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

File Reference No. Topic 2017-270:

Dear Ms. Cosper:

The Financial Reporting Executive Committee (FinREC) of the American Institute of Certified Public Accountants (AICPA) appreciates the opportunity to comment on the Financial Accounting Standards Board's (FASB or Board) August 3, 2017 Exposure Draft of Proposed Accounting Standards Update, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (proposed ASU).

FinREC supports the Board's intent to clarify and improve the scope and the accounting guidance for contributions received and made, primarily by not-for-profit entities (NFPs). We believe that certain changes, such as clarifying the differences between exchange transactions and contributions, the clarification of the application of commensurate value, the proposal of a unifying model to guide revenue recognition regardless of the funder and the vast number of examples, will serve to improve the clarity and consistent application of NFP grant and contribution accounting. It is clear to FinREC that the Board has considered the difficulties in determining whether a contribution is conditional or unconditional and the necessity of having both a barrier and a right of return or release from obligation. However, as a result of diversity amongst funders on language or stipulations in a respective grant or contract, we have some concerns about the operability of certain aspects of the proposed ASU and have outlined those concerns in our responses to the questions posed in the proposed ASU.

Although we recognize the importance of addressing these issues for NFPs at this time, we wish to reiterate FinREC's long-standing views regarding the importance of maintaining consistency between business entities and NFPs in accounting for similar transactions. The proposed guidance emphasizes the applicability of the guidance in 958-605 to business entities as well as nonprofits, and would require entities to consider ASC 958-605 when evaluating whether a transaction is within the scope of Topic 606. FinREC recommends that in the final standard, FASB further emphasize and clarify its intentions for business entities that receive grants regarding the applicability of the provisions in the proposed ASU. As written in the proposed guidance, FinREC believes that business entities could draw different conclusions on how the proposed amendments, particularly those clarifying exchanges of commensurate value, are intended to interact with the long-standing exclusion from contribution accounting of government grants to businesses.

Additionally, if the Board undertakes a future project related to recognition and measurement of government grants by business entities that arrives at different conclusions from those included in this proposal (for example, concluding that government grants are a category of nonreciprocal transactions that differ from contributions), FinREC believes that the guidance for NFPs should be reconsidered at that time.

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Appendix A to this letter includes our responses to the questions for respondents raised in the proposed ASU.

Appendix B, "Analysis of the Proposed FASB ASC Amendments in the Proposed ASU," to this letter contains a list of suggested edits to the proposed FASB *Accounting Standards Codification* (ASC) amendments section of the proposed ASU that could impact consistency or understanding when implementing the proposed ASU or are editorial in nature. We believe that these items should be considered when drafting FASB ASC changes resulting from this project.

Representatives of FinREC, the AICPA Not-for-Profit Expert Panel, and the AICPA Healthcare Expert Panel are available to discuss our comments with Board members or staff at their convenience.

Sincerely,

James Dolinar	Jennifer Brenner
Chair	*Chair*
FinREC	Not-for-Profit Expert Panel

Appendix A

Responses to Questions for Respondents in the Proposed ASU

The AICPA is pleased to provide responses to the specific questions for respondents presented in the proposed ASU.

1. Would the amendments in this proposed Update provide clarifying guidance that would be operable in practice? If not, why not?

FinREC believes that the guidance in the proposed ASU will be operable in practice. However, there are a few areas where the guidance could be clarified or expanded to improve consistency in application. Please see our responses to the following questions.

2. Would the proposed amendments clarify whether a resource provider is receiving commensurate value in return for assets transferred and when a transaction is within the scope of Subtopic 958-605? If not, why not?

FinREC believes that the proposed amendments will clarify issues related to commensurate value. In particular, we believe that the amendments to paragraph ASC 958-605-15-5A(a), explaining that any benefits indirectly received by the general public are not considered commensurate value given to the resource provider, will be especially helpful.

3. Should the definition of the term *donor-imposed condition* include both (a) a barrier that must be overcome and (b) a right of return of the assets transferred or a right of release of the promisor from its obligation to transfer assets? If not, why not?

FinREC believes that defining the term *donor-imposed condition* using these two criteria is appropriate. These are reasonably assessable criteria and are common elements of many NFP grants and contracts.

