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**The Impact of ASU 2016-14 on Not-for-Profit
Operating Cash Flow Presentation**

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**University of Connecticut School of Business
Department of Accounting
Undergraduate Honors Thesis**

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1. Introduction

In August 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-14 to improve the usefulness of not-for-profit (NFP) financial statements. The Accounting Standards Update altered presentation requirements related to net assets, expenses, disclosures, and the statement of cash flows (SCF). The latter was among the most contentious changes, with many accounting professionals expressing concern over the proposed elimination of the indirect method of presentation. As a result, FASB significantly changed its position between the exposure draft and the final rule. They continued to allow both methods while simplifying the direct method application to encourage more widespread use. FASB eliminated the indirect method reconciliation requirement for NFPs that use the direct method, and this paper examines the Update's effect on the SCF because of this change.

This study is the first to examine the adoption of the new standard on SCF methodology choice and provides insight about the standard's short-term effects on financial reporting. I document whether removing the reconciliation requirement encouraged NFPs to switch to the direct method as FASB hoped. I also consider several reporting characteristics to identify firms more likely to support this methodology. This study addresses the following questions regarding ASU 2016-14 and NFP cash flow methodology: 1) How many NFPs from the population that submitted comments letters about FASB's ASU proposal switched cash flow methodologies after adopting ASU 2016-14? and 2) Which characteristics of an NFP's financial statements can explain their support/opposition for using the direct method?

I examine 129 comment letters that NFPs sent FASB following its proposal that would require NFPs to use the direct method to report operating cash flows. I evaluate each NFP's stance on the direct method requirement on a five-point scale ranging from "strongly disagree" to

“strongly agree”. I also indicate the reasons for their stance, which include cost, relevance, comparability to for-profit reporting, ease of preparation, and ease of use. Next, I hand collect financial statement data from the years before and after adoption for 86 NFPs in the sample, as the other 43 did not have accessible financial statements. I note the year of adoption and which cash flow methodology was used pre- and post-adoption (indirect, direct, or both). I classify each NFP into one of the following types based on the NFP’s purpose: Education, Healthcare, Voluntary Health and Welfare Organizations (VHWOs), and Other NFPs. I then examine four financial statement characteristics from the pre-adoption statements: change in net assets, operating cash flow, number of adjustments on the reconciliation schedule, and if the financial statements were audited. I use this data to calculate the difference between change in net assets and operating cash flow. Lastly, I note if there is a discrepancy (difference in sign) of change in net assets and operating cash flow, and I classify NFPs accordingly.

I form six hypotheses related to the research questions above. The first, in null form, is that ASU 2016-14 did not cause a significant number of NFPs from the sample to change cash flow methodologies. The other five relate to the following financial statement characteristics: NFP type, the magnitude of the difference between change in net assets and operating cash flow, existence of a sign discrepancy, number of adjustments on the reconciliation, and if the financial statements were audited. My hypotheses, in null form, are that there is no relationship between support for the direct method and each of these characteristics.

I examine the comment letters and find that they convey widespread disagreement for the direct method requirement among NFPs. Seventy-eight percent of respondents disagreed or strongly disagreed with the requirement, while 7% were neutral and 15% agreed or strongly agreed. When NFPs gave reasons for their stance, comparability to for-profit reporting was the

most cited. This reason was cited by the majority of Healthcare, VHWOs, and Other NFPs. Additionally, Healthcare and Other NFPs were most concerned about the cost of implementing the direct method.

Next, I analyze the financial statements of the NFPs in the sample. I find that NFPs that disagreed with the direct method requirement had a larger mean and median change in net assets in the year before adoption. This indicates that the group of NFPs that disagreed contained larger NFPs compared to the group of NFPs that were neutral or agreed. In addition, the firms that agreed had a negative mean for the difference between change in net assets and operating cash flow, indicating that many firms had operating cash flows higher than change in net assets.

I also observe that only six NFPs in the sample used the direct method prior to adopting ASU 2016-14. Seven NFPs used it in the year post-adoption. While only one additional NFP began using the direct method, three NFPs in my sample switched cash flow methodologies following the adoption of ASU 2016-14. Two NFPs that previously used both methods dropped the reconciliation, and one switched from the indirect method to the direct method. Therefore, I conclude that ASU 2016-14 did not cause a significant number of NFPs in the sample to change cash flow methodologies.

Lastly, I run regressions between my “Agree3” variable (where “strongly agree” and “agree” are combined into one group, as well as “strongly disagree” and “disagree”) and the financial statement characteristics listed above. I do not test the “Audit” variable, as all NFPs in the sample had audited financial statements. I find that a positive, significant relationship exists between agreement and Education NFPs. In addition, there is a positive, significant relationship for NFPs with a positive discrepancy (where operating cash flows is positive and change in net

assets is negative). I conclude that no significant relationship exists between agreement and any of the other variables.

Based on my observations and tests, I recommend that FASB take additional steps beyond removing the reconciliation requirement to encourage more NFPs to support and use the direct method.

2. Background: Institutional Detail and Prior Literature

2.1 Regulation Background

In 2011, FASB began the process of improving NFP financial reporting. While the Board believed the existing NFP reporting standards to be sufficient, they identified it as an area of improvement and set out to increase the usefulness of financial information for stakeholders and to reduce the cost and complexity of preparing the financial statements. In November 2011, FASB added the project *Not-for-Profit Financial Reporting: Financial Statements of Not-for-Profit Entities* to its agenda (KPMG 2016). Appendix A contains a full timeline of the project's evolution. FASB planned to address issues in the areas of net asset classification, liquidity disclosures, financial performance measures, and cash flows. Regarding cash flows, the Board particularly wanted to “enhance the utility of the statement of cash flows, particularly about the reporting of operating cash flows” (FASB 2015, p. 1). With these issues in mind, FASB spent the next several years drafting the standard.

Proposed ASU

In April 2015, FASB released the proposed ASU and requested comments from individuals, auditors, and various types of NFPs. One of the eight provisions¹ required NFPs to

¹ Although the word provision is commonly used to refer to expenses in the accounting setting, I retain the language used by FASB in the proposal where the main changes are labeled as provisions.

use the direct method of reporting operating cash flows with the option to include the indirect method reconciliation (FASB 2015). Appendix B provides a comparison of the indirect and direct methods for reference. In the past, NFPs could use either method but were required to provide a reconciliation if using the direct method. FASB stated that the new direct method requirement aligned with the overall purpose of the standard and would “increase the understandability of information and its usefulness to creditors, donors, and other users of NFP financial statements” (FASB 2015, p. 5). FASB also said removing the reconciliation requirement would “eliminate the costs to provide and explain information that often is found to be confusing and misunderstood by some users of NFP financial statements” (FASB 2015, p. 5). Later in the proposal, FASB provided more specific information about their decision-making process for the direct method provision. They cited input from NFPs to support their conclusion that the direct method is more intuitive, and therefore more useful, to board members and stakeholders. FASB also consulted with its Not-for-Profit Advisory Committee, which believed the SCF was often ignored by stakeholders due to the overcomplexity of the indirect method. FASB wanted to remedy this, as the SCF provides critical cash flow information that affects donor and lender decisions. FASB determined the provision’s costs would not outweigh the benefits, as NFPs that already used the direct method said implementation costs were generally insignificant one-time costs (FASB 2015).

FASB addressed the fact that the SCF provisions would cause inconsistencies between NFP and for-profit financial reporting. They justified the direct method requirement on the grounds that the indirect method was only useful to for-profit companies whose financial statement users may benefit from the reconciliation of net income to operating cash flows. This reasoning was later disputed by many NFPs and opposed by two FASB members (Deis & Shroff

2020; FASB 2015). These two members, Golden and Kroeker, did not believe NFPs should be required to use the direct method. They disagreed with the proposal because they thought the direct method requirement, among other provisions, was not specific to NFPs. Golden and Kroeker also expressed that “the indirect method can provide a useful link between the statement of cash flows, the statement of activities, and the statement of financial position, which is a benefit that could be eliminated by the proposed Update” (FASB 2015, p. 259). These arguments were included in the proposal, which was released in April 2015.

