July 27, 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 *	Muskingum University	
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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	The clarification on net asset reporting does help with a misunderstanding about current structure, specifically the temporarily restricted net assets category. This was especially confusing related to the reporting on endowment assets.	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.)		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.)		Completed
4. Do you agree that providing information in notes		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		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.)		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		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.)		
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		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.)		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.)		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.)		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?		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.)	Natural and functional reporting appears to place a unique reporting burden on NFP organizations that does not exist in other industries. Functional reporting is also prevalent in other industries that report on COGS, Selling, etc. Natural reporting is not mandated for profit motivated business enterprises.	Completed
14. Do you agree that requiring investment income to be reported net of external and direct internal investment expenses will increase comparability and		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.)		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		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		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.)	Changes related to the statement of cash flows should be addressed as a general standard. Nothing in the proposed solution is particularly addressed to the NFP industry. Many organizations, including our institution, argue that the direct method of cash flows actually causes more confusion since readers do not have the ability to reconcile the statement of cash flows to the statement of activities.	Completed
19. Does the indirect method's reconciliation of cash flows from operations to the	presenting cash flows in a direct format would appear in conflict with the information presented in the statement of activities. Now an entity would be required to spend time explaining the differences, when the indirect method actually provides this reconciliation from the statement of	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.)	activities.	
20. Do you agree that although operating activities is defined differently for the statement of cash flows than for the statement of		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.		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.		Completed

Please provide any additional comments on the proposed Update:	The proposal addresses improvements needed in Not-for-Profit (NFP) reporting, but many of the proposals appear to move NFP reporting away from stated goals of previous standards to create more uniformity among financial reporting, as many of the provisions of this standard seem to move NFP reporting away from general reporting standards. We believe that these changes can actually mask key trends that should be noted by a user of the financial statement. The NFP industry does have many characteristics that cause it to be different from other, profit motivated industries. We applaud the proposed ASU's efforts to clarify the reporting on these differences. However all entities have certain common functions relating to general results of activities or income, expense and changes in equity and cash flows. Too frequently NFP organizations fail because they fail to recognize that they are subject to the general economic rules that apply to all organizations, 'business' or otherwise. The proposed ASU seems to extend reporting differences to areas that are not different; and would hinder the recognition by users of basic economic principles necessary to success. Most users of financial statements, whether they are donors or lenders, understand common economic/business principles and are very familiar with reporting for profit motivated entities. Mandating different reporting in areas such as in cash flows and the mandated reporting on operations actually increases the likelihood that a user will miss a trend that they would otherwise. There have been several references in all of the presentations on this statement, including that presented by FASB staff in an online event on May 12, that provisions of this statement relate to the needs of members of the board of directors. We do not think it is the scope of this project on an external reporting standard to include the needs of these internal users. In other reporting pronouncements related to all entities, NFP and profit motivated there is no discussion of the needs of a board director, which are generally expected to be met with other internal/ad-hoc reporting. These differences for NFP reporting create a statement that is overly complex, resulting in a statement that is confusing to the user. NFP organizations are already subject to regulation by many different agencies of federal, state and local governments, as well as other granting agencies. In many of these cases, the NFP has a unique reporting burden outside of the GAAP based financial statements. Compliance with the requirements create a cost and complexity that would add to an already heavy regulatory burden on NFP organizations. At a time when there is greater pressure to divert more resources to program, to comply with this	Completed

	reporting the proposed ASU requires the allocation of more resources to administrative cost. While there are opportunities for improvement in NFP reporting, the proposed ASU seems to expand the scope and nature of reporting beyond that in the original charge. We recommend that the proposal remove those instances referred to above that create complex financial statements that differ so much from other entities as to create confusion to the user and additional cost to the NFP organization.	
Please provide any comments on the electronic feedback process:		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