

NOT-FOR-PROFIT ADVISORY COMMITTEE
FASB Offices; Norwalk, Connecticut
September 10, 2015
Meeting Minutes

Committee Members Participating

Gregory Capin
 Gordon Edwards
 Kenneth Euwema
 Deborah Gillespie
 Roger Goodman
 John Kroll
 John Mattie
 Robert Mims
 Norman Mosrie
 Linda Parsons
 Cynthia Pierce
 Laura Roos
 Bennett Weiner
 William Weldon

Affiliation

Capin Crouse LLP
 Marshfield Clinic Health System
 United Way Worldwide
 The Joyce Foundation
 The Yuba Group LLC
 The University of Chicago
 PricewaterhouseCoopers
 Ducks Unlimited, Inc.
 Dixon Hughes Goodman LLP
 University of Alabama
 Crowe Horwath
 Moss Adams LLP
 Better Business Bureau Wise Giving Alliance
 Roman Catholic Diocese of Charlotte

Participating Observers

Chris Cole
 †Catherine Mickle

AICPA
 FASAC and American Cancer Society

Committee Members and Participating Observers Not Attending

Harvey Dale
 Dena Markowitz
 Lawrence Probus
 Michael Tarnoff

New York University School of Law
 National Association of State Charity Officials
 World Vision U.S.
 Jewish Federation of Metropolitan Chicago

Financial Accounting Standards Board

Daryl Buck
 *Hal Schroeder
 Lawrence Smith

Member
 Member
 Member

FASB/GASB Staff

Ronald J. Bossio
 Richard Cole
 Susan Cospier
 Jeff Mechanick
 Alicia Posta
 Jialan Su
 Christopher Dickson
 Ranee Wiley
 *Nicholas Cappiello
 *Marie Dhimmar
 *Ryan Egan

FASB Senior Project Manager
 FASB Supervising Project Manager
 FASB Technical Director
 FASB Assistant Director, NAC Chairman
 Executive Director, FASB Advisory Groups
 GASB Project Manager
 FASB Postgraduate Technical Assistant
 FASB Postgraduate Technical Assistant
 FASB Supervising Project Manager
 FASB Fellow
 FASB Project Manager

* For certain segments only. †By phone.

INTRODUCTORY REMARKS

1. Not-for-Profit Advisory Committee (NAC) Chairman, Jeffrey Mechanick, opened the meeting and welcomed the attendees.

TOPICS 1–3: FINANCIAL STATEMENTS OF NOT-FOR-PROFIT ENTITIES

2. The staff provided an overview of feedback received 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* (proposed Update), through comment letters and 10 workshops held in 5 cities: Chicago, Dallas, Atlanta, Charlotte, and Denver (see handout materials).
3. The staff noted and NAC members discussed the feedback of the many respondents that suggested the FASB should align (or maintain alignment of) financial statement presentation requirements for not-for-profit entities (NFPs) with those of for-profit business entities to the extent possible. To aid discussion, a staff member for the Financial Performance Reporting research project gave an update on the project and potential implications for financial reporting by for-profit entities if the FASB were to add a standard setting project to its agenda. One FASB member added that the FASB did not anticipate the Financial Performance Reporting project to progress rapidly.
4. NAC members generally expressed that improving the understandability of financial information provided to donors, creditors, and other stakeholders of NFPs is more important than comparability between for-profits and NFPs. NAC members acknowledged that certain segments of NFPs, namely health care providers, desire comparability more than other segments, in part because they have for-profit competitors, few contributors, or both. Some FASB members noted that it would be difficult to determine from feedback received to date whether the needs of users of NFPs as a whole, or only specific segments of NFPs, are sufficiently different to warrant further divergence from for-profit financial statement presentation. Some NAC members suggested that sufficient stakeholder education and training may mitigate some concerns over the key differences in financial statement presentation requirements.
5. NAC members discussed the feedback received on the proposal to add quantitative and qualitative information useful for assessing liquidity. NAC members discussed alternative ways to display quantitative information that might be useful in assessing liquidity, specifically by using a classified balance sheet or segregating and reporting on separate line items those assets whose use is limited. To display assets whose use is limited, some NAC members suggested a making a clear distinction between external restrictions and board-designated restrictions. NAC members added that there is a difference between presenting information about liquidity and presenting information about availability and that some of the potential solutions discussed succeed at one more than the other. NAC members were generally supportive of the qualitative requirements of the proposed Update, although a few

said such requirements may become boilerplate or would be more useful as part of a fuller management discussion and analysis section outside of the financial statements and notes.