FASB solicited feedback on the issued proposal by putting forth 22 questions to be answered via the comment letter process. The proposal and related questions were open for comment until August 20, 2015. Questions 18 and 19 addressed the presentation of the SCF as follows:

- **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?
- **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? (FASB 2015)

Comment Letters

After the four-month comment period, FASB received 264 comment letters from auditors, academic researchers, professional organizations, and NFPs. Of the 264 letters, 134 came from NFPs (Deis & Shroff 2020). The letters varied in length and level of detail. Some only expressed a general opinion of the proposal, while others answered each question and provided exhibits to illustrate their points. Appendix C provides examples of responses to Questions 18 and 19 that express NFP opinions in varying levels of detail.

Deis and Shroff (2020) analyze the comment letters and feedback provided for each question. They categorize the respondents into seven groups, four of which are different types of NFPs: College & University, Healthcare, Voluntary Health and Welfare Organizations (VHWO), and Other NFPs. Breakdowns of the comment letters by category are shown in Table 1 Panel A.

Deis and Shroff's (2020) analysis of Questions 18 and 19 reveals that most respondents opposed FASB's proposal to require the direct method. They find that 61% of all respondents and 60% of NFP respondents disagreed with Question 18 (See Table 1 Panel B). They note that "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" (p. 18). Only 27% of both total respondents and NFPs agreed that the direct method is more useful.

For Question 19, 47% of all respondents and 45% of NFPs disagreed with the suggestion to eliminate the indirect method reconciliation requirement (See Table 1 Panel C). The respondents who disagreed said they found the indirect method useful and valued the option to choose a presentation method. Deis and Shroff also note that College & University NFPs were especially opposed to the SCF provisions. Their work provides context for understanding NFP's opinions on the direct method requirement, which I explore further in my study.

ASU 2016-14

FASB significantly amended the proposed ASU based on the feedback given in the comment letters. As a result of this feedback, FASB decided to split the Update into two phases. Phase 1 would implement the well-received changes, while Phase 2 would address the debated provisions later (KPMG 2016). FASB only included one provision related to the SCF in the new standard, which stated that firms could continue using either the direct or indirect method to report operating cash flows. Those using the direct method, however, would no longer need to disclose the indirect method reconciliation. FASB made this change to achieve their goal of

reducing the cost and complexity of preparing the SCF (FASB 2016). They provided the following explanation for modifying the proposed direct method requirement:

“Continuing to allow NFPs to present operating cash flows using either the direct method or the indirect method retains the current flexibility and freedom to choose the reporting method that best serves the informational needs of their particular types of users—creditors, donors, grantors, and others—in a way that strikes the right balance in improving the relevance and understandability of information without imposing undue costs” (FASB 2016, p. 4).

The differences between the proposed and final ASU show that FASB critically analyzed the comment letters and altered the standard in response. FASB took a middle-ground approach by allowing both methods and removing potential barriers to the direct method (KPMG 2016). They hoped this would encourage greater use of the direct method (FASB 2016).

In the issued standard, the Board noted that six of its members affirmed the Update and one dissented because of the SCF provision (FASB 2016). Thomas Linsmeier dissented because he believed the direct method would provide superior information about cash received from customers, donors, and grants, as well as cash paid to suppliers, employees, and grantees. He thought allowing the indirect method would undermine FASB’s goal of improving the quality and usefulness of NFP financial statements. Linsmeier’s dissent is based on observations of recent NFP cash flow issues that significantly affected entity operations and public services.

Linsmeier observed that:

“In many of those cases, the indirect method of presenting operating cash inflows did not reveal the negative cash flow trends that were occurring from diminishing contributions, grants, and other revenues. Those cash flow statements often failed to provide their stakeholders, including board members, with clear, transparent, and timely information that might have enabled corrective actions.” (FASB 2016, p. 233).

Despite Linsmeier's dissent, the new standard went into effect on August 18, 2016. NFPs were required to adopt it for fiscal years beginning after December 15, 2017, and early adoption was permitted (FASB, 2016).

ASU 2016-14 was the first major update to NFP accounting standards in over twenty years. It represents the first phase of FASB's NFP reporting project started in 2011 and would set the stage for future changes in NFP financial statement presentation (KPMG 2016). ASU 2016-14 affected several aspects of NFP financial statements such as net asset classification, reporting of expenses, and SCF presentation, many of which have not been widely researched yet.

2.2 Prior Literature on Statement of Cash Flow Methods

This paper is the first to examine the application of the direct and indirect method of the SCF among NFPs after ASU 2016-14 was implemented. Past accounting research on the presentation of the SCF among for-profit firms can provide some guidance on the costs and benefits of this methodology choice. Krishnan and Largay (2000) report on the usefulness of direct method cash flow information. Their cross-sectional study presents these main findings: 1) direct method information more accurately predicts future cash flows compared to indirect method information, and 2) there is a strong risk of measurement error when indirect method information is used to estimate direct method cash flows. Other research builds on these findings and observes similar dynamics. Orpurt and Zang (2009) examine 119 firms that use the direct method in the 1989-2002 period. Similarly, they find that the direct method is valuable to investors when forecasting future cash flows and that using the income statement and the indirect method to estimate direct method components produces significant measurement errors. Clinch et. al (2002) present findings based a sample of 648 publicly traded Australian firms that are required to use the direct method. Importantly, the firms in their setting are required to use the

direct method, which removes the risk of self-selection bias present in U.S. firms. Clinch et. al (2002) find that direct method components do not provide incremental explanatory power for returns for all firms. However, direct method components do provide explanatory power for the subsets of firms where direct method components are useful for predicting operating cash flows one year ahead and where disclosed direct method components differ significantly from estimates. Clinch et. al (2002) conclude that their findings are consistent with Australian standard-setters' claims that the direct method is a more useful basis of presentation. Overall, these studies show consistent results about the benefits of the direct method.

Haber and Wallace (2017) compare the indirect and direct methods in the context of NFPs. They note that prior to ASU 2016-14, two primary factors discouraged NFPs' use of the direct method. The first is the reconciliation requirement, as preparing a direct method statement with an indirect reconciliation required twice as much effort for financial statement preparers. The second factor is that direct method cash flow information is more difficult to obtain. While an indirect method SCF can be prepared with a spreadsheet based on a standard chart of accounts, a direct method SCF cannot. Additionally, most accounting systems only produce indirect method cash flow statements. These challenges reveal the limitations of FASB's removal of the reconciliation requirement, as direct method information remains difficult to obtain and many NFPs do not have the systems to support its use.

Despite the obstacles that discourage NFPs from using the direct method, Haber and Wallace (2017) write in favor of this methodology. They argue that the direct method is more useful and "provides the information users hope to ascertain from the statement [of cash flows]" (p. 53). On the other hand, the indirect method provides information that is easily obtained from the balance sheet and statement of activities. This argument, combined with past findings, can

lead to the conclusion that the direct method is preferable because indirect method information can be accurately obtained from a direct method SCF; however, the converse does not hold true (Krishnan & Largay 2000; Orpurt & Zang 2009). Haber and Wallace (2017) also note that the direct method may be more familiar and understandable for users, as the investing and financing sections of the SCF are presented in a direct method format.

Haber and Wallace (2017) provide application guidance for NFPs considering a direct method presentation. While preparation of a direct method SCF has its challenges, they argue that it can be easily prepared if NFPs plan ahead. They suggest that NFPs create receivable and payable accounts for each line on the direct method statement at the start of the fiscal year. Then, NFPs can track cash transactions throughout the year and transfer the year-end account totals to the SCF.

Overall, the findings of the prior literature support FASB's opinion that using the direct method would make cash flow information more relevant. Direct method information has been shown to be useful for predicting future cash flows and providing information that cannot be obtained from other financial statements; however, these benefits remain underutilized by NFPs.

