



2017-270
Comment Letter No. 11
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October 30, 2017

Ms. Susan M. Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Via email to director@fasb.org

Re: File Reference No. 2017-270

Exposure Draft: *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* (“the Exposure Draft”)

Dear Ms. Cospers:

AAFCPAs is an accounting firm/auditor, providing assurance, attest, tax, and advisory solutions to 350+ local, national, and international nonprofit clients. We greatly appreciate the opportunity to comment on the Exposure Draft.

AAFCPAs supports the FASB’s objectives to clarify the accounting requirements of contributions received and contributions made. This will help to clarify what falls under ASU 2014-09, *Revenue from Contracts with Customers* for nonprofit organizations. This should result in consistent revenue recognition across nonprofit organizations.

Our detailed responses to the questions in the Exposure Draft are contained in the Appendix to this letter.

If you have any questions about our comments, please contact Matthew R. Hutt, CPA, partner, at 774.512.4043, mhutt@aafcpa.com.

Sincerely,

AAFCPAs

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

Overall, AAFCPAs agrees and supports the proposed guidance on clarifying (1) exchange transactions vs. contributions, (2) conditional contributions vs. unconditional contributions, and (3) donor-imposed restrictions. However, we recommend adding illustrative examples for the following to help not-for-profit (NFP) organizations in evaluating transactions:

- 958-605-15-5A states that “if the resource provider receives no direct value in exchange for the assets transferred or if the value received by the resource provider is incidental to the potential public benefit from using the assets transferred, the transaction shall not be considered commensurate value received in return.” The term “incidental” is not incontrovertibly clear in the proposed guidance. An illustrative example may be helpful in determining if the transaction shall be considered a contribution in whole or in part.
- 958-605-15-6 states that “if an entity voluntarily transfers assets to another, or performs services for another in exchange for an asset of substantially lower value, and no unstated rights or privileges are involved, the transaction is within the scope of this proposed guidance.” The term “substantial” is not incontrovertibly clear in the proposed guidance. Is the term “substantially” used in this proposed guidance to be interpreted the same as the terms “substantially all” or “substantially” used in the master glossary. AAFCPAs recommends the FASB consider providing a percentage threshold to ensure consistency of interpretation.
- 958-605-25-11 states that “conditional promises to give shall be recognized when the conditions on which they depend are substantially met.” Again, the term “substantially” is not incontrovertibly clear in the proposed guidance. In addition, if measurable performance related barriers exist (i.e. to provide 5,000 meals), may the NFP recognize the grant entirely when 4,999 meals are delivered in a year and the final meal was delivered subsequent to the year?

In addition, the proposed update does not provide guidance when an agreement contains a barrier based on the resource provider’s financial situation. It is very common in practice that a donor or resource provider imposes a condition to a promise to give based on the resource provider’s available cash flow, or meeting the operational budget for the year. AAFCPAs recommends adding some clarification for these types of grants.

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?

Overall, AAFCPAs agrees that the standard clarifies commensurate value, as well as when a transaction is within the scope of Subtopic 958-605. However, we would suggest providing some additional examples for transactions where there may only be partial payments (e.g. rental subsidies).

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?

Yes, AAFCPAs recommends the definition of the term “donor-imposed condition” should include both of the following:

- A barrier that must be overcome; and
- A right of return of the assets transferred or a right of release of the promisor from its obligation to transfer assets.

This will result in more consistent reporting among NFPs. Specifically, it is not uncommon for grant and contribution awards to contain a clause suggesting that if the terms of the arrangement are not adhered to, the monies may be due back to the donor. However, often times, such a clause is merely a type of security for the donor, should grant proceeds be misused or other remote circumstance occur. Thus, the addition of a barrier needing to be overcome, as defined and explained within the guidance, will deter NFPs from considering such a safety clause as a condition.

The examples of barriers provided in the guidance are useful tools to assist NFPs in assessing whether or not the facts and circumstances contained within their grants and contribution awards meet the definition of a barrier and thus, AAFCPAs agrees that more uniform reporting will be attained.

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?

The measurable performance related barrier or other measurable barrier appears to be well defined. However, if the specific criteria would result in a right of return upon non-compliance, then it would be recognizable in the period granted. Therefore, AAFCPAs advises that this be defined within the standard. In addition, it is not clear what the difference is between this definition and the definition of a grant with limited discretion by the recipient.

AAFCPAs recommends that all indicators be considered when making a judgement.

Overall, AAFCPAs recommends inclusion of additional examples to illustrate barriers.

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?

Yes, AAFCPAs recommends that they be applied the same.

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.

AAFCPAs recommends that certain terms be clarified as outlined below:

- Incidental – this term is not defined in the current draft. AAFCPAs suggests adding an illustrative example or adding as a glossary term in order to further clarify the understanding of the term.
- Substantial – as noted above, this term is not incontrovertibly clear. There is also a question as to whether this should be interpreted the same as “substantially all,” as defined in the master glossary. AAFCPAs recommends making a more clear definition of the term, and perhaps providing a percentage threshold in order to reduce the inconsistent application of the term.
- Barrier – The term “barrier” is well defined on the part of the NFP/recipient, but is not well defined from the perspective of the donor/resource provider. AAFCPAs recommends that this be defined or clarified via an illustrative example.

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.

AAFCPAs does not recommend that the current recurring disclosures be amended for either recipients or resource providers. The existing disclosure requirements provide users with sufficient information and are consistent with the amendments in this proposed update.

Additionally, AAFCPAs does not recommend new disclosure requirements. Again, with the lack of substantial changes to the standards surrounding contributions, and federal and state contracts, the current disclosures provide enough information and are consistent with the amendments outlined in the standard.

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?

The proposed transition to allow modified prospective transition would be the most operable and useful to both the users of the financial statements as well as the reporting entities. The revenue related to an agreement entered into or completed before the effective date should not be modified. This revenue has already been accounted for under the existing guidance and any changes would make it confusing for the users of the financial statements, and a challenge for the reporting entities to change existing reporting and recognition for inconsequential benefit.

Agreements not completed or entered into after the effective date should be treated under the modified prospective basis. This is more operable than prospective application since these agreements are either new or not completed. These should be recognized under the modified prospective basis since it will impact how revenue will be recognized in future periods as well. This treatment will ensure greater consistency of revenue recognition in future periods.

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?

AAFCPAs recommends that the effective date of these proposed amendments be the same as Topic 606. These proposed amendments clarify what is included or excluded from Topic 606. Without these amendments, there could be inconsistency in the application of Topic 606 between the year of adoption and future periods. Early adoption of these amendments should only be permitted if the reporting entity is early adopting Topic 606.