debt or earmarked for planned expenditures, to the extent the funds are not legally restricted. To efficiently maximize investment performance, the underlying investments are allocated among multiple investment pools based on timing of future cash needs. The Board and senior management use the approach of allocating investments that are anticipated to be spent on approved capital needs to ILATU as a means of instilling financial discipline within the organization and informing users of our financial statements the future uses of our resources. Given the capital intensive nature of health care, organizations go through periods of significant capital construction which is funded through a combination of borrowings and philanthropy. In any given year, there is likely to be a timing mismatch between the receipt of bond proceeds and/or donor funds and the expenditures to which they are applied. We believe it would be distortive to the financial picture of our organization if we had to “gross up” the statement of operations for such transactions. Instead, we believe today’s current reporting model provides sufficient information to the users of our financial statements. Internal management decisions to classify amounts on the balance sheet in a certain way should not impact the statement of operations.

The proposed change to report internal equity transfers between entities under common control as operating revenue would produce misleading results and be ripe for manipulation. For example, if one affiliate is struggling financially and receives support from other affiliates in furtherance of the organization’s overall mission, the affiliate receiving the transfers would appear to be more financially viable that it truly is and may convey a false sense that the entity could continue as a going concern. In the health care sector, systems are faced with challenging decisions to close hospitals that are not financially viable. Masking operating losses to the detriment of another affiliate’s operating gain, would be confusing and misleading to users of the financial statements. Depending on the governance structure of the system, this could force some institutions to stop making transfers.

Over the years, Partners has eliminated the issuance of standalone subsidiary financial statements to the extent possible. We do however, issue consolidating schedules with our annual financial statements which would be significantly more complex to prepare if equity transfers had to be reporting within

operations. Additionally, various regulatory requirements require standalone financial information of hospitals substantially in compliance with GAAP. This financial information could indicate a financially distressed hospital's operations appear better than they are without the benefit of the rest of the financial information included in audited financial statements. This could very easily lead to false conclusions on the viability of struggling institutions. We support the current financial reporting of equity transfers being accounting for as net asset transfers which self eliminate and do not mask the true operating performance of organizations.

The incredible generosity of our donors is critical to the success of Partners and our institutions. However, the vast majority of our revenue is generated from providing services. Recognizing gifts as operating income would be distortive to our performance metrics, unnecessarily increase volatility in operating results and introduce risk of misrepresentation of management performance. As a business type NFP and similar to other large NFP organizations, gifts are not a significant source of current period funding but rather are used to grow the endowment which in turn generates investment return. Endowment distributions are generally used to fund current period expenditures.

Given the above, we are skeptical of the benefits of the proposed dual intermediate measures of operations within the statement of operations. This approach is more restrictive than the current reporting model for NFPs, more restrictive than the financial reporting model FP organizations apply and would not realistically reflect the results of operations of fee for service organizations. Given the limited and very specific items that are presented below excess of revenue over expenses, we believe if there is truly a need to have a consistent performance indicator, adopting the health care model would be more appropriate and continue to allow comparability to FP peers. Requiring excess of revenues of expenses while continuing to permit management to elect to present an intermediate measure would be more beneficial and easily understood by the user community. The stated proposed benefit of increasing comparability of statements of activities of other not-for-profit entities is of minimal benefit to our current stakeholders. Further, the proposed intermediate measures of operations for NFPs would in fact reduce financial performance comparability to FP and governmental health care providers. Finally, should the intermediate measure "...after transfers" establish itself as the new performance measure, it would be ripe for management manipulation, and we echo the thoughts of Messrs. Golden and Kroeker illustrated in paragraph BC 112.

Statement of Cash Flows

Partners does not support the proposed requirement to use the direct method for preparing the statement of cash flows. Rather, we support the current guidance which allows management to choose between the direct or indirect method. We anticipate additional cost and complexity to prepare the direct method, but do not see an offsetting benefit to users of our financial statements. Furthermore, our current systems are not designed to capture the information necessary to produce a direct method cash flow. For organizations which have many subsidiaries with disparate systems, collecting information for each subsidiary and then combining into a consolidated cash flow would likely be a manual and time consuming process. Paragraph BC78 of the ED highlights some of the concerns of focusing on standardizing financial reporting for NFPs rather than allowing for comparability to FPs. Contrary to Board's point of view, Partners, and other large health care systems, are expanding internationally and thus are being exposed to the complexities of foreign exchange translations. International growth is expected to continue into the foreseeable future. Second, health care systems are actively engaged in mergers and acquisitions as the industry is undergoing rapid consolidation and new business models are constantly evolving. Merger and acquisition activity is causing health care systems to deal with system integrations, which can be challenging for NFPs due to historical governance structures. Lastly, while NFPs may not have as short of a deadline as accelerated filers, conduit bond obligors have filing deadlines. Partners typically issues the annual financial statements within 90 days of the fiscal year-end. Simply because some NFPs may have more time is not a good reason to increase complexity or cost. Partners' financial reporting is more akin to public registrants with hard closes each month and quarterly public press releases. In addition, we must comply with local regulatory filing requirements which have deadlines of 45 days on the quarter and 100 days at year-end.

