

August 20, 2015

Ms. Susan M. Cospers
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Financial Accounting Standards Board
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By e-mail: director@fasb.org

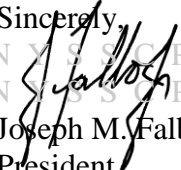
**Re: Proposed Accounting Standards Update – Not-for-Profit Entities (Topic 958) and
Health Care Entities (Topic 954): Presentation of Financial Statements of
Not-for-Profit Entities**

(File Reference No. 2015-230)

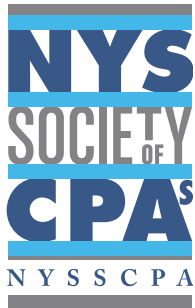
Dear Ms. Cospers:

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 28,000 CPAs in public practice, business, government and education, welcomes the opportunity to comment on the above captioned exposure draft.

The NYSSCPA's Financial Accounting Standards and Not-for-Profit Organizations Committees deliberated the proposed accounting standards update and prepared the attached comments. If you would like additional discussion with us, please contact Craig T. Goodman, Chair of the Financial Accounting Standards Committee at (212) 303-1058, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

Joseph M. Falbo, Jr.
President

Attachment



**NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS**

COMMENTS ON

**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**

(File Reference No. 2015-230)

August 20, 2015

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New York State Society of Certified Public Accountants

Comments on

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

(File Reference No. 2015-230)

General Comments

We are pleased to respond to the Financial Accounting Standards Board's (the Board) invitation to comment 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* (Proposed ASU). The stated purpose of the Proposed ASU is to improve the current net asset classification requirements and the information presented in financial statements and notes to the financial statements about a not-for-profit entity's liquidity, financial performance, and cash flows. While acknowledging that existing standards for financial statements of not-for-profit entities (NFPs) are sound, the Proposed ASU addresses the following issues:

- Complexities about the use of the currently required three classes of net assets that focus on the absence or presence of donor-imposed restrictions and whether those restrictions are temporary or permanent;
- Inconsistencies in the reporting (or lack of reporting) of intermediate measures of operations in the statement of activities, including inconsistencies between that reporting and the reporting of operating cash flows in the statement of cash flows;
- Inconsistencies in the type of information provided about expenses of the period; and
- Misunderstandings about and opportunities to enhance the utility of the statement of cash flows.

The proposed revisions to the Accounting Standards Codification (ASC) are voluminous and represent a complete overhaul of NFP financial reporting and disclosure. The Proposed ASU is not a mere update of NFP financial reporting and disclosure.

In addition, the Proposed ASU seems unnecessarily difficult to understand. The resulting need for clarity is reflected in the Board's staff issuing three sets of frequently asked questions (as of July 23, 2015) to provide further explanation. As a consequence, the nuances in applying the specific changes of the Proposed ASU to existing NFP financial statements are not easily understood or identified. For example, certain transactions presented in Example 1, "Illustrative

Financial Statements,” in ASC 958-205-55 do not tie readily into the fact patterns in the proposed ASC 958-205-55-4 (particularly with respect to subparagraphs a, b, hhh, i, o and p).

Typically, the Board addresses its Questions for Respondents to the proposed guidance contained solely in the exposure draft itself and not to any of the other supporting or explanatory information provided. This Proposed ASU, in contrast, poses questions relating solely to the “Background Information, Basis for Conclusions, and Alternative Views” sections that focus on the objectives of the Proposed ASU and the justification for pursuing those objectives. Thus, the Board appears to be requesting comments on the objectives and justifications of the Proposed ASU, rather than on the effect (either positive or negative) of the Proposed ASU on existing practice. Because it is our understanding that the “Background Information, Basis for Conclusions, and Alternative Views” section is not included in the ASC (and, therefore, is not GAAP), respondent commentary on the information disclosed in this section is not relevant.

Finally, we are concerned that Proposed ASC 958-605 assumes the NFP guidance will be approved before the new revenue recognition rules in Topic 606 are effective. As a consequence, we cannot determine the effect of this proposal on ASU 2014-09, *Revenue from Contracts with Customers*.

Statement of Financial Position and Liquidity

The Proposed ASU combines permanently restricted net assets with temporarily restricted net assets into “net assets with donor restrictions” on the face of the financial statements. The Proposed ASU would require NFPs to disclose details of the individual restrictions in the notes to the financial statements.

We recognize that today’s NFPs have greater access to permanently restricted net assets than in the past. However, we believe that the distinction between permanently restricted and temporarily restricted net assets is not as imprecise as asserted in paragraph BC23. NFPs with the desire to use net assets currently classified as permanently restricted can face considerable legal hurdles.

