

August 11, 2015

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P. O. Box 5116
Norwalk, CT 06856-5116

File Reference No.: 2015-230

Dear FASB Technical Director:

Draffin & Tucker, LLP is a public accounting firm that provides a full range of professional accounting and tax services to over 600 clients including small businesses, large corporations, individuals, governmental entities, not-for-profit (NFP) agencies and healthcare providers in the southeastern United States. We currently provide audit services to 42 NFP entities including 23 hospitals or health systems and 19 traditional NFP entities.

We appreciate the opportunity to comment on the Financial Accounting Standards Board's (FASB's) Proposed Accounting Standard Update (Update), *Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954): Presentation of Financial Statements of Not-for-Profit Entities*. We applaud the Board's efforts to focus on NFP financial reporting to enhance information available to donors, creditors and other users of NFP financial information.

In order to develop a response to your request for comments, we facilitated a meeting with approximately 100 client representatives and discussed the proposed update. The discussion led to the overall comments, as well as the response, to your specific questions summarized below.

Overall Comments

It is common for board members, management creditors and other stakeholders of NFPs, whether business oriented or not, to come from a variety of backgrounds – some NFP, some governmental; however, most from a for-profit background. As a result, creating significant differences in financial reporting between entity types can place an unnecessary burden on these stakeholders. The NFP financial reporting framework currently considers the uniqueness of NFP's and has served the industry well over the last twenty plus years. We do agree with certain subtle changes, but do not believe that a complete overhaul that impacts comparability is warranted.

We believe that many of the liquidity concerns can be addressed by incorporating a classified statement of financial position (balance sheet), as well as designating assets whose use is limited as such on the balance sheet consistent with current NFP healthcare organizations.

Also, we do encourage distinguishing between operating and non-operating activities. We recommend using the established ASC 954 guidance for the statement of activities rather than creating a new set of operating measures. In addition, there are significant proposed changes to the statement of cash flows. We believe that these changes should be deferred until the conceptual framework projects are completed. We recommend this to encourage comparability between various entities where possible.

We have concerns that many of the proposed changes will create burdens on organizations with limited resources. We see where some of the proposed items such as liquidity disclosures, board designated transfers on the statement of activities, mandating a change to the direct method cash flow, changing definitions of operations, and requirements to report expenses by both nature and function in one statement may create a financial burden for many organizations without adding equal benefit to the stakeholders of the organizations.

We urge the Board to consider delaying the changes noted in the exposure draft that are not unique to NFP's until the completion of the Board's other Financial Statement Conceptual Framework projects. We believe that standards should minimize the differences in financial reporting between various types of entities to the extent possible. Minimizing differences in financial reporting reduces the burden on stakeholders from various backgrounds.

Responses to Specific Questions

Statement of Financial Position and Liquidity

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. (See paragraphs BC22–BC23 and BC27–BC32.)

We are in agreement and do not believe that this would be misleading.

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? (See paragraph BC24.)

We agree with this approach.

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? (See paragraph BC32.)

We agree that disclosures regarding original corpus would be appropriate if the underwater investment is included within net assets with donor restrictions.

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? (See paragraphs BC27– BC31.)

We do not agree with the Board's proposed requirement to disclose information about how the entity manages liquidity. This requirement involves disclosing privileged business strategies that could harm entities that have significant competition from both for-profit and other NFP entities. In addition, this information is subjective which could lead to interpretation differences impacting comparability. We also believe that requiring these disclosures will impose a burden on entities that usually do not have the resources (expertise or funds) readily available.

The primary objective of this requirement could be achieved by utilizing the alternatives (a) and (b) of BC29 which requires a classified statement of financial position (balance sheet) and a separate presentation of assets whose use is limited, similar to the requirement of paragraph 954-210-45-4 for business-oriented health care entities. We believe these measures better communicate restrictions on cash and investments without imposing an unnecessary burden on NFPs.

