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Ms. Susan M. Cosper, Technical Director
File Reference No. 2015-230
Financial Accounting Standards Board
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via e-mail to director@fasb.org

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

We appreciate this opportunity to provide our views on the Financial Accounting Standards Boards' (the "Board") April 22, 2015 Proposed Accounting Standard Update on Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954) Presentation of Financial Statements of Not-for-Profit Entities.

We are a professional service organization specializing in accounting, auditing, tax and business consulting services. We have offices in Manhattan, Long Island and Rockland County and are ranked among the Top 100 largest firms in the U.S. by both Accounting Today and INSIDE Public Accounting. Our client base includes public and private entities, including a major focus on Not-for-Profit and Health Care organizations.

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 ("Proposed ASU"), was issued to propose improvements to existing standards for financial statement presentation by not-for-profit organizations (NFPs). The main objectives of the Proposed ASU are to increase the understandability, comparability and usefulness of the information presented in financial statements and notes to provide better information to donors, creditors and other users of financial statement.

We believe that the Board's intent to improve financial reporting and disclosure for NFPs is warranted for the reasons noted above, but overall we agree with the Board's position that existing standards for financial statements of NFPs are sound. We agree that the changes to the net assets classes and many of the disclosure requirements will improve the understandability and usefulness of the information provided in the financial statements. However, we have some concerns regarding certain provisions of the Proposed ASU as they relate to intermediate measures of operations, liquidity and cash flow statement changes. We believe that the proposed improvements for these three areas will increase financial reporting complexities, cause confusion and create inconsistencies within the NFP industry.

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. (See paragraphs BC22–BC23 and BC27–BC32.)

We agree that disclosures about the nature of the restrictions and their effects on liquidity will help to insure that necessary information will not be lost by combining temporarily and permanently classes of net assets. Today's NFPs have greater availability to permanently restricted net assets under the rules set for in the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). However, the proposed change to eliminate the permanently restricted class from the face of the financial statement might create some confusion regarding tracking of donor endowments, including:

- identifying the original donor value established by the donor and unavailable in perpetuity,
- determining earnings accumulated on the endowment that are not available in the near term until appropriated by the NFP governing board, and
- determining whether donor-restricted endowment funds are "underwater."

We recommend that the Board clarify its proposed definitions of "donor-restricted endowment fund" and "underwater endowment fund." The definition of "donor-restricted endowment fund" should include all major components such as funds required to be invested in perpetuity adjusted by the investment earnings, allowable expenditures, and prudent appropriations. This will clarify that historical cost can be reduced by prudent appropriations and not be considered underwater. Conversely, the amount by which endowment funds are underwater reflect the expenditure of funds in excess of what is allowable by the original donor or deemed prudent by the governing board, a reduction in value of the underlying assets due to adverse market conditions, or a combination of the two. This clarification will provide clarity to allow financial statement preparers to provide relevant disclosures to the users of the statements.

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? (See paragraph BC24.)

We agree with such classification as the reduction in value of the endowment funds that leads to the fund being underwater relates to the restricted gift and should be classified within the net assets with donor restrictions. Typically a NFP has no obligation to replenish an endowment when it goes underwater, as described in question 1 above.

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? (See paragraph BC32.)

We agree that the disclosures describing the NFP's policies on spending from underwater endowment funds and the amount that is required to be maintained by donor or by law would provide useful information in assessing an NFP's liquidity. Clarity in the proposed ASU needs to be provided to ensure that the policy on spending from underwater endowments is not confused with allowable spending of donor-restricted endowments that have been spent below the original corpus value. We do not feel that additional disclosures are necessary when a donor-restricted endowment has been spent below the original corpus value.

We disagree with the requirement to disclose the aggregated original gift amount. We believe that this information is irrelevant as an NFP has the ability to spend from an endowment. We believe what is most relevant is the policy on spending from underwater endowments, and in fact the current Codification requires an NFP to disclose the amount by which an endowment is underwater. Therefore, we recommend removing the reference to the original gift amount.

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? (See paragraphs BC27–BC31.)

We agree that providing liquidity information for an organization is useful to a user of the financial statements. However, the method proposed by this ASU creates too much flexibility and we believe may lead to meaningless information. We do not believe that providing information only in the notes to the financial statements regarding financial assets and liabilities and limits on the use of those assets is the most effective way of communicating information about liquidity. The better way to provide information regarding liquidity is by presenting a classified balance sheet along with indentifying restricted use assets on the face of the financial statements, then also disclosing the nature of the restriction in the notes to the financial statements.

