

**Response to Exposure Draft**  
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### **Statement of Financial Position and Liquidity**

1. I don't have an issue with combining what were permanently restricted and temporarily restricted net assets into one category on the statement of financial position. I do not agree with your statement that the lines are blurred regarding permanently vs temporarily restricted net assets. The adoption by states of UPMIFA and present accounting requirements clarify what is and is not spendable under UPMIFA based on the two alternative client choices and its very important for my clients to understand what is spendable and what is not. The current tabular rollforward disclosure separating the endowment between unrestricted, temporarily restricted and permanently restricted is something my clients understand and use as a tool for planning. Many NFP clients of mine don't have a spending plan, but pull out as much temporarily restricted funds as they need to operate.

For many of my clients, I break out investment in property (less related debt) within unrestricted net assets, as clients tend to look at unrestricted net assets and assume the entire balance can be spent. Governmental accounting standards also provide for this break out.

The information that is lost is you can't tell from the SOFP itself whether the NFP has significant endowment. It would make a difference to me as a reader whether the majority of donor restricted net assets are temporarily restricted vs. an endowment.

2. I don't feel strongly about the reporting of underwater funds, but academically I can see that it makes sense to classify within the restricted category because it's eventually going to be restored from donor restricted funds.
3. I agree with the proposal to disclose the NFP's policy on spending from underwater funds. I also agree that the financial statement user would need to know the historic dollar amount of the gifts in order to get a perspective for how large the underwater amount is in comparison with the total.
4. I understand the need to provide more liquidity information, and I don't think it would be too costly to produce, but I have concerns over the disclosure. Many NFP's have poor or no working capital, and the proposed disclosure would illuminate that very well, to the detriment of NFPs. If the disclosure indicates a shortfall in the short term, NFP's will have trouble getting or maintaining a line of credit and funder could use it as a reason not to continue to fund the NFP.

On one level it seems unfair that NFP's would be subject to a disclosure that is not required of any other industry. For – profit entities have classified balance sheets which provide some of this information. However, the classified balance sheet gives a one year window. I think I would be more for requiring a classified balance sheet of NFPs. All my NFP clients have classified balance sheets. To do this more guidance would be needed on classifying NFP type items such as investments that are permanently restricted.

5. In terms of a classified balance sheet, requiring one could serve as a substitute for the liquidity disclosure discussed above although it wouldn't provide such a short term window. Ultimately if a classified balance sheet is not required for NFP's, then it shouldn't be required for NFP healthcare entities. There are many types of business-oriented NFP such as trade associations, so it's not fair to just pick the healthcare segment to continue with such a requirement.

### **Statement of Activities, Including Financial Performance**

6. (and 7)I agree with the idea of requiring an operating measure, but think NAC has gone overboard. I agree that the measure should be based on the proposed criteria, mission related and currently available. I don't believe the gain on sale of an asset meets this criterion. I also don't believe that gifts of property or contributions to buy property meet the criteria either. It is very common for my NFP client to receive grants for property which totally distort the financials by creating a huge increase in net assets. Sometimes these are reported below the line now, but in all my management and board presentations I subtract those funds in analyzing their true financial performance. I don't see this as a big cost to NFP's, they're just reporting items in a different part of the SOA.
8. I am strongly opposed to having two intermediate measures, one before transfers and one after. Presenting the transfers in between the two measures, then backing them out again further down in the SOA only serves to confuse readers. I have shown my clients the proposed SOA and their unanimous conclusion was that it is unnecessary and confusing. If these transfers are important enough to report, do it in the disclosures. This provision takes a step backwards towards making NFP financials more understandable.
9. I agree that the option to release over the life of a donor funded of gifted asset should be eliminated. Although it has some theoretical merit, it is impractical to implement. My clients are always presented with the two options, and no one yet has selected the option proposed to be eliminated. Having only one option would make it easier to identify this revenue and it should be reported below the operating measure as the asset is long term.

