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August 20, 2015

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

Re: File Reference No. 2015-230

Dear Ms. Cosper:

On behalf of the National Association of College and University Business Officers (NACUBO), we submit the following comments on the 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" (the proposed ASU). NACUBO's comments on the proposed ASU 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 Proposed ASU

We appreciate the Board's willingness to revisit the financial reporting model for not-for-profit entities (NFPs) and the time and thought that has gone into that effort. We are, however, extremely concerned about a number of aspects of the proposal which are discussed below and in our responses to specific questions posed by the Board.

In its meetings with the Not-for-Profit Advisory Committee (NAC) the Board heard that although the current model for financial reporting by NFPs was in need of some updating, a major overhaul was not necessary. What we have seen, however, over the course of the project are proposed sweeping changes that go well beyond the originally defined scope of the project. In fact, a number of the proposed changes are reminiscent of the Financial Reporting Project which the Board removed from its agenda in 2011.

One of the potential improvements recommended by the NAC was the requirement to present an operating metric that would provide comparability across all NFPs. At that time we expressed concern that, because of the diverse nature of NFPs, the ability or even desire to compare NFPs across industry segments was perhaps overly ambitious. While the proposed ASU defines two required operating metrics, we do not believe those metrics will allow for comparability. At best, the first of those metrics will provide consistency across all NFPs. Given the variety of operating models used by different NFPs, however, that metric is not likely to provide comparability. For example, a charitable organization that receives a significant portion of its revenues from gifts-in-kind is going to have less liquidity and flexibility in its ability to meet its current obligations than would an NFP that receives much of its revenue from unrestricted contributions or fees for products and services. What is included in the first measure of operations may be consistent but the meaning of that metric will be quite different.

While NFPs and for-profit entities have measurement and reporting similarities, an NFP's responsibilities for stewardship and accountability create an important distinction between the two. Those responsibilities extend to all resources—both with and without donor restrictions—received and used by the NFP. The NFP exists to fulfill its mission not only in the current period, but into the future for the constituents it serves as well as the donors that provide support. As such, the NFP allocates its resources to allow it to continue in perpetuity. This may mean taking a large unrestricted gift and designating it as a quasi-endowment, the earnings on which might be used to support a new program. It could also mean designating an unrestricted capital gift for use in operations or to be held as an investment. Because an NFP's responsibilities for stewardship and accountability extend to all of its resources, we believe that its financial reporting should reflect that by expanding the proposed availability dimension to include the results of board actions during the reporting period. We do not believe it is necessary to provide an audit trail of the outcome of the NFP's decisions on the Statement of Activities (SoA).

The NAC also suggested that the SoA and the Statement of Cash Flows (SoCF) should more closely articulate. One fundamental reason there is a lack of articulation between the SoA and the SoCF of not-for-profit entities today is because an operating metric is not required to be presented. In a for-profit setting, these two statements are more closely aligned because an operating metric (net income) is required. We are concerned with the Board's direction in questioning the current categories as defined in ASC 230 in the proposed ASU. We do not see any merit in the proposed recategorizations and, in fact, believe that they will result in confusion on the part of financial statement users familiar with a for-profit entity's SoCF.

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 (balance sheet)? If not, please identify the information lost and why it is necessary.
Moving from three net asset classes to two is an acceptable change and one that will help eliminate misunderstanding over the term "temporarily restricted." This change, however, will result in a loss of important information on the face of the balance sheet; specifically, the portion of net assets with donor restrictions that must be retained in perpetuity. Because this information is critical to a user's understanding of the portion of net assets with donor restrictions that is expendable, financial statement users such as the Department of Education (ED), lenders, accreditors, and rating agencies will not be able to calculate the primary reserve ratio unless

preparers provide additional information on the "with donor restrictions" net asset class in the note disclosures.

In higher education, because expendable net assets are a key component of ED's financial responsibility ratios, ED will want to know that FASB recommends and provides guidance for such a disclosure. The example provided in paragraph 958-205-55-21 should more clearly indicate those amounts that are expendable in future periods or for specified purposes, or both. Further, because of the critical nature of the non-expendable portion of net assets with donor restrictions, we recommend that the example clearly show the portion that must be retained in perpetuity either by donor stipulation or by the NFP governing board's interpretation of relevant law. See **Attachment A** for a proposed revision to the example in paragraph 958-205-55-21.

The proposed ASU requires disclosures of year-end balances of board designations on net assets without donor restrictions. We agree that these disclosures facilitate an NFP's ability to "tell its story." However, equally important to the story of many NFPs, as well as to the construct of liquidity, is information about net assets without donor restrictions that are invested in physical plant and are, therefore, not available to be spent. Although there is nothing to preclude an NFP from voluntarily providing information on net assets invested in physical plant, requiring such a disclosure would support consistency and highlight the illiquid nature of a potentially large portion of net assets without donor restrictions.

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?
We agree that amounts by which endowment funds are underwater should be classified within net assets with donor restrictions. We believe this classification more accurately reflects reality in an UPMIFA environment.

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 that disclosures related to the amount by which endowment funds are underwater and related spending policies are valuable to financial statement users. We are not sure, however, that these disclosures provide insight into an NFP's liquidity.

When analyzing the relationship between the endowment investment portfolio and liquidity, several variables are needed, such as the severity of the underwater situation, including the percentage of underwater funds; the agreements between donors and NFPs regarding allowed spending on underwater funds; the liquidity of the portfolio; the percentage of expenses funded by endowment spending; and so forth. Therefore, although the proposed disclosures would provide factors to consider with regard to liquidity, they would not, in and of themselves shed much light on the NFP's liquidity.

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?

The proposed disclosures regarding how an NFP manages its liquidity (the qualitative disclosures) would likely provide valuable information to financial statement users and, as such, we support them. The quantitative disclosures, however, are likely to be of little or no use to users.

As proposed, each NFP would define the time horizon that it uses to assess its liquidity needs. Therefore, comparability would exist only among those NFPs that use the same time horizon. In addition, providing information about financial assets and liabilities and limits on the use of those assets disregards any activity that might take place within the NFP's self-defined time horizon. The disclosures assume that revenues earned would cover expenses or other cash outflows within the period. For many NFPs, this is not the norm. Revenues are often cyclical and, while most expenses are relatively fixed from one period to the next, cash required for capital calls on investments, repurchase of bonds as a result of failed remarketings, and similar infrequent transactions are not predictable. In addition, NFPs with large investment portfolios often have a considerable portion in relatively illiquid positions and, therefore, unavailable to meet current obligations.

During the global economic crisis of 2008, NFPs with significant illiquid investments, capital call demands, and non-remarketable debt were quickly in a position of illiquidity. Had the proposed quantitative disclosures been required at that time, we do not believe that they would have foretold how an NFP's liquidity would have been impacted by the market collapse.