3. Research Question and Hypothesis

My research will explore the following questions related to the presentation of the SCF post ASU 2016-14: 1) How many NFPs from the population that submitted comments letters to FASB switched cash flow methodologies after adopting ASU 2016-14? and 2) Which characteristics of an NFP's financial statements can explain their support/opposition for the direct method?

Given that Deis and Shroff (2020) find that only 27% of NFPs favored requiring the direct method and 20% favored removing the reconciliation requirement, I predict that the

number of NFPs from the population that switched cash flow methodologies after adopting ASU 2016-14 will be relatively small. Therefore, my first hypothesis in null form (which I do not expect to reject) is as follows:

Hypothesis 1: The increase in use of the direct SCF methodology after the adoption of ASU 2016-14 is not statistically different from zero.

I also hypothesize that several characteristics of NFP financial statements can explain an NFP's support/opposition to the direct method. These characteristics include the NFP's type, the magnitude and direction of the difference between change in net assets and operating cash flow, the number of adjustments on the reconciliation schedule, and whether the financial statements were audited.²

An NFP's type or segment, which is determined by the services it provides, is likely to impact its choice of methodology. Deis and Shroff (2020) show that the extent of support/opposition for the proposed direct method requirement differs by segment. They find that NFPs from the College & University segment were least likely to agree with Question 18 and 19. This could be due to self-selection bias, as respondents voluntarily submitted comment letters. NFPs with strong opinions about the proposed ASU, particularly dissenting opinions, may have been more likely to submit a comment letter. In addition, larger NFPs like universities and hospitals may have more accounting staff, providing the time and resources to write comment letters. Support/opposition for the direct method requirement could also differ by type because of the larger context in which NFPs operate. Deis and Shroff (2020) note that Education and Healthcare NFPs operate in segments that also include for-profit and governmental

² The audit requirements for NFPs vary by state. See <https://www.councilofnonprofits.org/nonprofit-audit-guide/state-law-audit-requirements>. Additionally, even in states which do not require audits, an NFP may voluntarily elect to undergo an audit.

organizations. This will likely influence their stance on the direct method requirement, as stakeholders may compare financial statements of competing organizations. Educational institutions outside NFPs include public universities that are required to present both the direct and indirect methods on their SCF, as they are subject to Governmental Accounting Standards Board (GASB) regulations (FASB 2015). Private, for-profit universities are not subject to these regulations. Private and government-owned healthcare organizations are subject to FASB regulations that permit the use of either method but require a reconciliation of operating cash flows (FASB 1987). In addition, many universities own hospitals and may include the perspective of their healthcare system in their letter. Emory University (Letter 156) is an example of this, as they agreed with Question 18 from a university perspective but expressed disagreement on behalf of their healthcare entity. Given that many Healthcare NFPs in the sample cite for-profit comparability as a concern, it is likely that most for-profit healthcare entities use the indirect method. Other types of NFPs, such as Voluntary Health and Welfare Organizations (VHWOs), are less likely to have for-profit counterparts and may not express strong opinions about the direct method requirement. Therefore, my first cross-sectional hypothesis is that Healthcare NFPs will express more opposition to the direct method requirement. For the other three types, I will leave this as an open empirical question. My hypothesis in null form, which I expect to reject, is as follows:

Hypothesis 2a: The stance on the direct method requirement is not statistically significantly different among NFPs in different segments.

I also predict that the size and direction of an NFP's discrepancy between operating cash flows and change in net assets will affect its methodology decision. NFPs with large discrepancies have operating cash flows dramatically different from their summary performance measure on the accrual basis of accounting. Thus, reconciliation may be complicated and would

highlight accrual estimates which are more difficult to value for users of the financial statements. This suggests that the magnitude of the discrepancy would have a positive association with the likelihood of adopting the direct method. On the other hand, a large discrepancy may suggest a particularly high level of volatility in the cash flows of the NFP (as the accrual process inherently smooths such variance). These NFPs may not wish to highlight the direct method as the consecutive years may show dramatically different numbers. This suggests a negative association between the magnitude of the discrepancy and the likelihood of adopting the direct method.

Therefore, I leave this as an open question and my hypothesis is:

Hypothesis 2b: The stance on the direct method requirement is not associated with the magnitude of the difference between change in net assets and operating cash flow in the year before the ASU adoption.

I also predict that if a large discrepancy results in operating cash flows and change in net assets having different signs, an NFP's choice of cash flow methodology could change. Firms with negative operating cash flows but positive change in net assets (which will later be defined as a negative discrepancy) may want to highlight the positive change in net assets, as well as any large adjustments that contributed to the negative operating cash flow metric. On the other hand, firms with negative operating cash flows may prefer the direct method if they, like FASB, agree that direct method components are more useful at diagnosing and addressing cash flow issues. Firms with positive operating cash flow and negative change in net assets (which will later be defined as a positive discrepancy) may be more likely to use the direct method to divert attention from the negative change in net assets. Change in net assets is calculated in other areas of the financial statements, however, so masking a negative value in the SCF will probably not do much to improve users' outlooks. Thus, I leave this as an open empirical question and my hypothesis in null form is:

Hypothesis 2c: The stance on the direct method requirement is not associated with the direction of the difference between change in net assets and operating cash flow in the year before the ASU adoption.

Like the difference between change in net assets and operating cash flows, having a greater number of adjustments on the reconciliation schedule could affect NFP support for the direct method proposal, given their possible incentive to reduce the complexity of the SCF. A greater number of adjustments could increase the magnitude of the difference between change in net assets and operating cash flow in the year, which could either incentivize or disincentivize support for a change in methodology as stated above. Additionally, Haber and Wallace (2017) note that many NFPs use the indirect method because it is easier to prepare and supported by most accounting systems. Organizations with many adjustments may believe that the direct method is more understandable for users yet continue using the indirect method because their accounting systems manually generate an indirect SCF. Given that ASU 2016-14 did not provide guidance on applying the direct method and many NFPs lack the systems to implement it, the complexity of implementing the direct method may make it unlikely for NFPs to agree with the proposed direct method requirement. This decision also depends on the NFP's resources, staff, and pressure from stakeholders to keep non-program expenditures low (Deis & Shroff 2020). For these reasons, my hypothesis in null form (which I do not expect to reject) is as follows:

Hypothesis 2d: The stance on the direct method requirement is not associated with the number of adjustments between the operating cash flows and change in net assets in the year before the ASU adoption.

Lastly, whether an NFP is audited may affect SCF methodology. The state that an NFP is registered in may impact if it is audited, as twenty-eight states have annual audit requirements for NFPs based on varying criteria ("State Law Nonprofit Audit Requirements" 2021). In the non-audit states, larger NFPs may be more likely to be audited, as they have the funds to pay for an audit and may have more donors and stakeholders who demand financial assurance. Auditing

could have an impact on an NFP's choice of cash flow methodology. If an NFP believes the direct method increases audit cost and complexity, they will be less likely to support the switch in required methods. Conversely, NFPs that prefer the direct method but have little experience preparing it may be more inclined to switch if they are audited, as auditors may provide preparation guidance and assure that the SCF presents fairly. NFPs may be influenced by their auditors' opinion of the direct method requirement as well. Table 1 Panel B shows that 69 auditors/firms submitted comment letters. Of the respondents, 62.3% disagreed with the direct method requirement and 27.5% agreed (Deis and Shroff 2020). It is unclear if the association between supporting the direct method and obtaining an audit will be positive or negative.

Therefore, my hypothesis in null form is:

Hypothesis 2e: The stance on the direct method requirement is not associated with an NFP's decision to obtain an annual financial statement audit.

The same five factors that affect support for the direct method may also impact the likelihood of switching operating cash flow methodology. I only intend to test this if I can reject the null hypothesis for Hypothesis 1, which predicts that few NFPs will switch methods.

