

The response from our firm is based on our knowledge of both our clients and our firm's nonprofit practice. While we agree that there is a need to make the financial statements of nonprofit organizations more understandable, we believe that the standards as proposed will be time consuming to implement and will tax the resources of both CPAs and the nonprofits they serve.

It appears that inadequate consideration has been given to how these standards will be implemented by the vast majority of nonprofits. Since 96% of nonprofits have operating budgets of \$10M or less, it is unclear to us how smaller nonprofits will be able to implement these standards without relying heavily on their CPAs to guide them through this process. Smaller nonprofits will be unable to divert their scarce resources of money and human capital to implement standards that they will have difficulty understanding or find to be valuable. In addition, this segment of the nonprofit market is extremely price sensitive. As a result, CPA practitioners will bear the burden of implementing the new standards without being able to pass on this cost to clients.

Lastly, as experienced practitioners, we find several aspects of these standards difficult to understand. We anticipate that the Boards and management of our clients will not readily comprehend their new financial statements. In fact, it will likely take many years for our clients to adapt to this new presentation. One only needs to look to the not so distant past when FASBs 117 and 116 were implemented as an indication of how the standards will be received. We find ourselves, even today, explaining to our clients basic concepts of these standards which are now 20 years old. Since the new standards represent a major overhaul to current practice, we anticipate that educating our clients about these changes will be an ongoing process that could last several years. In addition, we believe that our clients' funders will also struggle to grasp how to compare financial results between the old and new presentation.

In summary, we respectfully ask the FASB to carefully consider the impact that implementing the proposed standards will have on CPAs and their clients. The costs of implementing the standards, namely assisting our clients in preparing their financial statements and educating management and their Boards, must not be overlooked. CPAs will likely bear significant cost in these two areas with limited ability to be fully compensated for their efforts. Lastly, our nonprofit clients are focused on achieving their missions; let's make sure our profession does not make it more difficult for them to do so.

**Question 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.)*

**Response 1:** We disagree that the new requirements for donor-imposed restrictions and their effects on liquidity in the notes will ensure necessary information is not lost.

We believe the move from two categories of restricted net assets to one will result in the loss of meaningful information, even though the detail of the donor restricted category will be detailed in the notes. In addition, the burden on practitioners to implement these changes will not justify the perceived benefits gained with respect to simplification of financial statement presentation.

In terms of liquidity disclosures, our perception is that using the 30, 60 or 90-day time horizon [per table in disclosure] will only add another layer of complexity without adding value. We do not believe the disclosure itself would be burdensome; however, it is unclear how nonprofits will identify the proper time horizon to use. As auditors, it will be difficult to assess the validity of management's selection of a time horizon. In addition, the limited time parameters presented in the draft standards do not reflect the wide range of ways in which nonprofits view liquidity. For example, foundations with large investment assets consider liquidity in terms of six, nine, or even twelve months. Our concern is that the calculation necessary to prepare the disclosure will be difficult to perform, and that the calculation could be manipulated by selecting a time horizon that is longer than it should be.

**Question 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 2:** Yes, this makes sense since the current presentation of maintaining the original value of the endowment fund as permanently restricted net assets is not intuitive, especially with the implementation of UPMIFA in many states.

**Question 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.)* 8

**Response 3:** Yes, we agree; this disclosure would be informative.

**Question 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.)*

**Response 4:** No. We do not see how the costs associated with the gathering of this level of information can be justified. We feel that categorizing assets and liabilities into a columnar format (unrestricted, temporarily and permanently restricted), as done by many nonprofits currently, should provide users of most nonprofit financial statements with adequate information about liquidity.

**Question 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?*

**Question 5:** No comment. We do not work with business-oriented health care entities.

**Question 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 6:** Yes we agree to both questions. We are in support of the proposed presentation changes to the intermediate measure of operations since current practice is so diverse

**Question 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.)*

**Response 7:** As a concept, this makes sense. However, we believe that the implementation of this conceptual framework will be cumbersome for preparers and confusing to users of the financial statements. Our concern is also that even though board transfers will be presented after operating excess (deficiency), the fact that those transfers

can appear in a section labeled “operating” could result in the use of transfers to manipulate operating results. If FASB believes providing more information on transfers is necessary, we would recommend that this information be in a disclosure in the notes so as to not clutter the statement of activities.

**Question 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.)*

**Response 8:** We repeat our answer to # 7. We believe only operating results should be included in intermediate measure of operations, not transfers. Presenting transfers from board designated endowment or other sources into operating results should be avoided to prevent the manipulation of operating results.

**Question 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 9:** We agree that the only method that should be required is the placed-in-service approach to releasing restrictions on long-lived asset acquisitions. The old election to release restrictions based on useful life of donated long-lived assets is not useful and misstates how these assets are utilized by the organization for operations.

**Question 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 10:** Yes, we agree with the first question. We cannot comment on the second issue, not having encountered it in our practice.

**Question 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 11:** No comment. We do not work with business-oriented health care entities.

**Question 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?*

**Response 12:** No, there should be one standard approach required. Allowing two approaches will result in diversity in practice which defeats the purpose of this new ASU - to make nonprofit financial statements more comparable among entities. Adding more statements will only make the financial statements more complex.

**Question 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 13:** Yes, expense allocation by functional classification and nature is critical information for users of financial statements.

**Question 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.)*

**Response 14:** No, we disagree. Having to allocate salary of staff who are involved with investment activities may create significant costs to provide information that is not necessarily very meaningful to users. In fact, we believe that this may cause confusion as management and boards will be unable to reconcile investment performance from investment managers to their financial statements.

**Question 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 15:** We disagree based on our answer to # 14 above.

**Question 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.)*

**Response 16:** Yes, we agree.

**Question 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 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).)*

**Response 17:**

No to all three questions. We believe these are nonoperating activities.

**Question 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 18:** While the direct method of reporting is more understandable, it will create undue costs to be borne by the practitioner. It is unclear to us that financial statement users will begin utilizing the statement of cash flows

with greater frequency if the direct method is used. In other words, we believe that the statement of cash flows will continue to be largely ignored (especially by smaller nonprofits) regardless of method used.

**Question 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.)*

**Response 19:** Users of the financial statements will likely be unable to reconcile the accrual basis change in net assets to changes in cash flows. We believe that this reconciliation does provide meaningful information, if the direct method is required to be used. Regardless, we believe that electing to use only the indirect method for presenting cash flows should still be permitted.

**Question 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.)*

**Response 20:** We disagree strongly, and believe that the changes as proposed will only cause confusion to practitioners who work with nonprofits and for-profits. While the proposed changes may represent an improvement in reporting from a theoretical perspective, the changes will likely be meaningless to both users and practitioners. We believe that the current reporting requirements for these statements should remain unchanged.

**Question 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 21:** The direct method of SCF reporting would require a longer implementation period given the increase in CPA firm and nonprofit client training. The additional time will be necessary to provide an adequate preparer/practitioner transition period. Also, disclosures around liquidity and financial statement presentation/disclosure of net assets into two categories will take a significant amount of time to implement, especially for smaller nonprofit clients.

**Question 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 22:** Yes, the smaller nonprofits with limited accounting resources would need a longer timeframe for implementation because of the burden that the proposed ASU will be placing on them.

We would recommend that only NPOs with assets in excess of \$25M be required to implement the presentation methodology as used. The cost of preparation cannot be borne by smaller nonprofits and practitioners will not be able to recuperate the added costs from their smaller clients.