



National Association of State Boards of Accountancy

◆ 150 Fourth Avenue, North ◆ Suite 700 ◆ Nashville, TN 37219-2417 ◆ Tel 615.880-4201 ◆ Fax 615.880.4291 ◆ www.nasba.org ◆

July 20, 2015

Technical Director
File Reference No. 2015-230
FASB
401 Merit 7
PO Box 5116
Norwalk, CT 06856-5116

director@fasb.org

Re: Not for Profit Entities (Topic 958) and Health Care Entities (Topic 954)
Presentation of Financial Statements of Not-for-Profit Entities

The National Association of State Boards of Accountancy (NASBA) appreciates the opportunity to comment 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* (the “NFP ASU”). NASBA’s mission is to enhance the effectiveness and advance the common interests of the Boards of Accountancy that regulate all certified public accountants and their firms in the United States and its territories. As a not-for-profit entity that prepares its financial statements under Topic 958, we offer the following in response to the questions posed in the NFP ASU.

OVERALL COMMENTS

The National Association of State Boards of Accountancy (NASBA) is a not-for-profit 501(c)(6) membership association with a 501(c)(3) subsidiary. NASBA prepares its respective annual financial statements for the consolidated organization and the subsidiary in accordance with U.S. GAAP. Overall we agree with the position that existing standards for financial statements of not-for-profit entities (NFPs) are sound but could be improved to provide better information to donors, creditors, and other users of financial statements. In addition, we believe that business and membership associations with a not-for-profit mission who do not rely on contributions from the general public for support differ from charitable-type organizations in terms of what reporting is meaningful to financial statement users. That topic is not addressed by the ASU but we believe a future project should consider whether association-type entities should be included in the overall blanket of NFP reporting or if there is an opportunity for more specific guidance addressing their unique missions.

Technical Director
July 20, 2015
Page 2 of 4

RESPONSES TO SPECIFIC QUESTIONS

Question 1 - combining the presentation of temporarily restricted and permanently restricted net assets into a restricted net asset classification on the statement of financial position

We agree with the conclusion to show one restricted net asset classification on the statement of financial position, but we do believe that the footnotes should disclose the amounts of restricted net assets that may be spendable under time or purpose restrictions versus those that can only be used to generate income to be used for restricted purposes (true endowments).

Questions 2 and 3 - presentation and policies regarding underwater assets

We agree that the recorded amounts for restricted purposes should be the fair value of the underlying assets. The policy for spending from underwater accounts should also be disclosed, as well as the aggregate original gift amount. We also believe that any legal or contractual obligation to fund underwater accounts from unrestricted net assets should be disclosed.

Question 4 – liquidity

In general, we do not believe that there should be a divergence from for-profit entities with respect to the presentation of a classified balance sheet. We agree that disclosures could be made regarding how the entity manages liquidity and quantitative and qualitative information about the liquidity of assets and near-term demands for cash to satisfy existing obligations as of the reporting date without imposing undue costs. We agree that assessing liquidity of an NFP is useful information but question what additional quantitative and qualitative information would be required and whether the "time horizon" concept actually accomplishes this. Providing a "description of the time horizon used to manage liquidity" in and of itself seems vague when it comes to applying this disclosure to financial statements of a variety of non-profits. A trade association may have a 12-month time horizon for its members' dues, but its liquidity needs have to factor in multi-year projects such as long-lived asset creation (e.g., major asset renovations, software development projects, etc.). The Statement of Financial Position is in and of itself useful in assessing whether an organization can meet its obligations in the near-term. Would adequately funded not-for-profits be called to provide costly additional information that addresses what is only a remote risk (i.e., liquidity)? There is a cost-benefit element to this proposed reporting unless it is specific in what is required to be disclosed or the methodology for assessing liquidity.

Question 6 - intermediate measure of operations

We agree with the basic concept of requiring a standardized intermediate measure of operations. We do believe that clarification should be provided as to what is considered an operating versus a non-operating activity.

Technical Director
July 20, 2015
Page 3 of 4

Question 7 - components of intermediate measures of operations

We do not agree with question 7(b) regarding internal governing board appropriations, designations and similar actions. We believe those actions should be disclosed in the notes to the financial statements. Because internal transfers reflect intentions of the organization and not a transaction with an outside entity, we believe they could detract from comparability of statements and could be misleading, or subject to abuse. Disclosure in the footnotes, in our opinion, is preferable for the user of the financial statements. Designations by governing boards can be easily "un-designated" and as such provide information that is difficult to evaluate as to its actual relevance and substantiveness. The balances of such appropriations could also be shown on the Statement of Financial Position as a segment of unrestricted funds.

Question 8 - internal transfers

We do not agree with showing internal transfers on the statement of activities. We believe those actions should be disclosed in the notes to the financial statements. Permitting internal transfers to be reported on a Statement of Activities would distort the statement because internal transfers do not represent an activity of the organization. Permitting such transfers to be reported would allow boards to increase or decrease an intermediate measure of operations at will. Although the increase or decrease would be offset by the same amount on the same statement, such accounting would likely be confusing to readers.

Questions 9 and 10 - placed-in-service approach

In general we agree. We believe the placed in service approach is preferred. However, the term "placed in service" may require more specific definition-for example, often a donor funds the capital regardless of timing of when it is placed in service. Other terms such as "available for use" and "in-use" may need to be clarified.

Question 12 - flexibility for statement of activities

We believe the flexibility currently allowed by GAAP to present either a single statement or two articulating statements and to use either a single-column or a multicolumn format should be retained.

Question 13 - reporting expenses by function and nature

We agree that showing both the function and nature of expenses is relevant and useful information in assessing how a NFP uses its resources.

Questions 14 and 15 - reporting of investment income and expenses

We do not agree with the netting of internal investment expenses (particularly internal salaries and benefits), as these charges may be arbitrary and subject to abuse.

Technical Director
July 20, 2015
Page 4 of 4

Question 16 - recording interest expense as non-operating

We do not agree with presenting interest expense as a non-operating activity. We believe that the decision or need to borrow funds for operations is an operating activity and consistent with existing cash flow statement treatment.

Questions 18 and 19 -cash flow presentation

We believe the present alternatives to presenting the statement of cash flows on the direct or indirect method should be maintained. Furthermore, we believe that if the direct method is prescribed, that the current reconciliation of operating cash flows should be required.

Question 20 - definition of operating activities for the statement of cash flows

We do not agree with creating different classifications on the Statement of Cash Flows for not-for-profit entities than those classifications required for business entities. We believe this will cause significant confusion for the users of not-for-profit financial statements.

Questions 21 and 22 - effective date

We do not believe that the adoption of this proposed ASU would be a significant burden to us in preparing our financial statements and would support a reasonable time frame with early adoption being permitted.

* * *

We appreciate the strong relationship between FASB, NASBA and the State Boards of Accountancy, and we look forward to being able to continue to provide transparent, relevant financial information to the users of our financial statements. . Thank you for the opportunity to share our comments 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*. Please contact us if you have questions or need clarification regarding our comments.

Sincerely,



Walter C. Davenport, CPA
NASBA Chair



Ken L. Bishop
NASBA President and CEO