The proposed disclosure provides greater flexibility for a NFP to define the time horizon it uses to manage its liquidity, therefore creating inconsistencies among various not-for-profit organizations making comparison between not-for-profits more difficult. Also, a not-for-profit organization that selects a more "positive" time horizon may appear to have greater liquidity than if it had selected a different time horizon.

In addition, increasing the amount of disclosure information in the notes to the financial statements will increase the complexity of the presentation. Therefore, in our opinion, the proposed approach will not increase the value to the readers of the financial statements.

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?

We believe that liquidity can best be disclosed in a classified statement of financial position, therefore we recommend making it a requirement for all NFP organizations. Classified balance sheet would provide more consistent, cost-effective and useful liquidity information. Please also see our response to question 4.

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? (See paragraphs BC38–BC47.)

We do not agree that requiring intermediate measures of operations, as described in this proposed ASU would provide users of NFP financial statements with more relevant and comparable information. The proposed ASU is mandating that specific types of revenues and expenses be classified as operating or non-operating.

We do not believe that creating intermediate measures for all not-for-profits would meet the objective of comparability, as the significant differences in operating activities among NFP sub-industries would make it infeasible to standardize the definition of operations. Determining what constitutes operating versus non-operating will vary depending on each NFP specific organization. Therefore, we support giving NFPs flexibility in defining their operations and determining what activities should be included or excluded from an intermediate measure of operations. We agree with the concept that mission be used to define operating activities. However the NFP's governing board should have the discretion to define such activities. We do not believe that availability should be a consideration for operating activities.

For example, most NFPs consider investment income available for exempt activities as operating revenues. The Proposed ASU, however, states that investment earnings that result from non-programmatic investment activity should be reported as a non-operating activity in the statement of activities because the investment returns are not generated from carrying out an NFP's mission. Therefore, the Proposed ASU requires NFPs to classify investment income as non-operating, even when their operating models use investment income to fund activities (for example, the Foundation presented in proposed ASC 958-205-21A). The proposed presentation would result in an understatement of liquidity as the NFP would appear to have less current resources at its disposal than is actually the case.

Another example is the proposed classification of interest expense. The proposed ASU mandates that interest expense be reported as non-operating. In many instances a NFP receives reimbursement (revenue) for interest expenses through its operating revenue; such is the case with capital financing. The Board's requirement to report the related expense in non-operating is therefore not consistent with the revenue generated by that expense. Please see our response to question 16.

We further believe that two criteria approach to define operating measures as presented in the proposed ASU does not provide relevant information to understanding the relationships between operations of a specific period and the resource inflows available to fund those operations. The funds that are restricted or designated for a specific purpose related to carrying out a NFP mission and have the potential for the use to fund mission related activities should qualify as operating revenues. For example, resources that are designated by the board but are not used in the current period because they were not needed, or donor restricted contributions given to a Foundation to support grant making activities but not appropriated for a specific grant in the current year should be included as part of operating activities because those funds are available to fund current and/or future NFPs operations. The proposed intermediate measure of operations creates untrue differentiation between operating and non-operating measurements that will result in unnecessary transfers in and out of operations. The amount of transfers between operating and non-operating activities adds considerable complexity to the statement of activities and would create confusion among financial statements users.

We do believe that requiring a not-for-profit to define its own operating measurement and utilize that measurement consistently will create enhanced usability to the users of the financial statements. The operating measurement would be defined in the notes to the financial statements.

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? (See paragraphs BC48–BC74.)

We disagree with the concept of presenting a required intermediate measure of operations format, based on the criteria set forth in this proposed ASU. Please also see our response to question 6.

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? (See paragraphs BC46–BC47 and BC67–BC74.)

We are not in favor of the proposed presentation of internal transfers and believe that it creates unnecessary complexity to the statement of activities, which could lead to confusion by financial statement users. The amount of proposed transfers is substantial and may be misunderstood by users. We recommend limiting the presentation of board decisions to disclosures within the notes to the financial statements as it is currently required. In addition, such presentation could require extensive modification of NFPs' existing reporting system to redesign how their internal software captures and presents the information to comply with the proposed presentation of statement of activities. Consequently, it will result in increased costs for setting up a new chart of accounts, consulting with IT and accounting experts, and possibly changing the internal software that might have a significant impact small NFPs in particular. Please also see our response to question 6.

We agree that the current presentation of board-designated net assets as a subset of unrestricted net assets on the statement of financial positon is proper. We recommend that there be a required disclosure of the changes in board-designated net assets in the notes to the financial statements.

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? (See paragraph BC66.)

We disagree with the concept of presenting a required intermediate measure of operations format, based on the criteria set forth in this proposed ASU, making the methods set forth in this question extraneous. Please also see our response to question 6.