10. As stated above, I believe that a gift of PPE is nonoperating. The asset is long lived, so only a portion of the asset will be used in the current period, so it would not meet the currently available criteria. In addition, receiving grants for PPE or PPE itself is not mission oriented. It is not uncommon in CT for a small NFP to receive a bonding grant of \$1M or more to renovate property. To recognize that grant as operating severely distorts results of operations, since it falls directly to the bottom line. In addition, the other side is unrestricted net assets, which gives financial statement readers the impression that the NFP has ample net assets when the majority simply represents the book value of PPE. The book value of PPE should be carved out of unrestricted net assets to enhance liquidity information.
11. I'm of the belief that NFP healthcare reporting requirements should be the same as nonHC NFP's.
12. Some NFP's have virtually all the items that are shown in the examples and many small NFP's have very little or no items below the line. Therefore, must allow for some flexibility as under the old rules.
13. I strongly disagree that all NFP's should be required to report expenses in a matrix format by function and object. I believe the current requirements make a lot of sense. If a NFP is supported primarily by public donations (voluntary health and welfare organization) then the public deserves more accountability and a statement of functional expenses serves that purpose because the public is not privy to any other financial information other than Form 990. If a NFP is supported primarily by grants, the expenses incurred are determined by the grant budget, and the NFP is filing expenditure reports to the grantor so the grantor has the needed information. There are no donors. If a NFP is supported by fee for service, who needs the expense information? There are no donors. This is another case where NFP's are being forced to do something no other industry does. Another issue is the lack of guidance as to how to report expenses by function. I believe expense by function should be required, either in notes or on SOA. Expenses by object or natural classification should be voluntary, and can be in the notes or in the SOA.
14. Investment expenses have to be reported net as the cost of breaking out embedded fees is very high. I don't feel strongly either way about netting investment manager salaries, none of my clients hire or use in-house investment managers. From an academic standpoint, it begs the question that if we're netting investment manager compensation, why wouldn't we do the same for salaries of fundraisers. Considered in that light I would say that investment manager salary is a management and general expense.
15. The disclosure of all investment expenses is cost prohibitive for embedded fees, so I see no choice there. If investment manager salary is required to be netted, then I would want it disclosed in order to compare the financials with other NFP financial statements.

16. Interest is typically not a big expense for my NFP clients. I can see where it does not meet the mission and currently available criteria. But the same can also be said for gains on disposition of PPE, which is indicated to be an operating item. Need to be consistent.
17. These are situations that I rarely see in practice. I agree with proposed treatment of equity transfers (a). As for (b), immediate write-offs of goodwill are rare, and I think mixing them in with operating activities is misleading as the item is unusual and nonrecurring. Under (c), at least the collection is at the heart of mission, so presenting that in operating activities seems acceptable.

### **Statement of Cash Flows, Including Financial Performance**

18. I strongly believe that the indirect method is much more useful to my clients than the direct method. My clients and I are interested in how the change in net assets translates to cash generated from operating activities. This helps the client bridge between cash and accrual and how increases or decreases in payable and receivables affect their cash. Showing my client the direct method, the common comment was – what does it matter that I paid suppliers \$40,385? It doesn't relate to anything. What matters is there was an increase in net assets because a large pledge came in at year end. The indirect method shows that although they had an increase in net assets, their cash balance is still low because they have not received the pledge – then that becomes a cause of action, collect the pledge. You can't get any of that information using the direct method. The cost of the added information needed for the direct method is not great as a simple accrual to cash conversion could be done in excel – I just don't believe the information is valuable. I again point to the fact that for profit entities are not required to use the direct method.
19. See answer above
20. I agree that moving interest expense to financing activities makes sense and is consistent with its proposed placement on the SOA. I believe PPE gains and losses should not be operating items on the SOA and therefore should not be in operating activities in the cash flow statement because they do not meet the operations criteria. PPE purchases should be in investment activities on the cash flow statement. I agree that investment gains and losses should be nonoperating on the SOA and should be reported under investing activities in the cash flow statement. One concern I have is that outside users like bankers that see for – profit cash flow statements may be confused over the differences.
21. I think it's better to require implementation of all proposed changes at the same time for simplicity's sake. It doesn't appear any one item would take that much longer to implement than the others.

22. Although the smaller NFP's have the least available resources with which to implement the standard, they also tend to be less complicated so would have fewer changes. I would implement at the same time for everybody.

As a side note, I was troubled attending the session on revenue recognition at the June AICPA NFP Conference at the Gaylord. The issue of whether a governmental grant is subject to the revenue recognition standard is huge in my practice of mostly grant driven NFPs. The FASB needs to address this issue ASAP. The other issue the FASB keeps avoiding is whether a governmental grant is a contribution or an exchange transaction. These are more important issues in my mind than financial statement presentation.