The ED indicates the belief there would be limited added costs; we respectfully disagree. Besides the incremental use of internal resources to compile, the upfront transition would require redesigning not only our general ledger system(s) but would also impact other downstream systems such as budget and forecasting systems, cost management systems, revenue systems and internal and external reporting metrics. Once implemented, we expect auditors to request to perform additional work to validate the appropriateness of the statement of cash flows consistent with the current procedures of cash flows from investing and financing activities. Our experience is the auditors want detailed files which support each item in the cash flows and then would subject the information to detailed testing. With the indirect method, many of the line items can be recalculated based on the face of the balance sheet, agreed to the statement of operations or footnote disclosures. In these instances, these procedures are already performed during the course of the audit. Lastly, the proposed changes to classification within the statement of cash flows, for example, purchases of property and equipment from investing to operating, could impact capital intensive industries such as health care more than others and would again impact comparability to FP health care systems. Given the current rules based approach to preparing the cash flow, one option would be to allow for more management judgment on how amounts are classified which align to how management views its statement of operations.

We recommend the FASB refrain from making any significant changes to the statement of cash flows until such time as any proposed changes would be applied to all organizations.

Conclusion
Once again, Partners would like to reiterate our support of the FASB's goal to improve financial reporting. Much like the issues facing public registrants and smaller private companies, applying a standard approach to any large and varied group poses challenges. In Partners' opinion, the ED's stance that all NFPs should report in a consistent and rigid manner is ill suited to the realities of the diverse nature of NFPs. The proposed changes may work for smaller NFPs that predominately rely on contributions but in our opinion would be impractical and potentially distortive of results for NFPs which are business like. NFP health care organizations compete against a wide variety of organizations (large, multinational registrants, other NFPs, governmental organizations, private equity backed organizations) in order to stay viable and continue to support their mission. Because of the dichotomy that exists among NFPs, we urge the FASB to reconsider the more sweeping changes contained in the ED. Partners believe it is important to maintain comparability to FP competitors. Unless and until comparable changes are made to the FP industry, we believe moving forward with reengineering the statement of operations and statement of cash flows would be a disservice to the user committee, in particular, our investors. The proposed change to eliminate the distinction between temporary and permanently restrictions is a good step which will improve reporting.

In this time of immense cost pressure on the US health care system, we ask the FASB to reassess the costs and benefits of some of the proposed changes. The bigger, more complex and more acquisitive the NFP, the more costs that will be incurred if all the fundamental changes to the financial reporting model are adopted. As discussed above, many of the proposed reporting changes to the face of the financial statements will require use of scarce resources beyond just remapping a general ledger system. Many other downstream systems, models and reporting tools will be impacted. Moving information from the face of the statements to the notes does not necessarily mean it is easier to report and there is no cost involved. Preparers will have to redesign internal controls for the additional information and auditors will request to perform more audit work, which will increase fees. Auditors opine on the complete set of statements which include the footnotes. With the ever increasing push to improve audit quality, preparers are continually being asked to provide more and more information at a more granular level of detail. In addition, many conduit bond obligors will be forced to renegotiate bond covenants due to the significance of the proposed changes. Partners acknowledges that some changes are warranted and there will always be costs associated with those changes. Changes that tend to be less costly to implement are those that are more of a remapping issue (e.g., eliminating the distinction between temporary and permanently restricted net assets).

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Partners thanks the FASB for allowing us to provide commentary on the proposed standard and for considering our concerns about the impact the ED would have on our organization and others like us.

The section that follows contains specific responses to some of the FASB's questions contained in the ED. Partners limited our responses to those questions we believe are most impactful and require additional consideration.

* * * * * * *

If you have any questions in relation to the letter please do not hesitate to contact Brian Huggins (617-724-9834).