4. Sample and Variables

To test my hypotheses, I use data from NFPs that commented on the ASU proposal. While this does not reflect the full population of NFPs in the United States, it identifies a subsample which was likely to be significantly impacted by at least one component of the proposed rule change. The sample varies slightly from Deis and Shroff's (2020), as I eliminate several comment letters. I eliminate five letters (Letters 138, 148, 161, 178, and 197) that submitted a combined response for a group of NFPs, such as joint responses from universities or

hospitals. I also eliminate Emory University's response (Letter 156) to prevent an overlap in classification by type, as the letter was written from the perspectives of both Education and Healthcare NFPs. Lastly, I separate a comment letter submitted by two related entities (Letter 250), as they issue separate financial statements. My sample includes 129 NFPs after making these changes.

I then analyze the comment letters that NFPs submitted to FASB and manually collect responses to Questions 18 and 19. I evaluate which of the following categories each response corresponds to: strongly agree, agree, neutral, disagree, and strongly disagree. Placement in a category depends on the NFP's response to the direct method requirement. Wording such as "strongly", "absolutely", "totally", etc. indicates a "strongly agree/disagree" response. NFPs that answered the question but did not give a clear stance were labeled as "neutral". Of the 129 NFPs in the sample, 112 (86.8%) provided an answer to Question 18 and/or 19. Only NFPs that explicitly addressed the direct method requirement or issues related to the SCF are included in this metric. The letters that made general comments about NFP and for-profit comparability were not included, as many aspects of the proposed ASU affect comparability issues. Table 2A shows the responses by each category. Most responses were either "disagree" (74%) or "agree" (12%), while few responses fit the criteria for "strongly disagree" (4%), "strongly agree" (3%), or "neutral" (7%). It must be noted that my results are somewhat different from those reported in Deis and Shroff (2020). For example, they report that 60% of NFPs disagreed with Question 18 and 27% agreed. They also report that 45% of NFPs disagreed with Question 19 and 20% agreed. These differences are due to different samples, as I: 1) use a smaller sample size, 2) combine responses for Questions 18 and 19, 3) do not include NFPs that did not respond to

Questions 18 or 19 in my calculations, and 4) used a “neutral” category while Deis and Shroff (2020) used a “reservations” category.

In Table 2B, I combine the responses for “strongly disagree” with “disagree” and “strongly agree” with “agree” when analyzing the data because there were so few responses for these categories. I use this 3-option support classification for future analysis, as separate analyses of financial characteristics for the “strongly disagree” and “strongly agree” categories are not informative due to their small number.

Eighteen of the respondents that answered Questions 18 and 19 clearly stated an opinion regarding continued requirement of the indirect method. Eleven NFPs (61%) said FASB should not continue to require the reconciliation, while seven (39%) said they should retain the requirement.

Next, I collect and codify the NFP’s underlying reasons for their stance when given. I codify the responses to Questions 18 and 19 based on five categories: cost, relevance, comparability to for-profit reporting, ease of preparation, and ease of use. I provide the criteria I use to classify the responses and with examples below:

- 1) Cost: describes the cost of preparing and auditing the SCF, including costs to implement new systems or technology
 - a) Letter 98: We also believe that in order for entities to adopt the direct method of presenting operating cash flows, there will likely be significant costs to make architectural changes in existing systems, as well as increased audit fees. The costs of adopting the proposed requirements may outweigh the benefits that users can derive.
- 2) Relevance: states that financial information provided by the NFP’s preferred method is useful and necessary
 - a) Letter 221: The indirect method focuses the user on the impact that accrual accounting had on the financial statements and reconciles that back to the cash impact. In my view, it is far superior and provides better information to the readers about what happened to the business.

- 3) Comparability to for-profit reporting: states that the ability to compare NFP and for-profit financial statements is important; argues that NFPs should not be subject to different requirements than for-profits
 - a) Letter 119: “NFPs should be allowed to use the indirect method for presenting cash flows to maintain comparability within the health care industry between the NFP and for-profit sectors.”
 - b) Letter 244: “...the option for either [the direct or indirect] method should be retained until such a time as this topic is deliberated jointly for all entities; for-profit and NFPs alike.”

- 4) Ease of preparation: describes the timing and/or complexity of preparing the SCF
 - a) Letter 225: “[NFPs in our industry], like virtually all business enterprises, use the indirect method and would find it extremely difficult to develop data on cash from customers and cash to suppliers needed for the direct method.”
 - b) Letter 195: “[We have] heard from public [education] institutions that preparation of the statement of cash flows using the direct method is no more burdensome than preparing the statement using the indirect method other than in the year of implementation.”

- 5) Ease of use: discusses readers’ ability to understand and use the financial statements
 - a) Letter 212: “Accordingly, readers of financial statements could be confused by the direct method since they would not be familiar with it and would see it along with the indirect method still allowed in For-Profit Industries.”
 - b) Letter 238: “For accounting professionals and stakeholders alike, the indirect method has often been a point of frustration and confusion, respectively. Explaining the movements in cash [via the direct method] will likely be a lot easier for financial professionals, and easier understood for readers and users of the financial statements.”

Table 3 shows the frequencies for each response based on the NFP’s stance (disagree, neutral, or agree). Comparability to for-profit reporting was the most common reason cited by NFPs that disagreed with the direct method requirement. It was also the most cited reason overall, as 67 NFPs (66 disagree, 1 neutral) included this reason in their response. Cost was also a commonly cited reason, as it was mentioned by 41 NFPs that disagreed. Ease of use was the most common response for NFPs that were neutral or agreed with the requirement (5 neutral, 8 agree). None of the NFPs that agreed or were neutral expressed concerns about cost or for-profit comparability in their letters. Ease of preparation was the least cited reason overall, as it was only mentioned in 21 letters. These results reveal that even though the comment letters were

written by NFP preparers, ease of preparation the SCF was not a widespread concern. Respondents were far more concerned with the usefulness of the SCF and the cost of implementing the direct method.

Financial statement data from the years pre- and post-adoption are available for 86 of the 129 NFPs, or two-thirds of the sample. The NFPs with publicly accessible financial statements either submit their financial information to GuideStar or have an archive of past financial statements on their website. After collecting data from GuideStar or NFP websites, I quantify the number of NFPs that switched cash flow methodologies after adopting ASU 2016-14. I also examine the characteristics of NFP financial statements that may be associated with support/opposition to the proposal.

First, I categorize the NFPs in the sample by the same types Deis and Shroff (2020) use: Education (called “College & University” in their study), Healthcare, Voluntary Health and Welfare Organizations (VHWOs), and Other NFPs. The number of NFPs in each category varies slightly from Deis and Shroff’s (2020) totals and is shown in Table 4A. I base my classifications on information from NFPs’ GuideStar pages or self-descriptions from their comment letters. I also classify healthcare systems owned by universities into the Healthcare category, while Deis and Shroff (2020) seem to include them in Education. In my sample, 34% of NFPs were in the Education segment, 16% in Healthcare, 25% in VHWO, and 25% in Other NFPs.

For all types, more NFPs disagreed with the direct method requirement than were neutral or in agreement (Table 4B). Of all NFPs that disagreed, there were 27% from the Education category, 17% from Healthcare, 25% from VHWO, and 31% from Other NFPs. This closely resembles the proportions by type within the full sample. For the neutral responses, 37.5% were Education NFPs, 12.5% were Healthcare, 37.5% were VHWO, and 12.5% were Other NFPs. Of

those that agreed, 63% were Education NFPs, 6% were healthcare, 19% were VHWO, and 13% were Other NFPs.

