

# Clark Nuber <sup>PS</sup>

---

August 17, 2015

Via email to [director@fasb.org](mailto:director@fasb.org)

Ms. Susan M. Cospers  
Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

Re: File Reference No. 2015-230  
Proposed Accounting Standards Update *Not-for-Profit Entities (Topic 958) and Health Care Entities (954) Presentation of Financial Statements of Not-for-Profit Entities*

Dear Ms. Cospers:

Clark Nuber P.S. appreciates the opportunity to comment on the FASB's Proposed Accounting Standards Update *Not-for-Profit Entities (Topic 958) and Health Care Entities (954) Presentation of Financial Statements of Not-for-Profit Entities* (the Proposed ASU). Clark Nuber P.S. is a CPA firm headquartered in the Seattle metropolitan area and our practice includes audit, tax and consulting services provided to not-for-profit organizations. Our not-for-profit clients include a wide range of social service charities, private foundations, arts and cultural institutions, private schools, higher education entities, affordable housing organizations, religious organizations, health care providers, trade associations, and others. We offer the following comments in response to the questions posed in the Proposed ASU.

## OVERALL COMMENTS

We are highly supportive of the FASB's project to improve the financial reporting for not-for-profit entities (NFPs). We agree that the existing standards for NFPs are sound but could be improved to provide better information to donors, creditors, and other users of financial statements. In preparing our comments for this letter we spoke with a selection of our clients and have included some of their input with our comments.

## RESPONSES TO SPECIFIC QUESTIONS

### Statement of Financial Position and Liquidity

#### Question 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.**

Response:

We agree with the proposed change and we agree that the required disclosures would help ensure that necessary information is not lost. We suggest that the FASB encourage the use of optional subtotals on the face of the statement of financial position to provide further details



T: 425-454-4919  
T: 800-504-8747  
F: 425-454-4620

10900 NE 4th St  
Suite 1700  
Bellevue WA  
98004

[clarknuber.com](http://clarknuber.com)

about the nature of the components of the two net asset categories to enhance the usefulness of the statement of financial position.

**Question 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?**

Response:

We agree that this change is appropriate and will result in more understandable and relevant reporting of endowment funds.

**Question 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?**

Response:

We agree that these disclosures would provide useful information and would not impose undue costs on preparers.

**Question 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?**

Response:

The proposed footnote disclosures included in the Proposed ASU will require significant educational efforts with preparers and users of NFP financial statements to properly present and understand this new information. If the proposed disclosure is ultimately required we recommend the FASB facilitate the necessary educational efforts by adding additional examples of illustrative notes in the implementation guidance. Currently, there is only one example provided, however, we believe multiple examples are necessary to demonstrate various ways an NFP could meet the disclosure requirements. We also strongly encourage the FASB to include at least one example where the net total of the quantitative disclosure is negative (i.e., "net financial liabilities in excess of financial assets, within XX days") as we believe there will be a number of NFPs in that position. We encourage the FASB to also then consider if it would be appropriate for an NFP in that situation to provide additional commentary regarding the "negative" total.

Given the significant educational efforts that would be required by the proposed new liquidity disclosures, we recommend FASB consider an alternative that would require less educational efforts and would result in less confusion and miscommunication of information with users of NFP financial statements. We recommend the FASB consider requiring that all NFPs present a classified statement of financial position. The presentation of a classified statement of financial position paired with existing requirements to segregate assets limited as to use on the face of the statement of financial position and accompanied by adequate footnote disclosures about restrictions or limitations on current and noncurrent assets would be more readily

understandable by users of the financial statements and should adequately meet the goal of providing improved information about NFPs' liquidity.

**Question 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?**

Response:

We agree that there is not a need to hold business-oriented health care NFPs to a more stringent standard by requiring the presentation of a classified balance sheet if the proposed liquidity disclosures are ultimately required. However, please see our response to question 4 where we recommend the FASB consider requiring all NFPs to present a classified balance sheet.