Very truly yours,

/s/ Brian J. Huggins

Brian J. Huggins
Corporate Controller
Partners HealthCare System, Inc.

Our responses to selected Questions for Respondents:

Statement of Financial Position and Liquidity

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 paragraphs BC22–BC23 and BC27–BC32.)

   We agree that eliminating the distinction between temporarily and permanently restricted net asset classes would simplify financial reporting. Aggregated disclosure about the nature of restrictions along with the organization's application of UPMIFA and spending policy would provide sufficient information to users of the financial statements.

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, we agree as this is more consistent with our application of UPMIFA.

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.)

   We agree disclosure of our application of UPMIFA and our spending policies are important. However, providing aggregated disclosure of original gift amount we believe would not add value to the users of the financial statements. Given UPMIFA permits use of the corpus, if prudent, the distinction between original corpus and "carrying value" is no longer as important. In addition, if the distinction between temporary and permanent restrictions is eliminated, the focus would be on the donor restricted endowment as a whole and the changes in the endowment year over year.

4) Do you agree that providing information in notes 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.)

   We do not agree with the proposed changes. We believe the existing combination of footnote disclosure requirements and the presentation of a classified balance sheet effectively communicates our liquidity.

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 balance sheets? If not, why?

We would likely continue to present a classified balance sheet as we believe it conveys important information to the users of our financial statements. Also, we believe it allows for comparability with our FP peers.

Statement of Activities, Including Financial Performance

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.)

   We do not agree. We have outlined some of our concerns in the response above. In addition, we believe there would be major system changes involved with certain aspects of the proposed standard. One of the biggest unknowns is how investors and rating agencies would deal with the drastic change in the reporting model.

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 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.)

   We believe that, like today, management should have some discretion over what is operating versus non-operating. We do not believe that a rigid set of rules for internal governing board appropriations, designations, and similar actions should be required to be included within operations given the subjective nature of such decisions.

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 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.)

   We do not agree and have provided our rationale above.

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.)

No significant preference as the proposed model is consistent with our current accounting.

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.)

    We do not agree. We believe a requirement to recognize gifts as operating revenue would be inappropriate and not indicative of the financial performance of our organization. The current reporting model for gifts of long lived assets works.

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.)

    We support maintaining the current performance indicator required for health care organizations for the reasons discussed above.

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?

    Flexibility should be retained, to allow for presentations by entities and industries that meet their users' needs.

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.)

    Within the health care industry, the current practice of presenting operating expenses in their natural classification on the statement of operations, and disclosing operating expenses by their functional area in the footnotes to the financial statements provides enough information to the users of the financial statements. To provide additional information in a matrix is of marginal benefit. To re-present this information to include all expenses that have been deemed non-operating would not benefit the users of the financial statements.

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.)

    No significant preference.

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.)

    We do not agree. Disclosing only internal salaries and benefits could be misleading for those institutions which have elected to manage investments in house, and would therefore have significant amounts to disclose. Whereas organizations that have outsourced much of this work, yet still spend comparable amounts would have less to disclose.

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 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.)

    No significant preference.

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).)

    We do not agree with the proposed presentation of equity transfers as operating activities. It seems counterintuitive that a measure of management's ability to manage their business should be favorably impacted by an equity transfer by an entity under common control, or unfavorably impacted when supporting an entity under common control. Standalone statements of entities within a consolidated organization are sometimes required for statutory, regulatory and covenant purposes. These users of standalone statements are interested in measuring management's ability to oversee operations, and this measure would be clouded by equity transfers.

    b) Immediate writeoffs of goodwill generally should be presented within operating activities? If not, why? (See paragraph BC62(b).)

    No significant preference.

    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).)

    No significant preference.

Statement of Cash Flows, Including Financial Performance

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

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alternative that might increase the benefits or reduce any operational concerns or costs. (See paragraphs BC75–BC80.)

We do not agree for the reasons discussed above.

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.)

We believe the current methodology is appropriate

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.)

While not totally opposed, we believe any changes should be considered for all organizations, not just NFPs.

Effective Date

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.

The proposed changes to the statements of operations and cash flows would require a significant amount of lead time to implement. Organizations would need to renegotiate bond covenants, engage and educate board members, redesign systems, redo performance metrics and a number of other issues to ensure the new financial reporting model is understood and will allow management to run the business.

22) Are there reasons for any particular size or type of NFP to need a longer time frame to implement the proposed amendments in this Update? If so, please explain.

While larger organizations may have more resources, they tend to be much more complex. As a result, the time frame should be similar for all NFPs.