4. Does the proposed table of indicators to describe a barrier provide useful guidance that will allow for the application of appropriate judgment? Should no single indicator be determinative? What changes should be made, if any, to the proposed indicators?

FinREC believes that the table of indicators provides useful guidance and agrees that no single indicator should be determinative. We also believe that it should be clearly stated that the table is not an exhaustive list of all possible barriers. Additionally, we recommend that references to the associated examples in the standard be added to the chart in paragraph 5C of ASC 958-605-25 to assist the reader.

FinREC recommends the following specific changes to the indicators table in an effort to further clarify the guidance therein.

- Measurable Performance-Related Barrier or Other Measurable Barrier – We note that the last paragraph in the description refers to a stipulation. Because stipulations are discussed in another indicator, we recommend that the paragraph be revised to say, "An example of an other measurable barrier includes an agreement with a matching requirement or other stipulation."

- Stipulations That Are Related to the Purpose of the Agreement – We recommend that an example be added to help clarify the meaning of the term *stipulations* by adding language to the first sentence so it reads "The stipulations are related to the purpose of the agreement, for example only upon the occurrence of an identified event."

- Limited Discretion by Recipient – While the guidance in the table for limited discretion is largely operable, the language focuses on what is <u>not</u> considered limited discretion. We recommend adding an example of circumstances describing limited discretion after the first sentence, such as, "For example, the NFP must incur qualifying expenses to be entitled to the assets."

- Additional Actions – These items reference challenges that are internal to an organization rather than based upon language in the agreement. Those challenges are subjective and unique to each set of facts. We believe that many, or all, of the items that would be considered barriers for the purpose of assessing a condition that would fall in this category, would also fall into the other categories in the table and therefore, this indicator would be duplicative. We recommend the removal of the Additional Actions indicators section of the table.

Additionally, the related limited discretion example, Example 15 in 958-605-55-70G and 70H, is confusing in that it appears to limit the discretion of the recipient with regard to significant deviations in spending from the approved budget, but the conclusion describes the recipient as having broad discretion. We feel that this is in conflict and causes confusion. We recommend removal of the concept of requiring approval for significant budget deviation to make the conclusion consistent with the fact pattern. In addition, paragraph 958-605-55-70B states that a "standard budget" is "generally considered a guideline" and differs from qualifying expenses. While this paragraph also indicates that an entity must review individual facts and circumstances, the conclusive nature of this statement may imply that all budgets are only guidelines and not indicative of a barrier. We recommend that this be clarified here and elsewhere in the document where grant budgets are discussed. Also, see response to question #6.

5. Should the proposed amendments about distinguishing between conditional contributions and unconditional contributions be applied equally to both the recipient and the resource provider?

FinREC believes additional outreach should occur to resource providers to determine the importance and challenges of symmetrical accounting treatment for these transactions.

Resource providers do not have ability to access recipient records to understand the status of the conditions at a given point in time. As a result, symmetry could be somewhat impractical and cost prohibitive. Therefore, we recommend further outreach on this point.

6. Should certain other terms and/or their definitions be clarified (for example, *contribution* or *donor-imposed restriction*)? If yes, list which term(s) and/or definition(s) should be clarified, why they should be clarified, and any recommended changes.

To further conform the guidance to the Board's stated intent and to enhance the operability of the standard, FinREC recommends that the following terminology issues be addressed:

- Qualifying Expenses – We believe that "qualifying expenses" should be defined and would be expected to include both rules specified by government regulations as well as resource providers who require a recipient to adhere to the grant or contract provisions detailed in the agreement, and which require approval in order for the recipient to significantly deviate from those provisions. Regardless of the type of resource provider, limited discretion or qualifying expenses are concepts that go beyond the government.

  We recommend that the Board consider adding the following definition of "qualifying expenses" to the master glossary:
  Resources provided with specific guidelines that result in the recipient organization having limited discretion over how to use those resources in order to be entitled to the resources (for example, compliance with principles issued by the Office of Management and Budget, or specified approved or allowable costs which are mandated by the resource provider, in conformance with the terms of the agreement, where significant deviations require approval).

