FASB Hears Mixed Feedback on Nonprofit Expense Reporting.

The Financial Accounting Standards Board on June 10 heard feedback on proposed nonprofit reporting requirements that some members of the nonprofit sector thought were burdensome while others believed them to be aligned with the existing transparency required from those organizations.

During a teleconference meeting with FASB's Not-for-Profit Advisory Committee (NAC), Jeffrey Mechanick, an assistant director at FASB, said that if the board completes deliberations on the nonprofit reporting project the week of June 16, the staff can begin to prepare an exposure draft of the proposed requirements that could be issued in October.

According to Mechanick, the exposure draft will likely be subject to a public comment period of at least four months to provide stakeholders adequate time to weigh in on the proposed rule changes. The rulemaking proposal also will illustrate how various types of nonprofit organizations should present the newly required financial disclosures, he said.

On May 14 FASB tentatively decided that a nonprofit organization should disclose the costs of investment activities it performs itself as well as those conducted on its behalf by a third party to generate investment income. According to the board, the required disclosure would include all expenses that are direct and contracted to the nonprofit organization. (Prior coverage 2014 TNT 94-9: News Stories.)

Mechanick said the American Institute of Certified Public Accountants Not-for-Profit Expert Panel had suggested that FASB consider those disclosure requirements for investment expenses.

NAC member Clara Miller of the F.B. Heron Foundation supported the proposed disclosure requirements for nonprofit organizations, saying that those entities have a public duty of care that involves being transparent about the cost of their operations. Because investment activities are becoming a core business for many nonprofit institutions, the related expenses should be disclosed like every other business expense, she added.

Most nonprofit institutions should have the required management capacity and funding to provide the disclosure on investment expense, said Miller, adding that the presentation of investment expense is required for tax compliance.

NAC member Norman C. Mosrie of Dixon Hughes Goodman expressed concern that the proposed disclosure requirements would be burdensome for larger nonprofit institutions that maintain hundreds of different types of investments and mutual funds.

Mosrie also questioned how useful the reported expense information would be to a potential donor or lender to a nonprofit organization, adding that those parties would likely be more concerned with the information about the total investment return.

NAC member Stephen Golding of the University of Pennsylvania was concerned about the timeline for the proposed nonprofit requirements for financial reporting that could be issued in the second half of the year. He suggested that the board instead gather more feedback on the possible changes associated with investment expense disclosure and cash flow presentation before a formal proposal is issued.

“I do feel like in a way we are the guinea pigs here” with some of the proposed changes, in advance of similar potential rule changes for the for-profit sector, Golding said.

FASB member Lawrence Smith said that proposed presentation and disclosure requirements represent important communications to users of nonprofit financial statements.

Smith said it is important that FASB move toward an exposure draft of those proposed requirements in order to receive a broad range of stakeholder views that can be considered during re-deliberations. He added that a less formal document may not receive the same attention from the board’s constituency.

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