



Oct. 31, 2017

Technical Director  
Financial Accounting Standards Board  
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Re: File Reference No. 2017-270: Proposed Accounting Standards Update, *Not-for-Profit Entities (Topic 958) Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*

The Not-for-Profit Committee (the committee) of the Pennsylvania Institute of Certified Public Accountants (PICPA) appreciates the opportunity to comment on the proposed Accounting Standards Update, *Not-for-Profit Entities*. The PICPA is a professional association of more than 22,000 members working to improve the profession and better serve the public interest. Founded in 1897, the PICPA is the second-oldest CPA organization in the United States. Membership includes practitioners in public accounting, education, government, and industry. The committee is composed of practitioners from both regional and small public accounting firms, members serving in financial reporting positions, and accounting educators.

### **General Comments**

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

In general, the committee appreciates the additional guidance. However, certain aspects of the proposal are confusing, and as such the committee believes that the proposed guidance may not change current practice or eliminate practice diversity. The committee's specific concerns regarding the proposed standard are included below.

### **Distinguishing between exchange transactions and contributions**

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?

In general, the committee finds the additional guidance, examples, and clarification to be helpful. We noted improvement in the glossary and the amount of detailed information available to assist the reader in determining the appropriate guidance by transaction type, including the flow chart on page 16.



However, there are a few areas where additional clarification would be helpful. They are as follows:

1. Para. 958-605-15-5A

Given that Section 15 pertains to the scope of the topic (i.e., contributions) the committee suggests that the information included in 15-5A would be more appropriately included in Section 25, recognition. 15-5A clarifies situations in which a transaction would be recognized as a contribution **or** an exchange transaction. By moving the content of 15-5A to Section 25, recognition as a contribution or an exchange transaction would mirror the thought process depicted in the flowchart on page 16 of the exposure draft. Furthermore, Section 15-6 already addresses transactions to which Topic 605 does not apply.

The wording in paragraph 15-5A could also be enhanced by placing contributions before exchange transactions (since Topic 605 is about contributions) as follows: *In determining whether a transfer of assets is a **contribution** or an **exchange transaction** in which a resource provider (for example, a government agency, a private foundation, a corporation, or other organization) receives commensurate value in return for the resources transferred...*

2. Para. 958-605-15-5A

- a. Subsection d. *If the resource provider has full discretion determining the amount of the transferred assets, the transaction shall be indicative of a contribution.* The committee believes that this comment could cause some confusion. We propose clarifying that this could be indicative of a contribution instead of *shall* be indicative. We also note that there are instances where a resource provider could have full discretion in determining the amount of the transferred assets that could be an exchange transaction.
- b. Subsection e. The committee believes that the penalty aspect is vague. What type of penalties are typically imposed other than forfeiture of the assets transferred? The committee recommends that the final standard include specific examples.

3. Para. 958-605-15-6 *The guidance in the Contributions Received Subsections does not apply to the following transactions and activities:*

- a. *E. Transfers of assets (typically from a government entity) that are part of an existing exchange transaction between a recipient and an identified customer.* The committee questions whether this section is concluding that grant programs, where individuals receive services based on fee-for-service/rate schedules (ex., medical assistance services) will fall under Topic 606 on revenue from contracts with customers, even though the government isn't receiving the benefit, but the individual is. This appears to conflict with the flow chart, which asks whether the government is receiving commensurate value, and does not appear to be the case for medical assistance services. More examples surrounding when the government is acting on behalf of an individual are needed. The existing examples of Medicare and Student



Financial Aid are helpful, but the committee recommends additional clarification or some additional framework to help prevent future diversity.

### **Determining whether a contribution is conditional or unconditional**

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?

The committee believes that the definition of the term donor-imposed condition does not require both (a) a barrier that must be overcome and (b) a right of return of the assets. Instead, the definition need only require that a barrier must be overcome to establish the condition. The agreement between funder and recipient should clearly identify the barrier. However, the lack of specific language identifying the resolution of the contribution, if the barrier is not met, does not negate the barrier.

While the inclusion of the right of return of asset is helpful in supplementing the condition, as the exposure draft is currently written the requirement is effectively nullified in Para. 958-605-25-5B.

We feel that including the right of return language is unnecessary, and it adds confusion by mixing a legal issue with accounting guidance. We recommend removing right of return and right of release from the definition. The examples of barrier provided in the exposure draft are helpful and should remain in the 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?

The committee finds that the proposed table of indicators provides helpful guidance. However, the item “Limited Discretion by the Recipient” is not clear. The description excludes broad discretion, but provides no examples of a case of limited discretion. As written, the limited discretion appears to indicate a restriction, not a condition.

The section “Measurable Performance-Related Barrier” includes items describing time and purpose restrictions rather than just conditions. The examples should be limited to conditions only. Examples of Measurable Performance-Related Barrier should include:

- a. A specified level of service
- b. An identified number of units of output
- c. A specified outcome
- d. Submission and approval of a specific report, explanation, or form before the contribution can be released



- e. Benchmarks could require impact to a certain number or segments of the general public

In addition, the section on Measurable Performance-Related Barriers includes an item on stipulations, which could be added to the next section on Stipulations. This would make the descriptions clearer and would allow for the removal of “Other Measurable Barrier” from the first indicator in the table. Examples of Stipulations should include:

- a. A matching requirement
- b. An event or program to occur (such as a sponsorship to enable it to occur)
- c. A requirement that funds be used in accordance with the stated purpose as described in an agreement
- d. Approval by another entity for a building project, such as issuance of building permit, zoning approval, or other regulatory approval
- e. Recognition of the donor in a specified manner, such as in press releases, printed materials, or social media

As every agreement is different, there may not be an indicator that can act as a single determinant. In some agreements, it may be performance-based; in others, it may be a stipulation. The table indicates that while guidelines are provided, judgement still needs to be exercised.