NFPs of the same type cited similar reasons for their support or opposition to the direct method. Appendix D shows the percentage of NFPs in each category that cited the five reasons described above. The chart reveals that the percentage of NFPs per category to cite each reason is generally consistent with the sample-wide percentages; however, there are several insights to be gained from this information. For example, cost was more of a concern for Healthcare and Other NFPs, while it was less cited by Education and VHWOs. Education NFPs mentioned relevance far less than other types. Additionally, there are several subsets where a reason was given by a majority of sampled NFPs: comparability to for-profit requirements for Healthcare, VHWO and Other NFPs, and cost for Other NFPs. Reasons for these differences among the four types could be due to the environments in which they operate as well as differing stakeholder demands. As mentioned earlier, for-profit educational institutions subject to GASB requirements are required to use the direct method, which could explain why Education NFPs expressed less concern about for-profit comparability. In addition, certain types of NFPs may face more pressure from donors and stakeholders to lower non-program expenses, thus the difference in concerns about cost.

I collect information about the change in net assets, operating cash flows, number of indirect method adjustments, and whether the statements were audited from NFPs' most recent financial statements before adopting the standard. Table 5 provides descriptive statistics for these variables. I observe that the means of change in net assets and operating cash flows are significantly larger than the medians, which suggests a long right tail. The difference is measured as (Change in Net Assets – Operating Cash Flows) and scaled by the absolute change in net

assets. It is on average positive, indicating a better accrual-based than cash flow-based performance. The number of adjustments ranges from 5 to 29, with both mean and median equal to 15. The discrepancy is coded as 0 when both variables are either positive or negative, as 1 when only cash flows are positive, and -1 when only change in net assets is positive. The median discrepancy is zero, which indicates that most firms are in alignment. The mean is negative, indicating it is more common to see positive accrual performance with negative cash flow performance than vice versa. Lastly, all 86 NFPs with accessible financial statements were audited, so I exclude this variable from my tests.

5. Results

Test of Hypothesis 1: Likelihood of SCF methodology switch

I then examine the NFP financial statements and observe their methodology choices before and after adopting ASU 2016-14. All NFPs with accessible financial statements adopted the standard between 2016 and 2019. Only 4% of NFPs adopted the standard in 2016 or 2017, while 29% adopted it in 2018 and 67% in 2019. These differences are due to NFPs' choice to adopt the standard early, as well as differences in financial year-end dates.

Appendix E summarizes the methodology choices before and after the new standard. In the fiscal year preceding the adoption of ASU 2016-14, 80 NFPs (93%) in the sample used only the indirect method to report operating cash flows. One NFP used the direct method and did not include a reconciliation, which is surprising because accounting standards prior to ASU 2016-14 required a reconciliation of operating cash flows (FASB 2015). Five NFPs used a direct method statement of cash flows and included the reconciliation elsewhere in the financial statements.

In the fiscal year following the adoption of ASU 2016-14, 79 NFPs (92%) in the sample used the indirect method to report operating cash flows. Four NFPs (5%) used only the direct method, and three (3%) continued to use both.

Three NFPs in the sample (3.5%) switched SCF presentation methods in the first year after adopting ASU 2016-14. Of these three NFPs, one switched from the direct to the indirect method (shown in Appendix B), and two that previously used both methods dropped the reconciliation schedule. Based on this sample, removing the reconciliation requirement did not significantly motivate NFPs to switch operating cash flow methodology. These findings support my hypothesis that the number of NFPs that switched methods would be insignificant. My conclusion for this hypothesis is as follows:

Hypothesis 1: *I fail to reject* the null hypothesis that the increase in use of the direct SCF methodology after the adoption of ASU 2016-14 is not statistically different from zero.

Tests of Hypotheses 2a, 2b, 2c, 2d, and 2e: Determinants of Support for the Direct Method

I use univariate analysis and a multivariate regression to determine if relationships between support of the direct method requirement and various financial statement characteristics exist.

NFP Type

The univariate results presented in Table 4B illustrate that Education NFPs are more likely to indicate agreement than other NFP types. To further test if a relationship exists between an NFP's type and support for the direct method, I regress the 3-option "Agree" variable (Agree3) on dummy variables for each type (suppressing the intercept). The negative coefficients in Test 1 (Table 7) show that all four types are more likely to disagree with the direct method than would have been suggested by a random split. Healthcare, VHWO, and Other NFPs are very likely to disagree, as they have coefficients less than -0.67. NFPs from the Other NFP

category were the most likely to disagree and had a coefficient of -0.83. Education NFPs were the least likely to disagree, with a coefficient of -0.37. These coefficients are statistically significant for all four types.

I use a second regression where I exclude the Type 4 (Other NFP) dummy variable to compare the four types with one another. Test 2 (Table 7) shows that when compared to Other NFPs, the Education NFPs have positive coefficient with a P-value of 0.01, indicating that Education NFPs are significantly more supportive of the direct method than Other NFPs. VHWOs and Healthcare NFPs both have a positive coefficient, but it is not significant, indicating that their support for the direct method is likely to be similar to those of the Other NFP category.

Lastly, I perform similar regressions using the dependent variable “Answer”, as shown in Table 8. These regressions test the robustness of the type findings above, as they examine if an NFP’s type affects its choice to answer Questions 18 and 19. Test 1 (Table 8) shows that all four types had high response rates to Questions 18 and 19, and Test 2 (Table 8) shows negative, insignificant correlations between “Answer” and “Type”. I interpret this to mean that the significant relationship between Education NFPs and support for the direct method is not influenced by the Education NFP segment’s rate of response to Questions 18 and 19. Therefore, my conclusion is as follows:

Hypothesis 2a: I *reject* the null hypothesis that the stance on the direct method requirement is not statistically significantly different among NFPs in different segments. A positive, significant relationship for agreement exists for Education NFPs.

This conclusion differs from Deis and Shroff’s (2020), as they found that Education NFPs were more likely to disagree with the direct method requirement. I believe these different

conclusions result from different categorization of NFP types, as I explain in my “Samples and Variables” section.

Difference in Change in Net Assets and Operating Cash Flows

Next, I examine the financial characteristics of NFPs. Table 6 shows the univariate results of contrasting my variables of interest between firms that do and do not support the proposed standard. The table reveals several noteworthy insights. First, the mean and median change in net assets were significantly higher for firms that disagreed. This implies that NFPs that disagreed were larger organizations with higher revenue and significant increases in net assets in the year before adoption. Second, the mean and median difference between change in net assets and operating cash flows, as a percentage of absolute change in net assets, were higher for NFPs that disagreed or were neutral to the direct method requirement. The mean difference for NFPs that agreed was -20%, meaning that many NFPs’ operating cash flows were greater than change in net assets. This could have driven their support for the direct method, as NFPs may have been motivated to mask the lower change in net assets value by solely highlighting operating cash flows on the SCF. Third, NFPs that expressed different opinions had similar statistics regarding the number of adjustments on the reconciliation and the existence of a discrepancy.

I run a regression between “Agree3” and “Difference”, which represents the difference between change in net assets and operating cash flows as percentage of absolute change in net assets. Test 3 (Table 7) shows that the coefficient for the variable “Difference” is extremely small, and the relationship is insignificant. The regression has an R-squared value of 2%, meaning only 2% of the variation in support for the direct method can be attributed to the

difference between change in net assets and operating cash flows. The regression for “Answer” and “Difference” yields similar results (See Table 8, Test 3). Therefore, my conclusion is:

Hypothesis 2b: I *fail to reject* the null hypothesis that stance on the direct method requirement is not associated with the magnitude of the difference between change in net assets and operating cash flow in the year before ASU adoption.

Discrepancy between Change in Net Assets and Operating Cash Flows

To address Hypothesis 2c, I use create two dummy variables to indicate a discrepancy in the signs of change in net assets and operating cash flows in the year before adopting ASU 2016-14. I label a discrepancy as “positive” when operating cash flow is positive and change in net assets is negative, and “negative” when operating cash flow is negative and change in net assets is positive. I regress “Agree3” on “Positive Discrepancy” and “Negative Discrepancy”. Test 4 (Table 7) reveals that there is a positive, significant relationship between positive discrepancies and agreement with the direct method (where the P-value is 0.075). Thus, NFPs with negative change in net assets and positive operating cash flow were more likely to support the direct method. A small, positive, and insignificant relationship exists between negative discrepancies and support for the direct method. I compare this regression to another that uses the “Answer” as the dependent variable (See Table 8, Test 4). This regression shows negative, insignificant relationships for both discrepancies, which further supports my findings that discrepancies affect an NFP’s stance on the direct method, not just their propensity to respond to Questions 18 and 19. Because of this, my conclusion is as follows:

Hypothesis 2c: I *reject* the null hypothesis that stance on the direct method requirement is not associated with the direction of the difference between change in net assets and operating cash flow in the year before the ASU adoption. There is a positive, significant relationship between positive discrepancies (operating

cash flow is positive and change in net assets is negative) and support for the direct method.

