

MINUTES



MEMORANDUM

**To:** Board Members  
**From:** Not-for-Profit Team  
**Subject:** October 6, 2015 Roundtable Minutes: Financial Statements of Not-for-Profit Entities, Los Angeles, CA Session **Date:** January 5, 2016  
**cc:** Stacey Sutay

*The roundtable meeting minutes are provided for the information and convenience of constituents who want to follow the standard-setting process; these minutes do not represent official positions of the FASB. Official positions of the FASB are reached only after extensive due process and deliberations.*

Topic: Proposed FASB Accounting Standards Update: *Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954): Presentation of Financial Statements of Not-for-Profit Entities*

Basis for Discussion: Proposed FASB Accounting Standards Update: *Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954): Presentation of Financial Statements of Not-for-Profit Entities*, Outreach Summary of proposed Update

Length of Discussion: 8:30 a.m.to 11:30 a.m.

Attendance:

**External Participants**

Karen Seabury  
Daniel Figueredo  
Lewis Sharpstone  
Matthew Brewer  
Andrew Prather  
Joan Schweizer  
Brian Conner

Aeris Insight  
Burr Pilger Mayer  
California Society of CPAs  
California Institute of Technology  
Clark Nuber  
Deloitte  
Healthcare Financial Management

Karen Craig	Association National Association of College and University Business Officers
Claire Knowlton	Nonprofit Finance Fund
Kimberly Castillo	Salk Institute
Jason Schroeder	University of Notre Dame
Jennifer Brenner	World Vision
Susan Budak	Consultant/Individual

### **FASB Participants**

Jim Kroeker	Board Vice-Chairman
Hal Schoreder (via video link)	Board Member
Larry Smith (via video link)	Board Member
Sue Cospers	Technical Director
Ron Bossio	Senior Project Manager
Rick Cole	Supervising Project Manager
Chris Dickson	Postgraduate Technical Assistant

### **Topic 1: Operating Measures**

1. There was general support among participants with the objective of providing an operating measure or measures with some disagreement on how to achieve the optimal presentation. Among participants, a lack of comparability across not-for-profit (NFP) industries was the most cited concern about prescribing defined operating measures. There was mixed support for the proposal to present board designations, appropriations, and transfers on the face of the statement of activities, with the complexity of presentation as the chief concern.
2. A participant from the education industry proposed making modifications to the first intermediate measure of operations to include only transactions with *external* parties and the second intermediate measure to include internally generated revenues and support as well as designations, appropriations, and transfers, thus reflecting all appropriations from endowment (true and quasi-endowment) together in the second measure. This participant clarified that interest expense should be included in the first measure, and formulaic spending rates should be included in the second measure.
3. A participant from the education industry acknowledged the inherent difficulty in prescribing what items should comprise operations, to which a participant in the health care industry suggested only prescribing measures that are consistent between the for-profit and NFP sectors and let all other unique NFP measures—such as endowment activity—be self-assigned. Later, another participant concurred with this proposal.

4. Participants expressed different opinions on what would be conveyed by the dual operating measures. A few participants expressed that the first measure would provide a more important view of the organization's performance and, thus, be the more useful metric. Others expressed that the second measure could provide insight into how the organization managed its net assets and, thus, would be the more useful metric. Others expressed that neither of the measures would be useful without the line items leading up to those measures; in other words, the component parts of the two measures told more of the story about financial performance than any individual subtotal. Finally, some participants expressed that the complexity of the proposed presentation of the statement of activities made its two operating measures useless because there was not an obvious "bottom line."
5. A Board member noted comments heard from the exposure process and other outreach activities about providing two statements—one ending with an operating measure and the other beginning with that measure and including all other changes in net assets. Some participants expressed support for this presentation.
6. A participant stressed that *if* board designations, appropriations, and transfers are to be presented, the FASB must better define what is meant by a true "designation, appropriation, or transfer" in order to make the standard operational. To this point, another participant wanted the Board to clarify how to classify such transfers across periods, specifically for situations in which an NFP's governing board waits for the next year's budget to determine how much of the current period's surplus should be set aside for future use.
7. Two Board members asked participants whether current generally accepted accounting principles (GAAP) could be modified outside of the proposal to include greater transparency surrounding operations and transfers. In response, a participant who expressed the desire to retain the flexibility of current GAAP supported adding additional disclosure for organizations if they choose to provide an operating metric. It was noted that comparability currently exists across all NFPs on measures of changes in net assets and in each of the three classes of net assets. Board members asked whether comparability on operating measures is important across all NFPs or perhaps only within industries of NFPs. Several participants noted that benchmarking against peers within industries is most important. A user noted that consistency over time is more important than comparability to unlike NFPs.

