

Thank you for the opportunity to comment on the FASB Exposure Draft, Presentation of Financial Statements of Not-For-Profit Entities, (the ED). I am a retired CPA who specialized in the financial reporting of Not-For-Profit Organizations (NFPs) first as a member of the FASB staff, then as a partner of KPMG, and finally as a member of the faculty at the Yale School of Management. While I haven't been active professionally for a number of years, I am still very interested in the not-for-profit sector and in its financial reporting.

Overall, I found the ED an excellent revision and extension of FASB Statement 117. The only area where I disagree with the ED is its inclusion of transfers resulting from governing board actions in an operating measure. In that regard, I agree with the views of the two dissenting Board members in paragraph 112 of the Basis For Conclusions. Like them, I think it is inappropriate "to include in operating results the impact of internal and arbitrary events, including discretionary items **that are not the result of transactions with a third party, changes in the measurement of assets or liabilities, or other outside events**" (emphasis added).

Moreover, it is my view, based on my involvement as the project manager on the project that resulted in FASB Concepts Statement 4, that including such items in an operating measure does not reflect the concept of “availability” the Board intended to set forth in paragraph 49 of that document. Therein, the Board indicated:

“Thus, it (i.e. financial reporting) should show the relation of resources used in operations of a period (i.e., expenses) to **resource inflows** (emphasis added) available to finance those operations.”

Paragraph 2 of the Concepts Statement notes that the Statement intentionally used neutral terminology such as “resource inflows” to avoid prejudging future issues. As examples of that usage, it indicated: “for example, it uses the terms *resource inflows* and *outflows* rather than *revenues, expenses, and expenditures*”. While the Board did not distinguish between revenues and gains in the example, I believe that it was using the term “resource inflows” in a way consistent with the view of the two dissenting Board Members quoted above.

I’m also concerned that allowing an operating measure including such transfers to be the “bottom line” of a separate

statement will only increase the potential for it to mislead users. It was my experience while at KPMG that users of NFP statements, including Boards, unfortunately tended to focus on “bottom line” measures to the exclusion of other information important in assessing financial performance. Management often encouraged that practice. That was particularly true of wealthy well-endowed institutions, principally colleges and museums, which held large quasi-endowments. I often found the incentive in such institutions was to seek to “understate” operating results and transfers to quasi-endowments were a convenient way to achieve that objective. Such misleading stand-alone “operating statements” were one of the important weaknesses of NFP reporting prior to Statement 117.

I hope these comments are helpful as the Board and its staff work to complete this important document. Thanks again for the opportunity to comment.

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