



October 16, 2017

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### **File Reference No. 2017-270**

Dear Ms. Cospers:

RSM US LLP is pleased to provide feedback on the proposed Accounting Standards Update (ASU), *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. We appreciate the opportunity to provide comment, and we support the Board's efforts to clarify and improve the scope and accounting guidance for contributions received and made. For our comments on the proposed ASU, please refer to our responses to the specific questions posed therein. We also provide additional comments for your consideration related to the flowchart included in ASC 958-605-55-1A.

### **Responses to Questions for Respondents**

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

We believe the proposed amendments represent a significant improvement to the existing guidance pertaining to both: (a) determining whether a transfer of assets (such as a grant) represents an exchange transaction or a contribution and (b) distinguishing between conditional and unconditional contributions. While significant judgment will still need to be exercised in many situations, we believe these improvements will be operable in practice and result in greater consistency. To maximize the operability of the revised guidance and assist in attaining a reasonable degree of consistency in how judgments are made in applying that guidance, we believe certain changes should be made, all of which are discussed in the remainder of this letter.

**Question 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?*

We believe the proposed amendments in ASC 958-605-15-5A, particularly the guidance in ASC 958-605-15-5A(a) to 15-5A(c), provide guidance that clarifies the meaning of commensurate value. That said, we also believe application of the guidance in ASC 958-605-15-5A could be simplified by restructuring it to divide subparagraphs (a) through (e) between those that are determinative [(a) and (b)] vs. those that are indicative [(c) through (e)]. Dividing the subparagraphs in this manner would make it clear that an entity for which a conclusion is reached after applying the determinative subparagraphs would not need to consider the indicative subparagraphs. We also agree with ASC 958-605-15-6's characterization of the following as exchange transactions: (a) payments under Medicare and Medicaid programs, (b) payments for the provision of health care or education services

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by a government for its employees and (c) payments under Pell Grants or similar state or local government tuition assistance programs.

**Question 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?*

We believe including both a right of return and a barrier that must be overcome is appropriate and necessary. The inclusion of a barrier that must be overcome reduces the potential for grants and contracts that customarily include a right of return in their contract language to be deemed conditional solely due to the existence of a right of return. In other words, the resource provider's right to demand a refund of amounts paid to the recipient, or to cancel its obligation to pay additional amounts to the recipient, should only result in a grant or contract being deemed conditional when the resource provider's rights are triggered by the recipient's inability to overcome a barrier. In determining whether a donor-imposed condition exists in a promise to give, we also believe that the probability of the recipient overcoming the barrier should not be taken into consideration. In other words, we do not believe the probability of a barrier being overcome should affect whether a contribution is conditional or unconditional.

We also believe the Board should address situations in which a grant or contract clause gives the resource provider the unilateral right to demand a refund of amounts paid to the recipient, or to cancel the resource provider's obligation to pay additional amounts to the recipient (i.e., situations in which there are no barriers that limit the circumstances under which the resource provider may exercise its right to a refund or to cancel its obligation). We understand such clauses, particularly those allowing the resource provider to cancel its obligation to pay additional amounts to the recipient, are not uncommon in practice. We believe such clauses should result in a contract not meeting the definition of a promise to give because the recipient should not have the expectation that "the promised assets will be transferred in the future," which is a key element in the definition of a promise to give. In addition, when the recipient receives a payment from the resource provider and the resource provider has the unilateral right to demand a refund of that amount, we believe the recipient should recognize a liability for the amount received, which only would be derecognized upon either: (a) the resource provider no longer having the right to demand a refund of the amount paid (in which case contribution revenue would be recognized) or (b) the recipient providing a refund to the resource provider for the amount paid. Given the potential significance of this issue, we believe it should be addressed by the Board as part of this project.

**Question 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?*

With the following suggested modification, we believe that the table of indicators provides useful guidance and that no single indicator should be determinative.

ASC 958-605-25-5B indicates that the existence of a barrier must be clearly communicated and documented within the agreement. The table of indicators includes an "Additional Actions" section describing activities that may be taken by the recipient entity to remove any barriers. Because the requirement is for barriers, if any, to be clearly communicated and documented within the agreement, we believe the table of indicators is complete without the "Additional Actions" section. Our concern is that one may interpret the "Additional Actions" to mean that the recipient may undertake actions to remove a barrier that are not in harmony with the agreement, thereby weakening the relationship between stipulations in an agreement and achievement of such requirements.

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

We believe there is no basis to have different requirements for recipients and resource providers with respect to identifying donor-imposed conditions. For that reason, we believe the proposed amendments should apply equally to both recipients and resource providers.

