July 30, 2015

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

Question Text	Response	Status
* Please select the type of entity or individual responding to this feedback form.	Preparer	Completed
Other, please specify (Specified)		
* Please provide contact information for any follow-up questions.	(Filled in as Follows:)	Completed
Organization *	Warlick Accounting Services	
First name *	David	
Middle initial	C	
Last name *	Warlick	
Email address *	david@davisoaks.org	
Phone number	404-325-4300	
1. Do you agree that the disclosures about the nature of donor-imposed restrictions and their effects on liquidity in notes to financial statements would help ensure that necessary information is not lost by combining the temporarily and permanently restricted classes of net assets into one donor restricted category for purposes of presentation in the statement of financial position (balance sheet)? If not, please identify the information lost and why it is necessary. (See	Yes. The varying classifications of net assets and GASB 54 fund balances has been confusing. Today there are unrestricted, temporarily restricted, permanently restricted, nonspendable, restricted, committed, assigned, and unassigned. I like combining these into just two classifications. I'd like to see FASB and GASB agree on the two proposed common classifications for net assets and fund balances. It would be OK if GASB took the two FASB classifications and then added subclassifications (such as nonspendable, committed, assigned), but the two major classifications (net assets with donor restrictions, and net assets without donor restrictions) should be identical in definition and reporting between FASB and GASB.	Completed

paragraphs BC22–BC23 and BC27–BC32.)		
2. Do you agree that the aggregated amount by which endowment funds are underwater should be classified within net assets with donor restrictions rather than net assets without donor restrictions? If not, why? (See paragraph BC24.)	No. Clearly these balances are without restriction or the NFP would not have been able to deplete them. The wasted or lost amount that is underwater would seem to be "without donor restriction" to me since the Board was able to waste the assets in a way not foreseen by the restricting donor.	Completed
3. Do you agree that disclosures describing the NFP's policy on spending from underwater endowment funds, together with the aggregated original gift amount or the amount that is required to be maintained by donor or by law, would provide creditors, donors, and other users with information useful in assessing an NFP's liquidity and potential constraints on its ability to provide services without imposing undue costs? Why or why not? (See paragraph BC32.)	Yes. While I don't see how such disclosure says anything about "liquidity and potential constraints" since the NFP has clearly violated these constraints, the disclosure would help assess any cavalier spending policies by the NFP's Board.	Completed
4. Do you agree that providing information in notes	Yes.	Completed

to financial statements about financial assets and liabilities and limits on the use of those assets is an effective way to clearly communicate information useful in assessing an NFP's liquidity and how it manages liquidity without imposing undue costs? If not, why, and what alternative(s) would you suggest? (See paragraphs BC27–BC31.)		
5. Most business-oriented health care NFPs are required to present a classified balance sheet. Continuing care retirement communities and other NFPs may choose to sequence their assets and liabilities according to their nearness to cash as an alternative to using a classified balance sheet. As a result of the proposed requirement to provide enhanced disclosures of information useful in assessing liquidity, would there no longer be a need to hold business-oriented health care NFPs to the more stringent standard for their	N/A. I know nothing about health care NFPs.	Completed

balance sheets? If not, why?		
6. Do you agree that requiring intermediate measures of operations would provide users of NFP financial statements with more relevant and comparable information for purposes of (a) assessing whether the activities of a period have drawn upon, or have contributed to, past or future periods and (b) understanding the relationship of resources used in operations of a period to resource inflows available to fund those operations? Do you also agree that classifying and aggregating information in that way would not require major system changes? If not, why? (See paragraphs BC38–BC47.)	Maybe. I agree that an intermediate measure of operations would be fantastic However, I do not understand how changing the eight forms of net assets and fund balances to just two forms is in any way a metric or dashboard for financial statement (FS) users. Google on NACUBO's "The tool—which uses the Composite Financial Index (CFI) developed by Prager, Sealy & Co.; KPMG; and BearingPoint—provides an overall picture of an institution's financial health for true measures." FASB needs a CFI-type measure of operations. For users of QuickBooks, the proposed changes to net assets would require new Class or Location codes, but this would be easy for Business Managers and not a major system change. A true measure of operations, such as the CFI, would be more useful on FS and more difficult for Business Managers.	Completed
7. Do you agree that intermediate measures of operations should include only those (a) resource inflows and outflows that are from or directed at carrying out an NFP's purpose for	Maybe. You are correct that NFP Boards can run deficit spending and even red budgets without such spending being obvious to FS users. The Board makes a forward budget, finds the budget to be in the red, and converts the deficit to "contributions" to bring the budget back to zero or in the black. Non-pledged, extraordinary contributions should not be allowed in forward budgets as a way to bring these budgets into balance or into black. Likewise there should be, as you propose, a way for the FS user to know if current spending levels are unsustainable. This could be the CFI	Completed