Question 5: Most business-oriented health care NFPs are required to present a classified balance sheet. Continuing care retirement communities and other NFPs may choose to sequence their assets and liabilities according to their nearness to cash as an alternative to using a classified balance sheet. As a result of the proposed requirement to provide enhanced disclosures of information useful in assessing liquidity, would there no longer be a need to hold business-oriented health care NFPs to the more stringent standard for their balance sheets? If not, why?

We believe the better alternative would be for all NFP's to present a classified balance sheet including segregating assets whose use is limited as noted in Question 4.

Statement of Activities, Including Financial Performance

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? (See paragraphs BC38–BC47.)

We agree that distinguishing between operating and non-operating activity is important to better understand the performance of an entity. However, the definition of operations should vary by the type of NFP and should allow flexibility in reporting. In addition, we believe the availability notion should be applied consistently with that definition. Any internal governing board appropriations, designations, and other actions should be captured on the balance sheet.

We have not seen where a change in classification would require major system changes.

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? (See paragraphs BC48–BC74.)

We agree that only the operating/mission driven purpose inflows and outflows should be included in the intermediate measure of operations as noted in item 6. In addition, we do not agree with including the effects of internal governing board appropriations, designations and similar actions on the statement of activities. As noted in item 6, these would be better served and more meaningful if segregated on the balance sheet as an asset whose use is limited.

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? (See paragraphs BC46–BC47 and BC67–BC74.)

We do not agree with including internal transfers on the statement of activities. This adds to the complexity of the statement and will cause diversity in practice and confusion for the reader. The statement of activities should only reflect actual inflows and outflows under the basis of accounting being utilized. If amounts restricted externally or internally are appropriately segregated on the balance sheet under an asset limited as to use section, the same result could be achieved with less confusion. If the Board desires a more detailed presentation of the changes in internal designations, this could be accomplished with a reconciliation in the notes to the financial statements.

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? (See paragraph BC66.)

We agree that one of the options should be eliminated. We further agree that the better option is to release the item from restriction once it is placed in service. We believe it is better to match the efforts set forth in the year incurred with the receipt of the cash or other asset rather than in future periods. The use of the asset received will benefit future periods through generation of income which would be matched with depreciation expense.

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? (See paragraphs BC72–BC74.)

- (a) *We are not in agreement with including gifts for capital purchases in operating revenue for entities other than those whose primary purpose is to raise funds for others. Instead, we recommend including a performance indicator on the statement of activities. Capital contributions should be reported as a change in equity that increases net assets below the performance indicator. Including capital contributions within the performance indicator can mislead readers; especially in periods encompassing large capital campaigns. These funds are not available to meet demands of current operations. They are to offset large capital purchases.*

Sometimes these capital campaigns are held on behalf of another entity as in the case of Foundations. In these instances, the Foundation would raise money that would be donated to another entity to further the mission of the receiving entity. It is our opinion that these would be considered operating with donor restriction and ultimately released from restriction once the funds are given to the designated entity.

- (b) *We do not agree with including additional lines for transfers in and out of operating activities. The capital gifts would be included within the performance indicator or directly to equity based on specific criteria depending on which entity benefits from the donation. The transfers in and out add to the complexity of the income statement without necessarily adding additional value. We believe it is better to account for the initial transaction based on the substance of the transaction rather than recording the item as an operating activity and then ultimately reclassifying it.*

Question 11: Do you agree that the addition of required intermediate measures of operations for all NFPs would make unnecessary the need for NFP business- oriented health care entities to also present their currently required *performance indicator*? Why or why not? (See paragraph BC99.)

We believe that all NFP's should report a measure of operations, non-operating activities, a performance indicator and items that would be reported as direct changes to equity.

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?

We believe that the option to present a comprehensive statement or two articulating statements, as well as a single or multi-column format, should be retained.

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? (See paragraphs BC87–BC93.)

We do not agree that reporting expenses by both function and nature in the manner proposed is reasonable. We believe that organizations should have the option to report expenses in a manner that best meets the needs of the users of their financial statements. If stakeholders desire additional information related to the nature and function of expense, they can access the public IRS Form 990 which disaggregates expenses by function and nature.

