



November 30, 2012

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

Re: File Reference No. 2012-220

Dear Technical Director:

On behalf of the National Association of College and University Business Officers (NACUBO), we submit the following comments on the Board's Invitation to Comment: *Disclosure Framework* (the ITC). NACUBO's comments on the ITC were developed with input from our member institutions and our Accounting Principles Council (APC). The APC consists of experienced business officers from various types of institutions who, collectively, possess a thorough knowledge of higher education accounting and reporting issues and practices.

NACUBO is a nonprofit professional organization representing chief financial and administrative officers at more than 2,100 colleges and universities. In its capacity as a professional association, NACUBO issues accounting and reporting guidance for the higher education industry and educates over 2,000 higher education professionals annually on accounting and reporting issues and practices.

Overall Comments on the ITC

We applaud the Board's interest in improving financial statement disclosures and appreciate the opportunity to provide feedback on the Invitation to Comment. In particular, we appreciate the Board's interest in how the disclosure framework might work for not-for-profit entities (NFPs).

We agree that the objective and primary focus of the project is essential to the overall improvement and usefulness of financial statements. The current disclosure requirements result in numerous and lengthy footnotes to the financial statements that may be of little or no value to users. For example, disclosure of the amounts by level in the fair value hierarchy does not provide information relevant to the long-term financial sustainability of an NFP. In fact, it is often misinterpreted as a way to assess an organization's liquidity resulting in an incorrect assessment of the organization's financial health. In addition, other disclosure requirements

about topics that may be insignificant to an NFP's financial position, primary mission, risk profile, or operating environment, (e.g. pensions, credit quality of receivables) are very lengthy.

The trend toward dense and complex disclosures – which appear to the reader to have equal weighting and importance – leads to confusion on the part of the user and increases the cost and time for financial statement preparation, audit, and issuance. Readers of financial statements are interested in information that is relevant to the preparer's industry and, by including pages of disclosure that is irrelevant, it masks the truly important information in the statements.

Responses to Specific Questions

Chapter 1 – Scope and Introduction

Question 1: *The details of this Invitation to Comment do not focus on the informational needs of donors to not-for-profit organizations. How, if at all, should the Board's decision process (see Chapter 2) be supplemented to consider the needs of donors? How, if at all, should not-for-profit reporting entities modify their decision-making process (see Chapter 4) for the needs of donors when deciding which disclosures to include in notes to financial statements?*

While the Board has pointed out that the disclosure framework does not take into account the needs of donors, it is not clear how the framework will apply to NFPs in general and, more specifically, those that are considered "public" for financial reporting purposes.

We recognize that colleges and universities that are conduit debt obligors may need to provide additional information to bondholders and others. There are, however, other means by which that information is made available such as through the IRS Form 990, annual disclosures filed with the Nationally Recognized Municipal Securities Information Repositories (NRMSIRs), rating agencies, and the institution itself. These institutions are not subject to SEC Regulation Fair Disclosure (Reg FD) and can, therefore, provide information selectively as desired.

The premise of the questions being based on cash flow prospects does not align with the needs of NFP financial statements users. These users (donors, board members, rating agencies, bondholders, governmental funding providers, faculty, parents and students) are interested in the financial sustainability of the NFP (a long-term perspective) rather than the possible return on their investment (a short-term perspective). In order to apply a framework to the needs of NFP users, some questions that address the questions of financial sustainability and liquidity would be necessary.

In addition to the focus on financial sustainability, users of NFP financial statements are looking to see that funds are being spent in accordance with the organization's mission and in compliance with any restrictions placed on the funds by donors. The questions posed in the ITC do not get to the heart of these issues.

Chapter 2 – The Board's Decision Process

Question 2: *Do the decision questions in this chapter and the related indicated disclosures encompass all of the information appropriate for notes to financial statements that is necessary to assess entities' prospects for future cash flows?*

With respect to the needs of users of NFP's financial statements, the questions in this chapter do not address the financial sustainability of an organization. For higher education institutions, this might encompass things such as student enrollment trends (including number of applicants, total enrollment, and graduation rates), financial aid per student, resources for research and knowledge advancement, or funding of infrastructure that supports the primary mission of education, research, and public service. As noted in our response to question 3 below, we believe that many of the questions in the "Information about Line Items" and "Information about Other Events..." would result in disclosures inappropriate for financial statement disclosure.

Question 3: *Do any of the decision questions or the related indicated disclosures identify information that is not appropriate for notes to financial statements or not necessary to assess entities' prospects for future cash flows?*

The questions related to "Information about Other Events" (questions O1-O7) do not result in information appropriate to be included in financial statements. These questions focus on risks and uncertainties and would require forward-looking information that would be better included in a Management's Discussion and Analysis (MD&A) or other supplemental information that is afforded safe-harbor treatment. Questions O4-O7, in particular, veer from the realm of accounting into a world of finance where pro forma financial statements can be built and tested under various assumptions involving numerous variables.

Of particular concern in this chapter is question L16 which asks if an alternative measure or way of applying a measurement is available that would clearly be useful in assessing prospects for future cash flows. This makes little sense because, presumably, the most appropriate inputs were already used to measure the item. These "what if" disclosures will only cause readers to second guess the entity's ability to accurately measure fair value. Providing such disclosure would be a time consuming exercise with little or no value and a potential for unfounded negative value.

Question 4: *Would these decision questions be better applied by reporting entities instead of the Board? In other words, should the Board change its practice of establishing detailed requirements in each project and, instead, establish a single overall requirement similar to the questions in this chapter?*

We do not believe that the Board should change its current practice of establishing detailed disclosure requirements for each topical area. We would expect, however, that the Board would make clear that not all disclosures are required for each entity. As a result, some level of judgment would be needed to tailor the disclosures to provide the most relevant information to the users of an entity's financial statements.

