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FASB's Not-for-Profit Financial Reporting Project: Analysis of Letters to ASU 2016-14 Exposure Draft

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ABSTRACT: In 2015, the Financial Accounting Standards Board (FASB) issued an Exposure Draft (ED) as part of its first significant project in over 20 years on financial reporting by Not-for-Profit organizations (NFP). In this study, we categorize the 264 letters received on the ED by the type of respondent and analyze the responses using ANOVA, multiple comparisons tests, and multidimensional scaling. Ultimately, as Phase 1 of its NFP project, FASB issued accounting standards update (ASU) 2016-14 containing proposed changes supported by a majority of the respondents to the ED. The Board deferred recommended changes with less support from respondents to Phase 2 of the project. Although constituents often accuse accounting standard setters of standards-overload and for being unresponsive to their comments (Herz 2003), our findings indicate otherwise.

Data Availability: Data are available from the public sources cited in the text.

JEL Classifications: G00; L31; M40.

Keywords: not-for-profits; financial reporting; FASB; comment letters; ASU 2016-14.

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I. INTRODUCTION

On April 22, 2015, the Financial Accounting Standards Board (the Board, or FASB) issued an Exposure Draft (ED) proposing new standards for the presentation and disclosure of Not-for-Profit (NFP) financial statements (FASB 2015a). This ED was the first significant change proposed by the Board to NFP financial reporting since 1993. The Board received 264 comment letters on the ED. Those comment letters, in addition to several conference calls and town hall meetings, led the Board to split the project into two phases. Phase 1 resulted in the final standard, ASU 2016-14, containing proposals agreed to by most of the respondents. FASB deferred recommendations with less support to Phase 2 of the project. We evaluate the comment letter responses to the ED and supply an analysis of Phase 1 adopted standards and the Phase 2 deferred proposals.

Prior research has examined various determinants of participation in the standard-setting process. Economic reasons have been widely cited as motivation to participate in the accounting standard-setting process (Dechow, Hutton, and Sloan 1996; Schalow 1995). Moreover, Durocher and Fortin (2011) conclude that two factors impact the decision to participate in the standard-setting process through comment letters. First, having available time and resources to participate and, second, the expectation that there is a legitimate opportunity to influence the result. Durocher and Fortin (2011, 44) caution that due process should not merely be a symbolic gesture to make stakeholders believe that their views will be heard. Georgiou (2002), for example, documents that because of a lack of confidence in their ability to influence the standard-setters, many corporate managers chose not to participate in the United Kingdom's Accounting Standards Board proposal on deferred tax. The analyses of the participant responses in this study will provide insight into how NFP stakeholders' position influenced the Board's deliberations on the ED.

Previous studies document that pre-ASU 2016-14 accounting standards provided NFP managers with the opportunity to manage earnings (Burgstahler and Sawers 2017; Fischer, Gordon, Greenlee, and Keating 2004; Quosigk and Forgione 2018; Eldenburg, Gunny, Hee, and Soderstrom 2011). Quosigk and Forgione (2018), for example, found that hospitals often misclassify administrative expenses as program expenses to make the program expense ratio appear more favorable. Consequently, Quosigk and Forgione (2018) called for FASB to provide more uniform guidance on how to disclose functional program-specific expenditures. Eldenburg et al. (2011) examined hospital financial statements. They found that managers of NFP hospitals engage in real earnings management activities by decreasing expenditures in non-revenue-generating areas and in non-operating activities (e.g., maintenance expenditures). Similarly, Fischer et al. (2004) report a substantial variation among private educational organizations in the classification of items within the statement of activities as either operating or non-operating, which, in turn, affects the definition and computation of operating performance measures.

Financial statements play a crucial role in donors' and watchdog groups' (e.g., charity watch, charity navigator, BBB Wise Giving Alliance) assessment of a charity:

> [W]e analyze each charity's financial performance in seven key areas, which assess its financial efficiency and capacity in relation to the charity's cause area. Their final score of "Financial Health" comes from combining a charity's scores on a zero to ten scale for each of the seven performance metrics. CharityNavigator.org

Responders to the ED held diverse opinions on the proposed changes. The University of Pennsylvania, for example, said that "the Board did not go far enough given that the standards update is rare" (Letter 183; FASB 2015b). In contrast, a consulting firm specializing in the NFP sector characterized some of the proposed changes as a "major step backward" (Letter 258; FASB 2015b). Several responders expressed concerns about the cost to implement the changes: "implementation will require significant work, money, as well as effort to educate the stakeholders" (Letter 73; FASB 2015b). Smaller NFP entities and their auditors voiced concern that this change would be too costly compared to its potential benefits (Letters 41 and 82; FASB 2015b). Some believed that the proposed changes would improve the usability of the financial statements, while others expressed the opposite belief (Letters 139 and 201; FASB 2015b). Based on such wide-ranging responses, we believe that an analysis of the letters will provide a concise overview of how the NFP community (individuals, preparers, auditors, and professional organizations) viewed the proposed changes and how the Board acted in light of the feedback they received.

We analyze the letters received by the Board in response to the 20 proposed changes to financial reporting by NFP organizations.[1] Specifically, we examine the responses requested by the Board to five questions about the Statement of Financial Position (SFP), 12 questions about the Statement of Activities (SOA), and three questions about the Statement of Cash Flow (SCF). We classify each response in one of the following four categories: agree with the proposed change, disagree with the proposed change, expressed reservations, or did not comment. We selectively use quotes from some respondent comment letters to illustrate the diversity of opinion on issues raised by the ED.

Our study contributes to the accounting literature on NFP organizations in the following ways: first, we extend the literature on lobbying accounting standard setters to the NFP area. The NFP sector is unique in that there are four distinct segments within it including two segments, healthcare and education, that compete in a space also occupied by private and governmental counterparts. A second contribution, therefore, is to conduct the analysis separately on each of the four segments of NFP organizations rather than on NFPs as a whole. We also analyze responses by individuals, auditors, and professional organizations. Most importantly, FASB's decision to adopt some portions of the ED and defer other parts for further study and deliberation is consistent with the feedback received in the comment letters and it highlights FASB's due process in standard-setting. We examine letter responses by each type of respondent using ANOVA, multiple comparisons tests, and multidimensional scaling. The main results are as follows: respondents agreed with proposed changes to the SFP and with issues in Phase 1 of the NFP reporting project, which resulted in ASU 2016-14. In contrast, there was a wide range of responses to proposed changes to the SOA and the SCF, which resulted in several issues being deferred to Phase 2 of the project. Moreover, healthcare and higher education organizations account for much of the disparity of opinion on matters deferred to the second phase of the project perhaps reflecting a preference to retain flexibility in reporting operating results identified in the extant literature (Burgstahler and Sawers 2017; Eldenburg et al. 2011; Fischer et al. 2004; Quosigk and Forgione 2018).

The paper proceeds as follows: background on NFP organizations, including the significance of the NFP sector on the U.S. economy and a brief history on the accounting and legal standards for NFPs appear in Section II. We also discuss the new rules update to NFP entities. Section III discusses theory and research questions followed by the methodology in Section IV. Statistical analysis of coded letter responses is in Section V. Section VI has concluding remarks.

[1] The ED also contains two questions pertaining to implementation of the standards (i.e., effective dates) that are not analyzed in this study.

II. BACKGROUND

The NFP Sector

The NFP sector includes non-governmental NFP hospitals, schools, private universities, foundations, fraternities, charities, and religious organizations. This sector has a significant socio-economic impact on the U.S. economy. According to the National Center for Charitable Statistics (NCCS), there are over 1.56 million NFP organizations registered in the U.S. NFP organization employment grew four times faster than for-profit employment between 2007 and 2016 (NCCS 2018).[2] In 2013, the public charities reported $1.98 trillion in total revenue and $1.84 trillion in total expenses accounting for 5.3 percent of the nation's gross domestic product in 2015 (NCCS 2018).

Prior research has shown that managers of NFP organizations have a variety of incentives available to them related to performance evaluation, compensation, career advancement, and reputation. The extant literature indicates that these incentives can influence NFP managers' choices over accounting policies affecting financial measures, cost allocations, and resource allocations (Burgstahler and Sawers 2017).

NFP Accounting Standards

In June 1993, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 116 on accounting for contributions (FASB 1993a) and SFAS 117 on financial statement presentation (FASB 1993b). The intent was to have standardized financial statements and therefore increase the relevance and comparability of these statements across NFP entities. At that time, SFAS 117 stood as a significant change in financial reporting by NFP organizations (Anthony 1995; Greene 1993; Millar 1990; Northcutt 1995; Williams 1993). Since 1993, there were minimal changes made by the Board to NFP reporting until it issued the ED in 2015 (see Gordon [2013] for a detailed history on the formation of FASB's NFP Advisory Committee and the changes implemented since inception).