## **Statement of Activities, Including Financial Performance**

**Question 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?**

Response:

We agree with the FASB's proposal to require an intermediate measure of operations (operating measure) in the statement of activities. We believe that the inclusion of an operating measure in the statement of activities significantly improves the relevance and usefulness of information presented in the statement. The existing requirement of a performance indicator for business-oriented health care entities is a precedent that indicates an "operating measure" provides useful and relevant information and enhances comparability of NFPs financial performance to business entities with similar operations.

We do not believe that the addition of an operating measure would require major system changes for most organizations. However, we do anticipate that the change will require significant efforts to educate preparers and users of NFP financial statements regarding the new operating measure. In particular, the educational efforts will be significant for NFPs that currently do not report an operating measure and for NFPs that currently present an operating measure but define it significantly differently than the FASB's proposal. We believe the cost of these educational efforts will ultimately be worth the improved information that will be provided by a required operating measure for all NFPs.

**Question 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?**

Response:

We agree with FASB's approach to provide a principles-based definition of the required operating measure. We believe this approach will allow for the flexibility necessary for the wide variety of NFPs to present the operating measure in a way that is consistent with GAAP but is also responsive to each NFP's unique activities.

We agree with the "availability" dimension of the FASB's proposed definition of the operating measure. Our clients that currently present an operating measure generally define the operating measure in a way that is consistent with the FASB's proposed "availability" dimension. So, we believe that the "availability" dimension will be readily understandable and acceptable to most preparers and users of the financial statements.

We do not agree with the "mission" dimension of the FASB's proposed definition of the operating measure. We believe that this dimension results in an operating measure that is not consistent with most preparers' and users' concepts of operating activities, particularly in regards to the reporting of investment income, interest expense, and capital-related transactions. In speaking with a selection of our NFP clients we have received the following input:

- Investment income: Clients found it confusing to exclude investment income that is generated to support current period operations from the operating measure. They do not view the investing activities that produce income to fund current period operations to be conceptually any different than other revenue-generating activities (e.g., fundraising). In their view, investing and fundraising are both activities management engages in to generate current period revenues that support the mission activities of the NFP and so segregating the revenues in and out of the operating measure results in inconsistent reporting of revenues.
- Interest expense: Clients have also found it confusing to exclude interest expense that requires a use of current period resources from the operating measure. They do not view the financing activity that generates the interest expense to be conceptually different than other arrangements such as leasing and so segregating the related expenses in and out of the operating measure results in inconsistent reporting of expenses.
- Capital-related transactions: Clients found it misleading to include most capital-related transactions in the operating measure. They indicated that the inclusion of donations of long-lived assets and the release of contributions restricted to long-lived assets in the operating measure misrepresents what they commonly view as the results of operations. These transactions are usually larger and don't have a corresponding current period operating expense (other than depreciation) and so result in an inflation of operating results compared to other periods. Additionally, our clients noted that their lenders usually require them to exclude revenues and gains from these capital-related transactions when computing certain ratios relating to current period operations for loan covenants. This indicates that these lenders do not view these capital-related transactions as a component of the results of operations.

We respectfully suggest that the FASB remove the “mission” dimension from the definition of the operating measure and focus solely on the “availability” dimension. This would result in an operating measure that is more consistent with current approaches to the operating measure by both preparers and lenders. Additionally, an operating measure based solely on an “availability” dimension is relatively consistent with the existing performance indicator for business-oriented health care entities in that the items included or excluded from the operating measure would likely be fairly similar. An operating measure that is based on only the “availability” dimension could result in the following treatments for investment income, interest expense, and capital-related transactions:

