MINUTES

FASB FINANCIAL ACCOUNTING STANDARDS BOARD

MEMORANDUM

To:	Board Members		
From:	Not-for-Profit Team		
Subject:	September 21, 2015 Roundtable Minutes: Financial Statements of Not-for-Profit Entities, Norwalk PM Session	**Date:**	December 16, 2015
cc:	**Stacey Sutay**		

The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue an Accounting Standards Update or a Statement of Financial Accounting Concepts.

<u>Topic</u>: Proposed FASB Accounting Standards Update, *Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954): Presentation of Financial Statements of Not-for-Profit Entities*

<u>Basis for Discussion</u>: Proposed FASB Accounting Standards Update, *Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954): Presentation of Financial Statements of Not-for-Profit Entities,* Outreach Summary of proposed Update

<u>Length of Discussion</u>: 1:00 p.m.to 4:00 p.m.

<u>Attendance</u>:

External Participants

Debbie Johnson	American Diabetes Association
Fran Brown	Capin Crouse
Norman Mosrie	Dixon Hughes Goodman
Jennifer Hoffman	Grant Thornton

Amanda Nelson	KPMG
Michael McNee	Marks Paneth
Philip Pacino	Massachusetts Society of CPAs
Melisa Galasso	North Carolina Association of CPAs
Kerri Tricarico	New York University
Martha Garner	PricewaterhouseCoopers
John Shanley	Self-Help
John Horn	University of Pennsylvania

FASB Participants

Russ Golden	Board Chairman
Jim Kroeker	Board Vice-Chairman
Daryl Buck	Board Member
Tom Linsmeier	Board Member
Marc Siegel	Board Member
Larry Smith	Board Member
Sue Cosper	Technical Director
Jeff Mechanick	Assistant Director
Ron Bossio	Senior Project Manager
Rick Cole	Supervising Project Manager
Chris Dickson	Postgraduate Technical Assistant
Ranee Wiley	Postgraduate Technical Assistant

1. Participants were provided an agenda and advance materials to facilitate the roundtable discussions (click here).

Topic 1: Operating Measures

2. Participants generally expressed support for a required measure of operations, but disagreed with the specific measures proposed.

3. An FASB Board member asked whether, as an alternative to its proposal, the Board should require all not-for-profit entites (NFPs) to report an operating measure but not prescribe any specific requirements for that measure.

4. A participant from the voluntary health and welfare industry suggested allowing NFPs flexibility to determine what is included in operations. However, an auditor suggested that the FASB provide prescriptive guidance for the operating measure for various industriesin the NFP sector.

5. Another auditor suggested a two-phased approach to the operating measure, where the bottom-line measure would be prescribed by the FASB and a measure above the prescribed measure would allow the NFP more flexibility to show what is relevant to that particular NFP's "operations." This auditor stated that, in their view, the focus of the

business entities project is on classifications above the current income measure. The NFP prescribed measure could be similar to the business entities prescribed income measure.

6. An FASB Board member cautioned that the Board has not been extremely successful in terms of creating a for-profit performance reporting measure on the business entities project.

7. Two auditors suggested creating an other comprehensive income (OCI) type measure for NFPs.

8. Two participants from the higher education industry, a participant from the voluntary health and welfare industry, and an auditor supported a two-statement approach for the statement of activities. However, one of the higher education participants would prefer to exclude transfers from the statements. Two other auditors suggested including transfers in the notes rather than on the face of the statements.

9. An auditor and a participant from the voluntary health and welfare industry expressed concern that the transfers section of the statement of activities could be manipulated.

10. An FASB Board member questioned how transfers are subject to manipulation. That member noted that the first intermediate measure is more of an indicator of operating profitability and the transfers simply show how mission-related and available resources in the first intermediate measure are being supplemented by other resources or set aside for future periods. An FASB staff member clarified that transfers are permitted today, but entities are not required to discretely present those transfers. The proposal would require disclosures around those discretely presented transfers.

11. In response about manipulation, an auditor stated that it is not clear to clients which subtotal is the “real” operating measure, so transfers could be used to make the second intermediate measure of operations whatever number is desired. Furthermore, this auditor stated that board designations are not as formally structured for their client base as was implied during the roundtable discussion.

12. An FASB Board member observed that just how different types of NFPs can have different situations, different types of business entities can have different situations and asked what the key things are that financial reporting should be capturing. This Board member further asked if the participants would like the Board to capture the differences in how NFPs generate coverage of a programmatic deficit. Finally, this Board member stated that manipulation of transfers should not be an issue.

13. An auditor was supportive of the proposed approach to use an NFP's mission to determine what is included in the intermediate measure of operations.

Topic 2: Presentation of Operating Cash Flows

14. Participants generally stated that the statement of cash flows prepared using the indirect method is underutilized.

15. A participant from the voluntary health and welfare industry stated that their governing board only utilizes (focuses on) the statement of cash flows when having issues with cash levels.

16. A participant from the higher education industry stated that without a compelling reason, NFPs should not have different requirements for the statement of cash flows than for-profit entities. This participant also stated that the statement of cash flows may be underutilized because it articulates to an accrual income statement and many NFPs do not report on an accrual basis regularly. This participant stated that, in their view, there is little demand for the statement of cash flows in the NFP industry, so the NFP industry requirements should not be more restrictive.