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? (See paragraph BC100.)

We believe that internal and external fees can be netted against the related investment income. However, this presents an opportunity for organizations to misclassify cost therefore, we recommend providing sufficient guidance as to which internal fees would be allowed to be netted against the related income.

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? (See paragraph BC101.)

We agree it is unnecessary to disclose the amount of all investment expenses netted against the related investment return, specifically external investment expenses and only require the disclosure of the amount of internal salaries and benefits that are netted against the income. We recommend the Board provide sufficient guidance as to which internal fees would qualify for netting against the related income.

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? (See paragraphs BC59–BC60.)

We disagree with this approach. Since interest expense is most often associated with debt whose proceeds are used for the purchase of operating assets, it would seem the costs associated with acquiring those operating assets should be shown in operations.

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

- (a) 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? (See paragraph BC62(a).)

If the transfer does meet the operating purpose of the NFP, then a determination can be made as to whether the transaction should be recorded in operations or as an equity transfer. Allowing the reporting of transfers in operating income could lead to manipulation of the results of operations by reporting entities. Discretion should be used in classifying these transactions based on the intent and stated operating purpose of the NFP entity.

- (b) Immediate write-offs of goodwill generally should be presented within operating activities? If not, why? (See paragraph BC62(b).)

We disagree with this approach as these are typically infrequent in nature which impacts consistency. Entities should be allowed to report goodwill write-offs in a non-operating section similar to gains/losses on the sale of an asset. Allowing this treatment will increase comparability as well as more accurately represent the operating performance of the entity.

- (c) Immediate write-offs 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? (See paragraph BC62(c).)

This decision should be based on the current definition of operating activities of the organization. If the acquisition meets the criteria to be deemed an operating activity of the entity, then any subsequent write-off should be recorded in operations as well. Otherwise, it should be recorded as a non-operating activity.

Statement of Cash Flows, Including Financial Performance

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. (See paragraphs BC75–BC80.)

We do not agree that the direct method of presenting operating cash flows is more useful to users of financial statements. In certain instances, the direct method is the better method; however, the indirect method is utilized more frequently by other nongovernmental entities. Allowing the indirect method to remain as an option will maintain comparability between entity types and industries.

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? (See paragraphs BC75–BC80.)

We believe the indirect method is the better method and the cash flow should start with the change in net assets as this is the comprehensive measurement attribute of the statement of activities. If the direct method is mandated, then we recommend retaining the reconciliation of cash flows from operations to the total change in net assets since this component provides reconciliation to the accrual basis balance sheet.

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. (See paragraphs BC81–BC86.)

We believe aligning the line items of the statement of cash flows and the statement of activities is appropriate. However, we disagree with many of the changes proposed to the statement of activities; therefore, we also disagree with many of the classification changes proposed to the statement of cash flows. In addition, we caution against creating differences between reporting entities that are unnecessary. In an effort to maintain comparability, we caution against creating a separate definition of operations for NFP's. As such, NFP entities should stay under the "ongoing major and central to an entity's operations" definition of operating expenses rather than the new "mission and availability" methodology the new NFP standard is advocating.

August 11, 2015

Effective Date

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.

The reformatting of the statement of activities including internal transfers will be the most time consuming followed by the disclosures related to liquidity. We also believe mandating a direct method cash flow for all organizations would require significant time and effort. We do not believe that many of the proposed changes will increase the readability or clarity of the financial statements.

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.

All NFPs will struggle with the implementation of the proposed changes. Even though smaller organizations with limited resources will struggle to adopt and implement these modifications, we would recommend a consistent implementation approach for all entities.

Thank you for the opportunity to comment on the amendments in the proposed Update. If you have any questions on the matters discussed in this letter, please do not hesitate to contact Wes Sternenberg at (229) 883-7878 for further discussion or clarification.

Sincerely,



DRAFFIN & TUCKER, LLP