

**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
* Please select the type of entity or individual responding to this feedback form.	Preparer
Other, please specify (Specified)	
* Please provide contact information for any follow-up questions.	(Filled in as Follows:)
Organization *	Portland Art Museum
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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 paragraphs BC22–BC23 and BC27– BC32.)	Yes.
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.)	Yes. UPMIFA allows continued spending from underwater endowments with no suggestion that there is any kind of liability to make up the shortfall. The underwater amount is simply part of the endowment. Hence the current treatment of classifying the underwater portion as a liability of the unrestricted funds makes no sense.

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<p>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.)</p>	<p>I don't think this is necessary since the existing disclosure requirements for endowments, including the split between the net asset classes and movements for the year, gives effectively the same information.</p>
<p>4. Do you agree that providing information in notes 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.)</p>	<p>Yes.</p>
<p>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 balance sheets? If not, why?</p>	<p>No comment.</p>

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<p>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.)</p>	<p>Yes. The intermediate measures would more clearly disclose the transfers to and from designated funds, including capital or plant funds and quasi-endowments, as well as highlighting the difference between the spending rate draw from endowments, as distinct from the actual return on the investments. These items are a source of major distortions in NFP results from period to period. Users of financial statements are often looking for consistency or predictability and hence preparers are required to provide lengthy and hard to understand explanations to people who are not NFP experts. Alternatively, these items can be subject to abuse by management in an attempt to manipulate results so as to avoid having to make such explanations, or to comply with loan or funding covenants.</p>
<p>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 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.)</p>	<p>Yes. In setting up an NFP one has to declare what it's charitable purpose is in order to obtain IRS approval for tax- exempt status. It therefore seems logical that the financial statements should report on activities within the scope of that purpose, separate from other incidental activities related to that purpose, or carried out at the discretion of the Board or management. When current period activities draw from or contribute to past or future periods, that should be disclosed too. This is analogous to disclosure of external time-based restrictions from donors.</p>

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<p>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 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.)</p>	<p>Yes, all material transfers should be disclosed on the face of the statement. Assuming the NFP already has these transactions recorded in its books, it should not be too onerous to add this disclosure.</p>
<p>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.)</p>	<p>No comment.</p>
<p>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.)</p>	<p>Yes and yes.</p>

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<p>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.)</p>	<p>No comment.</p>
<p>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?</p>	<p>Retained. The flexibility allows NFP's to select which presentation is more relevant to their operations.</p>
<p>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.)</p>	<p>Yes, the wide variety of NFP structures and methods of operation make this kind of analysis essential if there is to be any comparability between organizations. For example, whether an NFP owns its own building, or has debt, or operates using contractors, volunteers, or staff on payroll, can all make a substantial difference to the financial results, even if the service delivery or outcomes are the same.</p>
<p>14. Do you agree that requiring investment income to be reported net of external and direct internal investment expenses will increase comparability and 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.)</p>	<p>Yes. The net return on investments is the relevant measure.</p>
<p>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.)</p>	<p>Yes, otherwise there is no disclosure of these costs.</p>

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<p>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 activities? If not, why? (See paragraphs BC59– BC60.)</p>	<p>No. I think it should be possible to distinguish between interest and fees incurred as part of operating activities e.g. lines of credit or operating cash management, and longer- term, capital financing e.g. construction loans. The interest and fees should follow where the cash goes.</p>
<p>17. Do you agree with the following implementation guidance:</p> <p>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).)</p> <p>b. Immediate writeoffs of goodwill generally should be presented within operating activities? If not, why? (See paragraph BC62(b).)</p> <p>c. Immediate writeoffs of acquisitions of noncapitalized 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).)</p>	<p>No comment.</p>
<p>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.)</p>	<p>Yes and yes.</p>

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<p>19. Does the indirect method's reconciliation of cash flows from operations to the 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.)</p>	<p>I think the indirect method provides interesting and useful information about movements in balance sheet items and how this impacts cash balances, especially what one might call movements in working capital. However, one has to be a sophisticated user to be able to interpret this information and so it is probably not relevant for the majority of users and hence not worth requiring its use.</p>
<p>20. Do you agree that although operating activities is defined differently for the statement of cash flows than for the statement of 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.)</p>	<p>Yes.</p>
<p>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.</p>	<p>No.</p>
<p>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.</p>	<p>No.</p>
<p>Please provide any additional comments on the proposed Update:</p>	
<p>Please provide any comments on the electronic feedback process:</p>	<p>It is useful to be able to use a less formal method of feedback.</p>