- Investment income: Investment income would be included or excluded from the operating measure based on the availability to fund current period operations. For example, the current period appropriation from the endowment fund investment earnings could be included in the operating measure while the balance that is retained in the fund would be excluded from the operating measure. Additionally, current period dividends and interest earned and available for use in operations could be included in the operating measure while unrealized gains and losses that are not available could be excluded.
- Interest expense: Interest expense would be included in the operating measure as it represents a use of current period resources.
- Capital-related transactions: The donations of long-lived assets and donations restricted for the acquisition or construction of long-lived assets, as well as the related releases of restriction, would generally be reported as nonoperating activities. These gifts result in long-lived assets that are placed in service and used in operations over multiple years. The gifts do not represent resources that are available to fund current period operations and so should be excluded from the operating measure. Donations of long-lived assets that are immediately monetized could be included in the operating measure as they represent resources available to fund current period operations.

We believe that the use of only the “availability” dimension in defining the operating measure would result in an operating measure that is closer to what is currently more commonly used and would be closer to what lenders and other users of NFP financial statements commonly view as the results of operations.

**Question 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?**

Response:

The clients we spoke with reported a wide range of views on this topic. Some organizations view the inclusion of internal transfers on the statement of activities as a significant improvement to

help them communicate their use of resources in operations each period. Others viewed the requirement to include internal transfers on the face of the statement of activities as unnecessarily cluttering that statement and of little value to external users. Others also express the view that the use of two subtotals to report the operating measure would be confusing to preparers and users of the financial statements and would require significant educational efforts before the two-subtotal approach would be useful or relevant.

Our observation of the clients we work with also shows a wide range in the use of governing board appropriations, designations, and similar actions. Some NFPs we work with have formal governing board appropriations, designations, or similar actions that would result in the reporting of internal transfers on the face of the statement of activities under the Proposed ASU. However, other NFPs have no such amounts and would therefore have no internal transfers reported under the Proposed ASU. Still other NFPs have practices to appropriate and designate funds but these are informal management practices that are not due to governing board policies or actions and it is unclear whether these practices would result in transfers to be reported under the Proposed ASU.

As noted in the prior paragraph we have observed a wide range in the use and understanding of board appropriations, designations, and similar actions by NFPs. If the FASB ultimately requires the reporting of internal transfers on the face of the statement of activities we strongly recommend that the FASB provide recognition criteria for these transfers. The recognition criteria should provide a definition for these transfers, including guidance on the elements needed for a governing board action that gives rise to a reportable internal transfer, as well as guidance for the timing of which period an internal transfer should be reported in. The recognition criteria should also set out the requirement that all applicable transfers are required to be reported to avoid confusion about the ability to pick and choose which transfers to report. Additionally, we recommend the FASB require disclosure to provide a definition of “internal transfers” for the readers of the financial statements and also require disclosure when no internal transfers are presented and the reasons for the absence of any internal transfers presented on the face of the statement of activities.

**Question 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?**

Response:

We find that the “placed-in-service” approach is predominantly used currently by the NFPs we work with. We find that the second optional method is infrequently used; however, in the cases where it is used those NFPs find it useful and relevant to their financial statements. Accordingly, we recommend FASB retain use of both optional methods as the benefits of added comparability would not outweigh the loss of this option to those that find it useful and relevant.

**Question 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?**

Response:  
Please see our response to question 7.

**Question 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?**

Response:  
We agree that an NFP health care entity that presents a required intermediate measure of operations should not also report a performance indicator as it would clutter the statement of activities and cause confusion to the users.

**Question 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?**

Response:  
We believe the FASB should retain the current flexibility allowed by GAAP. The current flexibility allows NFPs to present their statements in a way that best tells their financial story.

**Question 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?**

Response:  
We believe that reporting operating expenses in a matrix format by both function and nature provides relevant information about most NFPs. We also strongly support the FASB's initiative to change the types of NFPs that are required to report the function/nature matrix. GAAP currently requires only voluntary health and welfare entities to present a statement of functional expense. However, in practice we find that the term "voluntary health and welfare entities" has become antiquated and therefore should be removed from use in GAAP.