NFP entities have a broad audience who use financial statements for decision-making. A change in the reporting can cause changes in the way rating agencies (e.g., guidestar.org and charitywatch.org) use accounting numbers. A rating change can have real effects on the future performance and financial health of these NFPs. Indeed, Gordon, Knock, and Neely (2009) document that donors are sensitive to a change in a charity's rating. Besides donors and their advocacy organizations, the users of the financial statements include accreditation agencies, grant-making organizations, governmental bodies, investors (bond markets and equity partners), and rating agencies.

FASB's Due Process for the NFP Project

FASB has long followed an established set of procedures as part of its due process for developing accounting standards. Those procedures include receiving recommendations for possible projects, holding public meetings, issuing discussion memorandums, invitations-to-comment, exposure drafts, public roundtable discussions, and analysis of comment letters, leading to the issuance of accounting standards updates (FASB 2020).

2 https://nccs.urban.org/publication/nonprofit-sector-brief-2018

FASB's NFP project that resulted in Accounting Standards Update (ASU) 2016-14 began in October 2009 with the creation of the FASB's NFP Advisory Committee (NAC). NAC is a standing committee with 18 members and three participating observers who are active in the NFP sector. In 2010, NAC formed a standing NFP Resource Group, initially with 111 members, that now has about 250 members. NAC surveyed the NFP Resource Group to find aspects of NFP accounting standards that needed the FASB's attention. NAC's suggestions to FASB resulted in the Board adding an NFP standard-setting project and a related research project to its agenda in November 2011. FASB issued the ED for ASU 2016-14 on April 22, 2015, and invited comments by August 20, 2015.

FASB staff analyze comment letters and public roundtable discussion as part of FASB's due process. The Board received letters from 264 respondents to the ED, held several public roundtable discussions and workshops, and had conversations with members of NAC and several NFP profit professional organizations (FASB 2016, 236–239). In consideration of the feedback it received on the ED, FASB issued ASU 2016-14 as the first phase of its NFP project. The second phase of FASB's NFP project focuses on operating results. ASU 2018-08, providing guidance on contribution revenue recognition, is the first of several accounting standards anticipated in Phase 2 of the NFP project (FASB 2018).

Accounting Standards Update 2016–14

FASB issued Accounting Standards Update 2016-14 (ASU 2016-14), *Presentation of Financial Statements of NFP Entities,* in August 2016 (FASB 2016) as the first phase of a two-phase project. The second phase concerns the alignment of measures of operations (performance) presented in the SOA and the SCF.

ASU 2016-14 replaced the three-category classification of net assets (unrestricted, temporarily restricted, and permanently restricted) with two categories (net assets *with* donor restrictions and net assets *without* donor restrictions). Reporting on underwater endowments also changed. Before ASU 2016-14, NFPs reported the underwater part of permanent endowments as part of unrestricted net assets. The Uniform Prudent Management of Institutional Funds Act (UPMIFA 2006) allowed the expenditure of permanent endowment funds in certain circumstances such as in the 2008–2009 mortgage-backed securities financial crisis (Rowland 2009). ASU 2016-14 aligns financial reporting with the 2006 UPMIFA provisions by requiring the reporting of the underwater part of an endowment under net assets with donor restrictions.

Before ASU 2016-14, all NFPs reported expenses in total by function. Voluntary health and welfare organizations had an additional requirement to report expenses by nature. ASU 2016-14 extended reporting expenses by nature and function to all NFPs and to provide qualitative and quantitative disclosures on the methods used to distribute costs among programs and supporting activities. As stated earlier, prior research has shown that some NFPs shift costs from supporting activities to program activities to enhance their program expense ratio (Quosigk and Forgione 2018; Krishnan and Yetman 2011; Krishnan, Yetman, and Yetman 2006).

The ED proposal would have required the direct method for operating cash flows and remove the requirement for the reconciliation of the operating cash flows under the direct method to operating income in the SOA. ASU 2016-14 retained the option to use either the direct or indirect method for operating cash flows and eliminated the requirement to present the reconciliation schedule.

III. THEORY AND RESEARCH QUESTIONS

Theory

Sutton (1984, 81) describes accounting standard-setting as a "political, rather than a technical or economic process" by which interested parties lobby the rule-making body. Written submissions to the rule-makers are one way in which lobbying takes place. The analysis of comment letters to accounting standard-setting bodies is the most frequently used approach to examine attempts to influence the standard-setting process (e.g., Allini, Aria, Macchioni, and Zagaria 2018; Bline and Skekel 1991; Durocher and Fortin 2011; Durocher, Fortin, and Cote 2007; Georgiou 2002, 2010; Holder, Karim, Lin, and Woods 2013; Kidwell and Lowensohn 2018; Saemann 1999; Schalow 1995; Tandy and Wilburn 1996; Yen, Hirst, and Hopkins 2007). Sutton (1984) reasons that the cost/benefit calculation prompts the decision to lobby rule-makers. Lobbying (e.g., comment letter writing) will occur if the expected benefits will exceed the costs. Watts and Zimmerman (1986) explain the political nature of accounting that provides incentives for managers in choosing accounting procedures to reduce the risk and agency costs associated with government regulation, taxes, debt covenants, and management compensation plans.

Research Questions

Former FASB Chairman Robert Herz commented that "many in the corporate and auditor communities argued that the Board was not sufficiently responsive" to their concerns and criticisms about accounting standards (Herz 2003, 247). The pandemonium over FASB's proposal to expense stock options in the 1990s is a prime illustration of claims that FASB is not responsive to its constituents. FASB withdrew the proposal after Congress threatened to introduce a bill that would mandate the SEC to prohibit expense recognition of stock-option plans. It took the fall of Enron, WorldCom, and other financial failures for FASB to issue Statement on Financial Accounting Standard 123(R) to require recognition of stock-option compensation expense beginning in 2006.

The extant research examining FASB's responsiveness to respondent letters to FASB EDs has produced mixed results. Brown and Feroz (1992), Saemann (1995), and Reither and Brauchle (1997) conclude that FASB was responsive to respondents' letters on general price level adjustment, accounting for comprehensive income, and accounting for pensions, respectively. Reither and Brauchle (1997), for example, examine the responses to the ED on SFAS 130 (reporting comprehensive income) and found that FASB modified its approach to two major provisions after receiving an overwhelmingly negative reaction to those provisions. In contrast, Bline and Skekel (1991, 257) found "no clear pattern of responsiveness" by FASB toward constituents' responses to the ED on accounting for postretirement benefits other than pensions. Saemann (1999) studied comment letters on FASB's project on employers' accounting for pensions. She concluded that FASB adopts standards that lead to greater uniformity and compromises proposals associated with costly disclosures.

Research has continued to examine the participation of constituent groups in accounting standard-setting. Yen et al. (2007) perform a content analysis of letters received by FASB on the ED on comprehensive income reporting. They found that a majority of the respondents raised anticipated outcome-oriented effects and definitional arguments rather than theoretical concepts. More recently, studies have examined the comment letters to the IASB on international accounting standard-setting (Georgiou 2010), to the FASB and the IASB on accounting for contingencies

(Holder et al. 2013), and to GASB on exposure drafts and preliminary views documents affecting governments (Kidwell and Lowensohn (2018). ASU 2016-14 is the first significant change in financial reporting by NFP organizations in the last 25 years. Our study examines FASB's responsiveness to comments on the ED for ASU 2016-14. In particular, we consider the level of support (opposition) by type of constituent group to all the proposed changes in the ED and for changes in Phase 1, which is the final standard, and for proposals deferred to Phase 2.

RQ1: How does the level of support (opposition) to the ASU 2016-14 ED vary by each constituent group?

RQ2: How does the level of support (opposition) to issues in Phase 1 of the project, resulting in ASU 2016-14, vary by each constituent group?

RQ3: How does the level of support (opposition) to the issues deferred to Phase 2 of the project vary by each constituent group?

IV. METHODOLOGY

Preceding the issuance of ASU 2016-14, the Board invited letters to comment on the ED about the presentation of NFP financial statements (published on April 22, 2015) in the form of answers to a list of 22 questions. In the last two questions, 21 and 22, the Board invited comments on the effective date of this change. We focus our analysis on the first 20 questions, which propose changes to each of the three required financial statements (SFP, SOA, and SCF). Durocher et al. (2007) developed a framework based on theories related to power, legitimacy, and expectancy to explain conditions that motivate participation in the standard-setting process. They posit the following three determinants of participation: valence (e.g., perceived benefits, expected effects), instrumentality (e.g., capacity to influence), and expectancy (e.g., cost of participation, lack of understanding, lack of time and resources).

