

From: Gerald Aranoff [<mailto:garanoff@netvision.net.il>]
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Subject: Comment
Importance: High

I wish to comment on:

Proposed ASU No. EITF-12A calls for treating the proceeds from a sale of securities donated to a not-for-profit organization as part of the organization's operating activities because charities, foundations, schools, and other groups sell the investments as soon as they receive them.

I very much like the present rules on the Statement of Cash Flows for nonprofits. The proposed ASU No. EITF-12A is not a good idea because it will allow nonprofits to artificially boost their cash flow from operating activities. I argue in **Management Accounting Quarterly** (MAQ vol. 4 no. 3 Spring 2003, 15--23) that best "bottom line" for users of nonprofit financial statements is the figure of cash flow from operating activities. See, the main users of financial statements of companies run for profit, are outside investors who use the f/s to aid their buying or selling common stock. For them, the income statement is their main interest with investing and financing activities important but usually secondary.

For users of nonprofit f/s, their main interest in the f/s is probably the financing and investing activities! The F/S of nonprofits are generally secondary to other means to their outside users to judge the operating activities of the nonprofit.

In my MAQ article I give a hypothetical example of Tel Aviv Hospital, while run well operationally, has recurring deficits and relies on donor funds and bank borrowings to meet current expenses such as nurses salaries. The present rules on statement of cash flows serve the users of nonprofit f/s well, with its division of operating, investing and financing activities.

Interesting that the current European economic problems with sovereign debts, shows how important good financial management is. With poor financial management, operating activities get curtailed. Nonprofits with recurring deficits in cash flow from operating activities run a financial risk. This should be of major importance to outside users of nonprofit f/s. The US has a similar problem with its huge and recurring budget deficits.

Sincerely,
Gerald Aranoff

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