17. Two auditors and a participant from the higher education industry supported requiring the direct method. One of the auditors stated that the indirect method is "almost meaningless" and that as an audit partner, they spend very little time on the statement of cash flows with operating cash flows presented using the indirect method. This auditor supports the direct method, but would still like to see the reconciliation to operating cash flows. Furthermore, this auditor stated that governing boards appear to better understand the investing and financing sections, which are presented using the direct method. Finally, this auditor stated that the concern for the NFP statement of cash flows to maintain comparability with the commercial world is not compelling because the NFP statement of financial position and statement of activities are already different than the related balance sheet and income statement for for-profit entities.

18. An FASB Board member suggested that perhaps some NFPs do not prepare the direct method under current requirements because they would still have to prepare the indirect method along with the direct method. This Board member mentioned the possibility of no longer requiring the indirect reconciliation to be presented along with the direct method and instead suggested allowing the choice to use either method. This Board member further noted that some participants want all NFPs to be required to use the direct method, but mandating the direct method goes against the notion for flexibility in other statements. This Board member asked why the Board should have a certain requirement for the statement of cash flows, but not have certain requirements in other statements.

19. Two auditors did not support allowing flexibility to make the direct method optional for the statement of cash flows. One of these participants would still prefer to see the reconciliation. This participant stated that in his experience, governing boards tend to better understand the investing and financing sections on the statement of cash flows, which are presented using the direct method. This participant also stated that NFPs are already different than for-profit business entities.

20. Two other auditors and a participant from the voluntary health and welfare industry supported allowing flexibility for the statement of cash flows.

21. A participant from the higher education industry stated that a switch to mandate the direct method would likely not change the use of the statement of cash flows.

22. A participant from the voluntary health and welfare industry stated that there is no tolerance within their organization to develop a new statement of cash flows because, in their view, a change to the statement of cash flows may not add value. When asked by an FASB staff member if they would not mandate the statement of cash flows period, this participant answered that they would not mandate the statement of cash flows.

23. An auditor noted that there is currently focus on the statement of cash flows as a source of errors and questioned whether a mandated change to the statement of cash flows would raise concern that more errors would occur.

24. An FASB Board member responded that most statement of cash flows errors have to do with classification issues and that the Emerging Issues Task Force has a project that, in the Board's view, will reduce a lot of classification uncertainty.

Topic 3: Information Useful for Assessing Liquidity

25. Participants generally supported greater liquidity disclosure.

26. An auditor stated that having more information about liquidity and time horizons may force people to consider liquidity and availability in managing their businesses. This participant also would prefer more guidance on how to self-define the time horizon.

27. Another auditor expressed concern that the information required would be subjective and small and mid-sized entities do not have the resources for auditors to audit the subjective information. Therefore, this participant preferred an exclusion for entities with net assets of $100 million or less.

28. Two auditors and a participant from the voluntary health and welfare industry noted that the proposed disclosures focused solely on liquidity

and did not adequately address the effect of “spend-ability” (availability) on an entity’s resources.

29. Two auditors suggested utilizing a classified balance sheet instead of utilizing the concept of a time horizon.

30. An FASB Board member struggled with requiring a classified balance sheet because it will never be able to give a complete picture of liquidity. This Board member stated that a classified balance sheet is based on what happens in the future and does not tell users certain information, such as lines of credit and certain assets restricted from use. This Board member suggested that the disclosures could be used as a starting point to talk about liquidity more.

31. An auditor suggested requiring further disaggregation on the face of the financial statements, if material.

Topic 4: Other Topics

Expenses by Function and Nature

32. An auditor acknowledged that users often request information about expenses by function and nature, but expressed concern that presenting an analysis in a matrix format becomes too granular.

33. An auditor suggested creating an exclusion for entities with only one main program.

34. An auditor suggested that the requirements be more stringent for NFPs than business entities only if there is a compelling reason to do so. This participant suggested that NFPs that are supported largely through contributions be required to disclose an analysis of expenses by function and nature and suggested allowing the analysis to be optional for all other NFPs.

Investment Return

35. An auditor suggested netting all internal investment expenses, rather than netting only direct internal investment expenses.

36. A participant from the higher education industry suggested letting entities decide which investment expenses to net.

37. Another participant from the higher education industry suggested that requiring entities to net only “direct” internal expenses rather than “related” expenses may be inconsistent with how most entities report internally.

38. An FASB Board member stated that allocations could get complicated if entities were required to net “related” expenses.

39. An auditor suggested that the use of "direct" versus "related" boils down to materiality and that the bottom line investment return is what is most meaningful to users. This auditor further stated that when dealing with allocations on human resources, it should not change the overall return.

Other

40. An auditor expressed concern that most preparers are from the business community and the more the NFP model diverts from the generally accepted accounting principles (GAAP) model, the more difficult it may be for the NFP model to be understood.

41. A participant from the higher education industry suggested that the comment letters reflect a lack of a sense of urgency for changes to the NFP reporting model. This participant also expressed concern that the NFP model is moving further away from reporting for business entities.

42. An auditor expressed support for the FASB's efforts to reflect the differences between NFPs and business entities in the financial statements.