



National Association of College and University Business Officers

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September 25, 2012

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

Re: File Reference No. 2012-200

Dear Technical Director:

On behalf of the National Association of College and University Business Officers (NACUBO), we submit the following comments on the Proposed Accounting Standards Update, "Disclosures about Liquidity Risk and Interest Rate Risk (Topic 825)" (the ASU). NACUBO's comments on the proposal 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 nonprofit 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 ASU***

We applaud the Board for examining the hundreds of constituent comments addressing the May 2010 proposal on financial instruments and for concluding that the most substantial risks should be addressed separately in proposed updates. However, we are frustrated that subsequent discussions and research do not appear to have considered the not-for-profit (NFP) sector. Although the ASU mentions that the Board conducted extensive outreach, NACUBO has not been contacted. Neither are we aware that the Not-for-Profit Advisory Committee (NAC) to the FASB was approached concerning the appropriateness of the proposed ASU to the NFP sector.

We agree with the Board's assertion that there is a need for improved information about an entity's ability to meet its financial obligations. There are, however, a number of issues with the application of the proposed guidance by NFPs. In fact, we believe that the information

required under the ASU would misrepresent an NFP's situation, both from a cash flow and an available liquid funds perspective. Financial assets and liabilities unique to NFPs would require significant judgment as to their inclusion or exclusion from the proposed tabular disclosures.

#### ***Cash Flow Obligations Table***

Under certain split-interest agreements an NFP hold assets of which a portion will be paid to a third party upon the death of the donor. Under these agreements, the exact time and amount of the distribution is unknown and would require significant analysis and judgment to determine what, if any, amount should be included in the cash flow obligations table.

Another example, although not entirely unique to NFPs, would be the capital call commitments under partnership investments. While the entity has a legal obligation to provide up to a certain amount of additional funding if requested by the partnership, there is a considerable amount of uncertainty regarding how much and, in fact, whether these additional amounts will ever be required. The requests for additional funds by the partnership are based entirely on its ability to find suitable quality ventures in which to invest.

#### ***Available Liquid Funds Table***

As proposed, the information to be included in the table of available liquid funds would be incomplete and misleading for an NFP. Donor restrictions and governing board designations of funds add a dimension to their availability that is not captured in the table. Sometimes highly liquid investments are internally earmarked to honor donor restrictions.

Similarly, many NFPs have established donor advised fund programs under which a donor gives funds to the NFP and the NFP has variance power over those funds. In those circumstances, the NFP has the legal right to those funds but, in fact, is unlikely to use them until directed to do so by the donor. Inclusion of such funds in the available liquid funds table would be misleading.

The same could be said of funds that have been designated by the governing board to be used for a specific purpose in the future. While they may be legally available for use, the institution has no intention of using them in the near term.

#### ***Relevance of the Tables to One Another***

Although we do not believe that the Board intended for the tables to be complementary to one another, the tables in the examples provided in the ASU may cause readers to think that they should be. This can be particularly troublesome to NFPs with large numbers of pledges receivable. For those NFPs, the obligations presented may include amounts that are intended to be funded with payments received on pledges. Because the amount and timing of payments on pledges can be uncertain, they may not be reflected in the table of available liquid funds. This disconnect between the two tables could cause users of the statements to make inappropriate assumptions about the NFPs ability to meet its financial obligations.

***Conclusion***

Based on the issues noted above and recognizing the work that the Not-for-Profit Advisory Committee (NAC) to the FASB has undertaken, we believe that NFPs should be scoped out of this ASU. The subcommittee of the NAC focused specifically on the liquidity and financial health of NFPs has been working on options to address these issues specifically for NFPs. We encourage the Board to scope NFPs out of this ASU and allow the subcommittee to complete its work in the context of the larger project addressing the NFP reporting model.

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](mailto:sue.menditto@nacubo.org).

Sincerely,

Susan M. Menditto  
Director, Accounting Policy