We do not see how the level of discretion can be a condition. It seems any concerns related to discretion are restrictions and clearly not conditions.

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?

The committee believes that the proposed amendments should be generally applied equally to both the recipient and the provider. This should result in reciprocal accounting treatment for both entities and should encourage entities to produce agreements that clearly capture and communicate the expectations associated with the contribution.

It should be noted, however, that there will be room for interpretation of the agreement, and that while the recipient and resource provider will operate under the same guidance, their individual judgement may result in different interpretations.

### **Disclosure and other**

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.



The term donor should be defined. It is used throughout the document, but it is not defined. This could lead to confusion when dealing with grant agreements. Donor condition and donor restriction are confusing, and, therefore, more examples to explain the differences would be helpful. For example, including a definition of each in the standard would help to clarify the appropriate use of the terms or clarify if the terms can be used interchangeably.

The committee believes it would be beneficial to provide a definition for *commensurate value*. While the exposure draft identifies certain arrangements that would not create commensurate value, there is still a potential for a large amount of variability in how commensurate value is interpreted in the absence of a clear definition.

It would also be beneficial to define (or reference a definition elsewhere) the term *business entities*, as used in exposure draft Section 958-605-15-6(d). Many nonprofit organizations have business operations that are related to their charitable status and could potentially be considered business entities.

**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.

The committee believes that, in general, current disclosure rules are sufficient for users of financial statements. This statement benefits users of financial statements by reducing the need to include new, unnecessary disclosures for certain nonreciprocal transactions that may have been required under updated Topic 606. The accounting policy note should include a clear description of grant revenue and whether it is treated as a reciprocal or nonreciprocal transfer (Topic 958 vs. Topic 606), as well as any conditional contributions and managements justification of such.

### **Transition method and effective date**

**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?

We generally agree with the modified prospective application of the amendments. We concur that this would provide for comparability. However, in trying to understand why quantitative disclosures about the amendments are not required, we walked through several scenarios and concluded that quantitative disclosures should be encouraged if they provide useful information to the reader.

For example: If an agreement was not completed and was originally considered temporarily restricted, but under the new proposed amendment was considered an exchange transaction, presumably the “contribution” would be released from restriction.



For example: If an agreement was not completed and was originally considered to be conditional, but under the proposed amendment is not, presumably the contribution would be recorded.

In these scenarios, unrestricted revenue/support and net assets might be unusually high in the year of adoption. The reader may benefit from quantitative information about how much of the increase is due to the adoption of the amendment.

**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 using the same effective date of Topic 606 would seem beneficial to prevent multiple years with financial statement changes and therefore increase comparability, there may be organizations that will change the categorization of contributions to contract revenue and vice versa due to this proposed amendment. When this is the case, it might be beneficial for those organizations to adopt the proposed amendments at the same time as ASU 2016-14 for periods beginning after Dec. 15, 2017. In that way, when reformatting statements to accommodate the “with donor restriction” vs. “without donor restriction” captions, the changes in this proposed amendment could be completed simultaneously. That approach would tend to reduce the number of years with significant changes on the face of the statements. As a result, early adoption should be permitted to allow organizations flexibility regarding adopting the new requirements.

## Other

Comments on the examples – In general, the committee finds the examples to be overly complicated and at times conflicting with the narrative in the proposed standard. The committee requests that the FASB develop less complex examples that would be more broadly applicable. The committee also notes these specific issues.

- Example 20 – If the organization was going to provide 5,000 more meals than they do currently, there is a barrier; but there is no barrier as the example is written.
- Certain examples seem to state that having to follow Uniform Guidance/OMB Circulars would mean the income stream is conditional. On a reimbursement-type grant, that will not be a change in practice, but could be if the grantor advances funds. Also, there is discussion about the fact that if an organization has an agreement for services with a patient, but the funding comes from Medicare/Medicaid, that is not a contribution. This makes sense. What is not clear from the examples is if an organization has a similar service provider agreement with a state agency to treat an individual/patient (in Pennsylvania through the Promise/HCSIS system), would that represent a contribution or an exchange

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transaction? This could lead to multiple interpretations. In Pennsylvania and many other states, these types of funding sources are no longer on the schedule of federal and state awards and are considered vendor transactions. It would be inconsistent to treat them as contributions. Therefore, clarification is needed.

We appreciate your consideration of our comments. We are available to discuss any of these comments with you at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read "Nancy L. Gunza".

Nancy L. Gunza, CPA  
Chair, PICPA Not-for-Profit Committee

A handwritten signature in black ink, appearing to read "Allison M. Henry".

Allison M. Henry, CPA, CGMA  
PICPA Staff Liaison, Not-for-Profit Committee



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