Number of Adjustments on the Indirect Method Reconciliation

The regression between “Agree3” and “Adjustments”, the number of adjustments on the pre-adoption reconciliation schedule, also does not show a significant relationship. There is a small, positive correlation between the two variables, though it is insignificant (See Table 7, Test 5). The R-squared value for this regression is even lower than Hypothesis 2b at 0.9%.

Additionally, the regression between “Answer” and “Adjustments” does not change my interpretation of the results (See Table 8, Test 5). Thus, my conclusion is as follows:

Hypothesis 2d: *I fail to reject* the null hypothesis that the stance on the direct method requirement is not associated with the number of adjustments between operating cash flows and change in net assets in the year before the ASU adoption.

Audited Financial Statements

As stated earlier, all NFPs with accessible financial statements were audited in the year prior to adopting the ASU. Due to this lack of variance, I do not include this variable in my test, and I conclude the following:

Hypothesis 2e: *I fail to reject* the null hypothesis that the stance on the direct method requirement is not associated with an NFP’s decision to obtain an annual financial statement audit.

Regression of All Independent Variables

Test 6 of Table 7 is a regression of the dependent variable “Agree3” with all independent variables previously listed. It also includes “Pre-ASU Method” as a control variable. As expected, “Pre-ASU Method” has a strong, positive, and significant relationship with “Agree3” (where the P-value=0.006), as NFPs already using the direct method prior to adoption the ASU would likely express their support for it in their comment letter. The regression also shows significant relationships for agreement with Education NFPs (P=0.009) and those with positive

discrepancies (P=0.025). These findings are consistent with the individual regressions, so this test further supports my conclusions. In addition, these relationships do not exist for the dependent variable “Answer” (See Table 8, Test 6.). This shows that the independent variables truly impact an NFP’s stance on the direct method, not just their propensity to respond to Questions 18 and 19.

I do not test if the five factors from Hypotheses 2a-e impact the likelihood of switching cash flow methodologies, as I was not able to reject the null hypothesis for Hypothesis 1.

6. Conclusion

FASB’s implementation of ASU 2016-14 was the first step in a larger plan to improve NFP financial reporting. FASB hoped that by issuing the Update, more NFPs would use the direct method to prepare the operating section of the SCF. They believed the direct method would make the statement more understandable and informative. FASB issued a preliminary proposal that would require all NFPs to use the direct method, but it was met with widespread opposition from NFPs, auditors, and other NFP stakeholders. Many NFPs submitted comment letters to FASB and cited cost, comparability to for-profit statements, and ease of use as major reasons for their support/opposition to the standard. As a result, FASB removed the direct method proposal from the final standard and modified the provisions related to the SCF. They also lifted the indirect reconciliation requirement to encourage NFPs to use the direct method. Despite removing the reconciliation requirement, only a few NFPs from the sample of comment letter respondents switched SCF methodology after adopting ASU 2016-14.

My examination of the NFP comment letters received by FASB and the NFP respondents’ pre- and post-adoption financial statements reveals that overall, there was widespread disagreement for the direct method requirement. The most common reasons for

disagreement were related to comparability to for-profit statements. In addition, different criteria affected support/opposition for the direct method, including NFP type, the difference between change in net assets and operating cash flow, the existence of a discrepancy, and the number of adjustments on the reconciliation schedule. My tests reveal that significant relationships exist between agreement with the direct method and Education NFPs, as well as NFPs with a positive discrepancy between change in net assets and operating cash flow (operating cash flow is positive and change in net assets is negative).

Despite the existence of these relationships, the number of NFPs that switched operating cash flow methods after adopting ASU 2016-14 was low. Only three NFPs switched methodologies, which resulted in only 8% of the sample using the direct method in some form (either exclusively or in addition to the indirect method) in the post-adoption fiscal year. Based on my findings, I conclude that ASU 2016-14 was not successful at encouraging widespread use of the direct method among NFPs.

Recommendation

I recommend that FASB take additional steps beyond removing the reconciliation requirement to encourage NFPs to use the direct method. Given NFPs' concerns about comparability to for-profit reporting, costs of implementing new systems, and users' understanding of the financial statements, I recommend that FASB first mandate use of the direct method in the for-profit sector. This would allow for-profit firms with more resources to bear the burden of creating new accounting systems that generate direct method cash flow statements. In addition, for-profit use of the direct method would allow users and auditors to become more familiar with it. Because many NFPs expressed concern about comparability, NFPs may even be

eager to switch methods if for-profits did so first. These changes in the for-profit sector must take place to achieve widespread support for the direct method among NFPs.

Limitations and Areas for Further Research

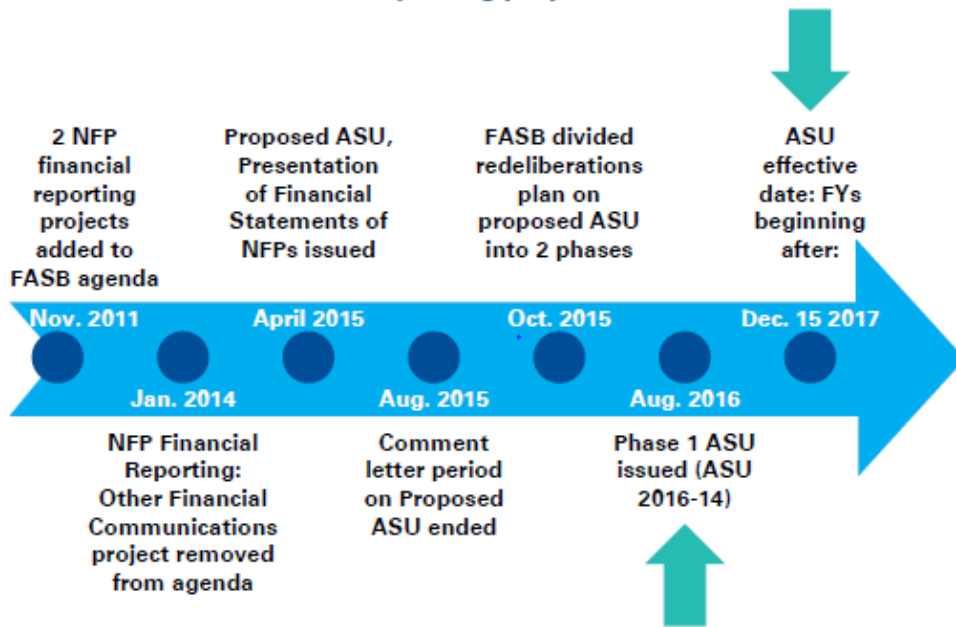
This paper has several limitations related to the sample and data collection methods, which could lead to further research on this topic. First, the sample may be influenced by self-selection, as NFPs in the sample submitted comment letters voluntarily. Self-selection may have resulted in a sample that overrepresents NFPs with strong opinions about financial reporting standards, as well as those with the time and resources to write a comment letter. To remove the effects of potential self-selection bias, future work can examine the dynamics on a wider non-comment-letter sample of NFPs. Another limitation of the paper is that I use a small sample of 129 NFPs, as I hand-collected the comment letter data. From these 129 NFPs, only 86 had accessible financial statements, further decreasing my sample size for tests involving financial data. Lastly, my sample is limited in scope, as it only contains information from the years directly before and after NFPs adopted ASU 2016-14. Future research could include averages of operating cash flows, change in net assets, and the number of reconciliation adjustments from several years before adoption. Future research could also study if more NFPs switched to the direct method in the years since adoption, as I found one NFP in my sample that switched methodologies in the second year post-adoption. This could help determine if NFPs that continued to use the indirect method in the year post-adoption did so because they preferred the indirect method, or if they simply did not have the resources to implement the direct method at that time. Overall, future research on this topic with a larger sample of NFPs and a wider scope could provide further insight about the effects of ASU 2016-14 on NFP financial reporting.