In working with our client base we have learned that there are certain types of NFPs for which the presentation of expenses by function is not relevant or useful information. For example, trade associations and similar member-benefit organizations that have no donor contributions indicate that users of their financial statements find the reporting of expenses by nature to be more meaningful and the reporting of expenses by function to have little utility. Accordingly, for these NFPs the function/nature matrix reporting would not be information that is significantly relevant or useful.

We recommend that the FASB not require the function/nature matrix reporting for all NFPs. Instead we recommend that the FASB limit this requirement to NFPs that are supported by the general public. The AICPA's Audit & Accounting Guide *Not-for-Profit Entities* (the Guide)

encourages the statement of functional expenses be presented by all NFPs that are supported by the general public. The AICPA's recommendation indicate that the function/nature reporting is most important to those NFPs that are supported by general public and for those donors that use and rely on the GAAP-basis financial statements of those NFPs. Accordingly, we recommend the new function/nature matrix reporting be targeted only to those NFPs that have users that will find it most useful. The Guide also includes a recommended approach to determining which NFPs could be considered to be "supported by the general public" and could be a useful starting point for the FASB to consider.

**Question 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?**

Response:

We agree that requiring the net reporting of investment income will increase comparability and would avoid the undue costs of obtaining information about all investment fees and other costs.

**Question 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?**

Response:

We agree that disclosure of the amount of all investment expenses is unnecessary and is often impractical given to difficulty to gather information about embedded fees of mutual funds and similar investments.

We do not think the FASB should require disclosure of internal salaries and benefits that are netted against investment return. We agree that this information is not difficult to obtain. However, we believe that disclosing only these elements of investment expenses may unintentionally mislead a user to think that the internal salaries and benefits are the only investment expenses incurred or that internal salaries and benefits are a more sensitive or important element of investment expenses.

**Question 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?**

Response:

Please see our response to question 7.

**Question 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?

- b) **Immediate writeoffs of goodwill generally should be presented within operating activities? If not, why?**
- 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?**

Response:

Please see our response to question 7. Consistent with our response to question 7 we agree that equity transfers, equity transfers, and the immediate writeoffs of acquisitions of noncapitalized items for a permanent collection should be presented within the operating activity section. However, we believe the writeoff of goodwill does not represent a use of resources in the current period and does not meet the "availability" dimension and accordingly should be reported outside of the operating measure.

#### **Statement of Cash Flows, Including Financial Performance**

##### **Question 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 concerns or costs.**

Response:

We agree that the direct method is more understandable and useful and that the benefits of presenting operating cash flows in this way would justify the one-time and ongoing costs.

##### **Question 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?**

Response:

FASB ASC 230-10 describes the objectives of the statement of cash flows and states that the information presented in the statement of cash flows should help users of the statement assess the reasons for differences between net income and associated cash receipts and payments. This information is provided in the indirect method's reconciliation. The indirect method provides useful information in terms of the increases and decreases of certain operating assets, particularly receivables and payables, and how they impact current period cash flows and cash balances. This information would be lost if the indirect method is not presented.

**Question 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.**

Response:

We agree that there would be benefits to more closely aligning the statement of activities and the statement of cash flows. However, we do not believe that the benefits would outweigh the costs of the change nor would the benefits outweigh the confusion caused by having the statement of cash flows presented different from business entities.

**Effective Date**

**Question 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.**

Response:

We do not think that any of the specific changes would require a longer period to implement and we encourage a single implementation date for all changes that are ultimately made by the FASB.

**Question 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.**

Response:

We do not think that any particular size or type of NFP needs a longer time frame to implement any of the proposed changes and so we encourage the FASB to use a single implementation date for all NFPs.

-----

We appreciate the FASB's efforts to improve the financial reporting for not-for-profit entities. Thank you for the opportunity to share our comments on the Proposed ASU. Please contact me at (425) 454-4919 if you have questions or need clarification regarding our comments.

Sincerely,



Andrew Prather CPA  
Shareholder  
On behalf of Clark Nuber P.S.