existence and (b) resources that are available for current-period operating activities before and after the effects of internal governing board appropriations, designations, and similar actions? If not, why? (See paragraphs BC48–BC74.)	measure, or a note to the FS stating that forward budgets are dependent on extraordinary levels or contributions or lines of credit to be achieved without default or bankruptcy. Such FS notes would state the level of contributions in the past and the level of contributions in forward budgets. To the extent that forward unsubstantiated contributions and lines of credit are greater than past contributions, the difference might be reported as a liability on the current year's FS.	
8. Do you agree that all internal transfers (governing board appropriations, designations, and similar actions that make resources unavailable or available for operations of the current period) should be reflected on the statement of activities immediately after an intermediate measure of operations before transfers and immediately before an intermediate measure of operations after transfers? If not all internal transfers, on what basis would you distinguish between those transfers that should and should not be reflected and how would you make that distinction operable? Do you also agree that	Maybe. Some transfers are purely cosmetic, such as a transfer from a Fund X balance in Bank A to a Fund X balance in Bank B. These should be netted to show that Fund X experienced no transfer within itself. There is a tendency for NFPs to have client-facing bank accounts and non-client-facing bank accounts. Any money received by the client-facing bank account is immediately transferred to the "real" operating account. This assures that donors and government agencies can deposit money into the NFP's account but cannot withdraw or drain such accounts (because the accounts always have a $0 balance). These "transfers" from account to account within the same Fund should not count as a transfer. I agree that transfers between Funds are useful information for the face of the FS.	Completed

reflecting those internal decisions (or lack of them) on the face of the statement rather than in notes will help an NFP communicate how its operations are managed without adding undue complexities? Why or why not? (See paragraphs BC46–BC47 and BC67–BC74.)		
9. Do you agree that to promote comparability, the Board should eliminate one of the two optional methods for reporting expirations of donor restrictions on gifts of cash or other assets to be used to acquire or construct long-lived assets? Do you also agree that requiring the expiration of those donor restrictions on the basis of the placed-in-service approach rather than the current option to present a release from restriction over the useful life of the acquired long-lived asset is most consistent with the underlying notions of the intermediate measures of operations? If not, why? (See paragraph BC66.)	Yes. This is an excellent new provision.	Completed

10. Do you agree that gifts of, or for, property, plant, and equipment (long-lived assets) should be considered operating revenue and support when received (or when placed in service in the case of a gift to acquire a long-lived asset)? Do you also agree that because the long-lived asset is not immediately fully available to be utilized in the current period, an NFP should be required to present a transfer from operating activities to other activities for the amount of the gifted asset or portion of the asset funded by restricted gifts? If not, why? (See paragraphs BC72–BC74.)	Maybe. This seems somewhat complicated, but it does force the NFP to show the gift and that the gift has little effect on immediate cash flow. What it fails to show is how valuable is the gift? What is the effect of the gift on long-term cash flow? I've seen a "gift" of a supercomputer whose annual maintenance had a fair value greater than the supercomputer. Likewise, a "gift" of an old school house with asbestos, leaky roof, and broken windows may not be much of a gift to a charter school. There has to be an engineer's reserve study with such long-lived gifts, and the present value of the grantor's associated reserves (typically zero or severely underwater) be disclosed against the value of the gift to the donee. Without a Gift Acceptance Policy (GAP), a NFP can do itself financial damage by accepting gifts that will require future unfunded maintenance.	Completed
11. Do you agree that the addition of required intermediate measures of operations for all NFPs would make unnecessary the need for NFP business-oriented health care entities to also present their currently required performance indicator? Why or why not? (See paragraph BC99.)	N/A. I know nothing about health care NFPs.	Completed

