Submitted 8/11/15

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 |
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| * Please select the type of entity or individual responding to this feedback form. | Industry Organization | Completed |
| Other, please specify (Specified) | | |
| * Please provide contact information for any follow-up questions. | (Filled in as Follows:) | Completed |
| Organization * | Carleton College | |
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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 | Response: Agree.<br>Footnote disclosure for the temporary and permanently restricted donor restrictions is critical to appropriately demonstrate the dramatically different fiduciary obligations. We recommend continued emphasis on the permanent obligations of the institution and adding additional clarification to the Unrestricted Net Asset to improve clarifications about liquidity. | Completed |

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| 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.) | Response: Disagree.<br>Underwater endowments create an additional obligation against unrestricted net assets which can and should be recognized but should not imply an additional donor restriction beyond that already classified as temporary and permanent.<br>Essentially, donor restrictions are backed by the full faith and credit of the institution and to the extent an endowment is underwater there is an obligation on otherwise unrestricted net assets and the obligation should be reflected in Unrestricted Net Assets. Permanent Net Assets should always be stated at Historical Gift Value. | 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.) | Response: Disagree.<br>Current footnote disclosures for endowments are adequate. | Completed |
| 4. Do you agree that providing information in notes | Response: Disagree.<br>No value added. The cash flow statement provides adequate evidence of liquidity management additional footnote | Completed |

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| 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.) | narratives are not necessary. | |
| 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 | Response: Agree.<br>No value added by current requirement to classify balance sheet assets and liabilities. | Completed |

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| 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.) | Response: Disagree.<br>While Readers of the financial statements do need a clear measure of operations for reference in the statement of activities the proposed change is likely to confuse more than clarify.<br>The proposed definition(s) of operating activity need significant improvement and clarification. The Exposure Draft unnecessarily confuses Unrestricted Net Asset activity with Operating Activity by including Investment in Plant activity in Operations which will increase Reader confusion about these investments which are often not recurring in nature and benefit multiple periods of time, irreparably distorting true operating activity. | 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 | Response: Disagree.<br>Readers want and need to know about Operating Activity, inserting two measures for operations will continue to contribute to confusion. Transfers of endowment spending are donor mandated, board directed (by prudent management regulations) to support operations. To add value FASB needs to commit to a clear definition of Operating Activity which should not include gifts restricted for investment in plant which are investment activities to benefit ongoing operations. | Completed |

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| 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 | Response: Disagree.<br>As stated above, transfer of endowment spending are donor mandated, board directed to support operations. Excluding these transfers from the first measure of operations will increase donor confusion. To add value FASB needs to commit to a clear definition of Operating Activity Readers want and need to know about Operating Activity, inserting two measures for operations will create new confusion. | Completed |

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| 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.) | Response: Agree.<br>Proposal improves consistency. | Completed |

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| 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.) | Response: Disagree.<br>Gifts for Investment in Plant are rarely recurring in nature and clearly benefit multiple periods. Including them in the definition operating activity will create irreparable distortions between years and between otherwise comparable institutions.<br><br>Gifts for Investment in Plan should not be included in the definition of Operating Activity. | 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.) | Response: Agree. | Completed |

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| 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? | 12. Presentations:<br>Response: If FASB hopes to improve consistency, narrowing the number of reporting options would be beneficial. Moving toward a single statement and single column will bring Readers closer to the for-profit formats that are more familiar. | 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.) | Response: Agree.<br>Readers should find expenditure reporting by both functional and nature to be informative. The statement of functional expenses appropriately demonstrates how the organization fulfills its mission. Footnote disclosure of expenditures by nature is appropriate and useful. | Completed |
| 14. Do you agree that requiring investment income to be reported net of external and direct internal investment expenses will increase comparability and | Response: Agree.<br>Requiring investment income to be reported net of external and direct internal investment expenses will increase comparability. Consideration should be given to clarifying that both internal and external investment fees should be included in investment return calculations as well. | Completed |

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| 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.) | Response: Disagree.<br>Differentiating internal and external management fees does not change the financial reporting and will provide no added value to Readers. | 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 | Response: Disagree.<br>Interest expenses must be financed by operating revenue. Failure to include them as an operating expense will distort the presentation of this recurring liquidity obligation. It would be better to match these operating expenses with operating income. For most NFP there are two costs for raising capital, interest expense and fundraising expense. If fundraising expenses are commonly recognized as operating expenses, interest expense should certainly be recognized in the same way. | Completed |