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Appendix A (KPMG, 2016)

Evolution of NFP financial reporting projects



Appendix B: Indirect and Direct Method SCF, Dallas Theological Seminary 2016-2017

Indirect Method

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (867,468)	\$ 2,674,422
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	2,525,702	2,547,147
Accretion to asset retirement obligation	44,637	10,741
Net realized and unrealized losses in investments	244,668	1,310,718
Change in value of split-interest agreements	603,394	207,687
Change in value of perpetual trusts	44,903	27,356
Bad debt provision	97,711	57,002
Loss on disposal of property and equipment	1,300	-
Contributions and investment return restricted for long-term investment and capital additions	(3,886,309)	(5,660,357)
Change in:		
Accounts and notes receivable	76,688	(236,780)
Contributions receivable	1,669,392	(1,687,504)
Prepaid expenses and deferred charges	(60,548)	3,809
Inventory	289,546	276,600
Accounts payable and accrued liabilities	(2,670,944)	(70,739)
Deferred revenue	275,555	38,034
Student deposits and refundable advances	24,691	24,854
Amounts held on behalf of others, annuity obligations, and split-interest agreement liability	(1,053,377)	(1,787,659)
Liability for pension benefits	3,689,067	2,988,313
Net Cash Provided by Operating Activities	<u>1,048,608</u>	<u>723,644</u>

Direct Method

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from tuition and fees	\$ 15,989,828	\$ 15,324,808
Cash received from donors	14,862,952	14,981,883
Cash collected from contributions receivable	1,059,871	2,162,147
Cash received from auxiliary enterprises	3,207,568	3,157,109
Interest and dividends received	1,241,133	1,071,499
Miscellaneous receipts	801,271	948,238
Cash paid to employees	(17,038,182)	(16,294,206)
Cash paid for benefits	(6,341,991)	(6,802,595)
Cash paid to suppliers and vendors	(10,276,191)	(10,112,733)
Interest paid	(660,774)	(690,825)
Grants paid	(3,529,742)	(2,696,718)
Net Cash Provided (Used) by Operating Activities	<u>(684,257)</u>	<u>1,048,607</u>

Appendix C: FASB Comment Letters (Retrieved from <https://www.fasb.org/ocl/fasb-selectproject.php>)

Question 18 Answers:

Letter 77: No. My suggestion and strong preference would be to be as consistent as possible with for-profit accounting.

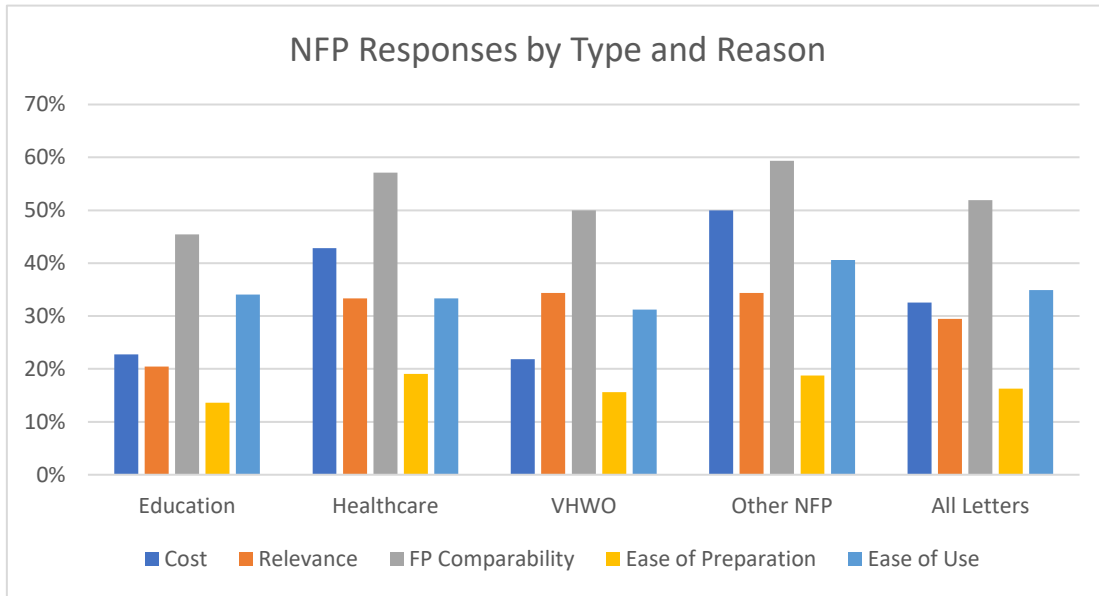
Letter 201: Presentation of cash flows on a direct basis offers a better opportunity to convey the usefulness of the statement of cash flows than does the indirect basis. The line items in the direct method are more intuitive and accessible to most users. The benefits of a more accessible statement of cash flows would justify the onetime costs. At many institutions such as ours, the initial costs would be limited to the staff effort needed to develop a new spreadsheet and to "re-map" outputs from financial systems, most of which are identified currently in order to prepare indirect-method statements. Other institutions with more reporting units and more advanced systems might disagree regarding systems requirements and the FASB should consider that feedback carefully and/or allow additional time for implementation.

Question 19 Answers:

Letter 77: [The indirect method] reconciles the income statement and balance sheet, and is familiar to the most important readers of our financial statements.

Letter 201: Based on our experience as preparers and the very few inquiries we receive on statements of cash flows, the loss of the indirect method's reconciliation will not affect users to any significant degree. Many of the items in the indirect reconciliation (such as changes in balance sheet accounts and depreciation expense) can be calculated or otherwise obtained from the other financial statements. Therefore, the indirect method's reconciliation should be eliminated.

Appendix D



Appendix E

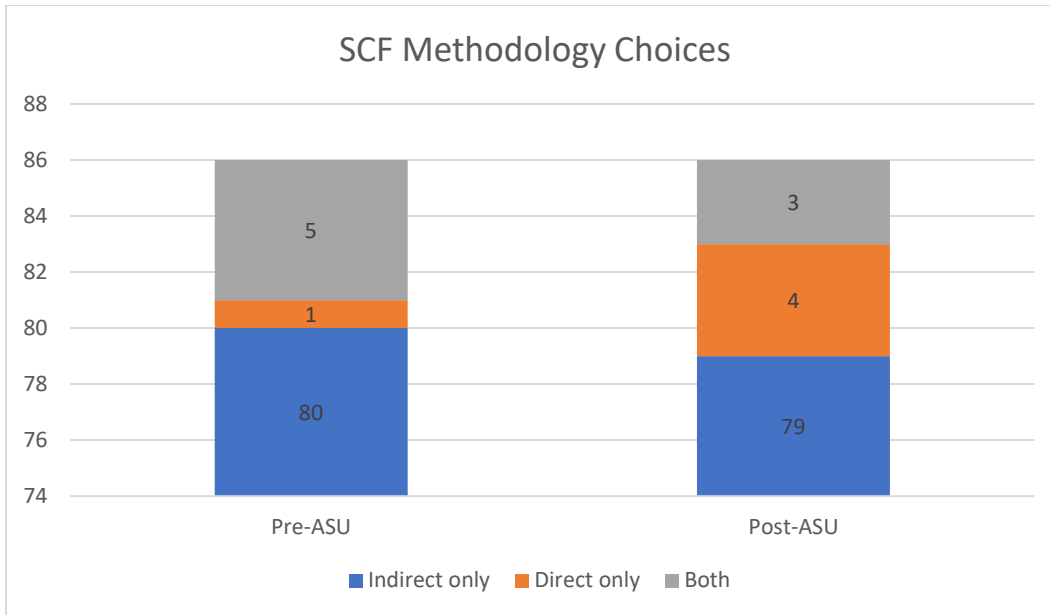


Table 1 (Deis & Shroff 2020)