- We recommend the addition of a definition of "conditional contribution" and "unconditional contribution" to the Master Glossary. There is an inherent conflict that needs to be addressed because the definition of "contribution" begins with the phrase, "An unconditional transfer of cash or other assets…" That conflict could be addressed by removing the word "unconditional" from the definition of contribution and adding the phrase, "A contribution may be either conditional or unconditional" to the end of the definition. Further, we recommend that the definitions of "conditional contributions" and "conditional promises to give" be aligned, as appropriate.

- The flowchart refers to third-party payers and ASC 958-605-15-6(e). We recommend that rather than focusing on one element of ASC 958-605-15-6, that this box be reworded to exclude all the transactions in paragraph ASC 958-605-15-6(b)-(e). Third-party payers are not the only type of transaction that does not fall under this standard and therefore, calling out only that single type of transaction may be misleading. This change would also require a change to the flowchart box resulting from a "yes" answer, to read "Outside the scope of ASC 958-605. Apply other GAAP as appropriate."

7. Should current recurring disclosure requirements be amended for either a recipient or a resource provider? Should new disclosure requirements be added? If yes, what amendment(s) and/or addition(s) do you recommend? Please explain why.

FinREC believes there is no need to provide additional disclosures for these transactions. However, there is currently a requirement in ASC 958-310-50-4 to provide disclosures related to conditional promises to give. While this requirement was not amended in the proposed ASU, FinREC proposes either eliminating the requirement to provide these disclosures or making them optional. It is our expectation that many grants and contracts that are currently deemed to be exchange transactions would become conditional contributions under the proposed ASU. These disclosures are not required for exchange transactions under existing GAAP. While we feel that these disclosures could provide useful information about the future activities of the entity, the guidance has the potential to increase these disclosures from covering a handful of conditional promises to give to potentially thousands of conditional contributions. As a result, we recommend that these disclosures be made optional or be eliminated.

8. Would the proposed transition requirements be operable, and would they provide decision-useful information? If not, please explain why and what you would recommend. Would modified prospective application be more operable than prospective application? If not, why not?

FinREC believes that the transition guidance is operable.

9. Should the effective date of the proposed amendments be the same as the effective date of Topic 606? Should early adoption of the proposed amendments be permitted?

FinREC believes that the effective date of the proposed ASU should align with that of Topic 606. We also believe that early adoption should be permitted as it may improve the transition process.

Appendix B

Analysis of the Proposed FASB ASC Amendments in the Proposed ASU

This document is the result of an analysis of the proposed FASB ASC changes that were included in the proposed ASU. The purpose of this appendix is to identify items that could impact consistency or understanding when implementing the proposed ASU or are editorial in nature. We believe that these items should also be considered when drafting codification changes resulting from this project.

Note: Text in red represents potential changes to the wording in the proposed ASU.

FASB ASC Reference	Comment
Master Glossary: Contribution	A contribution is defined as "a transfer of cash or other assets to an entity or a settlement or cancellation of its liabilities..." Throughout the document, however, only the transfer of assets is referred to - not the settlement or cancellation of liabilities. Consider other wording - perhaps "the donor provides resources" which would be more generic and could be assumed to include both the transfer of assets and settlement of liabilities.
Master Glossary: Donor	There are currently a number of places in the codification that parenthetically state "donors include other types of contributors, including makers of certain grants." Rather than including that language throughout the ASC, we recommend adding "Donor" as a defined term in the Master Glossary.
Master Glossary: Conditional Promise to Give	The current definition of Conditional Promise to Give needs to be revised to eliminate the words "future and uncertain event" and conformed to include the concepts of barrier and right of return (similar to “donor-imposed condition”).
958-605-15-5A	Consider making the following change: "In determining whether a transfer of assets is an exchange transaction in which a resource provider (for example, a government agency, a private foundation, a corporation, or other ~~organization~~ entity)..." This change broadens the definition of a resource provider to encompass individuals.
958-605-15-5A(a)	Consider changing "other organization" in the parenthetical description of a resource provider to "other entity" to encompass individuals.
958-605-15-5A(d)	Consider splitting this into two paragraphs - one for each sentence in the paragraph as they are discrete concepts.
958-605-15-5A(e)	It is unclear what the first sentence in this paragraph is attempting to convey. In particular, the words "delivery of assets provided" is confusing. Consider rewording the sentence to clarify the concept being communicated.
958-605-25-2	The reference in the first sentence should be to paragraphs 958-605-25-16 through 25-19.