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| activities? If not, why? (See paragraphs BC59–BC60.) | | |
| 17. Do you agree with the following implementation guidance:<br><br>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).)<br><br>b. Immediate writeoffs of goodwill generally should be presented within operating activities? If not, why? (See paragraph BC62(b).)<br><br>c. Immediate writeoffs of acquisitions of noncapitalized | Response: Agree.<br>Guidance appears reasonable and appropriate. | Completed |

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| 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.) | Response: Agree.<br>The direct cash flow statement echoes the Statement of Activity, which should add clarity for the Reader. | Completed |
| 19. Does the indirect method's reconciliation of cash flows from operations to the | Response: Information lost includes transparency about Mark to Market adjustments, and Depreciation which can be addressed in the related Investment and Property, Plant and Equipment or new Natural Expense Classification Footnote. Footnote disclosure is an adequate replacement for any | Completed |

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| 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.) | indirect information. The indirect cash flow statement is simply hard to understand and footnotes can provide adequate information. | |
| 20. Do you agree that although operating activities is defined differently for the statement of cash flows than for the statement of | Response: It is extremely important that Readers recognize the Statement of Cash Flow definitions as consistent with those required for business entities. Creating/changing definitions will increase Reader confusion.<br><br>The definition of Operating Activity should NOT include Investment in Plant Activity for either the Statement of Activities or the Statement of Cash Flow. Interest expense | Completed |

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| 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.) | should be included in the definition of Operating Activity for BOTH the Statement of Activities and the Statement of Cash Flow. All investment Income should be reported as Investment Activity on the Statement of Cash Flow which will demonstrate from a cash perspective the dependency between Operating Activity and Investment Activity. | |
| 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. | Response: The proposed amendments require substantive revision prior to implementation. The time to implement these changes will not be not be insignificant, the effective date itself is reasonable for an institution of our size and limited complexity. Our concerns are dominated by our disagreement with the proposed amendments themselves and the YEARS it will take to help our readers understand their implications. | 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. | Response: The proposed amendments can be implemented regardless of the size or type of NFP however, smaller NFP with limited staff will struggle to move forward. I would imagine most higher education organizations should be able to implement them on a reasonable time frame. | Completed |

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| Please provide any additional comments on the proposed Update: | Overview:<br>We applaud the intent to enhance reader experience. Unfortunately, we are concerned that the Exposure Draft appears to have lost sight of who the readers are and fails to meet their needs and expectations. Ultimately, many of the changes proposed will inevitably lead to more confusion for our sector. Most of our comments are framed by the belief that NFP financial statements should differ from for-profit statements only in places where such differences are essential to understanding the differences between NFPs and for-profits. We assume most Readers of NFP financial statements are more familiar with for-profit statements, so the more NFP statements can mirror for-profit statements, the better they will be understood.<br><br>Readers of our financial statements include members of the Board of Trustees who hold a fiduciary obligation to the institution they represent. Clear and concise financial evidence to support and address these fiduciary obligations should be an important objective.<br><br>Readers include Individual Donors and Grant Issuing Organizations who have gifted or "invested" financial resources with the institution to ensure it can fulfill the mission it articulated to earn the privilege of establishing itself as a not-for-profit entity, and establish eligibility for federal and state tax exemption (under certain conditions). Clear and concise financial evidence to support and address how the institution has used these financial resources to fulfill its mission and the stewardship commitments it has made to donors should be another important objective. Meeting the needs of these Readers will demand our financial reporting focus more on stewardship information and less on valuation and it's volatility or stale references to liquidity.<br><br>Readers include Bond Holders and other financial institutions serving as Creditors who have invested (or will be asked to invest) financial resources with the institution with an expectation of investment return and repayment. Clear and concise financial evidence to demonstrate the ability of an institution to repay its creditors in the near and long term should be another important objective.<br><br>There are many Other Readers of the financial statements of a not-for-profit who will benefit from the information compiled to support the readers specifically mentioned above. Those Other Readers include but are not limited to individuals and organizations dedicated to monitoring compliance with federal laws and regulations, media and benchmarking outlets and peer institutions.<br><br>We have framed our response to the Exposure Draft with | Completed |

Readers in mind and hope our comments will help to clear muddy waters in ways the proposed redesign does not.