Finally, it may be several months after year end before an NFP issues its financial statements. For those that use a relatively short time horizon—90 days or less—the information will be stale before the statements have been issued.

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?

As noted previously, the requirement for all NFPs to display intermediate measures of operations would create consistency across the sector, but would not necessarily result in comparability. Comparability is relative and, therefore, only has meaning when users look at another similarly situated entity (or entities). For example, in higher education, users often look for comparability among research universities. In order to achieve comparability, a metric should not require several adjustments to arrive at a meaningful result for the specific entity. As such, we do not believe the two intermediate measures of operations proposed by the Board would provide relevant and comparable information to financial statement users.

When (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, the challenge of conveying an NFP's financial representation has always been in explaining:

- The characteristics of resources
- How resources are generated and become available

- When and how donor restricted resources are used
- Resource stewardship activities and decisions
- The means by which an NFP ensures financial sustainability
- Whether the NFP lived within its means in the current period and
- How current period decisions affect the future

Because the above points are multifaceted, it is difficult to simultaneously portray donor wishes, activities, timing, stewardship, planning, and results. In attempting to address all of these needs, the current proposal falls short by introducing a complex activities statement that is difficult to understand.

We believe that the most meaningful measure of operations, and one with a chance for the greatest degree of comparability between similar entities, is achieved by allowing an NFP to present a single operating metric which reflects the results of its policies and board designations. Additional detail about the allocation of resources related to those policies and designations belongs in the notes (or perhaps even in a separate statement of changes in net assets) rather than on the face of the SoA.

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?

<u>An NFP's purpose for existence:</u>

While we agree, in principle, with the mission and availability dimensions for determining what to include within an intermediate measure of operations, we do not believe all investing and financing activities of an organization should be considered non-operating. For NFPs that borrow funds to invest, hedge, or provide liquidity or for NFP foundations established to support a related entity, the financing and investing activities carry a different meaning than for the NFPs that finance the construction of capital assets used in operations. The hard line distinction between investing and financing activities and mission/operating activities does not help readers understand how these activities relate to an NFP's mission.

As our response to Question 6 indicates, the NFP's financial statements are attempting to convey the interrelationship between activities that generate resources, the nature of resources, when and how resources are used, resource stewardship, planning for financial sustainability, reporting results, and portraying whether the organization "lived within its means." Although the Board believes that financing and investing activities are not directly related to mission and therefore not operating activities, mission for many NFPs is carried out through careful and planned use of their resources. Consequently, investing and financing activities are tools and methods by which many NFPs optimize resources.

The project that led to the issuance of the proposed ASU was meant to focus on financial statements and related notes that are unique to NFPs. One focus of the project was to re-examine whether operating, investing, and financing characteristics can be distinguished between types of statements and net asset classes. NACUBO has followed the project since 2011 and can find no obvious reason why these distinctions became mutually exclusive. Instead of axiomatically excluding investing and financing activities from mission related operating activities, separately identifying those activities within the operating measure would improve users' understanding of such activities and enrich the representation of how an NFP financially carried out its mission in the current reporting period. Clearly labeling operating, investing, and financing activities within one intermediate measure of financial performance can more distinctly present the results of an NFP's story.

<u>Displaying operating measures before and after governing board appropriations:</u>
Again, we do not believe using "transfers" to display the consequences of board actions and policies is necessary. Rather, an NFP should display a single-operating metric that reflects the outcomes of its policies and board actions. There is no need to illustrate governing board decisions in the SoA. Those details belong elsewhere.

Although resource availability is important to understanding how an NFP carried out its mission in the reporting period, the presence or absence of donor restrictions should not be the ultimate driver of availability. The scenarios below illustrate our reasoning in favor of a single operating metric that reflects mission relevance, policy decisions, availability, and pertinent investing and/or financing activities:

1. If an NFP has a policy or its governing board determines that certain types or amounts of gifts received without donor restrictions are to be used in a future period or periods, those amounts are not available for current operations and should be excluded from any operating metric.
2. Many NFPs use quasi-endowments as a way of ensuring long-term sustainability of the organization. Those NFPs generally manage their endowment and other investments as a pool and use a spending rate approach to prudently appropriate returns on those investments for current period use. Whether the net assets related to those investments are with or without donor restrictions is irrelevant to the way in which the NFP manages them. As such, to require a different presentation (before and after board actions) for endowment spending from donor-restricted endowments and that from quasi-endowments serves to cloud and conflate facts about the "story" of endowment management.
3. As discussed in our response to Question 10, capital-like transactions, while directed at fulfillment of an NFP's mission, do not meet the availability dimension and, therefore, should be excluded from any operating metric. Results of events such as capital asset acquisitions (with restricted or unrestricted resources), completed construction projects placed in service, or internal actions to retain donated long lived assets for use over time can be reflected in the non-operating section of the SoAs, with additional information in the notes.
4. In higher education, there are hundreds of NFP foundations that are affiliated with public (state supported) colleges and universities. The sole purpose and mission of these foundations is to support their affiliated institution. For these entities, garnering support (unrestricted and restricted), optimizing investment return, and disbursing resources to the affiliated institution is their mission. Clearly in these cases, an operating metric that reflects mission and availability should include resources "with" and "without" donor restrictions.

The following referenced attachments illustrate how the SoA becomes complex and confusing when incorporating a transfer section for governing board decisions between the proposed operating measures.

- **Attachment B** presents financial statements that illustrate capital-like transactions as available for operations (impacting measure 1) and then being reclassified to non-operating as a result of board actions.
- **Attachment C** financial statements illustrate all board decisions (including capital) as transfers between operating and non-operating.

As an alternative, NACUBO suggests the presentation in **Attachment D** that illustrates (1) how investing and financing activities used in fulfilling the NFP's mission might be displayed, (2) presentation of a single operating metric that reflects the results of an NFP's policies and board decisions (in both columnar format and stacked format, with a two statement option), and (3) accompanying disclosure details that highlight the results of the NFP's policies/board actions.

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?

As noted elsewhere, internal transfers should not be displayed on the SoA. Presentation of the movement of resources within the same net asset class on the face of the statements is likely to be confusing. Users may interpret the amounts to be new revenue or expenses when they are simply redesignations of existing net assets.

In addition, we feel that the use of transfers on the face of the statement of activities allows an NFP to engineer its bottom line to provide the best optics. It allows an NFP to "override" proposed GAAP by transferring in and out of operations amounts that it previously included or excluded from its reported measure of operations. For example, several colleges and universities have informed NACUBO that they will use the proposed transfer section as a way of reducing operating revenues to fund interest expense. In another case (as we note in our response to Question 9) NFPs that currently release restrictions on long-lived assets over the life of the asset will use the transfer section to replicate the effect of the "bleeding in" approach. These examples highlight why transfers are problematic.