958-605-25-2	Consider the following change to the penultimate sentence: "A contribution made and a corresponding contribution received generally are recognized by both the donor and the donee at the same time, that is, when the barrier, if any, is overcome." Because the sentence relates to all contributions, a barrier may or may not exist.
958-605-25-2	See the comment above regarding possible wording changes to encompass the concept of assets transferred and liabilities settled. If those changes are made, the last sentence of this paragraph is unnecessary.
958-605-25-2A	Consider the following wording changes to this paragraph: "After a contribution has been deemed unconditional, an entity shall consider whether the contribution ~~is restricted on the basis of the current definition of~~ includes a donor-imposed restriction,..."
958-605-25-5A 958-605-55-17A	Consider the following wording changes: A donor-imposed condition must have both: a. A barrier that must be overcome for the recipient to be entitled to the resources provided and b. A right of return to the promisor for assets transferred or a right of release of the promisor from its obligation to transfer assets.
958-605-25-5B	Consider changing the first sentence as follows: "For a donor-imposed condition to exist, it must be determinable from the agreement..."
958-605-25-5D(b)	Consider the following wording changes to address the concept of transfer of assets or settlement of liabilities: "Whether the right to receive payment or delivery of the promised ~~assets~~ resources depends on meeting ~~those stipulations~~ that barrier."
958-605-55-13A	Should the cross-reference in this paragraph be to 958-605-15-5A, or is it meant to include all of section 958-605-15?
958-605-55-14B through 55-14E	Examples 2 and 3 illustrate third-party payer (agency) transactions. The examples in this section, however, are meant to illustrate distinguishing between contributions and exchange transactions. Therefore, examples 2 and 3 seem to be out of place. We recommend that a separate section be created to provide examples that address distinguishing between exchange transactions and third-party payments on behalf of an existing transaction. Alternatively, we recommend moving these two examples to the bottom of this section (after current example 5).
958-605-55-15	The penultimate sentence in this paragraph states "Donor-imposed conditions should be substantially met by the entity before the receipt of assets (including contributions receivable) is recognized as a contribution." As the probability assessment that exists today is being eliminated, we suggest that the word "substantially" be removed.

958-605-55-16	Consider expanding this paragraph beyond just promises to give as it applies equally to all contributions (and is in the Contributions Received subsection). In addition, we recommend that the language in the first sentence be revised to conform to the new terminology introduced in the ASU. Consider the following: "If donor stipulations do not clearly state whether a barrier exists and whether the right to receive payment or delivery of the promised resources depends on meeting that barrier, or if those stipulations are ambiguous, distinguishing between a conditional contribution or promise to give and an unconditional contribution or promise to give may be difficult."
958-605-55-16	In the last sentence of the paragraph, consider inserting the word "primary" before "purpose of the agreement."
958-605-55-17B(a)	Consider the following change to the first sentence: "An entity is given resources ~~assets~~, and the resource provider stipulates that entitlement to those resources ~~assets~~ ~~must be used to~~ are contingent upon ~~provide~~ providing a specific level of service (for example, 200 meals per week for a soup kitchen).
958-605-55-17B(d)	The parenthetical example in this paragraph is confusing. It is not clear whether the "company's net worth reaches a specified level" is meant to refer to a company with which the donor is affiliated. If that is the case, consider the following change to the wording "(for example, a resource provider promises to contribute a certain amount of assets if ~~a company's net worth~~ the net worth of a company with which the resource provider is related reaches a specified level.)"
958-605-55-17F	If Additional Actions is eliminated as an indicator of a barrier, remove this paragraph.
958-605-55-70B	This paragraph is not really an illustration. We recommend that it be moved to follow paragraph 958-605-55-17F so that it is included with the discussion of indicators of a barrier. In addition, paragraph 958-605-55-21, under promises to give, discusses concepts of qualifying expenses and milestones which relate to conditional contributions as well as conditional promises to give. We also recommend moving this discussion to follow paragraph 958-65-55-17F and making it clearer throughout the codification that the concepts relating to donor-imposed conditions apply to both conditional contributions and conditional promises to give.