Moreover, the determinants can vary by type of constituent. Therefore, an analysis for each constituent category is warranted. Recent studies have used the Durocher et al. (2007) framework to analyze participation by financial analysts on IASB standard-setting (Allini et al. 2018) and 16 participant types on GASB standard-setting (Kidwell and Lowensohn 2018). Our study examines the kind of response by the following seven types of respondents: (1) auditors, (2) college and university preparers, (3) healthcare organization preparers, (4) voluntary health and welfare organization preparers, (5) other NFP organization preparers, (6) individual and academic users, and (7) professional organizations.

The Board received letters from 264 interested stakeholders.[3] Table 1 provides the distribution of letters from different classes of respondents. Over 26 percent of the letters came from auditors, followed by educational organizations at 19 percent, Voluntary Health and Welfare Organizations (VHWO) at 13 percent, individual and academic users at 12 percent, professional organizations and other NFP organizations at 11 percent each, and healthcare NFP at 7 percent.

The responses were varied—starting from "the proposed ASU sets us back in financial reporting" to "missed opportunity . . . the Board could do more." While some disagreed completely with specific changes, others expressed some reservations or alternative courses of action. Table

[3] There was a total of 275 letters but 11 respondents (Letters 5A, 16A, 39A, 44A, 61A, 76A, 82A, 102A, 175A, 182A, 221A) submitted more than one letter, so in essence there were a total of 264 unique respondents to the ED. We have combined the content of both letters from these respondents in our analyses.

TABLE 1

Category of Respondents to ASU 2016-14 Exposure Draft

Respondent Category	Number of Letters	Percent (%) of Total
Auditors	69	26%
Individual and Academic	32	12%
Professional Organizations	29	11%
NFP Preparer: Other NFP	29	11%
NFP Preparer: College and University	51	19%
NFP Preparer: Healthcare NFP	19	7%
NFP Preparer: Voluntary Health and Welfare Organization	35	13%
Total	264	100%

2 shows the distribution of the responses for the 20 questions in the ED on the three financial statements.

The letter responses to the ED show a lack of consensus among the respondents on many of the issues. FASB noted this "mixed feedback" as the basis for narrowing the final standard and deferring some elements to the second phase of the project (FASB 2016, 239). As stated in ASU 2016-14, the "second phase of the project [will] address more protracted issues surrounding whether and how to define the term *operations* and align measures of operations (or financial performance) as presented in the SOA with measures of operations in the SCF. The deferment will allow the Board to coordinate its Phase 2 considerations for NFPs with related research activities on financial performance reporting by business entities" (FASB 2016, 1; emphasis in the original).

The next section focuses on 20 questions about the three financial statements—five about the SFP, 12 related to the SOA, and three relevant to the SCF. (We did not analyze the two questions about the effective date (questions 21 and 22) because most respondents either explicitly or implicitly agreed with FASB's proposed effective date.) We reiterate comments from various respondents to highlight the conflicting viewpoints offered by respondents on many of the proposed amendments in the ED.

V. ANALYSIS

Analysis of Responses to Questions on Each Financial Statement

Proposed Changes Affecting the Statement of Financial Position

Question 1 asked for responses to change the three net asset categories (unrestricted, temporarily restricted, and permanently restricted) to two—net assets *with* donor restrictions and net assets *without* donor restrictions. As summarized in Table 2, 41 percent of the respondents agreed with this proposal, 14 percent agreed with reservation, 25 percent believed that the proposal would mislead the user of the financial statements, while 20 percent did not respond. As shown in Table 3, Panel A, there was a mixed reaction to the proposal to reduce the number of net asset categories within each category of respondents.

TABLE 2

Responses to ASU 2016-14 Exposure Draft

Question #	Proposal Related to		Disagree	Reservation	No Response	Agree	Total
1	Reduce number of net asset categories	#	67	37	53	107	264
		%	25%	14%	20%	41%	100%
2	Report underwater endowment funds in net assets with donor restrictions	#	16	19	93	136	264
		%	6%	7%	35%	52%	100%
3	Disclose policies on underwater endowment funds	#	20	37	103	104	264
		%	8%	14%	39%	39%	100%
4	Disclose liquidity flexibility information	#	74	54	94	42	264
		%	28%	20%	36%	16%	100%
5	Remove classified balance sheet requirement for health care NFP	#	75	10	151	28	264
		%	28%	4%	57%	11%	100%
6	Require intermediate operating measure in SOA	#	58	36	57	113	264
		%	22%	14%	21%	43%	100%
7	Report intermediate measure based on resources and outflows for carrying out NFP's primary purpose	#	55	34	77	98	264
		%	21%	13%	29%	37%	100%
8	Report internal transfers *after* intermediate operating measure	#	88	40	69	67	264
		%	33%	15%	26%	26%	100%
9	Eliminate implied time restriction on long-lived assets	#	28	0	114	122	264
		%	11%	0%	43%	46%	100%
10	Donated long-lived assets should be operating revenue	#	109	30	89	36	264
		%	41%	11%	34%	14%	100%
11	Remove performance indicator requirement for health care NFP	#	63	0	161	40	264
		%	24%	0%	61%	15%	100%
12	Should SOA allow the option of a single column or multicolumn format	#	12	7	99	146	264
		%	5%	3%	37%	55%	100%
13	Report expenses by function and nature	#	47	0	71	146	264
		%	18%	0%	27%	55%	100%
14	Report investment income net of investment expenses	#	17	22	83	142	264
		%	6%	8%	32%	54%	100%
15	Disclose internal salaries and benefits that are netted against investment return	#	59	29	97	79	264
		%	22%	11%	37%	30%	100%

(continued on next page)

TABLE 2 (continued)

Question #	Proposal Related to		Disagree	Reservation	No Response	Agree	Total
16	Reclassify interest expense as nonoperating	#	148	0	79	37	264
		%	56%	0%	30%	14%	100%
17	Include equity transfers and certain write-offs within operating activities	#	49	19	145	51	264
		%	19%	7%	55%	19%	100%
18	Require direct method for operating cash flows	#	162	0	32	70	264
		%	61%	0%	12%	27%	100%
19	Remove the requirement to provide a reconciliation of indirect operating cash flows to change in net assets	#	123	60	30	51	264
		%	47%	23%	11%	19%	100%
20	Align operating activities in SOA and SCF	#	163	0	57	44	264
		%	62%	0%	21%	17%	100%

The respondents who supported the reclassification of the net assets into two categories said that this change would align the presentation of the net assets with the UPMIFA provisions. In addition to increasing the clarity of financial reporting, it will also reduce complexity and cost.

Question 2 asked for responses on the proposed classification of the underwater part of endowment funds under net assets with donor restrictions. A majority of the respondents, 52 percent, welcomed this change, saying that it improves the clarity of the net asset value available to NFP organizations. About 7 percent of the respondents agreed but expressed some reservations, 6 percent disagreed, and 35 percent did not express an opinion on this question. As shown in Table 3, Panel A, for each type of respondent, there were more who agreed than disagreed with the proposal.

Question 3 requested opinions on whether NFPs should disclose their policy on spending from underwater funds and whether this disclosure would provide sufficient information to assess NFP's liquidity position. As seen from Table 2, only 39 percent agreed with this proposed change, and about a fifth of the respondents either disagreed or expressed reservations. The most common argument in favor of the change was that it followed UPMIFA, supplying information to assess an entity's liquidity constraints. As shown in Table 3, Panel A, there is an equal split among NFP colleges and universities on the proposal, which is not surprising since these organizations usually have significant discretion over accounting for endowments to fund scholarships, endowed faculty positions, and research activities (Burgstahler and Sawers 2017).

Question 4 proposed that NFPs disclose information on the use of financial assets related to the NFP's exposure to liquidity risk.[4] In response to this question, only 16 percent concurred that the added information will be valuable to users and would supply a clearer picture of the liquidity risk. As shown in Table 3, Panel A, the dissent was significant across all groups—the majority of each type of respondent disagreed with the proposal.

[4] Risk inherent to financial instruments and the way in which the NFP entities manage the risk has been a concern for the users of the financial statements.