Rather than using transfers, the proposed disclosures related to board designations at the end of the period could be expanded to include a roll forward of all activity within net assets without donor restrictions. This would be a more comprehensive approach that would allow users to better understand how an institution manages its unrestricted resources (resources without donor restrictions) for both current and future use.

See **Attachment C** (example C2) for an illustration of additional transfers that manipulate the bottom line and negate proposed GAAP through transfers for interest related expenses and "bleeding-in."

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?
Requiring all NFPs to use the same method for reporting expirations on donor restricted gifts of cash or other assets to acquire or construct long-lived assets would promote consistency. Such consistency will enhance comparability among like NFPs. In that regard, the elimination of the option to "bleed in" donor-funded long-lived assets over the life of the asset makes good sense. Once the asset has been placed in service, unless otherwise specified by the donor, the NFP's obligation has been met.

As touched upon in our response to Question 8, while the policy election may be eliminated, NFPs that currently use the bleeding in method are likely to achieve the same "bottom line" result through the use of board designated transfers into operations. This allowable type of transfer is another example of why we do not believe that the transfer section belongs in the SoA.

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?
Gifts of, or for, long-lived assets do not meet the availability dimension and, therefore, should never be considered operating support. These are more akin to endowment gifts which are meant to benefit future periods and should be treated similarly (as non-operating).

Because consistency is important for the treatment of all capital assets, gifts of capital assets without donor restrictions should not be considered operating support. Rather, the asset should be included at its fair value on the date of donation in non-operating and if it is subsequently monetized the proceeds from the sale should be included in operations.

Treating these gifts of, or for, capital as non-operating would eliminate a number of inconsistencies and points of confusion that exist in the proposed model, and reduce clutter on the SoA. As referenced earlier, see **Attachment B** (example B1) for an illustration of challenges with the proposed presentation.

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?
The current flexibility provided by GAAP related to the presentation of a statement of activities is important to helping an NFP tell its story. For some NFPs, the columnar approach provides the most clarity to financial statement users while for others the stacked or "pancake" format is the most beneficial.

Retaining this flexibility is important and, as such, we support the Board's proposal in this regard. We would like to point out, however, that the columnar statements included as examples in the proposed ASU are misleading in that they show donor-restricted, non-operating activity alongside operating activities. Although no subtotal is struck in the "with donor restrictions" column, it is a nuance that may go unnoticed by financial statement users. We encourage the

Board to revise the columnar format examples in order to make them clearer and more understandable.

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?

The requirement to provide an analysis of expenses by both function and nature was an important aspect of NACUBO's Blank Slate Project and one that we think is useful to financial statement users. Today, NFPs that present their expenses by function on the face of their statement of activities are not required to provide any information about expenses by nature. As a result, financial statement users have no idea how much of the NFP's resources were spent on salaries and benefits vs. supplies and services. We believe that information about expenses by nature is just as important—and often better understood by users more familiar with for-profit financial reporting—as information about expenses by function.

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?

We are pleased the Board is addressing the issue of the presentation of investment expenses as this has been an area of confusion for some time. That confusion has centered on what should be disclosed as the amount of related expenses given the various fee structures used by investment managers (e.g., embedded fees). In an attempt to address this confusion the AICPA's Not-for-Profit expert panel recommended to FASB that the requirement to disclose the netted amounts be eliminated as the total return is what users of the financial statements are most interested in and also is the amount that is most comparable across NFPs.

It should be noted that there has never been an issue, of which we are aware, with the type of expenses that are currently netted against investment returns. Each NFP is likely to have unique expenses that they net based on their investment management structure and what costs are actually funded by the investment returns. For example, an NFP that outsources its investment management activities and has minimal internal resources dedicated to investment strategy and oversight would have a different expense structure than an NFP that manages all or a significant portion of its investments internally.

In the proposed ASU, however, the Board has changed the language from "related expenses" to "direct expenses" and FASB staff have indicated that certain internal costs such as those for investment accounting staff would be excluded from netting. The ramifications of this proposed language change are twofold. First, NFPs that currently net such expenses against their investment return will report a higher return in future periods – and one that does not agree with the return published in such reports as the annual NACUBO-Common Fund Study of Endowments. Second, many of the indirect internal costs incurred by NFPs that manage their investments internally are included in the fees that are charged by third-party managers. As a result, an NFP that outsources its investment management activities will net those expenses against their returns. Thus, inconsistency will be created where none exists today.

We believe that presenting investment returns net of related investment expenses (i.e., no change from current practice), without disclosures about amounts netted, will provide the greatest consistency and comparability.

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?
It is unclear why the amount of internal salaries and benefits expenses netted against investment returns would be relevant to users of the financial statements. In fact, it may lead to confusion because NFPs that manage their investments internally will have a large expense disclosed, but those that outsource their investment management will have a much smaller expense. This may cause readers to believe that one NFP is spending more on its investment management that another when, in fact, they are just using their resources differently.

If the impetus for this decision was the ability to add these amounts to the salaries and benefits included in operations in order to arrive at total salary and benefits expense for the year, the logic is flawed. Because other salaries and benefits may be capitalized as part of cost of goods sold, system implementations, and capital construction projects, the ability to derive total salaries and benefits from the financial statements is not possible. This information is, however, provided in an NFP's IRS Form 990 should a user wish to obtain such data.

As noted in our response to Question 14, we believe in order to provide the most comparable information, investment expenses should be netted against returns with no further disclosure required.

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?
For many NFPs, interest expense is a large number which is budgeted on an annual basis. We do not believe, however, that fact alone should determine whether or not interest expense is considered an operating activity. Rather, it is the nature of the interest expense that should drive the presentation. For example, when an NFP issues debt in order to fund the construction of a capital asset such as a building, the interest expense on that debt coupled with depreciation represents the cost of using the building. Similarly, lease expense—which is presented entirely as an operating expense—represents the cost of using the building. Whether the NFP chooses to purchase or lease an asset should not impact the presentation of the expense incurred to use that asset.

In addition, if interest expense is always excluded from operations, NFP financial statements would differ from for-profit entities' financial statements where the for-profit has the ability to determine where interest expense is presented in its income statement. For these reasons, we believe that the presentation of interest expense should be determined based on the nature of the transaction to which it relates rather than categorically stating that all interest expense should be considered non-operating.

Question 17: Do you agree with the following implementation guidance:

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

- **Equity transfers:** Many universities with affiliated hospitals engage in equity transfers. These transfers are typically reported as non-operating in today's environment as they are similar in nature to paid-in capital transactions that occur between affiliated for-profit entities. They represent a change in unrestricted net assets, not a source of revenue or support for the receiving affiliate or an expense for the transferring affiliate. When consolidated financial statements are presented, equity transfers are eliminated. On a standalone basis, however, they are not. The proposal to present these transfers as operating activities would, we believe, misrepresent the nature of these transfers when presented in one affiliated entity's standalone financial statements.

