



BOY SCOUTS OF AMERICA®

August 14, 2015
Ms. Susan M. Cospers, Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: 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

Dear Ms. Cospers:

On behalf of the Boy Scouts of America, I would like to thank you for the opportunity to comment on the FASB (Board) Exposure Draft of the proposed ASU referenced above. The comments are the result of a collaboration between volunteers and staff across the organization. The Boy Scouts of America is proud to be a part of this very important endeavor to clarify and simplify financial reporting for not-for-profit organizations.

Statement of Financial Position/Liquidity

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? If not, please identify the information lost and why it is necessary.

Yes, we believe that as long as the footnote disclosures provide detailed information as to the nature and amount of donor-imposed *and other restrictions* (board, legal, and those imposed by third parties) and how those restrictions affect the availability of resources for operations, the statement of financial position will be less confusing by presenting two net asset classes rather than three. For net assets without restriction, we would like to see additional disclosure of an *investment in property and equipment* component, as we feel it would give users a better picture of an entity's liquidity. We do not anticipate adoption of these changes will be financially or administratively burdensome.

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?





Yes, since the enactment of UPMIFA, we see no need to report underwater endowment funds in multiple net asset classes. In fact, we believe that the current practice is confusing and unnecessarily complex. We agree with the FASB that reporting the full amount of endowments within the restricted net asset class coupled with enhanced disclosures for underwater endowment funds will be more understandable by users.

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?*

We agree with addressing spending from underwater endowments in the spending policy disclosure. In this post-UPMIFA era, however, we are unsure as to how disclosure of the total original donor-restricted endowment gift amount, as presented in your example for NFP A on page 101 of the exposure draft, would necessarily improve a user's understanding of liquidity on a standalone basis. We are also concerned that obtaining audit evidence for certain original gifts (some 75 to 100 years old) would be prohibitively costly, and perhaps not possible. We agree that disclosure of the preceding information for just the underwater funds (as in the sample disclosure on page 102) would be meaningful, particularly if the deficiency required to be "made whole" fell within the *time horizon* defined by the entity and made it into the liquidity schedule. Otherwise, we feel the value of the disclosure would be diminished.

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?*

We agree that enhanced disclosures describing how an entity manages asset liquidity to satisfy near-term obligations would be valuable to users.

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?*

No comment.

Statement of Activities, Including Financial Performance

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?*

We agree that the intermediate measurement requirement could provide users with more relevant and comparable information, however see difficulties in a one-size-fits-all approach. Given that the FASB is currently working on a similar project for business entities, we would like the Board to consider finalizing those standards in advance of making this proposed ASU effective for NFPs.

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?*

We agree that intermediate measures of operations should have both mission and availability dimensions, however would like to see further clarification of operating and nonoperating activities - items such as investment income on board designated funds (resulting from unrestricted gifts) set aside to fund current operations, for example. We agree that appropriations of returns on donor restricted endowments (as depicted in your example statements of activities for NFP A in the exposure draft) should be treated as operating revenues as that is generally the purpose of such funds (without restriction on income/growth). We are also concerned that addition of the new dimensions to the statement of activities could open up new opportunities for abuse, particularly if "watchdog" organizations and others adopt "operating=good, nonoperating=bad" metrics.

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?*



Transfers of net assets that resulted from inflows from prior periods should be shown on the statement of activities between operating and nonoperating sections. Appropriations of current period earnings/growth on quasi endowments created to fund current period operations and included in the organization's spending policy should be recorded in the first measure of operating income. We agree that all transfers and similar actions should be shown on the face of the statement of activities, accompanied by detailed disclosure in the footnotes, focusing on the reasons for and objectives of the transfers.

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?*

We agree with the elimination of the "useful life" method in favor of the "placed-in-service" approach.

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?*

We disagree with reporting gifts of, or for, property, plant, and equipment as operating revenue when received only to be transferred *from* operating to nonoperating activities. We find this method to be unnecessarily complex and confusing at best. For gifts of property restricted for use or used in mission accomplishment, record initially as operating revenue with no transfer out. For gifts of all other property, record initially as nonoperating revenue.

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?*

No comment.

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?*



We appreciate having the flexibility to choose between statement types and formats.

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?*

We agree with the requirement to report operating expenses by their nature and function along with an analysis of total expenses.

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?*

Yes.

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?*

We believe that elimination of the disclosure of all investment expenses will deprive users of a measure of the efficiency with which investment managers handle an NFP's investments, which ultimately comprise its endowments, both with and without restrictions. We do not feel that further disclosure of salaries and benefits included in netted investment expenses would be meaningful.

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?*

We disagree on interest expense on short and long-term debt specifically used to fund mission-related activities/assets. We feel strongly that this should be included in operating activities.

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?

- b. Immediate writeoffs of goodwill generally should be presented within operating activities? If not, why?*
- 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?*

We agree with the above implementation guidance.

Statement of Cash Flows, Including Financial Performance

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.*

The direct method of presenting operating cash flows is, in our opinion, more understandable and useful than the indirect method. Of the requirements proposed in this exposure draft, however, we believe that this will be the most expensive and time consuming to implement. We would like the Board to consider the value of extending the direct method requirement to business entities as well, with an effective date in advance of that for NFPs. Absent the preceding, we ask that the effective date of the proposed ASU be set far enough into the future to realistically accommodate implementation.

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?*

No, we do not feel as though any necessary information would be lost by no longer requiring the reconciliation of cash flows to the total change in net assets.

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.

We feel that understandability is not improved by presenting contributions of cash restricted for the purchase of long-lived assets as *nonoperating* in the statement of activities and *operating* in the statement of cash flows, for example. Further differences between classifications of cash flows for NFPs vs. business entities (sales/purchases of fixed assets, dividends and interest received, for example), do not improve understandability.

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.*

Yes, see discussion under Question 18. We feel as though retooling to accommodate the direct method presentation of the statement of cash flows will be the biggest challenge facing us under this proposed ASU—particularly as related to information capture within accounts payable for vendors supporting multiple functions. Automation of this process including the creation of new reports in support of it will take time.

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.*

Small NFPs may not have the human or capital resources to properly implement some of the proposed amendments in this Update. We feel that an effective date three to four years in the future would be realistic for these organizations.

The Boy Scouts of America welcomes any questions or comments the Board may have. Please feel free to contact me at your convenience if I may be of assistance to you in this matter.

Sincerely,

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