TABLE 3

Responses to ASU ED 2016-14 Questions by Type of Respondent

Panel A: Responses to Questions 1–4

Respondent	Total Responses	Response to Question 1 Two Net Asset Categories				Response to Question 2 Underwater Funds				Response to Question 3 Policy on Underwater Funds				Response to Question 4 Liquidity Information			
		0	1	2	3	0	1	2	3	0	1	2	3	0	1	2	3
Auditors	69	22	7	6	34	7	5	12	45	4	14	15	36	23	20	15	11
Individuals and Academic	32	7	7	8	10	1	3	19	9	0	2	19	11	6	5	17	4
Prof. Orgs.	29	7	8	2	12	3	3	6	17	2	11	6	10	9	8	6	6
NFP Preparers																	
College and Univ.	51	12	9	12	18	1	1	20	29	9	5	21	16	9	9	25	8
Healthcare	19	4	0	8	7	1	1	11	6	0	1	13	5	3	2	11	3
VHWO	35	6	4	12	13	2	4	18	11	2	3	20	10	12	5	11	7
Other NFP	29	9	2	5	13	1	2	7	19	3	1	9	16	12	5	9	3
Total	264	67	37	53	107	16	19	93	136	20	37	103	104	74	54	94	42

Panel B: Responses to Questions 5–8

Respondent	Total Responses	Response to Question 5 Classified Bal. Sheet				Response to Question 6 Intermediate Oper. Measure				Response to Question 7 Intermediate Oper. Measure				Response to Question 8 Internal transfers			
		0	1	2	3	0	1	2	3	0	1	2	3	0	1	2	3
Auditors	69	29	6	26	8	15	8	12	34	11	8	16	34	25	7	12	25
Individuals and Academic	32	6	1	22	3	5	5	15	7	7	5	13	7	8	6	13	5
Prof. Orgs.	29	8	1	13	7	9	5	3	12	9	4	4	12	8	5	4	12
NFP Preparers																	
College and Univ.	51	7	0	38	6	10	8	11	22	14	3	17	17	20	8	15	8
Healthcare	19	9	0	10	0	9	2	5	3	5	2	8	4	12	1	5	1
VHWO	35	10	1	22	2	5	4	6	20	6	5	11	13	11	6	12	6
Other NFP	29	6	1	20	2	5	4	5	15	3	7	8	11	4	7	8	10
Total	264	75	10	151	28	58	36	57	113	55	34	77	98	88	40	69	67

(continued on next page)

TABLE 3 (continued)

Panel C: Responses to Questions 9–12

Respondent	Total Responses	Response to Question 9 Placed-in-Service				Response to Question 10 Long-Lived Asset Gifts				Response to Question 11 Performance Indicator				Response to Question 12 Inc. Stmt. Format			
		0	1	2	3	0	1	2	3	0	1	2	3	0	1	2	3
Auditors	69	7	0	17	45	26	8	22	13	15	0	41	13	3	1	28	37
Individual and Users	32	3	0	15	14	11	4	14	3	7	0	21	4	2	2	12	16
Prof. Orgs.	29	2	0	9	18	12	2	9	6	10	0	12	7	4	1	5	19
NFP Preparer																	
College and Univ.	51	6	0	22	23	21	3	18	9	12	0	36	3	0	0	19	32
Healthcare	19	1	0	12	6	9	3	5	2	6	0	10	3	1	1	6	11
VHWO Preparer	35	1	0	25	9	17	6	12	0	3	0	26	6	1	1	17	16
Other NFP	29	8	0	14	7	13	4	9	3	10	0	15	4	1	1	12	15
Total	264	28	0	114	122	109	30	89	36	63	0	161	40	12	7	99	146

Panel D: Responses to Questions 13–16

Respondent	Total Responses	Response to Question 13 Expense Reporting				Response to Question 14 Investment Income				Response to Question 15 Salary Information				Response to Question 16 Interest Expense			
		0	1	2	3	0	1	2	3	0	1	2	3	0	1	2	3
Auditors	69	11	0	22	36	4	8	24	33	16	9	23	21	39	0	21	9
Individuals	32	1	0	9	22	2	3	10	17	7	3	7	15	19	0	10	3
Prof. Orgs.	29	3	0	8	18	2	2	7	18	6	3	12	8	17	0	8	4
NFP Preparer																	
College and Univ.	51	8	0	15	28	2	5	17	27	14	3	19	15	30	0	12	9
Healthcare	19	4	0	6	9	3	0	6	10	5	2	7	5	13	0	5	1
VHWO	35	12	0	6	17	3	2	12	18	5	4	17	9	17	0	14	4
Other NFP	29	8	0	5	16	1	2	7	19	6	5	12	6	13	0	9	7
Total	264	47	0	71	146	17	22	83	142	59	29	97	79	148	0	79	37

(continued on next page)

TABLE 3 (continued)

Panel E: Responses to Questions 17–20

Respondent	Total Responses	Response to Question 17 Operating Activities				Response to Question 18 Direct Method				Response to Question 19 Reconciliation				Response to Question 20 Align OCF with Inc. Stmt.			
		0	1	2	3	0	1	2	3	0	1	2	3	0	1	2	3
Auditors	69	14	6	39	10	43	0	7	19	28	13	15	13	39	0	23	7
Individuals	32	1	2	22	7	20	0	4	8	18	5	3	6	18	0	5	9
Prof. Orgs.	29	4	3	16	6	19	0	3	7	17	6	1	5	16	0	6	7
NFP Preparer																	
College and Univ.	51	15	6	22	8	38	0	4	9	25	17	1	8	39	0	5	7
Healthcare	19	4	1	7	7	8	0	5	6	11	4	0	4	13	0	3	3
VHWO	35	5	1	25	4	18	0	5	12	13	7	7	8	23	0	7	5
Other NFP	29	6	0	14	9	16	0	4	9	11	8	3	7	15	0	8	6
Total	264	49	19	145	51	162	0	32	70	123	60	30	51	163	0	57	44

Response: 0 = Disagree; 1 = Reservations; 2 = No response; 3 = Agree.

Question 5 proposed to replace the classified balance sheet for NFP healthcare organizations with enhanced disclosures about liquidity. A majority, 57 percent, did not respond since the proposal related to healthcare. More audit firms and healthcare NFP's disagreed (38) than agreed (8) with the proposal.

Proposed Changes Affecting the Statement of Activities

Concerning the SOA, the ED invited comments in response to question numbers six to 17. Four questions (6, 7, 8, and 11) are related to the intermediate measures of operations (i.e., results of operations and operating income/loss). Questions 6 and 7 invited comments on its usefulness and its content. Question 8 asked when the NFP should be required to reflect internal transfers on the SOA. Question 11 proposed that NFPs no longer be required to report a performance indicator since an intermediate measure of operations is mandated. As shown in Table 2, there is a wide variation in responses to these questions from agreeing to disagree.

Question 9 requested comments on whether to release restrictions of all contributions received as cash or other assets with donor restrictions for use for construction of or the acquisition of property, plant, and equipment when the asset is placed-in-service. The proposal would also eliminate the option to imply a time restriction on donated long-lived depreciable assets whereby revenue from the gift is recognized systematically over the life of the donated asset. As shown in Table 2, 43 percent of the total respondents agreed to this change. Further analysis in Table 3, Panel C shows that the majority of each type of respondent agreed with the change. Most respondents agreed that this method of presentation would improve the comparability of financial statements across all NFPs. One primary concern from the 28 respondents who disagreed with this change was that it would violate the matching principle (Letter 12; FASB 2015b). The revenue (donation) will appear in one year, but the expenses (in terms of depreciation as this is a long-lived asset) will be over the future years. They argue that the release of donor restriction should cover the depreciation expense not to distort the bottom-line of the SOA. Others mentioned that all gifts/donations/grants released from restrictions over the life of the asset must have consistent treatment.

Question 10 invited comments on whether gifts of long-lived assets should be operating revenue when received or when the asset is placed-in-service. A common concern of the respondents was that the proposed reporting for gifts of long-lived assets is cumbersome and could, therefore, confuse the users of the financial statements.

Question 12 invited comments on whether to present the SOA as a single statement or two articulating statements and whether to use a single-column or multi-column format. As shown in Table 2, only 8 percent of respondents disagreed or expressed reservations.

Question 13 invited comments on whether to require reporting operating expenses by both function and nature. Most respondents welcomed this change. Table 2 shows that over half of the responses were affirmative, and most of them shared the view that this form of reporting will supply more information to the users of the financial statements and therefore justifies the cost associated in addition to that. As shown in Table 3, Panel D, only NFP healthcare organizations disagreed with the proposal. One of the arguments (repeated in 20 letters) was that this information is redundant to that reported in IRS Form 990 made available to the public by IRS. The claim that the information is not needed in the SOA because it is available in Form 990 is misleading, however. Form 990 data contains many well-known anomalies, such as skewed cost allocation methods, costs shifted to unconsolidated foundations or other entities, and zero fundraising costs in the presence of significant contribution income (USGOA 2014, 18). The main difference between

Form 990 and GAAP financial statements is GAAP allows latitude in defining and reporting functional expenses while the IRS allows latitude in defining the reporting entity.[5]

Question 14 proposed to report investment income net of external and internal investment expenses. As reported in Table 2, only 6 percent of respondents disagreed with this proposal, and as shown in Table 3, Panel D, most of each type of respondent agreed with the proposal.

Question 15 sought responses to suggestions related to accounting of investment income—proposing the disclosure of internal salaries and benefits netted against investment income. Respondents had a mixed view on this proposal with 30 percent in favor and 22 percent against it. As shown in Table 3, Panel D, NFP colleges and universities and NFP healthcare organizations disagreed with the proposal while the other types of respondents agreed with it.