- **Goodwill:** Very few higher education institutions enter into transactions that result in goodwill being recorded. Regardless, an immediate writeoff of goodwill should be categorized as operating or non-operating depending on whether the transaction is related to the mission of the institution.

- **Acquisitions of non-capitalized collections:** Many higher education institutions maintain collections and most do not capitalize them. For those institutions, accessions and deaccessions of collection items—whether impacting net assets with or without donor restrictions—are generally treated as non-operating. This is because non-capitalized collections are, by definition, not available for current period use. Under the criteria required to meet the definition of a collection, the assets must be subject to an organizational policy that requires the proceeds of items that are sold to be used to acquire other items for collections. Presenting the writeoff of such items as operating activities would be inappropriate as they do not meet the availability dimension.

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.

As an industry split between institutions that report under FASB and institutions that report under GASB, higher education has had the benefit of the experience that public institutions that report under GASB have had with preparing and presenting the statement of cash flows using the direct method. Users of GASB financial statements have found the presentation of cash flows from operations using the direct method to be of more value than the indirect method presented by most FASB institutions. In addition, NACUBO has heard from public institutions that preparation of the statement of cash flows using the direct method is no more burdensome that preparing the statement using the indirect method other than in the year of implementation when additional effort is required to remap the information from the financial systems to the new format.

While many systems can be modified to allow the creation of a direct method cash flow statement directly, we do not believe system modifications are a necessity for being able to efficiently prepare such a statement. Many public institutions use a simple mapping spreadsheet to create their statement of cash flows.

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?
While the indirect method's reconciliation of cash flows from operating activities does provide some insight into the reasons behind the usage of cash—for example, cash payments to suppliers were lower in the current year but accounts payable increased at the same time—that is useful to only the most sophisticated users of the cash flow statement. If, however, the reconciliation was eliminated, such information could still be deduced from the NFP's balance sheet. As such, we do not believe requiring the indirect reconciliation in addition to the direct method presentation is necessary.

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.
The proposed reclassifications to the SoCF categories in order to more closely align the operating activities with the statement of activities would create significant confusion. As previously mentioned, most users of an NFP's financial statements are familiar with the reporting model used by for-profit entities. Therefore, the fewer differences in statement format and presentation between for-profit and NFP entities, the better for facilitating users' understanding.

In addition to the lack of comparability across all entities, a number of inconsistencies would still exist under the proposed ASU. These inconsistencies relate to the difference in the treatment of capital acquired with donor restricted net assets and those acquired with net assets without donor restrictions. Since all cash outlays for capital assets would be considered operating activities in the SoCF, the SoA and SoCF would not articulate because only the amount of capital assets funded by contributions flows through the operating section in the SoA. The examples in **Attachment E** highlight scenarios that result in a lack of articulation between the statements.

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.
There are many aspects of the proposed amendments that may take a longer period of time to implement depending on the size and complexity of the organization. For higher education institutions, the areas of greatest concern are:

1. The effort required to evaluate the costs that are currently netted against investment return and those that would not be allowed to be netted in the future. This could result in

the need for system recoding in order to make it an efficient reporting process in future years.

2. Reaching consensus on the institution's time horizon regarding liquidity management and creating a methodology for aggregating information based on that period.
3. Time required for institutions that wish to modify their systems in order to generate a direct method cash flow statement to make such modifications. For those that would use a spreadsheet or some other means to remap their cash flows into the direct method presentation, adequate time would also be required to build and test that methodology.

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.
As noted in our answer to Question 21, the size and complexity of an organization may have an impact on its ability to implement the changes. For organizations with fewer resources to devote to implementing the proposed changes, more time may be required than for a large, but relatively uncomplicated organization, with more available resources. Given the number of other significant standards that have been issued recently or are expected to be issued in the near term (e.g. revenue recognition and leases) a period of not less than three years from the date of the statement's final issuance would be an appropriate implementation period.

****

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 Susan Menditto, director of accounting policy at (202) 861-2542 or smenditto@nacubo.org.

Sincerely,

John D. Walda
President and CEO

Susan M. Menditto
Director, Accounting Policy

Attachment A – Disclosure of Net Assets With Donor Restrictions

The following is a proposed revision to Note B in paragraph 958-205-55-21 of the proposed ASU to enhance the readers understanding to the expendability of the NFP's net assets with donor restrictions.

Note B

Net assets with donor restrictions are restricted for the following purposes or periods:

	Expendable	Non-expendable	
Subject to expenditure for specified purpose:			
Program A activities:			
Purchase of equipment	$ 1,530		
Research	2,128		
Educational seminars and publications	760		
Program B activities:			
Disaster relief	1,120		
Educational seminars and publications	1,079		
Program C activities:			
General	1,484		
Buildings and equipment	1,075		
Annuity trust agreements for research	1,425		
	10,601		
Subject to the passage of time:			
Over the next five fiscal years	3,140		
Subject to spending policy and appropriation:			
Program A activities	6,524	21,000	
Program B activities	3,162	10,500	
Program C activities	3,162	10,500	
Any activities of the organization	5,773	100,020	
	18,621	142,020	(1)
Event specific appropriation and expenditure:			
Endowment/ income requirement until gift = $2,500		2,210	
Beneficial trust insurance		80	
		2,290	(2)
Not subject to appropriation or expenditure:			
Land for recreational area use		2,500	(2)
Total net assets with donor restrictions	$ 32,362	$ 146,810	

(1) Perpetual net assets with donor restrictions
(2) Other non-expendable net assets with donor restrictions

Attachment B – Capital Transactions

The following examples illustrate the issues around the presentation of capital transactions raised in our responses to Questions 7 and 10. For simplicity purposes, only one year is presented. In practice, we would expect that higher education institutions would present two years to facilitate comparison.