**Question 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.*

- **Contribution.** While it has always been the case that contributions may be conditional or unconditional, the proposed ASU significantly expands and clarifies that concept and distinction. The Master Glossary, as it currently exists and as amended in the proposed ASU, continues to include in the definition of contribution that it is an “unconditional transfer.” We believe the definition of contribution should be reframed to clearly indicate that a contribution may be either conditional or unconditional.
- **Conditional contribution.** We believe conditional contribution should be added to the Master Glossary (either as a standalone entry or as part of the definition of contribution) and defined in a manner consistent with the concepts in ASC 958-605-25-11 and other relevant concepts in the proposed amendments.
- **Unconditional contribution.** We believe unconditional contribution should be added to the Master Glossary (either as a standalone entry or as part of the definition of contribution) and defined in a manner consistent with the concepts in ASC 958-605-25-5B and other relevant concepts in the proposed amendments.
- **Qualifying expenses.** We believe qualifying expenses should be added to the Master Glossary and defined as follows: “Expenses incurred by the recipient under a grant or contract provision with a resource provider that limits the recipient’s discretion in incurring those expenses and that either: (a) comply with the grant or contract provisions or (b) deviate from the grant or contract provisions, but have been approved by the resource provider such that the resource provider does not have the right to cancel their obligation to transfer funds in the future or the right to demand the return of funds already transferred.”

**Question 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.*

We believe the existing disclosure requirements related to contingencies and debt in Topics 450 and 470, respectively, are sufficient and appropriate for resource providers and that no further expansion of those requirements is necessary or warranted.

Depending on the facts and circumstances, we believe the disclosure requirements in Topic 855 may be relevant when a grant that was conditional at the balance sheet date becomes unconditional after the balance sheet date but before the financial statements are issued or available to be issued. Similar to the cross-reference provided in ASC 720-25-50-1 to the disclosure requirements included in Topics 450 and 470, we believe a cross-reference should be provided in the proposed ASU to the disclosure requirements included in Topic 855 related to nonrecognized subsequent events. When disclosing the information required by Topic 855 is warranted, we believe such disclosures would also support the liquidity and availability disclosures to be required in the near future under ASU 2016-14.

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ASC 958-310-50-4 includes the disclosure requirements for recipients of conditional promises to give, which commonly are referred to as “pipeline disclosures.” If the guidance in the proposed ASU is finalized without any substantial revisions, we expect that more grant agreements will be deemed conditional contributions, rather than exchange transactions. As a result, we believe there is a potential for the information disclosed in accordance with ASC 958-310-50-4 to expand significantly. We recommend that: (a) only public business entities, including not-for-profit entities that have issued, or are conduit bond obligors for, securities that are traded, listed or quoted on an exchange or an over-the-counter market, should be required to disclose the information required by ASC 958-310-50-4 and (b) all other entities be required to disclose that information only if their assessment of its decision usefulness to financial statement users suggests disclosure is warranted.

**Question 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?*

While we acknowledge that some organizations will be challenged with coordinating the review of a large volume of individual contracts under the modified prospective transition method (i.e., those contracts that are not completed as of the effective date), we believe it is necessary and appropriate to include that transition method instead of a purely prospective transition method (which would result in the proposed amendments being applied only to new contracts entered into after the effective date). Including a purely prospective transition method instead of the proposed modified prospective transition method would result in a lack of comparability and consistency both within an organization’s own financial statements and in the industry as a whole, which does not serve the needs of financial statement users.

**Question 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?*

While we acknowledge that conforming the effective dates of the proposed amendments with the effective dates of ASC 606 will result in some organizations being challenged with coordinating the review of a large volume of individual contracts in a relatively short timeframe, we believe having conformed effective dates is necessary. Otherwise, a not-for-profit entity’s transition to ASC 606 might take place in two steps, the first of which would be the application of ASC 606 to exchange transactions identified by applying existing guidance and the second of which would be the application of ASC 606 to additional exchange transactions identified by applying the proposed amendments. Furthermore, if the effective dates are not conformed, a not-for-profit entity could be in the position of having applied ASC 606 to an exchange transaction identified by applying existing guidance and then concluding it is a conditional contribution under the proposed amendments, thereby negating the earlier application of ASC 606 to that transaction/contribution. To avoid these complexities and inefficiencies, we believe the effective dates of the proposed amendments should be conformed to those of ASC 606. We also agree that early adoption should be permitted.

#### **Additional comments**

With respect to the flowchart included in ASC 958-605-55-1A, we note that the second decision point is focused on third-party payers and the transactions and activities in ASC 958-605-15-6(e), with the “Yes” outcome indicating that the payment from the third party is a balance-sheet only transaction. To avoid confusion, we believe the language in this decision point and “Yes” outcome should be the same as that in ASC 958-605-15-6(e) in that: (a) the decision point should be changed to refer to transfers of assets that are part of an existing exchange transaction between a recipient and an identified customer (instead

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of referring to a payment from a third-party payer on behalf of an existing reciprocal transaction) and (b) the “Yes” outcome should be changed to refer to an entity applying other applicable guidance, such as ASC 606 (instead of saying it is a balance-sheet only transaction with no effect on an entity’s revenue recognition). In addition, including only ASC 958-605-15-6(e) in the flowchart and not ASC 958-605-15-6(a) through 15-6(d) may have unintended consequences. As a result, we believe each of the transactions and activities in ASC 958-605-15-6 should be afforded the same treatment and emphasis with respect to the flowchart (i.e., all of the subparagraphs either should be included or excluded from the flowchart).

We appreciate this opportunity to provide feedback on the proposed ASU and would be pleased to respond to any questions the Board or its staff may have concerning our comments. Please direct any questions to Rick Day at 563.888.4017 or Susan L. Davis at 515.281.9275.

Sincerely,

*RSM US LLP*

RSM US LLP