Question 16 invited comments that interest expense is not part of operating activities. As shown in Table 2, 56 percent of respondents disagree with this proposal.

Question 17 requested comments on reporting equity transfers, write-offs of goodwill, and write-offs of acquisitions of non-capitalized items for a permanent collection within operating activities. As shown in Table 2, 19 percent disagreed, and 19 percent agreed with this proposal.

Proposed Changes Affecting the Statement of Cash Flows

Concerning the SCF, the ED suggested mandating the preparation of cash flows using the direct method and relaxed the requirement for reconciliation with the net income from the operating statement. We analyze comments for the following three questions (numbers 18, 19, and 20) on the preparation of the cash flow statement.

Question 18 asked whether the direct method of presenting the SCF is more understandable and useful compared to the indirect method. They also asked if the cost of this change justified the expected benefits.

As shown in Table 2, only 27 percent of the respondents welcomed the proposed change. Their argument was in line with the justification provided by the Board that the direct method is easier to understand and more useful to donors and other users of the financial statement. Most respondents (61 percent) disagreed with the recommended change. As shown in Table 3, Panel E, most of each type of respondent disagreed with the proposal. Two-thirds of auditors disagreed with the direct method requirement. Arguments against the proposal included user lack of familiarity with the direct method and the cost/benefit of changing from the indirect to the direct method. ASU 2016-14 allows NFPs to use either the indirect or the direct method.

Question 19 proposed the elimination of the reconciliation of operating cash flows using the indirect method to the direct method. Only 19 percent of the respondents agreed with the proposal compared to 47 percent against it. As reported in Table 3, Panel E, about 70 percent of the total respondents disagreed or had reservations with the proposed idea. The letters suggested that the users/preparers preferred flexibility in the format of cash flow. They also disagreed with the requirement for reconciliation from operations to the total change in net assets for the indirect method of cash flow. Accordingly, ASU 2016-14 dropped the requirement for the reconciliation.

Question 20 suggested that the Statement of Cash Flow (SCF) adopt a classification consistent with the Statement of Activities (SOA). Additionally, the Board suggested moving cash donations used for long-lived assets from financing cash flows to operating cash flow and moving the purchases/sales of such long-lived assets from investing to operating cash flow. The Board also suggested that NFPs classify dividends and interest received from investing to operating cash

[5] The authors thank an anonymous reviewer for offering this insight.

flow and classify interest paid from operating to financing cash flow to realign the SCF with the SOA.

A majority of respondents (62 percent) disagreed, while only 17 percent agreed to the proposed change. As shown in Table 3, Panel E, there was disagreement with this change in each respondent classification. The primary concern was that the proposed change would create an inconsistency between NFPs and for-profit businesses. Another argument was that many stakeholders in NFPs have a robust for-profit background, and this deviation from the for-profit standards will make it more difficult for them to understand the financial statements. The respondents showed strong feelings about this change, particularly the suggestion of including purchases of long-lived assets as operating activities.

Overall, it appears that the Board listened to the respondents' arguments and excluded this change from the final standard, ASU 2016-14. Phase 2 of FASB's NFP project, however, does include consideration of the realignment of certain items in the SCF with the SOA.

Table 4 recaps the 20 questions raised in the ED, and their status after ASU 2016-14 was issued. FASB affirmed nine questions in ASU 2016-14 (questions 1, 2, 3, 4, 9, 12, 13, 14, and 19). Most of these questions were explicitly or implicitly (by no comment) supported by the respondents. FASB removed most of the issues related to operating activities in the SOA (numbers 6, 7, 8, 10, 11, 16, 17, 18, and 20) to Phase 2 of its NFP project. As shown in Table 4, a much higher rate of respondents disagreed or had reservations with the questions deferred to Phase 2 than with questions in Phase 1. Table 5 presents selected qualitative responses to questions 1 through 20.

Statistical Analysis of Letters

Following Sauerlender (1993), each letter received a numerical code for each response to questions 1 through 20, affecting NFP financial statements in the Exposure Draft. The numerical coding for questions 1 through 20 is as follows:

0 = disagree
1 = reservations
2 = no comment (implicit agreement)
3 = agree (explicit agreement)

The ordinal scale results in higher values as support for the question increases. Disagreement results in a code of "0," agreeing with reservations expressed are "1," no comment shows implied agreement and is "2," the explicit agreement is "3." Other studies have coded no comment responses (Brown and Feroz 1992; Huian 2013; Trainor, Phillips, and Cangialosi 2018).[6] Combining the responses to questions associated with each of the three financial statements and for all financial statement-related questions produced four aggregate scores as follows:

[6] An alternative coding approach omitting "no comment" responses highlighted differences in the form and approach used by respondent groups. Professional organizations and auditors, much more so than preparer groups, tend to write comprehensive memos that respond to all ED questions (agree, disagree, reservation). All other respondent groups primarily use GASB's electronic survey to respond and rarely answered all ED questions, hence a greater number of "no comment" responses by preparers than professional organizations and auditors. We conjecture that professional organizations and auditors have incentives to produce formal and comprehensive responses for their members (professional organizations) and clients (auditors). Similar to other studies we cite, we believe that "no comment" responses are not neutral responses but, instead, given the significance of the issues in the ED, indicate implicit acceptance.

TABLE 4

Comparison of Proposed ASU 2016-14 to Final ASU 2016-14

Panel A: Disposition of Proposed Changes in ED to Final ASU 2016-14

#	Proposed ASU 2016-14	Final ASU 2016-14
Statement of Financial Position and Liquidity		
1	Reduce net assets into two categories by combining temporarily restricted and permanently restricted net assets into a single category "net assets with donor restrictions."	Affirmed: Two categories of net assets: (1) net assets *with* donor restrictions and (2) net assets *without* donor restrictions.
2	Report the aggregated amount of endowment funds that are underwater within net assets with donor restrictions rather than net assets without donor restrictions.	Affirmed. The aggregate amount of donor-restricted endowment funds is classified as part of net assets with donor restrictions. Report the fair value underwater funds, the original endowment amount or level required to be retained by donor stipulations, and amount underwater.
3	Require disclosures on the NFP's policies on spending from underwater endowment funds.	Affirmed. Disclose the NFP's policy for the appropriation of endowment assets for expenditure under underwater endowment funds.
4	Require information about the availability of resources and liquidity and financial flexibility to meet cash needs for general expenditures.	Affirmed: Requires qualitative and quantitative information about the NFP's liquid resources to meet general expenditures within one year of the date of the Statement of Financial Position.
5	No longer require business-oriented health care NFP to present classified balance sheets.	A classified balance sheet continues to be required.
Statement of Activities, Including Financial Performance		
6	Require intermediate measures of operations.	Deferred to Phase 2 of the NFP project.
7	Intermediate measures of operations should include only resources and outflows that are from carrying out the NFP's purpose.	Deferred to Phase 2 of the NFP project.
8	Internal transfers should be reflected *after* the intermediate measure of operations.	Deferred to Phase 2 of the NFP project.
9	Eliminate the option to assume an implied time-restriction on donated long-lived assets.	Affirmed: In the absence of explicit donor stipulations, eliminates the option, and the placed-in-service approach is required.
10	Gifts of long-lived assets should be considered operating revenue and support when received or when placed in service.	Deferred to Phase 2 of the NFP project.

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TABLE 4 (continued)

#	Proposed ASU 2016-14	Final ASU 2016-14
11	Remove the requirement for NFP business-oriented health care entities to present a performance indicator.	Deferred to Phase 2 of the NFP project, therefore, business-oriented health care entities are required to present a performance indicator.
12	Should the flexibility in using a single column or a multicolumn be retained or narrowed?	Affirmed: Flexibility retained the Statement of Activities can be prepared using a single column or multicolumn format.
13	Reporting expenses by both function and nature in one location.	Affirmed: Expenses reported by function and nature in the face of the Statement of Activities, the notes to the financial statements, or as a separate schedule and enhanced disclosures about the method(s) used to allocate costs among program and support functions.
14	Require investment income to be reported net of external and direct internal investment expenses.	Affirmed: Present investment return net of external and direct internal investment expenses and no longer require disclosure of these expenses.
15	Require disclosure of internal salaries and benefits that are netted against investment return.	It is not required.
16	Interest expense, fees, and related expenses for debt not directed at carrying out the NFP's purposes should not be classified as operating activities.	Deferred to Phase 2 of the NFP project.
17	Operating activities should include equity transfers between related NFP's, write-offs of goodwill, and write-offs of acquisitions of noncapitalized items for a permanent collection if acquired with net assets without donor restrictions.	Deferred to Phase 2 of the NFP project.
Statement of Cash Flow, Including Financial Performance		
18	Require the direct method for the operating cash flows.	Deferred to Phase 2 of the NFP project. It allows NFP's to continue to present operating cash flows using *either* the direct method of the indirect method.
19	Remove the requirement to include a reconciliation of the indirect method of operating cash flows to the total change in net assets.	Affirmed. No longer require an indirect reconciliation of operating cash flows to change in net assets if the NFP elects to present operating cash flows using the direct method.
20	Proposal to more closely align operating activities in the Statement of Cash Flow to with operating activities in the Statement of Activities.	Deferred to Phase 2 of the NFP project.