## **Topic 2: Presentation of Operating Cash Flows**

8. Participants generally acknowledged that the utility and understandability of the direct method of cash flows, as proposed, are greater than those of the indirect method. Many participants agreed that the perceived cost and

complexity of the direct method of cash flows is a first-year implementation issue. Some participants indicated that GASB institutions had relatively little trouble implementing the direct method. While many participants acknowledged that cash flow statements are underutilized, a higher education participant noted that use of cash flow statements by public university users is higher.

9. A user noted that comparability would be compromised if flexibility to choose between the direct and indirect method was allowed only in the NFP industry. This participant expressed that either all organizations (both for-profits and NFPs) should be allowed the flexibility to use either method. A practitioner concurred with this opinion but tentatively suggested that if the direct method is to be required for NFPs, it should be required for all entities. To this point, another participant proposed that because feedback has shown that large, public companies have difficulty implementing the direct method, the proposed change could require all entities except public business entities (thus encompassing private companies) to use the direct method. A Board member added that changes to the statement of cash flows for for-profit companies were unlikely in the near future.
10. A participant strongly supported retaining the indirect method of cash flows because it provided a reconciliation and, thus, helped explain how there could be a cash increase and an income statement loss (or vice versa). Another participant suggested perhaps displaying a “bridge statement” where direct, indirect, and accrual methods are shown side-by-side but acknowledged the complexity of reading such a statement. Another noted that there are benefits from both methods (direct and indirect) and that from an auditor’s perspective, the cash flow statement becomes most important when facing a going concern question.
11. A participant from the education industry added that if the Board decides to move forward with the two proposed operating measures, the indirect method could be made more useful by using the first operating measure to reconcile for cash flow from operations.
12. A participant expressed the belief that the largest hurdle preventing more widespread adoption of the direct method is the fact that the indirect method is still required to be included regardless of whether the direct method is presented.

### **Topic 3: Information Useful for Assessing Liquidity**

13. Participants expressed mixed support for the proposed disclosures of information useful for assessing liquidity. While most participants acknowledged the value in providing qualitative assessments, many expressed concerns with or did not see value with the quantitative disclosures.

14. A Board member asked whether the liquidity information proposed would be useful because issued financial statements typically trail the balance sheet date by a significant period. Participants responded that this was not a major concern because the trend information for liquidity is more useful than its timeliness. An auditor added that all information in the financial statements is somewhat stale by the time financial statements are issued, but that does not render the information useless.
15. Some participants expressed support for displaying a classified balance sheet in lieu of the proposed liquidity disclosures. One such participant expressed that a classified balance sheet requires inherently less subjectivity to prepare than the proposed disclosures. However, this participant noted that it may be difficult for small organizations to prepare a classified balance sheet and, therefore, recommended that the Board encourage but not require its inclusion. Another participant expressed that a classified balance sheet should be required because it is a well understood metric for assessing liquidity. A participant expressed that the classified balance sheet was likely not useful to encourage or require because that presentation does not aid people in understanding the *concept* of availability, which this participant considered to be a more useful notion.
16. A participant expressed concern that the proposal would result in boilerplate language that would not provide useful information.
17. A participant pointed out that some respondents to the proposed Update confused liquidity with availability. To this participant, the qualitative disclosures proposed provide information useful for assessing liquidity, whereas the quantitative disclosures proposed provide information useful for assessing availability.
18. One participant from the education industry explained that universities often have large quasi-endowments that are invested in illiquid instruments; therefore, to this participant, presenting a bottom line for liquidity that might exclude these *noncurrent assets* in these situations is inherently complex and potentially misleading.

#### **Topic 4: Other Topics**

##### *Analysis of Expenses by Function and Nature*

19. Participants generally supported the proposal to present an analysis of expenses by function and nature.
20. A participant expressed that this proposal may not be as applicable for NFPs with a single function. Another participant expressed that functional allocations were largely used by NFP “watchdog” groups to challenge management’s allocations, but they do not provide relevant information to the general public.

21. Another participant favored natural classification but not functional classification of expenses. This participant believed that the functional breakdown gave the impression that the NFP could exist without certain programs, which is not necessarily true.