For example, certain net assets currently classified as permanently restricted may not be available in the year following the issuance date of the financial statements. In New York State, the New York Prudent Management of Institutional Funds Act (“NYPMIFA”) requires NFPs to request authorization to spend funds below the original dollar value of donations from donors that provided a restricted gift before September 17, 2010. If donors do not object to such expenditures or fail to respond within the specified time frame, the NFP is limited to spending a “prudent” amount. NYPMIFA creates a rebuttable presumption of imprudence if an NFP, in any year, appropriates more than seven percent of the fund’s average fair value over the prior five years after considering eight specific factors. Governing boards of NFPs must overcome the rebuttable presumption to appropriate amounts greater than that deemed prudent.

Consequently, the classification of net assets with donor restrictions is likely to have two components:

- (1) Net assets that can be released from restrictions either due to compliance with specific restrictions set forth in the grant or due to the passage of time (currently called temporarily restricted net assets), and prudent expenditures of funds formerly classified as permanently restricted; and
- (2) Net assets unavailable either in perpetuity or not available in the near term because the NFP's governing board would deem such expenditures imprudent in the year following the current reporting period.

Restrictions on the use of assets potentially reduce an NFP's liquidity. Purpose restricted amounts are available for specific activities and generally are not available for other programs and general and administrative expenses. In our experience, NFPs have, on occasion, faced severe liquidity issues when a disproportionately large amount of temporary or permanently restricted net assets prevented the use of assets to fund necessary administrative activities such as rent and staff salaries.

We recommend that the notes to the financial statements disclose the different types of restrictions and the dates those restrictions are expected to be satisfied. These disclosures should include both donor and other legal restrictions. Other legal restrictions are imposed by either by law or by contract which limit the availability of resources. One example of other restrictions is the repair and maintenance reserves required by Federal loans to certain real estate entities. Information on liquidity would be enhanced by disclosing the amount of resources restricted as of the close of the current fiscal year becoming available for use in the following fiscal year.

We are concerned that the proposed presentation will not facilitate tracking of NFP endowments on the face of the financial statements. For example, such tracking includes determining whether donor-restricted endowment funds are "underwater." We recommend that the Board clarify its proposed definitions of "donor-restricted endowment fund" and "underwater endowment fund" in the ASC Glossary. The "donor-restricted endowment fund" should be measured at the original dollar value established by the donor, as adjusted by allowable expenditures and prudent appropriations ("adjusted historic cost"). Our recommended definition would clarify that the original historic cost of the endowment fund is reduced by prudent appropriations. The amount by which endowment funds are underwater reflect the expenditure of funds in excess of that allowable by the original donor or deemed prudent by the governing board, a reduction in value of the underlying assets due to adverse market conditions, or a combination of the two. An "underwater endowment fund" should be defined as the current value of the assets held in the endowment fund less the adjusted historic cost. This approach will distinguish between expenditures deemed prudent pursuant to law or regulation and those deemed to be in excess of prudent appropriations or assets required to be held in perpetuity.

We agree with the Board's recommendation that the NFPs disclose the amounts restricted by donor stipulations or law, the fair value of the underwater endowment funds, and the amount that is underwater. We recommend that those restricted net assets not readily available should be clearly identified on the face of the financial statements. This approach is consistent with the Board's philosophy of enhancing transparency by presenting information on the face of the financial statements.

Liquidity can best be disclosed in a classified statement of financial position that presents the amount of assets available in the following fiscal reporting period. In this context, the Board should provide examples to clarify its intent on disclosing liquidity. We are concerned that, if the proposed guidance were to become effective, disclosures on how an NFP manages liquidity are likely to become boilerplate and would have little value.

Statement of Activities, Including Financial Performance

Given the diversity of the NFP sector, we believe that the characterization and reporting of operating and non-operating activities should be at the discretion of the NFP's governing board. Conceptually, the resources available in the current period are those which are not restricted by donor stipulations to future periods or by specified actions by the NFP. The intermediate measures of operations, as presented in the Proposed ASU, do not provide relevant information for understanding the relationships between operations of a specific period and the resource inflows available to fund those operations. The proposed intermediate measures of operations create a false differentiation between operating and non-operating measurements which results in an overly complex presentation. Accordingly, we do not believe the measurement of operating activities achieves the stated goal of comparability and recommend that the Board eliminate this guidance from the Proposed ASU.

In paragraphs BC44 to BC47, the Board acknowledges a lack of consensus on how to define operations of an NFP. While many stakeholders may desire such a measure, the lack of consensus reflects the differing circumstances faced by the many different NFPs.