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TABLE 4 (continued)

Panel B: Recap of Respondent's Comments on Amendments Proposed by the ED

	Disagree	Reservation	No Opinion	Agree	Total
Phase 1: ASU 2016-14	17%	10%	31%	42%	100%
Phase 2: Deferred	38%	7%	32%	23%	100%

All three financial statements: questions 1 through 20
Statement of Financial Position: questions 1 through 5
Statement of Activities: questions 6 through 17
Statement of Cash Flow: questions 18 through 20

Similarly, aggregate responses for questions affirmed in Phase 1 and deferred to Phase 2 produced two aggregate scores as follows:

Phase 1 questions affirmed into ASU 2016-14: questions 1, 2, 3, 4, 9, 12, 13, 14, 19
Phase 2 questions deferred for further deliberation: questions 6, 7, 8, 10, 11, 16, 17, 18, 20

The analysis of responses to the ED questions occurred using Analysis of Variance (ANOVA) and Least Significant Differences (LSD) multiple comparison tests on each aggregate set of responses. Whereas ANOVA helps examine the variance between the mean of groups, LSD multiple comparison tests differences between each group of respondents against every other group. We analyze the quickness in response by examining the number of days between the ED date and the letter date and the level of intensity of the response measured by the number of pages (Sauerlender 1993). The ANOVA and multiple comparison test results appear in Table 6.

As shown in Table 6, the number of days to respond was not statistically significant across all responses and between the seven types of respondents. Only healthcare NFPs and professional organizations were statistically different in the length of their letters with healthcare NFPs having a shorter (number of pages) response compared to professional organizations. Healthcare NFP was statistically different from the responses of four other types of respondents (individuals, auditors, other NFP, and VHWO) on the 20 questions related to all three financial statements (RQ1). We did not find any significant differences between respondent groups on questions for the SFP. In comparison with other professional organizations, individuals, auditors, and other NFPs, we found that healthcare NFP respondents held significantly different viewpoints on questions related to SOA. Responses by Higher Education NFP were also significantly different from all other respondents except professional organizations on questions 18 through 20 related to the statement of cash flows.

We also performed an analysis of the aggregate responses according to FASB's disposition of the financial statement-related questions. We found no significant difference among the groups of respondents on questions affirmed into ASU 2016-14 as Phase 1 of the project or questions 5 and 15 rejected by FASB (RQ 2). There are many differences between the groups of respondents on the questions FASB deferred for further deliberation in Phase 2 of the Board's project (RQ 3). As shown in Table 5, healthcare NFP was less in agreement with the Phase 2 proposals than professional organizations, auditors, individuals, voluntary health and welfare organizations, and other NFPs. Similarly, college and university NFP were in lesser agreement with Phase 2 proposals compared to individuals, auditors, voluntary health and welfare organizations, and other NFPs. Consequently, several proposals related to the SOA and SCF that gave rise to concerns

TABLE 5

Selected Qualitative Responses

Matter	Qualitative Comments
Proposals for the Statement of Financial Position (Questions 1–5)	
1. Two net asset categories.	Spartanburg Methodist College disagrees, stating, "while some may argue that the terminology temporarily restricted and permanently restricted are vague, we would suggest that they offer valuable information. . . We would suggest that instead of eliminating temporarily restricted net assets to rename it "with restrictions" and leave the permanent category and call it "with permanent restrictions."
	Yao & Yao agree, responding: "Yes. Under UPMIFA, the lines between temporary and permanent restrictions are becoming more blurred. Moving the information away from the face of the financial statements and into the note disclosures will allow better communication to the users of the financial statements while still allowing sufficient information at a glance."
2. Underwater funds.	Carleton College disagrees, stating: "essentially, donor restrictions are backed by the full faith and credit of the institution and to the extent an endowment is underwater there is an obligation on otherwise unrestricted net assets and the obligation should be reflected in Unrestricted Net Assets. Permanent Net Assets should always be stated at Historical Gift Value."
	Deloitte and Touché LLP agrees to state: We agree that the aggregated amount by which endowment funds are underwater should be classified within net assets with donor restrictions. The current requirement to disaggregate the underwater amount within the overall endowment fund amount and to separately classify this amount in net assets without donor restrictions is unnecessarily complicated and does not result in material information."
3. Policies on underwater funds.	The Salvation Army disagrees, stating, "We do not believe that this is meaningful information for the vast majority of our financial statement readers, especially in light of general endowment spending policies and relevant disclosures currently maintained to demonstrate compliance with already existing UPMIFA requirements."
	The Bill & Melinda Gates Foundation agrees, stating, "We believe disclosures describing an NFP's policy on spending from underwater endowment funds and the aggregated amount available for distribution, rather than the aggregated original gift amount, would provide useful information to readers of the financial statements."

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TABLE 5 (continued)

Matter	Qualitative Comments
4. Liquidity information.	Ernst & Young LLP expressed disagreement "we recommend that the Board not move forward with the proposed amendments to require additional qualitative disclosures about an NFP's strategy for managing its liquidity risk. We believe that information about an NFP's strategy for addressing entity-wide risks that may affect liquidity, including the NFP's ability to raise capital, reduce cash outflows, or both, is forward-looking information that is not suited for inclusion in GAAP-basis financial statements. Preparers could be challenged to establish the completeness and adequacy of such disclosures; forward-looking information may be difficult to prepare and validate without significant cost."
	United Way Worldwide responded, "We agree that there is value in qualitative and quantitative disclosure of management's time horizon for assessing liquidity needs and identification of certain financial assets (such as lines of credit, governing board designated reserves, quasi-endowments, etc.) that can be made available to address unanticipated short-term liquidity needs."
5. Classified balance sheet versus nearness to liquidity.	Cook Children's Health Care System disagrees: "I am not in favor of adding additional liquidity disclosures. My opinion is that the classified balance sheet provides clear information, and by adding more disclosures only makes the audit report longer and difficult to interpret. Basic details get overlooked when the disclosures are unnecessarily long."
	HopeWest (provides hospice care) agrees, stating: "a classified balance sheet sequencing assets and liabilities according to nearness to cash is good practice and a logical presentation for all NFPs."
Proposals for the Statement of Activities (Questions 6–17)	
6. Require an intermediate operating measure.	Akron Children Hospital states, "we *disagree* that requiring intermediate measures of operations would provide users of NFP financial statements with more relevant and comparable information."
	American Red Cross states, "we are supportive of an intermediate measure of operations and are currently reporting a subtotal of operations."
7. Include only resources and outflows to carry out the NFP's primary purpose in the intermediate measure of operations.	American Heart Association responds, "We agree that an intermediate measure of operations would be useful and would help align internal reporting practices with external reporting requirements."
	CliftonLarsonAllen disagrees, stating, "we believe that not-for-profits should be able to have flexibility in determining the definition of their operations, similar to for-profit entities, and therefore what activities should be included or excluded from an intermediate measure of operations."

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TABLE 5 (continued)

Matter	Qualitative Comments
8. Report internal transfers after the intermediate measure of operations.	Texas Health Resources disagrees, stating, "NO! This will create clutter and confusion on the statement of activities and will not make it more useful to the reader." Portland Art Museum agrees, stating, "yes, all material transfers should be disclosed on the face of the statement."
9. Eliminate the option to imply a time restriction on donated long-lived assets.	Professor Teresa Gordon (retired University of Idaho) states, "STRONGLY DISAGREE. I am not aware of any problems that the 'implied time restriction' method has caused, and the method has been extremely useful to smaller entities with an occasional capital campaign." Boy Scouts of America states, "We agree with the elimination of the 'useful life' method in favor of the 'placed-in-service' approach."
10. Gifts of long-lived assets should be operating revenue.	RubinBrown disagrees, stating, "we believe the proposed reporting for gifts of long-lived assets is cumbersome and will confuse the users of the financial statements. Although the assets will be used in the NFP's operations, we do not believe the gifts of, or for, property, plant, and equipment should be shown as operating activities." HW & Co. agrees: "We 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)."
11. Remove the requirement for healthcare NFP to report a performance indicator.	HFMA (Healthcare Financial Management Association) states that it "does not share the view that consistency in reporting with other NFPs is more important" than comparisons to for-profit counterparts in the healthcare industry. Cherry Bekaert agrees with the proposal. Given the proposal to require an intermediate measure of operations, the performance indicator would be redundant. Business-oriented health care entities should be offered the same options as other not-for-profit entities.
12. Retain flexibility to use either single or multicolumn presentation.	CliftonLarsonAllen agrees, stating, "the current flexibility allows preparers of financial statements to make informed decisions related to which presentation appropriately addresses the needs of the users of their financial statements."
13. Report expenses by function and nature.	Plante & Moran PLLC agree, "We agree reporting operating expenses by both their function and nature provides useful information to donors, lenders, boards, and other users of the financial statements, to understand how resources are used, including whether expenses are fixed or variable."
14. Report investment income net of investment expenses.	Carleton College agrees that "requiring investment income to be reported net of external and direct internal investment expenses will increase comparability."
15. Disclose internal salaries and benefits netted against investment return.	Caring for Colorado Foundation responded, "no, it should not be required. Investment returns can fluctuate significantly from one month to the next, while internal salaries remain constant."

