HopeWest

August 17, 2015

Mr. Jeffrey Mechanick, Assistant Director
Mr. Rick Cole, Supervising Project Manager
Financial Accounting Standards Board
401 Merritt 7, PO Box 511t
Norwalk, Connecticut 06856-5116

RE: FASB Not-for-Profit Financial Statement Project
Contributions with donor restrictions

Dear Sirs,

The FASB's proposed Accounting Standards Update (ASU) pertaining to purpose-restricted gifts of long-lived assets and gifts of cash restricted for acquisition or construction of long-lived assets is a departure from the most fundamental principle of accounting, the matching principle.

Under the new ASU, the release of a donor restriction when placing an asset in service artificially increases net assets in the year that the asset is placed in service and inappropriately decreases net assets in subsequent years when the asset is depreciated. The reporting of increases and decreases in different years will erode the integrity of non-profit financial statements and therefore make them less reliable for, and understandable by, readers. (Additionally, the financial statements will be completely unreliable in the year of adopting a new standard because non-profits will be required to release all restrictions in the year of adoption. The net assets will be artificially increased and operations will look more favorable.)

In years of increase a reader could inappropriately surmise that the non-profit's operations are very strong when in fact it received an infusion of resources intended to benefit current <u>and future</u> periods. Non-profits would then be in a position of constantly fundraising to offset the impact of depreciation expense.

The current system of releasing donor restrictions through depreciation of purpose restricted long-lived assets is a perfect example of the matching principle: matching revenues with expenses. This practice results in a high degree of integrity in the financial statements making them much more reliable for the financial statement reader.

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Below are journal entries to show the differences between the existing and proposed methods.

Donor gives $10,000 cash and restricts the donation to acquire a piece of equipment, which costs $10,000 and has a useful life of 10-years.

Journal Entries - Existing Method

	Account Description	Debit	Credit
JE #1	Cash	$ 10,000	
	Temporarily Restricted Net Assets		$ 10,000
	Received Donation to purchase equipment with cost of $10,000 and 10-year useful life		
JE #2	Equipment	$ 10,000	
	Cash		$ 10,000
	Purchased equipment with restricted donation		
	Temporarily Restricted Net Asset	$ 10,000	
	Temp Restricted Net Assets-Equipment		$ 10,000
	Set up subsidiary ledger in Temp Net Assets		
JE#3	Depreciation - Equipment	$ 1,000.00	
	Accum Deprec - Equipment		$ 1,000.00
	Record 1st year of depreciation on restricted asset		
	Temp Restricted Net Assets - Equ	$ 1,000.00	
	Donation		$ 1,000.00
	Release restriction via depreciation expense		
JE #4	Depreciation - Equipment	$ 1,000.00	
	Accum Deprec - Equipment		$ 1,000.00
	Record 2nd year of depreciation on restricted asset		
	Temp Restricted Net Assets - Equ	$ 1,000.00	
	Donation		$ 1,000.00
	Release restriction via depreciation expense		

Financial Statement Impact

Balance Sheet

Assets and Net Assets Increase and Decrease by the same amount in the year of donation and subsequent 9 years

Statement of Activities

Contributions received and depreciation expense offset so the net effect on operations is $0

Perfect application of the Matching Principle

Journal Entries - Proposed ASU / Method

	Account Description	Debit	Credit
JE #1	Cash	$ 10,000	
	Donation		$ 10,000
	Received Donation to purchase equipment with cost of $10,000 and 10-year useful life		
JE #2	Equipment	$ 10,000	
	Cash		$ 10,000
	Purchased equipment with restricted donation		
JE#3	Depreciation - Equipment	$ 1,000.00	
	Accum Deprec - Equipment		$ 1,000.00
	Record 1st year of depreciation on restricted asset		
JE#4	Depreciation - Equipment	$ 1,000.00	
	Accum Deprec - Equipment		$ 1,000.00
	Record 2nd year of depreciation on restricted asset		

Financial Statement Impact

Balance Sheet

Assets increase and Net Assets without Donor Restriction increase by the same amount

Statement of Activities

Contributions received reflected as operating activities in the year of donation (as asset was purchased immediately)

As asset is depreciated in subsequent years operating activities are advesely impacted by the amount of depreciation on the restricted asset.

Unintended consequence:
Under the proposed method, <u>the Statement of Activities becomes volatile</u> as donations are recognized in full in the year the restricted asset is purchased, with depreciation expense adversely impacting operations in subsequent years

Respectfully submitted,

Norma J. West, CPA
Sr. Director of Finance, HopeWest