This attachment contains the following examples:
B – Statement of activities presentation of contributed capital under current GAAP
B1 – Statement of activities presentation of contributed capital under the proposed guidance

B: Presentation under current GAAP

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Activities				
Revenues and support				
Tuition and fees (net)	$ 100,000	$ -	$ -	$ 100,000
Grants and contracts	25,850	-	-	25,850
Contributions	3,400	-	-	3,400
Donor-restricted endowment return distributed for operations	3,650	-	-	3,650
Quasi-endowment return distributed for operations	3,000	-	-	3,000
Auxiliary activities	9,500	-	-	9,500
Operating cash investment return	225	-	-	225
Restricted resources released for programs	7,500	-	-	7,500
Other	500	-	-	500
Total operating revenues and support	153,625	-	-	153,625
Operating expenses				
Salaries and benefits	95,250	-	-	95,250
Supplies and services	20,000	-	-	20,000
Utilities	10,250	-	-	10,250
Depreciation	19,500	-	-	19,500
Interest expense	720	-	-	720
Ineffective interest rate hedge	2,000	-	-	2,000
Other	500	-	-	500
Total operating expenses	148,220	-		148,220
Increase in net assets from operations	5,405	-	-	5,405
Nonoperating activities				
Contributions	100,000	13,265	5,400	118,665
Grants for PP&E	5,000	-	-	5,000
Restricted resources released for programs	-	(7,625)	125	(7,500)
Investment return	565	12,650	300	13,515
Endowment income distributed for operations	(3,000)	(3,650)	-	(6,650)
Capital gifts released from restriction	12,100	(12,100)	-	-
Change in pension other than net periodic benefit expense	850	-	-	850
Total nonoperating activities	115,515	2,540	5,825	123,880
Total increase in net assets	120,920	2,540	5,825	129,285
Net assets				
Beginning of year	115,520	89,500	91,050	296,070
End of year	$ 236,440	$ 92,040	$ 96,875	$ 425,355

B1: Proposed guidance – Presentation of contributed capital transactions

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and support			
Tuition and fees (net)	$ 100,000	$ -	$ 100,000
Grants and contracts*	25,850	-	25,850
Contributions**	108,400	-	108,400
Donor-restricted endowment return distributed for operations	3,650	-	3,650
Auxiliary activities	9,500	-	9,500
Restricted resources released for programs	7,500	-	7,500
Capital gifts released from restrictions	12,100	-	12,100
Other	500	-	500
Total operating revenues and support	267,500	-	267,500
Operating expenses			
Salaries and benefits	95,250	-	95,250
Supplies and services	20,000	-	20,000
Utilities	10,250	-	10,250
Depreciation	19,500	-	19,500
Other	500	-	500
Total operating expenses	145,500	-	145,500
Operating excess, before transfers	122,000	-	122,000
Board designations, appropriations, and similar transfers to (from) operations			
Quasi-endowment return distributed for operations	3,000	-	3,000
Capital gifts released from restriction, placed in service	(12,100)	-	(12,100)
Donated building place in service	(100,000)	-	(100,000)
Grants for PP&E	(5,000)	-	(5,000)
Current period interest on mission-related debt	(720)	-	(720)
Ineffective interest rate hedge	(2,000)	-	(2,000)
Operating cash investment return	225	-	225
Operating deficit, after transfers	5,405	-	5,405
Nonoperating activities			
Contributions	-	18,665	18,665
Net assets released from restrictions	-	(7,500)	(7,500)
Interest expense	(720)	-	(720)
Ineffective interest rate hedge	(2,000)	-	(2,000)
Investment return	790	12,950	13,740
Donor-restricted endowment return distributed for operations	-	(3,650)	(3,650)
Capital gifts released from restriction	-	(12,100)	(12,100)
Change in pension other than net periodic benefit expense	850	-	850
Board designations, appropriations, and similar transfers (to) from operations			
Quasi-endowment return distributed for operations	(3,000)	-	(3,000)
Capital gifts released from restriction, placed in service	12,100	-	12,100
Donated building placed in service	100,000	-	100,000
Grants for PP&E	5,000	-	5,000
Current period interest on mission-related debt	720	-	720
Ineffective interest rate hedge	2,000	-	2,000
Operating cash investment return	(225)	-	(225)
Total increase in net assets	120,920	8,365	129,285
Net assets			
Beginning of year	115,520	180,550	296,070
End of year	$ 236,440	$ 188,915	$ 425,355

* Includes $5,000 of grants for PP&E

** Includes $100,000 for donated building placed in service

Attachment C – Current Presentation vs. Proposed Presentation

The following examples illustrate the issues raised in our introductory comments as well as our response to Questions 7 and 8. For simplicity purposes, only one year is presented. In practice, we would expect that higher education institutions would present two years to facilitate comparison.

This attachment contains the following examples:

C – Statement of activities presentation under current GAAP

C1 – Statement of activities presentation under the proposed guidance using transfers to arrive at the same bottom line number

C2 – Statement of activities presentation under the proposed guidance using transfers to arrive at the same bottom line number and including other amounts to “engineer” the displayed results of operations

C: Presentation under current GAAP

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Activities				
Revenues and support				
Tuition and fees (net)	$ 100,000	$ -	$ -	$ 100,000
Grants and contracts	25,850	-	-	25,850
Contributions	3,400	-	-	3,400
Donor-restricted endowment return distributed for operations	3,650	-	-	3,650
Quasi-endowment return distributed for operations	3,000	-	-	3,000
Auxiliary activities	9,500	-	-	9,500
Operating cash investment return	225	-	-	225
Restricted resources released for programs	7,500	-	-	7,500
Other	500	-	-	500
Total operating revenues and support	153,625	-	-	153,625
Operating expenses				
Salaries and benefits	95,250	-	-	95,250
Supplies and services	20,000	-	-	20,000
Utilities	10,250	-	-	10,250
Depreciation	19,500	-	-	19,500
Interest expense	720	-	-	720
Ineffective interest rate hedge	2,000	-	-	2,000
Other	500	-	-	500
Total operating expenses	148,220	-		148,220
Increase in net assets from operations	5,405	-	-	5,405
Nonoperating activities				
Contributions	100,000	13,265	5,400	118,665
Grants for PP&E	5,000	-	-	5,000
Restricted resources released for programs	-	(7,625)	125	(7,500)
Investment return	565	12,650	300	13,515
Endowment income distributed for operations	(3,000)	(3,650)	-	(6,650)
Capital gifts released from restriction	12,100	(12,100)	-	-
Change in pension other than net periodic benefit expense	850	-	-	850
Total nonoperating activities	115,515	2,540	5,825	123,880
Total increase in net assets	120,920	2,540	5,825	129,285
Net assets				
Beginning of year	115,520	89,500	91,050	296,070
End of year	$ 236,440	$ 92,040	$ 96,875	$ 425,355

C1: Proposed guidance - Transfers used to arrive at same bottom line number as reported under current GAAP