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TABLE 5 (continued)

Matter	Qualitative Comments
16. Interest and related expenses for debt not related to carrying out the NFP's purpose should not be classified as operating activities.	Baltimore Children's Museum responds, "No, in most cases. If an organization borrows, for example, through a line of credit, then I believe the interest expense is necessary to carry out the mission and, therefore, should be classified as operating."
	Plante & Moran PLLC states, "We agree that the interest expense incurred but not directed at carrying out an NFP's purpose should not be classified as operating activities."
17. Include equity transfers and write-offs in operating activities.	Marcum LLP states, "I do not agree as equity transfers are not part of the NFP's mission or reason for existence."
Proposals for Statement of Cash Flows (Questions 18–20)	
18. Require the direct method for operating cash flows.	Metropolitan Ministries disagrees with "should permit continued use of the indirect method, for simplicity and adequate disclosure. Direct method would be more difficult for NFPs to track and report."
19. Remove the requirement to present a reconciliation of the indirect method of operating cash flows to the direct method.	World Vision disagrees "we believe that the indirect method's reconciliation provides relevant information that would be lost if not required to be presented, and therefore should continue to be required."
20. Closely align operating activities in the Statement of Cash Flows to operating activities in the Statement of Activities.	Mercy Health disagrees "While we agree that aligning line items with the statement of cash flows to better match the statement of activities would make the statements more consistent, it will inevitably confuse users of the financial statements if the NFPs' definitions of operating versus non-operating for NFPs are not consistent with those of business or for-profit entities. Classifications that are common across all types of entities (such as capital expenditures or sales of fixed assets) should be consistent to avoid confusion, so unless the FASB is expecting to propose changes for all entities, we believe this change would ultimately confuse when comparing NFP and business entity statements. We believe that if classifications are more closely aligned in the cash flow with the statement of activities, the change should apply to both NFPs and business entities for comparability reasons."

among NFP healthcare and higher education organizations were deferred to Phase 2 by the Board. Extant research reveals the management of operating measures by private colleges (Burgstahler and Sawers 2017; Fischer et al. 2004) and healthcare organizations (Quosigk and Forgione 2018).

Following Sauerlender (1993), we applied multidimensional scaling (MDS) using all responses for questions 1 through 20 related to the three financial statements. MDS results in a two-dimensional visual plot of the perceptual relationships among the data. MDS is preferable over factor analysis when using ordinal data as is common, for example, in data based on subjects' perceptions of public policy (Yilmaz and Murat 2015), project evaluation (Chipulu et al. 2019), and

TABLE 6

Comparison of Responses by Type of Respondent

Variable	ANOVA Mean	ANOVA F-Ratio (Sig.)	Multiple Comparisons Group Mean	Multiple Comparisons Significant Results
Number of days between proposed ASU and letter date	110.57	0.95	P: 109.79	None
		(0.46)	I: 111.31	
			A: 110.14	
			O: 104.14	
			C: 113.78	
			H: 114.26	
			V: 110.03	
Number of pages in the letter	8.04	0.826	P: 9.38	P > H (0.07)
		(0.55)	I: 7.41	
			A: 8.38	
			O: 8.52	
			C: 7.51	
			H: 6.58	
			V: 8.00	
Questions related to all financial statements: Q1–Q20	33.78	1.062	P: 33.62	I > H (0.05)
		(0.39)	I: 34.66	A > H (0.05)
			A: 34.22	O > H (0.05)
			O: 34.69	H > V (0.09)
			C: 32.96	
			H: 31.26	
			V: 34.09	
Statement of Financial Position Questions: Q1–Q5	9.08	0.586	P:8.72	None
		(0.74)	I: 9.34	
			A: 8.72	
			O: 9.31	
			C: 9.55	
			H: 9.11	
			V: 8.91	
Statement of Activities Questions: Q6–Q17	19.85	1.505	P: 20.41	P > H (0.03)
		(0.18)	I: 20.50	I > H (0.02)
			A: 20.36	A > H (0.01)
			O: 19.76	O > H (0.10)
			C:19.39	
			H: 17.95	
			V: 19.57	

(continued on next page)

TABLE 6 (continued)

Variable	ANOVA Mean	ANOVA F-Ratio (Sig.)	Multiple Comparisons Group Mean	Multiple Comparisons Significant Results
Statement of Cash Flow Questions: Q18–Q20	3.00	2.007	P: 2.86	I > C (0.06)
		(0.07)	I: 3.06	A > C (0.01)
			A: 3.19	O > C (0.01)
			O: 3.59	V > C (0.01)
			C: 2.14	H > C (0.10)
			H: 3.11	
			V: 3.43	
Questions affirmed in Phase 1 (ASU 2016-14): Q1, 2, 3, 4, 9, 12, 13, 14, 19	16.78	0.528	P: 16.72	None
		(0.787)	I: 17.16	
			A: 16.87	
			O: 16.31	
			C: 17.14	
			H: 16.95	
			V: 16.11	
Questions deferred to Phase 2: Q6, 7, 8, 10, 11, 16, 17, 18, 20	11.69	2.633	P: 12.69	P > H (0.10)
		(0.02)	I: 12.97	I > C (0.08)
			A: 13.26	I > H (0.05)
			O: 13.93	A > C (0.01)
			C 11.45	A > H (0.01)
			H: 10.79	O > C (0.01)
			V: 13.37	O > H (0.01)
				V > H (0.02)
				V > C (0.02)

X > Z (0.YY) Indicates respondent group's mean on the left is significantly different from the respondent group on the right at the 0.10 significance level or better. Example: X > Z (0.05) indicates that the mean response for respondent group X is significantly different from the mean response for respondent group Z at the 0.05 level.

Respondent Group Codes:
P = Professional Organizations;
I = Individuals;
A = Audit Firms/CPAs;
O = NFP Preparer: Other NFP Organizations;
C = NFP Preparer: Colleges and Universities;
H = NFP Preparer: Healthcare Organizations; and
V = NFP Preparer: Voluntary Health and Welfare Organizations.

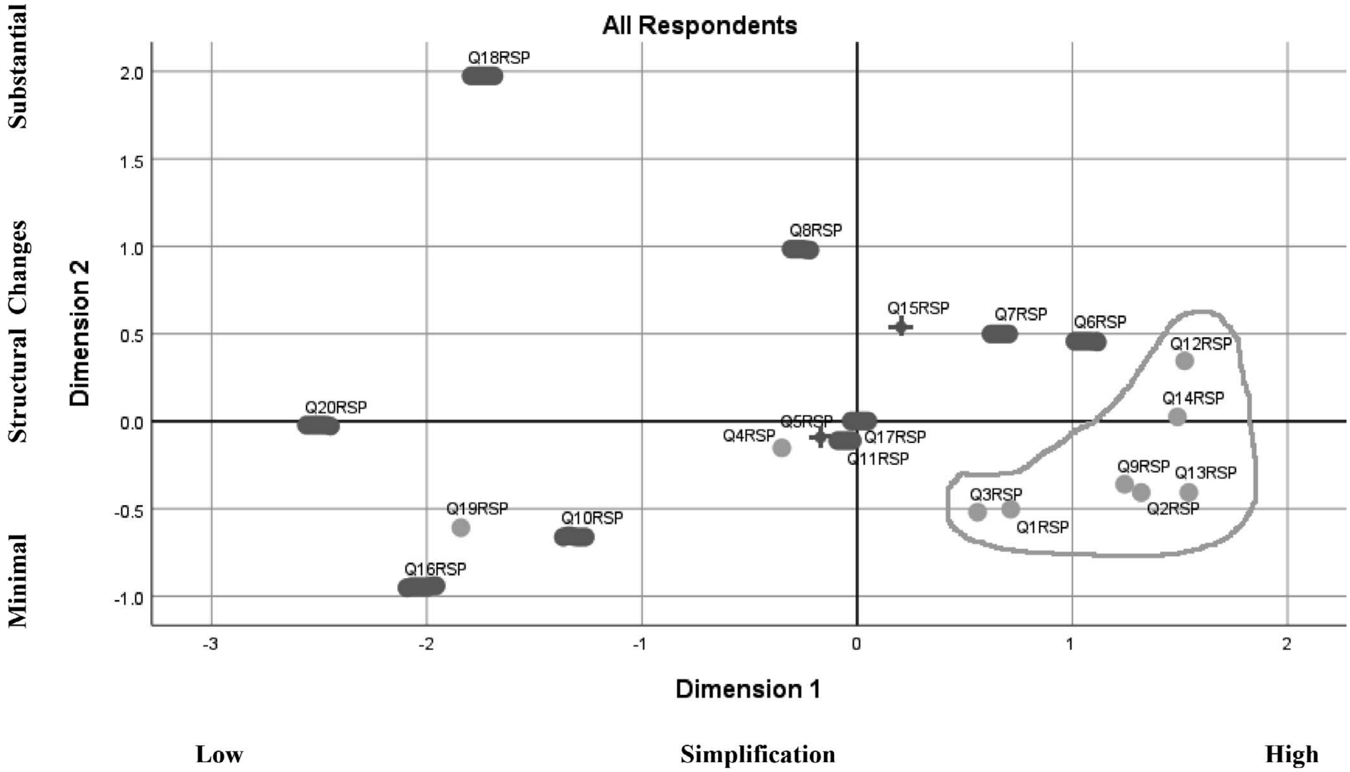
marketing (Bachnik, Nowacki, and Szopinski 2018). The resulting perceptual maps in two-dimensional ordination space depict the similarities and dissimilarities among the data. As Mair, Borg, and Rusch (2016, 782) point out, unlike principal component and factor analysis, the dimensions in MDS cannot always be meaningfully interpreted. However, it is possible to establish regions of symptoms. In this study, interpretation of the two dimensions is possible. The respondent data developed two MDS dimensions, as shown below:

		Stimulus Coordinates Dimension	
Stimulus Number	**Stimulus Name**	**1**	**2**
1	Q1RSP	0.6900	−0.5663
2	Q2RSP	1.3235	−0.4051
3	Q3RSP	0.5615	−0.5315
4	Q4RSP	−0.3350	−0.1815
5	Q5RSP	−0.1709	−0.1018
6	Q6RSP	1.0357	0.4665
7	Q7RSP	0.6755	0.5090
8	Q8RSP	−0.2819	0.9977
9	Q9RSP	1.2617	−0.4343
10	Q10RSP	−1.3043	−0.6986
11	Q11RSP	−0.0639	−0.1044
12	Q12RSP	1.5340	0.3273
13	Q13RSP	1.5521	−0.3536
14	Q14RSP	1.4940	0.0412
15	Q15RSP	0.2362	0.5579
16	Q16RSP	−2.0558	−0.8843
17	Q17RSP	0.0119	0.0021
18	Q18RSP	−1.7909	1.9122
19	Q19RSP	−1.8729	−0.4474
20	Q20RSP	−2.5007	−0.1051

The first dimension appears to be linked to the reason for FASB deferring operating performance issues to Phase 2 of their NFP project. Questions 18 through 20 on the SCF (require the direct method for operating activities, remove the reconciliation between indirect and direct methods for operating activities, and align the SCF with the SOA) are primary contributors to dimension 1, with questions 12, 13, and 16 (retain the flexibility to use either single or multicolumn presentation, reclassify interest expense as nonoperating expense, and reporting expenses by function and nature) as secondary contributors. A reasonable interpretation for dimension 1 is the simplification of financial statement presentation from complicated on the left and simplified on the right. A similar approach follows for dimension 2, where question 18 (require the direct method in the SCF) is the primary contributor, and question 16 (classification of interest expense non-operating activities) a secondary factor to dimension 2. One interpretation for dimension 2, therefore, concerns the degree of structural changes in the financial statements from substantial (question 18) to minimal (question 16).

Figure 1 presents a plot from the MDS procedure on all responses to questions 1 through 20. Cluster identification is one method to evaluate MDS maps (Rabinowitz 1975). The questions that FASB affirmed into ASU 2016-14 tend to cluster in the circled region in the lower right side of the map in Figure 1. The questions in this region relate to the simplification of the financial statements. Deferred and rejected/eliminated questions are to the left of the cluster of affirmed questions.

FIGURE 1
Multidimensional Scaling of Questions 1 through 20



Stress: 0.15518; RSQ: 0.90796
– Deferred to Phase 2 + Rejected ● Affirmed into ASU 2016-14

Rabinowitz (1975, 369) recommends the following guidelines for assessing the quality of the MDS solutions using the Stress statistic generated by MDS:

Quality of Solution	Stress Statistic (S)
Perfect	0.00–0.05
Excellent	0.05–0.10
Good	0.10–0.20
Fair	0.20–0.40
Poor	0.40–1.00

The stress statistic (S) specifies the proportion of the disparity among the responses not accounted for by MDS. The closer S is to a value of 0, the better the fit of input data into the two-dimensional perceptual map. The coefficient for the S statistic for the MDS solution in Figure 1 is 0.155, which is "good" using the scale advocated by Rabinowitz (1975). Five of seven untabulated separate MDS solutions for each of the seven categories of respondents were "good," and two were "fair." Sauerlender (1993) reported similar results for MDS solutions in her study.

VI. CONCLUSION

Since June 1993, SFAS 117 has provided guidance on the preparation of financial statements of NFP entities for over two decades. In recent years, FASB and NAC have taken up the project of changing these standards and have issued ASU 2016-14, an update to SFAS 117. FASB issued the ED in April 2015 to invite comments on 20 specific questions related to the proposed change. They received 264 letters in response. Based on the letter feedback, FASB split the NFP reporting project into two phases. Phase 1 incorporated those changes that were mostly well-received by the users and the preparers and resulted in the issuance of an Accounting Standards Update (ASU 2016-14) in August 2016.

Our examination of letter responses shows broad-based support for some ED issues and significant disagreement on other ED issues. No significant differences occurred on responses to issues about the SFP. Based on our analysis of the letters, the change toward a reclassification of net assets from three to two classes was well accepted. While this change removes information from the face of the financial statement by merging two categories of net assets, extensive information in the notes section compensates for this change; for example, NFP's supply details on permanent (temporary) funds as well as the amount by which these funds are underwater. Although most of the respondents welcomed the reclassification of net assets, the requirement of extensive notes on net assets received significant pushback. The standard argument was this would not only create much work for the preparers, but the cost is likely to exceed the benefits to the users (who either do not have access to notes or do not use the notes). Indeed, the notes to financial statements are not readily available, and even if they are accessible to the user, very few would use them—most users use Form 990 (Gordon, Greenlee, and Nitterhouse 1999).

The Board also received a wide range of comments from respondents about the proposed changes to the SOA and SCF. Regarding RQ 1, our results show significant differences between healthcare respondents and most other respondent groups on issues related to the SOA. Additionally, compared to other respondents, a significant number of college and university respondents disagreed with the proposed changes to the SCFs. Consequently, FASB deferred several changes related to the SOA and SCF to Phase 2 of the NFP reporting project. The purpose of Phase 2 is to "re-examine the existing reporting standards" with a focus on aligning operating measures in the SOA to those in the SCF.[7] Our results show no significant differences among the groups of respondents to issues in Phase 1 of the NFP reporting project that results in ASU 2016-14 (RQ 2). In contrast, healthcare and college and university respondents were less supportive of changes in Phase 2 issues of the NFP reporting project (RQ 2).

ASU 2016-14 did more than reduce net assets from three categories to two. The primary aim of ASU 2016-14 was to provide annual report users with information about the NFP's liquidity, its ability to support operations, and how donor restrictions affect the use of resources. Despite considerable disagreement expressed by respondents to some aspects of the ED for ASU 2016-14, the updated standard included several changes proposed in the ED. However, the Board deferred several changes to Phase 2. In general, the first wave of reports under ASU 2016-14 occurred by calendar year-end 2018 annual reports. The users of the financial reports, especially donors and potential donors, can access the usefulness of the financial statement information under ASU 2016-14 in the annual reports published in 2019.

[7] For information on the NFP project, please visit the FASB website at https://www.fasb.org/jsp/FASB/Page/ImageBridgePage&cid=1176168380111, including FASB's proposed accounting standards update to provide additional guidance on contributions (FASB 2017).

In conclusion, our analysis of FASB's NFP Financial Reporting Project reveals a situation in which FASB's due process approach to standard-setting was responsive to constituent comments, feedback, and concerns. ASU 2016-14 (Phase 1) incorporates changes that primarily received support across all types of respondents. FASB deferred proposed changes with statistically significant differences among the seven types of respondent groups from further research and deliberation in Phase 2 of the project.

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