

October 25, 2017

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

Dear Ms. Cospers:

Thank you for the opportunity to comment on the Financial Accounting Standards Board's 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).

I have been a volunteer, accountant and administrator for various nonprofits over the past 16 years. I have had significant exposure over the past three years as an auditor of small to mid-size nonprofits. I have seen and advised on the accounting treatment for many contributions, and observed the diversity in practice.

After reading the proposed ASU, I have responded to the following questions for respondents, after which I included a few additional comments.

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

Answer: Yes. I believe the strongest points the clarified guidance reflect are 1) the combination of a) barrier and b) right of release or return in determining if a contribution is conditional. Previous to this clarification the difference between an unconditional contribution with restrictions and a conditional contribution was less clear. 2) The elimination of the consideration of "remote" in determining if a stipulation was a condition that should affect recognition. Instead, the new guidance clarifies that administrative tasks and clearly trivial stipulations should not affect recognition. This clarification should reduce the level of judgment involved and promote uniformity in practice.

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?

Answer: Yes. As mentioned in the amendments, the most diversity in practice seems to be in recognition of contributions from government agencies. Often the argument for exchange treatment of a government award was that a nonprofit was performing an activity which the government was otherwise obligated to perform. However, in 958-605-15-5A(a) and (b) the amendments clarify that such a transaction would actually be a contribution since no direct value is received by the government agency and the nonprofit is merely executing the resource provider's mission.

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?

Answer: Yes. Both of these factors should be present for a contribution to be considered conditional. However, I believe it would be helpful to note that if only one factor is present, i.e. 1) a barrier, but no right of return, or 2) right of return, but no barrier, the result is an unconditional contribution with restrictions. This is mentioned in 958-605-55-17D, but only the second portion. I believe it would be helpful to mention this immediately after 958-605-25-5D or at least place a reference after 958-605-25-5D to the effect that if one or the other factor is exclusively present, see 958-605-55-17D for guidance.

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?

Answer: I believe it is useful. I cannot think of an example where a single factor would not be determinative, but I think the current wording allows for necessary judgment. I think that the preceding explanation in 958-605-25-5C contains necessary language that the subsequent table contains examples and the language of the examples within the table allow for appropriate judgment.

One thing should be clarified. The section titled "Limited Discretion by the Recipient," second paragraph states, "If a recipient has broad discretion on how to use the assets and the agreement contains no other stipulations that would indicate that a barrier exists, the agreement shall be deemed unconditional." Why is this language under this heading but not others? Is it not also true that if the only stipulations in the agreement are administrative or trivial, the agreement shall be deemed unconditional? Consider putting both places.

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?

Answer: One scenario that does not appear to be contemplated for the resource provider is when a contribution is made with a) a barrier and b) a right of return, but funds are provided in advance, such as for building a new facility, does the resource provider record a right of return asset or an expense?

Other than this, the distinguishing factors should be the same for both.

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.

Answer: No.

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.

Answer: No. The amendments do not seem to necessitate any additional disclosure.

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?

Answer: The transition requirements appear highly operable and the disclosures for any changes created by adoptions should provide decision-useful information.

I agree with BC44 that a modified prospective application will reduce cost and complexity and thus be more operable.

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?

Answer: If entities are already considering factors such as performance or other measurable barriers in order to determine if a contribution is conditional or unconditional, they should have the majority of the information needed to apply Topic 606. Thus it makes sense to roll out these amendments together.

Early adoption should be permitted. The intent of the amendment is to clarify guidance and reduce diversity in practice, so an early adopting entity would ideally be more comparative to the industry as it implements.

Other comments

958-605-55-70L – This would be a good example to demonstrate when a refundable advance liability would be recognized. You might add a sentence at the end of this paragraph to the effect; “When NFP F receives the upfront funds, it records a refundable advance liability that is reduced as funds are expended on the facility.”

I am available to discuss these comments with Board members or staff at their convenience.

Sincerely,

Cameron Hodson, CPA
Larson and Company, PC
Salt Lake City, UT