6. NAC members discussed feedback received on the proposed display of operating expenses by their nature and function and on the proposed netting of investment return. NAC members were generally supportive of both issues; however, some members expressed concern that the proposed display of operating expenses in an NFP's generally accepted accounting principles (GAAP) compliant financial statements could differ from its reporting in its Internal Revenue Service Form 990 filing, which, for example, may be unconsolidated or may report expenses by programs at more highly aggregated amounts. NAC members differed on the extent to which they supported the display of operating expenses in a matrix format by their nature and function. FASB staff clarified that the matrix format of display is proposed to be optional or is just one way, but not the only way, to provide the required analysis of expenses by function and nature.
7. NAC members discussed feedback received on the proposed definition of operating activity and its two dimensions—mission and availability—as well as other factors that might be used to make a distinction between *operating* and *nonoperating* activities. NAC members were generally supportive of requiring an operating measure. NAC members discussed various presentations of an operating measure, including a required measure similar to the currently required *performance indicator* for health care entities. The notion of availability was less contested among NAC members than the notion of mission. A few NAC members suggested that items that constitute a particular NFP's operating activity should be self-defined with a descriptive disclosure about the entity's self-defined definition.
8. FASB members, NAC members, and FASB staff broke into three groups to discuss the feedback on the proposals surrounding the statement of activities and statement of cash flows. Afterward, the breakout groups reported out and the NAC discussed the feedback on both statements in further detail.
9. For the statement of activities, NAC members continued discussions about the proposed definition of operating activity. NAC members expressed differing views as to whether quasi-endowment payout belonged in operating activity. NAC members generally expressed support for including unrestricted bequests in their entirety in operating activity and showing any board designations of such bequests for long-term investment as a transfer of resources from operating activity. NAC members were generally supportive of respondents that suggested classifying interest expense as an operating expense rather than as had been proposed.
10. NAC members also discussed the concerns raised about complexity surrounding internal “transfers” and the use of two operating measures. They discussed whether concerns might be alleviated by requiring a two-statement approach, where the statement of activities/operations would focus on the results of operations without any transfers and the statement of changes in net assets would report nonoperating activities and provide an opportunity to focus on internal governing board designations and appropriations. NAC

members also discussed the possibility of using a term other than “transfers” to describe governing board appropriations, designations, and similar actions and the possibility of placing transfers in the notes to, rather than on the face of, the financial statements. They noted that use of notes could address the complexity concerns by simplifying presentation and perhaps avoiding the use of two intermediate measures.

11. For the statement of cash flows, NAC members were generally supportive of the direct method of presenting operating cash flows, noting that, overall, it is more understandable and useful than the indirect method. One NAC member expressed a preference for the indirect method of presentation due to its reconciliatory value. FASB members inquired whether a change in presentation method would increase utilization of the statement, for which NAC members had divided opinions. Many NAC members said that the cost of switching to the direct method was not prohibitive and could be accomplished in different ways; these members cited universities that report under GASB standards. Additionally, NAC members agreed that the majority of the cost would be incurred in the first year and, thereafter, the relative cost of preparing the direct method would be negligible. Some NAC members expressed concern that both small NFPs and large, acquisitive NFPs alike would have much more difficulty and incur a much greater cost when switching to the direct method. They were also generally supportive of improving the alignment between the statement of cash flows and statement of activities, but did not express a strong desire for reclassification of certain items on the statement of cash flows at this time. Some members expressed support for retaining the indirect method as either a requirement or an option, especially for health care or other business-like NFPs.

TOPIC 4: UPDATES ON CERTAIN FASB PROJECTS

12. The staff provided an update on the Disclosure Framework project, drawing attention to the recent FASB decisions that:
 - a. State that materiality is applied to quantitative and qualitative disclosures individually and in the aggregate in the context of the financial statements taken as a whole; therefore, some, all, or none of the requirements in a disclosure Section of the *FASB Accounting Standards Codification*[®] may be material
 - b. Refer to materiality as a legal concept
 - c. State specifically that an omission of immaterial information is not an accounting error.

One NAC member expressed frustration with the application of materiality by auditors, to which the FASB staff clarified that audit guidance will foreseeably retain its own definition of materiality. Some NAC members expressed difficulty understanding what this proposal sought to change. FASB staff clarified that the proposal is meant to clarify existing guidance for financial statement preparers, especially in areas where the language in GAAP seemed to override materiality.

13. Mr. Mechanick provided an update on the apparent increased interest in the development of some sort of international accounting and reporting standards for NFP organizations in the absence of activity to-date in this area by the International Accounting Standards Board and the International Financial Reporting Standards (IFRS) Foundation's current consultation of stakeholders. Mr. Mechanick specifically requested NAC members' advice on topics to discuss at upcoming meetings in London. Those meetings were the September 29-30, 2015 meeting of the International Forum of Accounting Standard-Setters, where Mr. Mechanick and Board members Tom Linsmeier and Daryl Buck presented on the FASB's NFP Financial Statements Project, and the October 5, 2015 meeting on international NFP financial reporting issues that was hosted by the Chartered Institute of Public Finance and Accounting (UK) that Mr. Mechanick and Board member Larry Smith attended. One NAC member expressed that his organization is attempting to organize a financial issues committee to promote uniform reporting across its affiliates in the United States and Canada.

TOPIC 5: TRENDS, CONCERNS, AND OBSERVATIONS OF NAC MEMBERS

14. The FASB staff discussed the concern that the lack of variable interest entity (VIE) guidance for NFPs creates difficulty in assessing consolidation in limited partnership scenarios. This is especially so, given the issuance of Accounting Standards Update No. 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*, which eliminated the presumption of general partner consolidation. A few NAC members expressed support for the FASB's efforts to investigate this issue since they perceive that general partnership scenarios are becoming more common in the NFP sector.
15. The FASB staff discussed the changes to fair value classification established as part of Accounting Standards Update No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. The staff noted that the Update removed the requirement to categorize investments measured at net asset value. NAC members expressed that they generally viewed these changes as very helpful.