Table 1A		
Category of Respondents- All Letters		
Respondent	# Letters	Percent of Total
Auditors	69	26%
Individual & Academic	32	12%
Professional Organizations	29	11%
College & University	51	19%
Healthcare	19	7%
VHWO	35	13%
Other NFP	29	11%
Total	264	100%

Table 1B				
Responses to Question 18 by Type of Respondent- All Letters				
	Disagree	Reservations	No response	Agree
Auditors	43	0	7	19
Individual & Academic	20	0	4	8
Professional Organizations	19	0	3	7
College & University	38	0	4	9
Healthcare	8	0	5	6
VHWO	18	0	5	12
Other NFP	16	0	4	9
Total	162	0	32	70
Percentage (out of 264 total)	61%	0%	12%	27%

Table 1C				
Responses to Question 19 by Type of Respondent- All Letters				
	Disagree	Reservations	No response	Agree
Auditors	28	13	15	13
Individual & Academic	18	5	3	6
Professional Organizations	17	6	1	5
College & University	25	17	1	8
Healthcare	11	4	0	4
VHWO	13	7	7	8
Other NFP	11	8	3	7
Total	123	60	30	51
Percentage (out of 264 total)	47%	23%	11%	19%

Table 2

Table 2A		
Response to Questions 18 & 19: 5-option		
	# Letters	Percent of Total
Strongly Disagree	5	4%
Disagree	83	74%
Neutral	8	7%
Agree	13	12%
Strongly Agree	3	3%
Total	112	

Table 2B		
Response to Questions 18 & 19: 3-option		
	# Letters	Percent of Total
Disagree	88	79%
Neutral	8	7%
Agree	16	14%
Total	112	

Table 3

Table 3				
Reasons for Response				
	Disagree	Neutral	Agree	Total
Cost	41	1	0	42
Relevance	33	2	3	38
Comparison to For-Profit	66	1	0	67
Ease of Preparation	15	3	3	21
Ease of Use	32	5	8	45
Total NFPs	88	8	16	112

Table 4

Table 4A		
Category of Respondents		
Respondent	# Letters	Percent of Total
Education	44	34%
Healthcare	21	16%
VHWO	32	25%
Other NFP	32	25%
Total	129	100%

Table 4B				
Responses to Questions 18 & 19 by Type of Respondent				
	Disagree	Neutral	No response	Agree
Education	24	3	7	10
Healthcare	15	1	4	1
VHWO	22	3	4	3
Other NFP	27	1	2	2
Total	88	8	17	16
Percentage (out of 129 total)	68%	6%	13%	12%

Table 5: Variables of Interest

Variable	N	Mean	Median	Minimum	Maximum
ch_net_ass	86	447,130,374	49,730,451	(25,375,000)	9,809,614,000
OCF	86	45,424,350	2,880,215	(946,739,000)	941,070,000
Difference	86	401,706,025	28,576,000	(406,813,000)	9,674,353,000
adjustments	85	15	15	5	29
Discrepancy	86	-0.22	0	-1	1
Audited	86	1	1	1	1

Table 6: 3-Variable “Agree” Univariate Analysis

agree3	NObs	Variable	N	Mean	Median	Minimum	Maximum
-1	88	Ch_net_ass	58	604,345,026	73,394,000	(25,375,000)	9,809,614,000
		OCF	58	54,883,664	3,973,531	(946,739,000)	941,070,000
		Difference	58	549,461,362	22,241,133	(406,813,000)	9,674,353,000
		Difference_percent	58	52%	69%	-260%	404%
		Adjustments	58	15	14	5	29
		Discrepancy	58	-0.22	0	-1	1
		Audited	58	1	1	1	1
0	8	Ch_net_ass	4	45,529,575	55,168,000	(96,700)	71,879,000
		OCF	4	5,353,759	6,920,018	(16,088,000)	23,663,000
		Difference	4	40,175,816	44,092,000	(17,736)	72,537,000
		Difference_percent	4	62%	68%	-18%	129%
		Adjustments	4	13	14	7	16
		Discrepancy	4	-0.3	0	-1	0
		Audited	4	1	1	1	1
1	16	Ch_net_ass	12	123,797,780	29,093,000	(1,294,586)	517,405,000
		OCF	12	32,862,908	1,112,380	(66,749,000)	180,572,000
		Difference	12	90,934,872	28,604,093	(153,099,000)	479,614,000
		Difference_percent	12	-20%	58%	-570%	291%
		Adjustments	11	16	15	7	29
		Discrepancy	12	-0.17	0	-1	1
		Audited	12	1	1	1	1

Table 7: Linear Regression of 3-Variable “Agree3”

Independent variables	Hypothesis	Dependent Variable = AGREE3					
		(1)	(2)	(3)	(4)	(5)	(6)
Constant	2a	No constant	-0.833*** (0.128)	-0.586*** (.092)	-0.700*** (.105)	-0.872*** (.295)	-1.412*** (.318)
Type1 (Education)	2a		-0.378*** (-0.115)	0.455*** (0.173)			0.594*** (0.219)
Type2 (Healthcare)	2a		-0.824*** (-0.171)	0.0098 (0.214)			0.080 (0.295)
Type3 (VHWO)	2a		-0.679*** (-0.133)	0.155 (0.185)			0.008 (0.243)
Type4 (Other NFP)	2a		-0.833*** (-0.128)				
Difference (Δ NA-OCF)	2b			-7.91E-11 (6.62E-11)			-6.79E-11 (5.92E-11)
Negative Discrepancy	2c				0.150 (.197)		0.016 (0.194)
Positive Discrepancy	2c				0.700* (.387)		0.817** (0.356)
Number of Adjustments	2d					0.016 (.019)	0.029 (0.019)
Pre-ASU Method							0.452*** (0.159)
Observations		112	112	74	74	73	73
R-squared		46.7%	7.4%	2.0%	4.7%	0.9%	29.6%

*Significant at 0.10 level ($p < 0.10$)

**Significant at 0.05 level ($p < 0.05$)

***Significant at 0.01 level ($p < 0.01$)

Table 8: Linear Regression of “Answer”

Independent variables	Hypothesis	Dependent Variable = ANSWER					
		(1)	(2)	(3)	(4)	(5)	(6)
Constant	2a	No constant	0.938*** (0.060)	0.850*** (0.040)	0.909*** (0.047)	0.837*** (0.139)	1.016*** (0.167)
Type1 (Education)	2a		0.841*** (0.051)	-0.097 (0.079)			-0.156 (0.114)
Type2 (Healthcare)	2a		0.810*** (0.074)	-0.128 (0.096)			-0.200 (0.150)
Type3 (VHWO)	2a		0.875*** (0.060)	-0.063 (0.085)			-0.222* (0.124)
Type4 (Other NFP)	2a		0.938*** (0.060)				
Difference (Δ NA-OCF)	2b			2.59E-11 (3.05E-11)			3.56E-11 (3.13E-11)
Negative Discrepancy	2c				-0.109 (0.083)		-0.139 (0.094)
Positive Discrepancy	2c				-0.242 (0.148)		-0.215 (0.156)
Number of Adjustments	2d					0.001 .009	0.002 (0.010)
Pre-ASU Method							0.037 (0.084)
Observations		129	129	86	86	85	85
R-squared		87%	1.8%	0.9%	4.3%	0.0%	10.1%

*Significant at 0.10 level ($p < 0.10$)

**Significant at 0.05 level ($p < 0.05$)

***Significant at 0.01 level ($p < 0.01$)