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and support			
Tuition and fees (net)	$ 100,000	$ -	$ 100,000
Grants and contracts*	25,850	-	25,850
Contributions**	108,400	-	108,400
Donor-restricted endowment return distributed for operations	3,650	-	3,650
Auxiliary activities	9,500	-	9,500
Restricted resources released for programs	7,500	-	7,500
Capital gifts released from restrictions	12,100	-	12,100
Other	500	-	500
Total operating revenues and support	267,500	-	267,500
Operating expenses			
Salaries and benefits	95,250	-	95,250
Supplies and services	20,000	-	20,000
Utilities	10,250	-	10,250
Depreciation	19,500	-	19,500
Other	500	-	500
Total operating expenses	145,500	-	145,500
Operating excess, before transfers	122,000	-	122,000
Board designations, appropriations, and similar transfers to (from) operations			
Quasi-endowment return distributed for operations	3,000	-	3,000
Capital gifts released from restriction, placed in service	(12,100)	-	(12,100)
Donated building place in service	(100,000)	-	(100,000)
Grants for PP&E	(5,000)	-	(5,000)
Current period interest on mission-related debt	(720)	-	(720)
Ineffective interest rate hedge	(2,000)	-	(2,000)
Operating cash investment return	225	-	225
Operating deficit, after transfers	5,405	-	5,405
Nonoperating activities			
Contributions	-	18,665	18,665
Net assets released from restrictions	-	(7,500)	(7,500)
Interest expense	(720)	-	(720)
Ineffective interest rate hedge	(2,000)	-	(2,000)
Investment return	790	12,950	13,740
Donor-restricted endowment return distributed for operations	-	(3,650)	(3,650)
Capital gifts released from restriction	-	(12,100)	(12,100)
Change in pension other than net periodic benefit expense	850	-	850
Board designations, appropriations, and similar transfers (to) from operations			
Quasi-endowment return distributed for operations	(3,000)	-	(3,000)
Capital gifts released from restriction, placed in service	12,100	-	12,100
Donated building placed in service	100,000	-	100,000
Grants for PP&E	5,000	-	5,000
Current period interest on mission-related debt	720	-	720
Ineffective interest rate hedge	2,000	-	2,000
Operating cash investment return	(225)	-	(225)
Total increase in net assets	120,920	8,365	129,285
Net assets			
Beginning of year	115,520	180,550	296,070
End of year	$ 236,440	$ 188,915	$ 425,355

* Includes $5,000 of grants for PP&E

** Includes $100,000 for donated building placed in service

C2: Proposed guidance - Includes all adjustments to arrive at same bottom line as under current GAAP, plus includes "bleeding in" of restricted net assets associated with capital assets and a transfer that allows interest expense (and related ineffective hedge) to influence operating results.

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and support			
Tuition and fees (net)	$ 100,000	$ -	$ 100,000
Grants and contracts*	25,850	-	25,850
Contributions**	108,400	-	108,400
Donor-restricted endowment return distributed for operations	3,650	-	3,650
Auxiliary activities	9,500	-	9,500
Restricted resources released for programs	7,500	-	7,500
Capital gifts released from restrictions	12,100	-	12,100
Other	500	-	500
Total operating revenues and support	267,500	-	267,500
Operating expenses			
Salaries and benefits	95,250	-	95,250
Supplies and services	20,000	-	20,000
Utilities	10,250	-	10,250
Depreciation	19,500	-	19,500
Other	500	-	500
Total operating expenses	145,500		145,500
Operating excess, before transfers	122,000	-	122,000
Board designations, appropriations, and similar transfers to (from) operations			
Quasi-endowment return distributed for operations	3,000	-	3,000
Capital gifts released from restriction, placed in service	(12,100)	-	(12,100)
Donated building placed in service	(100,000)	-	(100,000)
Grants for PP&E	(5,000)	-	(5,000)
Portion of capital gifts used in current period	302	-	302
Current period interest on mission-related debt	(720)	-	(720)
Ineffective interest rate hedge	(2,000)	-	(2,000)
Operating cash investment return	225	-	225
Operating deficit, after transfers	5,707	-	5,707
Nonoperating activities			
Contributions	-	18,665	18,665
Net assets released from restrictions	-	(7,500)	(7,500)
Interest expense	(720)	-	(720)
Ineffective interest rate hedge	(2,000)	-	(2,000)
Investment return	790	12,950	13,740
Donor-restricted endowment return distributed for operations	-	(3,650)	(3,650)
Capital gifts released from restriction	-	(12,100)	(12,100)
Change in pension other than net periodic benefit expense	850	-	850
Board designations, appropriations, and similar transfers (to) from operations			
Quasi-endowment return distributed for operations	(3,000)	-	(3,000)
Capital gifts released from restriction, placed in service	12,100	-	12,100
Portion of capital gifts used in current period	(302)	-	(302)
Donated building placed in service	100,000	-	100,000
Grants for PP&E	5,000	-	5,000
Current period interest on mission-related debt	720	-	720
Ineffective interest rate hedge	2,000	-	2,000
Operating cash investment return	(225)	-	(225)
Total increase in net assets	120,920	8,365	129,285
Net assets			
Beginning of year	115,520	180,550	296,070
End of year	$ 236,440	$ 188,915	$ 425,355

* Includes $5,000 of grants for PP&E
** Includes $100,000 for donated building placed in service

Attachment D – NACUBO Proposed Presentation

The following examples illustrate NACUBO's proposed presentation discussed in our introductory comments as well as our response to Questions 6, 7, 8, 10 and 16. For simplicity purposes, only one year is presented. In practice, we would expect that higher education institutions would present two years to facilitate comparison.

This attachment contains the following examples:

D – Proposed statement of activities presentation in columnar format
D1 – Proposed statement of activities presentation in stacked or "pancake" format
D2 – Proposed two statement approach: statement of operations and statement of changes in net assets
D3 – Proposed rollforward disclosure to show the detail of the results of organization policies and board designations reflected in the proposed statement of activities

D: Presentation proposed by NACUBO – columnar format

	Without donor restrictions	With donor restrictions	Total
Revenues and support			
Tuition and fees (net)	$ 100,000	$ -	$ 100,000
Grants and contracts	25,850	-	25,850
Contributions	3,400	-	3,400
Auxiliary activities	9,500	-	9,500
Restricted resources released for programs	7,500	-	7,500
Other	500	-	500
	146,750	-	146,750
Operating expenses			
Salaries and benefits	95,250	-	95,250
Supplies and services	20,000	-	20,000
Utilities	10,250	-	10,250
Depreciation	19,500	-	19,500
Other	500	-	500
Total operating expenses	145,500		145,500
Mission directed investing and financing activities			
Annual endowment spending	6,650	-	6,650
Interest expense	(720)	-	(720)
Ineffective interest rate hedge	(2,000)	-	(2,000)
Operating cash investment return	225	-	225
	4,155		4,155
Operating results	5,405		5,405
Nonoperating activities			
Contributions	-	18,665	18,665
Grants for PP&E	5,000	-	5,000
Restricted resources released for programs	-	(7,500)	(7,500)
Investment return	565	12,950	13,515
Endowment return distributed for operations	(3,000)	(3,650)	(6,650)
Capital gifts released from restrictions	12,100	(12,100)	-
Donated building placed in service	100,000	-	100,000
Change in pension other than net periodic benefit expense	850	-	850
Total nonoperating activities	115,515	8,365	123,880
Total increase in net assets	120,920	8,365	129,285
Net assets, beginning of year	115,520	180,550	296,070
Net assets, end of year	$ 236,440	$ 188,915	$ 425,355