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? (See paragraphs BC72–BC74.)

We disagree with the concept of presenting a required intermediate measure of operations format, based on the criteria set forth in this proposed ASU. Please also see our response to question 6. We believe that NFPs should have flexibility in defining their operations based on their activities. The gifts of long-lived assets or a gift to acquire a long-lived asset might be considered operating or non-operating depending on each specific NFP.

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? (See paragraph BC99.)

We disagree with the concept of presenting a required intermediate measure of operations format, based on the criteria set forth in this proposed ASU. Please also see our response to question 6.

We believe NFP business-oriented health care entities requirements should remain unchanged.

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?

We believe the current flexibility allows NFP to make the statements more meaningful within each industry and reflect the needs of the users of their financial statement. We do recommend that the Board consider the requirement of a total column in the multicolumn format. The proposed ASU makes it optional.

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? (See paragraphs BC87–BC93.)

We agree that reporting operating expenses by both their function and nature provides relevant and useful information in assessing how a NFP uses its resources.

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? (See paragraph BC100.)

We agree that requiring investment income to be reported net of external investment expenses will increase comparability among NFP organizations. There should be no undue costs associated with this presentation. However, as discussed in our response to Question 15, we disagree with requiring all NFPs to net direct internal investment expenses against investment income.

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? (See paragraph BC101.)

We disagree with requiring all NFPs to net direct internal investment expenses against investment income. Most not-for-profit organizations do not have a separate and distinct investment department and rely on their board of directors and/or employees to perform investment related functions. Therefore identifying these types of expenses might be difficult. In addition, there is the potential for NFPs to classify an operating expense improperly as a direct internal investment expense, leading to underreporting functional 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? (See paragraphs BC59–BC60.)

The classification of interest expense in either operating or non-operating activities should be based on the nature of the not-for-profit organization and their specific facts and circumstances. The proposed classification as non-operating excludes the role of debt in funding NFP operations, causing an overstatement of operating activities. In fact there are many NFPs who explicitly obtain financing to carry out specific program activities and would otherwise not have incurred debt if that specific program did not exist. Thus, the classification of interest expense, similar to other components of operating and non-operating activities, should be left to the discretion of the NFP governing board's interpretation of the nature of the interest expense related to the organization.

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? (See paragraph BC62(a).)

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

c. Immediate write-offs 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).)

We disagree with the concept of presenting a required intermediate measure of operations format, based on the criteria set forth in this proposed ASU. Please also see our response to question 6.

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. (See paragraphs BC75–BC80.)

We do agree that the direct method presentation of a statement of cash flows provides the users of the financial statements with some greater degree of information. However, the indirect method also provides useful information (please see our response to question 19).

We were unable to discern any reason in the Proposed ASU why NFPs were singled out to be required to use the direct method. This proposed requirement is not comparable with all other reporting entities (including those registered with the Securities and Exchange Commission). All other reporting entities have the option of preparing cash flow statements using either the direct or indirect method. The proposed ASU would make NFP financial statements less comparable to those issued by all other reporting entities.

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? (See paragraphs BC75–BC80.)

We believe that the indirect method presents certain information that is useful to readers of the financial statements. The proposed ASU makes the reconciliation of the change in net assets and the net cash flows from operating activities optional. Such reconciliation presents information on the sources and uses of cash that are not apparent when using the direct method. For example, the indirect method displays an increase in accounts payable, which could explain the increase (or a lower decrease) in the availability of cash. We believe that readers of the financial statements find this information generally useful when analyzing the financial statement of an NFP.

We believe that the amount for cash flows from operations should be reconciled to option (a), "the amount of the change in net assets," as that amount captures all the activities of the NFP and it provides a clearer presentation. We do not agree with option (b) as the information is therefore limited to just the change in net assets without donor restrictions, and option (c) because we do not agree with the requirement of transfers into and out of operations as noted previously.

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. (See paragraphs BC81–BC86.)

As previously discussed in question 6, we disagree with the concept of a required intermediate measure of operations format, based on the criteria set forth in this proposed ASU. Accordingly, we see no need to tie an intermediate measure of operations to cash flows from operations. We further believe that areas that are not unique to NFPs should be aligned with the required presentations for all other entities to avoid confusion among the financial statement users such as lenders and board members who might also operate in for-profit environment.

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.

We believe that the proposed changes are significant and that an extended implementation period of at least two years from the issuance date of this proposed ASU is reasonable.

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.

We see no reason why any particular size or type of NFP would need a longer time frame to implement the proposed amendments.

Thank you for your kind consideration of our responses.

Sincerely,

Grassi & Co, CPAs, P.C.

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