FASB Stated Objectives:
The Proposed Amendments are intended to address several issues which are paraphrased here, along with our concern and an alternative recommendation.

1. Clarify current net asset classifications
Our concern: The current three tier net asset classification provides an important distinction in regard to differentiating permanent restrictions and temporary restrictions. Most Reader confusion originates with the unrestricted net asset classification, which the Exposure Draft completely fails to address. Readers need more information about unrestricted assets in order to better understand which net assets are available to support liquidity and which are dedicated to long term financial objectives. The exposure drafts tries to solve the wrong problem.

Alternate Recommendation: Require additional detail for Unrestricted Net Assets to clearly present Unrestricted Net Assets available to support operations and Unrestricted Net Assets committed to Net Investment in Plant and Funds Functioning as Endowment.
Merging Temporarily Restricted and Permanently Restricted Net Assets is less of a concern so long as additional information about the types of donor restrictions is available in the footnotes. Such as identifying Restricted Assets available to support future operations and designated for future Investment in Plant or Funds Functioning as Endowment or obligated by other Split Interest Agreements, as well as continued disclosure of the Permanent Net Assets to continue to clearly reflect the obligation to retain these assets in perpetuity.

2. Improve presentation of liquidity
Our concern: the current Balance sheet presentation of assets is sufficient to meet questions about liquidity at a point in time. However, as noted above significant confusion exists around the availability of Unrestricted Net Assets, principally because it includes Net Investment in Plant and Funds Functioning as Endowment, assets which have significant liquidity limitations, in some cases offering no immediate form of liquidity for operating cash or debt service obligations. Readers concerned about liquidity should be looking at Cash and Cash Equivalent Positions and seeking additional clarity from the Statement of Activity and Statement of Cash Flow.

Alternate Recommendation: Require additional footnote disclosure for Unrestricted Net Assets to clearly present Unrestricted Net Assets available to support operations and

Unrestricted Net Assets committed to Net Investment in Plant and Funds Functioning as Endowment. Require similar additional detail for the Temporarily Restricted Net Assets to clearly present Temporarily Restricted Net Assets available to support future operations and Temporarily Restricted Net Assets designated for future Investment in Plant or Funds Functioning as Endowment or obligated by other Split Interest Agreements and retain disclosures for Permanently Restricted Net Assets as this already clearly reflects the obligation to retain these assets in perpetuity.

3. Improve presentation of financial performance
Our concern: This is the area where we are most concerned. The Exposure Draft as proposed will create more confusion and fails to clarify Operating and Non-Operating activity in appropriate ways. Reader confusion is concentrated around differentiating operating activity from unrestricted activity and the Exposure Draft fails to achieve this objective because it failed in its first objective to improve the net asset classifications. Unrestricted Net Asset Activity is not Operating Activity and an effort to reconcile the two with transfers is ineffective.

Alternate Recommendation: Define operating revenue activity to clearly include all institutional resources routinely received on a recurring basis to support the mission of the organization including revenue and fees, interest and dividends earned on operating cash balances and the release of restricted net assets to support ongoing operating activity.

Define operating expense activity to include institutional resources expended to support the mission of the organization including interest expense and depreciation.

4. Improve presentation of cash flows
Our concern: There will be challenges associated with gathering data to support the presentation of a direct cash flow statement which will be addressed with institutional system improvements over time. The greater challenge presented in the Exposure Draft is again associated with the modification of definitions of operating cash that increase confusion for our readers.

Alternative Recommendation: Accept recommendation to transition to direct cash flow statement. To improve Reader experience, operating, investing and financing activities should be defined the same as for-profit reporting.

Clearly define Endowment Investment Activity and Property, Plant and Equipment Activity as Cash Flows from Investing Activities.

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| | Clearly define Debt and Liability Activity as Cash Flows from Financing Activities.<br><br>With the exception of several recommendations to improve consistency between institutions and provide additional information about the natural classification of expenditures to compliment the presentation of functional expenditures the Exposure Draft falls far short of achieving the enhancements imagined by Readers and the original well intended objectives. | |
| Please provide any comments on the electronic feedback process: | Please reference the Other Comments provided above. The Electronic Feedback Process was easy to use. Unfortunately, FASB is not always asking the right questions. | Completed |
| Below is a summary of your responses to the questions in this feedback form: | Not Answered | Not Answered |
| Thank you for your participation.<br><br>If you are finished providing comments, click the 'Submit' button. | Not Answered | Not Answered |