D1: Presentation proposed by NACUBO – pancake format

Net assets without donor restrictions		
Revenues and support		
Tuition and fees (net)	$	100,000
Grants and contracts		25,850
Contributions		3,400
Auxiliary activities		9,500
Restricted resources released for programs		7,500
Other		500
		146,750
Operating expenses		
Salaries and benefits		95,250
Supplies and services		20,000
Utilities		10,250
Depreciation		19,500
Other		500
Total operating expenses		145,500
Mission directed investing and financing activities		
Annual endowment spending		6,650
Interest expense		(720)
Ineffective interest rate hedge		(2,000)
Operating cash investment return		225
		4,155
Operating results		5,405
Other changes in net assets without donor restrictions		
Investment return		565
Capital gifts released from restrictions		12,100
Donated building placed in service		100,000
Grants for PP&E		5,000
Change in pension other than net periodic benefit expense		850
Quasi-endowment return distributed for operations		(3,000)
Total change in net assets without donor restrictions		120,920
Net assets with donor restrictions		
Investment return		12,950
Donor-restricted endowment return distributed for operations		(3,650)
Contributions		18,665
Capital gifts released from restrictions		(12,100)
Restricted resources released for programs		(7,500)
Total change in net assets with donor restrictions		8,365
Total increase in net assets		129,285
Net assets, beginning of year		296,070
Net assets, end of year	$	425,355

D2: NACUBO Proposed two statement presentation

Statement of Operations

Net assets without donor restrictions		
Revenues and support		
Tuition and fees (net)	$	100,000
Grants and contracts		25,850
Contributions		3,400
Auxiliary activities		9,500
Restricted resources released for programs		7,500
Other		500
		146,750
Operating expenses		
Salaries and benefits		95,250
Supplies and services		20,000
Utilities		10,250
Depreciation		19,500
Other		500
Total operating expenses		145,500
Mission directed investing and financing activities		
Annual endowment spending		6,650
Interest expense		(720)
Ineffective interest rate hedge		(2,000)
Operating cash investment return		225
		4,155
Operating results	$	5,405

Statement of Changes in Net Assets

Net assets without donor restrictions		
Operating results	$	5,405
Other changes in net assets without donor restrictions		
Investment return		565
Capital gifts released from restrictions		12,100
Donated building placed in service		100,000
Grants for PP&E		5,000
Change in pension other than net periodic benefit expense		850
Quasi-endowment return distributed for operations		(3,000)
Total change in net assets without donor restrictions		120,920
Net assets with donor restrictions		
Investment return		12,950
Donor-restricted endowment return distributed for operations		(3,650)
Contributions		18,665
Capital gifts released from restrictions		(12,100)
Restricted resources released for programs		(7,500)
Total change in net assets with donor restrictions		8,365
Total increase in net assets		129,285
Net assets, beginning of year		296,070
Net assets, end of year	$	425,355

D3: Proposed disclosure related to changes in unrestricted net assets

Changes in net assets without donor restrictions were as follows:

	Beginning of Year	Additions[1]	Reductions[2]	End of Year
Undesignated	$ 9,905	$ 2,220	$ -	$ 12,125
Plant assets	58,615	112,100	1,400	169,315
Grants for PP&E	-	5,000	-	5,000
Quasi-endowment	35,000	2,250	3,000	34,250
Bond sinking fund	8,000	2,500	-	10,500
Liquidity reserve	4,000	1,250	-	5,250
	$ 115,520	$ 125,320	$ 4,400	$ 236,440

[1]Includes new resources, earnings on investments, and internal board designations
[2]Includes amounts appropriated for use in current period operations, depreciation, and net losses on investments

Attachment E

The following examples illustrate the inconsistencies between the statement of activities and the statement of cash flows created by the proposed recategorizations as discussed in our responses to Questions 10 and 20. For illustrative purposes, we have assumed that the NFP was established in the current year and has only a few transactions.

Cash Flow Scenario #1

Not-for-Profit A was founded in the current year and had only the following transactions:

1. A contribution from a donor of $1 million to be used as the organization wishes
2. The purchase of a building for $800,000

These transactions would be reflected as follows under **current guidance**:

Dr. Cash	$1,000,000
Cr. Contribution revenue (unrestricted)	1,000,000
Dr. PP&E	800,000
Cr. Cash	800,000

At the end of the fiscal year NFP A's financial statements would be as follows:

Not-for-Profit A
Balance Sheet
As of June 30, 20X1

Assets		
Cash	$	200,000
PP&E		800,000
Total assets	$	1,000,000
Unrestricted net assets	$	1,000,000

Not-for-Profit A
Statement of Activities
For the Year Ended June 30, 20X1

Unrestricted contribution revenue	$	1,000,000
Excess from operating activities		1,000,000
Increase in unrestricted net assets	$	1,000,000

Not-for-Profit A
Statement of Cash Flows
For the Year Ended June 30, 20X1

Cash flows from operating activities:		
Cash received from donors	$	1,000,000
Cash provided by operating activities		1,000,000
Cash flows from investing activities:		
Purchase of PP&E		(800,000)
Cash used for investing activities		(800,000)
Increase in cash and cash equivalents		200,000
Cash and cash equivalents at beginning of year		-
Cash and cash equivalents at end of year	$	200,000

These transactions would be reflected as follows under the **proposed guidance**:

Dr. Cash	$1,000,000
Cr. Contribution revenue (without donor restriction)	1,000,000
Dr. PP&E	800,000
Cr. Cash	800,000

At the end of the fiscal year NFP A's financial statements would be as follows:

Not-for-Profit A
Balance Sheet
As of June 30, 20X1

Assets		
Cash	$	200,000
PP&E		800,000
Total assets	$	1,000,000
Net assets without donor restrictions	$	1,000,000

Not-for-Profit A
Statement of Activities
For the Year Ended June 30, 20X1

Contribution revenue without donor restrictions	$	1,000,000
Excess from operating activities		1,000,000
Increase in net assets without donor restrictions	$	1,000,000

Not-for-Profit A
Statement of Cash Flows
For the Year Ended June 30, 20X1

Cash flows from operating activities:		
Cash received from donors	$	1,000,000
Purchase of PP&E		(800,000)
Cash provided by operating activities		200,000
Increase in cash and cash equivalents		200,000
Cash and cash equivalents at beginning of year		-
Cash and cash equivalents at end of year	$	200,000

Cash Flow Scenario #2

Not-for-Profit B was founded in the current year and had only the following transactions:

1. A contribution from a donor of $1 million to be used as the organization wishes
2. Issued $800,000 of tax-exempt debt for purchase of a building
3. The purchase of a building for $800,000