Question 5: *Do you think that this decision process would be successful in helping the Board to set more effective disclosure requirements? If not, what would be a better approach?*

We believe that, in general, the decision process is a good one. It would, however, require some adjustments in order to meet the needs of NFP financial statement users given the difference in focus of those users from those of a for-profit entity.

Chapter 3 – Making Disclosure Requirements Flexible

Question 6: *Would any of the possibilities in this chapter (see paragraphs 3.8 and 3.11) be a practical and effective way to establish flexible disclosure requirements?*

Question 8: *Are there other possibilities that would work better than any of the ones discussed in this chapter?*

We appreciate the Board's recognition of the fact that when discretion is applied to the determination of which disclosures should be included in an entity's financial statements there may be differing opinions between the entity, its auditors, and regulators. With that in mind, in reviewing the possible options provided in paragraph 3.11, we would opt for "c" under which the board would establish two levels of disclosure. In fact, NACUBO has previously recommended that the Board consider thresholds for disclosures based on both the materiality and the significance to the entities core mission or operations. For example, if a revenue stream derived from leasing activities is not a significant revenue source and does not relate to an organization's core mission, the disclosures required, if any, would be minimal. If, however, leasing represents a significant portion of the organization's activities, the disclosures would provide more information to the reader allowing them to better understand the transactions that drive the organization's business.

Chapter 4 - Reporting Entities' Decisions about Disclosure Relevance

Question 9: *This chapter attempts to provide a benchmark for judgments about disclosure relevance by clarifying the objective for the judgments. Is the description of the approach clear enough to be understandable? If not, what points are unclear?*

Question 10: *Can this approach (or any approach that involves describing the objective for the judgments) help identify relevant disclosures? If so, what can be done to improve it? If not, is there a better alternative? What obstacles do you see, if any, to the approach described?*

Question 11: *Reporting entities would need to document the reasons for their decisions about which disclosures to provide. How would reporting entities document the reasons for their disclosure decisions and how would auditors audit those decisions?*

The benchmarks discussed in this chapter are based on future cash flow prospects. Again, this is not the focus of donors or other users of an NFP's financial statements. In addition, we believe that there is too much emphasis on predictions and forecasting.

The section on Probability and Timing is far too esoteric to be applied in practice. The use of complicated mathematical calculations to determine whether or not a disclosure should be included would be an onerous and potentially costly burden, especially for NFPs.

We agree with items identified in paragraph 4.29 as issues that must be addressed in order to overcome the current practice of including disclosures that are not meaningful to financial statement users. As regards item "d", it has been the experience of some higher education institutions that their desire to include non-required disclosures has been discouraged and, in some cases, disallowed by their auditors. We request that the Board specifically address this issue in any guidance. We believe that an organization should be allowed to include disclosures

that it believes would be beneficial to users in order to better understand the financial statements as a whole.

We do not believe that an entity should be required to document the reasons for decisions about which disclosures to include in its financial statements. This could be an extremely time consuming process and, as is suggested in paragraph 4.37, could lead to liabilities for disclosures that were determined to be unnecessary for inclusion at a given time that may later prove to be important to users.

Chapter 5 – Format and Organization

In general, NACUBO does not believe that the Board should provide strict requirements for the format and organization of financial statements.

Question 12: *Would any of the suggestions for format improve the effectiveness of disclosures in notes? If so, which ones? If not, why not?*

Question 13: *What other possibilities should be considered?*

Cross referencing and highlighting can be valuable tools but they can be overused, making the statements messy and hard to follow. The highlighting technique of starting each disclosure with a discussion of the most newsworthy item in that note would be problematic. What one user might find newsworthy, another may not. Highlighting one or more items could result in users overlooking other information that they may find more relevant. In addition, we are concerned that the prioritizing of information within the notes might lead to audit issues if clients and auditors disagree on what is “newsworthy.”

Question 14: *Do any of the suggested methods of organizing notes to financial statements improve the effectiveness of disclosure?*

Question 15: *Are there different ways in which information should be organized in notes to financial statements?*

As a general rule, we believe that the notes should follow the order of the items as presented on the face of the statements. This allows the reader to easily locate notes related to a particular line item that they would like more information about. As such, we do not support the idea of ordering the notes by relevance. Such ordering would potentially make comparability across organizations very difficult and would make the information more difficult to locate.

Chapter 7 – Other Matters for Discussion

Question 20: *Would the change to the requirements described in paragraph 7.8 for disclosure of the summary of accounting policies improve the effectiveness of disclosure?*

Question 21: *Should the summary of accounting policies include information about industry-specific accounting policies?*

Question 22: *Are there other required disclosures that could be modified or eliminated in the short term that would result in a significant reduction in the volume of notes to financial statements?*

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We believe that information related to accounting policies should be included in the financial statements and that users should not have to go to another source to find this information. We would not, however, discourage entities from providing such information in more than one place.

The idea of including accounting policies in the related note disclosures is appealing as; again, it provides all relevant information necessary for understanding a particular item in a single location. Policies that do not have an associated note such as those discussing the basis of accounting, tax status and recent accounting pronouncements could be included in a single note at the end of the disclosures. We would place these at the end because disclosures should begin with relevant information that can put the financial statements in context (following the order of items as presented on the face of the statements) rather than beginning with information about how an entity complies with generally accepted accounting principles.

We wish to express our appreciation for the opportunity to comment. We look forward to answering any questions the Board or the staff may have about our response. Please direct your questions to Sue Menditto at 202-861-2542 or sue.menditto@nacubo.org.

Sincerely,

Susan M. Menditto
Director, Accounting Policy