12. Do you think the flexibility currently allowed by GAAP to present a statement of activities as either a single statement or two articulating statements and to use either a single-column or a multicolumn format should be retained or narrowed? If narrowed, why and in what ways?	Maybe. This is a tough question because the draft does not show a single example of a multiyear single-column Statement of Activities! I want to see such an example in version 2 of the draft. My preference would be for a multiyear single-column SoA format. Since there is no example, then yes, articulating multicolumn format is acceptable.	Completed
13. Do you agree that reporting operating expenses by both their function and nature together with an analysis of all expenses (other than netted investment expenses) provides relevant and useful information in assessing how an NFP uses its resources and, thus, should be required? Why or why not? (See paragraphs BC87–BC93.)	Maybe. This seems like a great suggestion, but could be difficult to present. A charter school has a long list of natural Objects (expenses) and perhaps ten program Functional activities (Instruction, Media Center, School Administration, etc). In addition, there are the FASB support activities (M&G, Fundraising). So this report becomes really cumbersome, and of course impossible for QuickBooks to generate. Would it be possible to delay this provision until Quickbooks, Sage, Xero, etc get the capability to generate such a new SoA report? Also, if FASB/IRS has one definition of Functions (Programs, M&G, Fundraising) while a NFP's authorizer has different definitions (say, for a school, Instruction, Media Center, School Administration, etc), then I think the FS should just show the three to four FASB/IRS categories (Programs, M&G, Membership Development, Fundraising). The NFP should be required to then show the same Objects but just the authorizer's Program activities (Instruction, Media Center, School Administration, etc) in a separate required FS whenever there is an authorizer with different function codes than FASB/IRS.	Completed
14. Do you agree that requiring investment income to be reported net of external and direct internal investment expenses will increase comparability and	Yes.	Completed

avoid imposing undue costs to obtain information about all investment fees (for example, embedded fees of hedge funds, mutual funds, and funds of funds)? If not, why? (See paragraph BC100.)		
15. Do you agree that the disclosure of the amount of all investment expenses is unnecessary but that disclosure of internal salaries and benefits that are netted against investment return is of sufficient relevance, not too costly to obtain, and thus should be required? Why or why not? (See paragraph BC101.)	N/A. I know nothing about NFPs with endowments.	Completed
16. Do you agree that interest expense, whether incurred on short-term or long-term borrowing, and fees and related expenses incurred for access to lines of credit and similar cash management and treasury activities are not directed at carrying out an NFP's purposes and, thus, should not be classified as operating	Maybe. Short-term borrowing and line-of-credit fees are part of the Object codes of charter schools. Because the end-of-month payroll generally occurs prior to the arrival of the county's monthly allotment check, almost all charter schools require a line of credit against their payroll. Interest would be charged to an M&G function rather than an Instruction program activity. But it makes little difference to a charter school's accounting procedures whether you want these minor expenses to be operational or nonoperational.	Completed

activities? If not, why? (See paragraphs BC59–BC60.)		
17. Do you agree with the following implementation guidance: a. Equity transfers between NFPs that are under common control and are eliminated in a parent entity's consolidated financial statements and equity transactions between financially interrelated entities should be presented within operating activities unless they are not available for current-period use in carrying out the purpose for the reporting entity's existence? If not, why? (See paragraph BC62(a).) b. Immediate writeoffs of goodwill generally should be presented within operating activities? If not, why? (See paragraph BC62(b).) c. Immediate writeoffs of acquisitions of noncapitalized	N/A. I know nothing about NFPs with parents or with writeoffs of noncapitalized items.	Completed