These transactions would be reflected as follows under **current guidance**:

Dr. Cash	$1,000,000
Cr. Contribution revenue (unrestricted)	1,000,000
Dr. Cash	800,000
Cr. Debt	800,000
Dr. PP&E	800,000
Cr. Cash	800,000

At the end of the fiscal year NFP B's financial statements would be as follows:

Not-for-Profit B
Balance Sheet
As of June 30, 20X1

Assets		
Cash	$	1,000,000
PP&E		800,000
Total assets	$	1,800,000
Unrestricted net assets	$	1,800,000

Not-for-Profit B
Statement of Activities
For the Year Ended June 30, 20X1

Unrestricted contribution revenue	$	1,000,000
Excess from operating activities		1,000,000
Increase in unrestricted net assets	$	1,000,000

Not-for-Profit B
Statement of Cash Flows
For the Year Ended June 30, 20X1

Cash flows from operating activities:		
Cash received from donors	$	1,000,000
Cash provided by operating activities		1,000,000
Cash flows from investing activities:		
Purchase of PP&E		(800,000)
Cash used for investing activities		(800,000)
Cash flows from financing activities		
Proceeds from issuance of debt		800,000
Cash provided by financing activities		800,000
Increase in cash and cash equivalents		1,000,000
Cash and cash equivalents at beginning of year		-
Cash and cash equivalents at end of year	$	1,000,000

These transactions would be reflected as follows under the **proposed guidance**:

Dr. Cash	$1,000,000
Cr. Contribution revenue (without donor restriction)	1,000,000
Dr. Cash	800,000
Cr. Debt	800,000
Dr. PP&E	800,000
Cr. Cash	800,000

At the end of the fiscal year NFP B's financial statements would be as follows:

Not-for-Profit B
Balance Sheet
As of June 30, 20X1

Assets		
Cash	$	1,000,000
PP&E		800,000
Total assets	$	1,800,000
Net assets without donor restrictions	$	1,800,000

Not-for-Profit B
Statement of Activities
For the Year Ended June 30, 20X1

Contribution revenue without donor restrictions	$	1,000,000
Excess from operating activities		1,000,000
Increase in net assets without donor restrictions	$	1,000,000

Not-for-Profit B
Statement of Cash Flows
For the Year Ended June 30, 20X1

Cash flows from operating activities:		
Cash received from donors (without restriction)	$	1,000,000
Purchase of PP&E		(800,000)
Cash provided by operating activities		200,000
Cash flows from financing activities		
Proceeds from issuance of debt		800,000
Cash provided by financing activities		800,000
Increase in cash and cash equivalents		1,000,000
Cash and cash equivalents at beginning of year		-
Cash and cash equivalents at end of year	$	1,000,000

Cash Flow Scenario #3

Not-for-Profit C was founded in the current year and had only the following transactions:

1. A contribution from a donor of $1 million to be used as the organization wishes
2. Issued $500,000 of tax-exempt debt for purchase of a building
3. A gift of $200,000 for the purchase of a building
4. The purchase of a building for $800,000

These transactions would be reflected as follows under **current guidance**:

Dr. Cash	$1,000,000
Cr. Contribution revenue (unrestricted)	1,000,000
Dr. Cash	500,000
Cr. Debt	500,000
Dr. Cash	200,000
Cr. Contribution revenue (restricted)	200,000
Dr. PP&E	800,000
Cr. Cash	800,000

At the end of the fiscal year NFP C's financial statements would be as follows:

Not-for-Profit C
Balance Sheet
As of June 30, 20X1

Assets		
Cash	$	900,000
PP&E		800,000
Total assets	$	1,700,000
Unrestricted net assets	$	1,500,000
Temporarily restricted net assets		200,000
Total net assets	$	1,700,000

Not-for-Profit C
Statement of Activities
For the Year Ended June 30, 20X1

Unrestricted contribution revenue	$	1,000,000
Excess from operating activities		1,000,000
Increase in unrestricted net assets		1,000,000
Gift for building construction		200,000
Increase in temporarily restricted net assets		200,000
Total increase in net assets		1,200,000
Net assets, beginning of year		-
Net assets, end of year	$	1,200,000

Not-for-Profit C
Statement of Cash Flows
For the Year Ended June 30, 20X1

Cash flows from operating activities:		
Cash received from donors	$	1,000,000
Cash provided by operating activities		1,000,000
Cash flows from investing activities:		
Purchase of PP&E		(800,000)
Cash used for investing activities		(800,000)
Cash flows from financing activities		
Proceeds from issuance of debt		500,000
Contributions for restricted purpose		200,000
Cash provided by financing activities		700,000
Increase in cash and cash equivalents		900,000
Cash and cash equivalents at beginning of year		-
Cash and cash equivalents at end of year	$	900,000

These transactions would be reflected as follows under the **proposed guidance**:

Dr. Cash	$1,000,000
Cr. Contribution revenue (without donor restriction)	1,000,000
Dr. Cash	500,000
Cr. Debt	500,000
Dr. Cash	200,000
Cr. Contribution revenue (restricted)	200,000
Dr. PP&E	800,000
Cr. Cash	800,000

At the end of the fiscal year NFP A's financial statements would be as follows:

Not-for-Profit C
Balance Sheet
As of June 30, 20X1

Assets		
Cash	$	900,000
PP&E		800,000
Total assets	$	1,700,000
Net assets without donor restrictions	$	1,700,000

Not-for-Profit C
Statement of Activities
For the Year Ended June 30, 20X1

		Without Donor Restrictions
Operating activities		
Unrestricted contribution revenue	$	1,000,000
Capital gift released from restriction		200,000
Operating excess before transfers		1,200,000
Board designated transfers from operations		
Capital gift released from restriction, placed in service		(200,000)
Operating excess after transfers		1,000,000
Board designated transfers from operations		
Capital gift released from restriction, placed in service		200,000
Increase in net assets without donor restrictions		1,200,000
		With Donor Restrictions
Contribution for capital asset acquisition		200,000
Capital gift released from restriction		(200,000)
Increase in net assets with donor restrictions		-
Total increase in net assets		1,200,000
Net assets, beginning of year		-
Net assets, end of year	$	1,200,000

Not-for-Profit C
Statement of Cash Flows
For the Year Ended June 30, 20X1

Cash flows from operating activities:		
Cash received from donors (without restriction)	$	1,000,000
Cash received from donors (to acquire capital asset)		200,000
Purchase of PP&E		(800,000)
Cash provided by operating activities		400,000
Cash flows from financing activities		
Proceeds from issuance of debt		500,000
Cash provided by financing activities		500,000
Increase in cash and cash equivalents		900,000
Cash and cash equivalents at beginning of year		-
Cash and cash equivalents at end of year	$	900,000