Paragraph BC45 presents the operating notion as identifying resources that are available in the current period. While we agree with the theory, we note the application, as presented in the Proposed ASU, contains certain inconsistencies. For example, most NFPs consider investment income available for exempt activities as operating revenues. Proposed ASC 958-320-45-4B; however, asserts that investment revenues, expenses, gains, and losses that result from non-programmatic investment activity should be reported as a non-operating activity in the statement of activities. The rationale, as presented in paragraph BC57, is that the investment of contributions and the related returns are not from carrying out an NFP's exempt purpose. As a result, the Proposed ASU requires NFPs to classify investment income as non-operating including instances in which their operating models use investment income to fund activities (for example, the Foundation presented in proposed ASC 958-205-21A). The effect of the Board's position would be an understatement of liquidity as the NFP would appear to have less current resources at its disposal than is actually the case.

The classification of interest expense in either operating or non-operating activities should be based on the nature of the NFP and facts and circumstances. The proposed classification as non-operating excludes the role of debt in funding NFP operations which causes an overstatement of operating activities. Thus, the classification of interest expense, similar to other components of operating and non-operating activities, should be left to the discretion of the NFP governing board.

The complexity of applying the Board's interpretation of the intermediate measures of operations is illustrated in proposed ASC 958-205-55-13. The concept of "placed in service," as presented, is confusing and non-informative. According to proposed ASC 958-205-55-7r, NFP Entity A acquired and placed into service \$1,500 of equipment. This transaction appears four times in the statement of activities. It first appears as a reduction of net assets with donor restrictions and as net assets released from restrictions. The release from restrictions places this transaction as an operating excess. NFP Entity A then transfers this transaction out of operating excess as a component of "board designations, appropriations and similar transfers to/(from) operations" and with a corresponding increase in non-operating charges as a component of "board designations, appropriations and similar transfers to/(from) non-operations." The complexity of the Board's position is also illustrated in paragraph BC62, in which the Board presents three new rules to apply this concept. The Board does not explain how this information provides any benefits to end-users.

The amount of transfers between operating and non-operating activities adds considerable complexity to the statement of activities and could create confusion among financial statements users. For example, users could conclude that increased prominence of quasi-endowments implies an equivalency of designations by NFP boards with restrictions imposed by donors and others. Proposed ASC 958-205-55-13 presents the release of donor restrictions with investment returns appropriated from quasi-endowment in both "board designations, appropriations and similar transfers to/(from) operations" and "board designations, appropriations and similar transfers to/(from) non-operations." We believe the current presentation of presenting governing board designated funds as a subset of unrestricted net assets should remain in effect as it fairly presents the availability of resources for operations. The release from legal restrictions is different from the use of unrestricted funds and should be presented separately. Donor stipulations impose legal restrictions on the use of certain assets. In contrast, as noted in paragraph BC47, an NFP designated fund restricted by governing board action could be reversed at any time to meet liquidity concerns or simply to revise operations.

We agree with the minority opinion presented in paragraph BC70 which asserts that the proposed guidance facilitates the manipulation of intermediate measures of operations. In addition, the deletion of this provision would reduce much of the Proposed ASU's complexity by eliminating many of the transfers in and out of the statement of activities. Accordingly, we disagree with the concept of a required intermediate measure of operations format and recommend that the components of operating and non-operating activities be left to the discretion of the NFP governing board.

We recommend that the Board address situations in which an NFP presents board designated funds at the same time it presents negative undesignated net assets without donor restrictions, as follows:

1. The governing board designates funds greater than total net assets without donor restrictions. (We do not understand how an NFP board can designate something it does not have).
2. At time of governing board action, total designated funds are less than total net assets without donor restrictions. Subsequent reductions in undesignated net assets without

donor restrictions result in board designated funds exceeding total unrestricted net assets without donor restrictions.

In these instances, the NFP should disclose its plan to resolve the deficit in the undesignated portion of net assets without donor restrictions.

Proposed ASC 958-205-55-10 makes a total column optional in a multicolumn format. A total column, as now required, is necessary to understand the financial statements without performing additional calculations.

Proposed ASC 958-720-55-176 presents required disclosures of the methods used to allocate expenses. Although we agree that disclosure of the allocation of expenses would be beneficial, we are uncertain as to how the proposed guidance achieves that objective. The proposed disclosure would likely be either meaningless boilerplate language or an extensive disclosure of expense allocation methodology. In addition, the proposal could require extensive modification of existing time and effort systems that currently focus on reporting on a specific program rather than reporting on the purpose of work performed. Accordingly, we recommend that this requirement be deleted.

Statement of Cash Flows, Including Financial Performance

The Proposed ASU requires reporting entities to apply the direct method when preparing the statement of cash flows. The proposed requirement is not comparable with all other reporting entities (including registrants with the Securities and Exchange Commission), which have the option of preparing cash flow statements using either the direct or indirect method. We were unable to discern any reason why NFPs were singled out to be required to use the direct method in the Proposed ASU.