958-605-55-70E	This example includes facts that are irrelevant to the assessment of the transaction and create confusion. We are concerned that by including the reference to the need to return funds deemed to be spent on unallowable costs, a reader might interpret that to be a barrier and not recognize revenue on the grant until the audit has been performed and any unallowable costs identified. Consider the following changes: "NFP B is a hospital that has a research program. NFP B applies for and receives a $300,000 grant from the federal awarding agency to fund thyroid cancer research. The terms of the grant include a standard budget and specify that NFP B must incur certain qualifying expenses (or costs) in compliance with ~~rules and~~ regulations established by the Office of Management and Budget and the federal awarding agency. ~~The grant is paid on a reimbursement basis by NFP B initiating drawdowns of the grant assets.~~ Any unused assets at the end of the award period are forfeited.~~, and any unallowed costs that have been drawn down by NFP B are required to be refunded.~~ The grant agreement also states that an audit ~~needs to~~ must be performed annually in accordance with the Office of Management and Budget guidelines."
958-605-55-70F	Following on the edits in the previous paragraph, consider the following changes: "NFP B determines that this grant is conditional. The grant agreement limits NFP's discretion as a result of the specific requirements on how NFP B may spend the assets (incurring certain qualifying expenses in accordance with the Office of Management and Budget ~~compliance~~ requirements). The grant ~~also~~ includes ~~a right of return for any assets advanced that have been spent on unallowed items and~~ a release from the promisor's obligation for unused assets..."
958-605-55-70K	Consider the following wording changes: "NFP F is an animal shelter and receives a 2-year ~~unsolicited~~ grant from a private foundation in the amount of $500,000 provided upfront to be used to expand its operations. The agreement indicates that NFP F must expand its facility by 5,000 square feet to accommodate additional animals ~~by the end of the 2 years~~ within two years of inception of the grant. The grant contains a right of return for any unused assets." Note that we have removed the word "unsolicited" because we do not believe that should have a bearing on the determination of conditional vs. unconditional.
958-605-55-70L	While we agree that this grant is conditional, we recommend that the reason be attributed to a measurable barrier (expanding the facility by 5,000 square feet) rather than an additional actions barrier which seems to hinge on the fact that the grant was unsolicited. Again, we do not believe that whether or not a contribution was solicited should have a bearing on the determination of whether or not it is conditional or unconditional.

958-605-55-70M	Consider the following minor wording changes: "NFP G is a university that is conducting a capital campaign to ~~build~~ construct a new building to house its school of mathematics and to make capital improvements to existing buildings on campus, including a new heating system and an upgraded telephone and computer network. NFP G receives an upfront grant in the amount of $10,000 from a private foundation in response to a proposal submitted as part of its capital campaign. The agreement contains a right of return requiring that the assets be ~~reimbursed~~ returned to the resource provider if ~~the assets~~ they are not used for the purposes outlined in the capital campaign solicitation materials. The resource provider does not include any specifications in the agreement about how the building should be constructed or on how other improvements should be made.
958-605-55-70O	Consider inserting the word "located" in the first sentence so that it reads: "NFP I is a museum that owns the land it is located on." Also, consider inserting the word "future" in the last sentence so that it reads: "If the building is not built in compliance with the grant agreement, the donor is released from its obligation to make future installment payments."
958-605-55-70P	Consider revising the last sentence of this paragraph as follows: "NFP I recognizes the revenue as the barriers are overcome.~~, which is upon meeting the specific requirements as NFP I builds the new wing.~~" This would clarify the conclusion as the facts in the example include barriers that are met with the submission of the architectural design as well as additional barriers that are overcome as the new wing is built.
958-10-65-2(d)	Consider switching the order of the two methods as modified prospective appears to be the recommended approach. If the full prospective application is approved, consider putting that method first.
720-25-25-1	Insert the word "Unconditional" at the beginning of the first sentence so that it reads: "Unconditional contributions made shall be recognized as expenses in the period made and as decreases of assets or increases of liabilities depending on the form of the benefits given."