items for a permanent collection should be presented within the operating activity section if acquired with net assets without donor restrictions? If not, why? (See paragraph BC62(c).)		
18. Do you agree that the direct method of presenting operating cash flows is more understandable and useful than the indirect method? Do you also agree that the expected benefits of presenting operating cash flows in that way would justify the one-time and ongoing costs that may be incurred to implement that method of reporting? If not, please explain why and suggest an alternative that might increase the benefits or reduce any operational concerns or costs. (See paragraphs BC75–BC80.)	Yes. Thank you. Thank you. The indirect method has always been nonsense and useless.	Completed
19. Does the indirect method's reconciliation of cash flows from operations to the	No. Again, thank you.	Completed

total change in net assets provide any particular type of necessary information that would be lost if, as proposed, that method is no longer required? If so, please identify the potentially omitted information and explain why it is useful and whether it should be provided through disclosure rather than requiring use of the indirect method. If you suggest that requiring the indirect method is necessary, would you require that the amount for cash flows from operations be reconciled to the amount of the (a) change in net assets, (b) change in net assets without donor restrictions, or (c) proposed intermediate measure of operations before or after transfers? Why? (See paragraphs BC75–BC80.)		
20. Do you agree that although operating activities is defined differently for the statement of cash flows than for the statement of	Yes. Thank you. Thank you. The indirect method has always been nonsense and useless.	Completed

activities, more closely aligning line items presented in the statement of cash flows with the proposed operating classification for the statement of activities will increase understandability even though that reporting would be somewhat different from current requirements for business entities? If you believe that operating items in the two financial statements would not be sufficiently aligned, please indicate how their alignment might be further improved. (See paragraphs BC81–BC86.)		
21. Are there any particular proposed amendments in this Update that would require a longer period to implement than other amendments? If so, please explain.	Yes. Intuit DBA QuickBooks cannot generate a functional Statement of Activities. Please work with accounting vendors (Intuit, Xero, Sage, etc) to help them devise an acceptable "canned" NFP Statement of Activities.	Completed
22. Are there reasons for any particular size or type of NFP to need a longer time frame to implement the proposed amendments in this Update? If so, please explain.	Maybe. Obviously any NFP that is so small that it can use QuickBooks Premier NonProfit or QuickBooks Online Plus cannot generate a functional SoA for its monthly Board meetings or its annual audit. Such a new SoA is not included in existing versions of inexpensive accounting software. Even if a NFP could generate such a SoA, the SoA would be cumbersome in its size (multipage vertically is OK, but multipage horizontally is not). The requirements for a SoA should be legible even when all required columns are printed on one-page wide. I would personally like to see some operational metric other than the IRS' "% of Programs to Total (ie, Programs, M&G, and Fundraising)", or FASB's "net	Completed

	assets without donor restrictions." The new operational metric could be the CFI metric proposed by the National Association of College and University Business Officers. Lastly, what happens when FASB goes from three net assets to two: does GASB also reduce its five categories of Fund Balances? I'd like to see FASB and GASB agree on the two proposed common classifications for net assets and fund balances. It would be OK if GASB took the two FASB classifications and then added subclassifications (such as nonspendable, committed, assigned), but the two major classifications (net assets with donor restrictions, and net assets without donor restrictions) should be identical between GASB and FASB in definition and reporting.	
Please provide any additional comments on the proposed Update:	I like the proposal. Well done. There remains the problem of NFPs abusing the Form 990 by say (1) not reporting the CEO's salary, (2) reporting more than 10 percent of expenses in "other", (3) not reporting their Board approval process on Schedule O, (4) signing the Form 990 with an illegible signature, (5) consistently filing late with no excuse, or (6) not posting the 990 to their web site.	Completed
Please provide any comments on the electronic feedback process:	This is great! Easy to use!	Completed
Below is a summary of your responses to the questions in this feedback form:	Not Answered	Not Answered
Thank you for your participation. If you are finished providing comments, click the 'Submit' button.	Not Answered	Not Answered