In addition, this requirement would not meet the stated objective of making the statement of cash flows more useful to financial statement users. Much of the information from the direct method can be derived from the statement of activities and from the net cash totals of operating, investing and financing activities.

Specific Responses to Questions for Respondents

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.)

Response: We generally agree, but, as discussed in our General Comments, believe that the availability of resources restricted at period end in the near term should be presented more clearly.

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.)

Response: As discussed in our General Comments, we agree with this classification in instances in which the NFP has no duty to replenish an invasion of the endowment fund corpus. In our experience, this is the more common occurrence.

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.)

Response: We agree with these disclosures in general, but, as discussed in our General Comments, we believe the definitions of “donor-restricted endowment fund” and “underwater endowment fund” need to be clarified.

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.)

Response: As discussed in our General Comments, we are concerned that the proposed presentation will not facilitate tracking of NFP endowments on the face of the financial statements.

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?

Response: We believe that liquidity can be disclosed best in a classified statement of financial position. However, we are aware of circumstances, such as NFPs having non-complex operations in which such presentation would provide little value. Accordingly, we recommend that such presentation be left to the discretion of the NFP. Business entities currently have the option of presenting a classified or unclassified balance sheet. We see no reason to require any NFP,

including business-oriented health care entities, to apply different financial statement presentation rules in this matter.

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.)

Response: As discussed in our General Comments, we disagree with the concept of presenting a required intermediate measure of operations format.

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.)

Response: As discussed in our General Comments, we disagree with the concept of presenting a required intermediate measure of operations format.

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.)

Response: As discussed in our General Comments, we believe that the proposed presentation of internal transfers creates unnecessary complexity to the statement of activities which could lead to confusion by financial statement users.

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.)

Response: As discussed in our General Comments, we believe that the proposed presentation of internal transfers creates unnecessary complexity to the statement of activities which could lead to confusion by financial statement users.

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.)

Response: As discussed in our General Comments, we believe that the proposed presentation of internal transfers creates unnecessary complexity to the statement of activities which could lead to confusion by financial statement users.

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.)

Response: As discussed in our General Comments, we disagree with the concept of a required intermediate measure of operations format.

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?

Response: We believe the current flexibility 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.)

Response: We agree that reporting operating expenses by both their function and nature provides relevant and useful information in assessing how an NFP uses its resources.

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.)

Response: We agree that requiring investment income to be reported net of external investment expenses will increase comparability and avoid imposing undue costs. However, as discussed in our response to Question 15, we disagree with requiring all NFPs to net direct internal investment expenses against investment income. If the Board wants to apply this concept to a specified classification of NFPs, we recommend that the Board clearly define “direct internal expenses” to facilitate implementation of this approach.

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.)

Response: We disagree with requiring all NFPs to net direct internal investment expenses against investment income. Smaller NFPs will have difficulty in identifying direct internal expenses. Typically, such NFPs do not have separate investment departments; rather they rely on officers and employees who perform functions in addition to investment activities.

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.)

Response: The classification of interest expense in either operating or non-operating activities should be based on the nature of the NFP and facts and circumstances. As discussed in our General Comments, the required classification of interest expense as non-operating excludes the role of debt in funding NFP operations. Thus, the classification of interest expense, similar to other components of operating and non-operating activities, should be left to the discretion of the NFP governing board.

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).)

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

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).)

Response: As discussed in our General Comments, we disagree with the concept of a required intermediate measure of operations format.

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.)

Response: As discussed in our General Comments, we do not agree that the direct method of presenting operating cash flows is more understandable and useful than the indirect method. Such a requirement would make NFP financial statements less comparable to those issued by all other reporting entities.

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.)

Response: We believe that the indirect method presents certain information that is useful to readers of the financial statements. Proposed ASC 958-230-45-7 makes the reconciliation of the change in net assets and the net cash flows from operating activities optional. Such reconciliation presents information on the sources and uses of cash that are not apparent when using the direct method. For example, the indirect method displays an increase in accounts payable that could explain the increase (or a lower decrease) in the availability of cash. We believe that users of the financial statements find this information generally practical when analyzing the financial statements of an NFP.

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.)

Response: As discussed in our General Comments, we disagree with the concept of a required intermediate measure of operations format. Accordingly, we see no need to tie an intermediate measure of operations to cash flows from operations.

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.

Response: We believe that the proposed changes are of such significance that an extended implementation period of no less than two years from issuance date is warranted.

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.

Response: Because of the significant changes presented in the Proposed ASU, we believe smaller NFPs should be given a longer implementation period.