



October 30, 2017

Ms. Susan M. Cospers
Technical Director
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: FASB August 3, 2017 Proposed Accounting Standards Update Not-for-Profit Entities (Topic 958) *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* [File Reference No. 2017-270]

Dear Ms. Cospers:

The North Carolina Association of Certified Public Accountants ("NCACPA"), representing over 20,000 North Carolina CPAs in public practice, industry, government, and education, regularly interacts with the Financial Accounting Standards Board, the American Institute of Certified Public Accountants and other institutions to give North Carolina CPAs a voice in the development of accounting and auditing standards. The NCACPA's Accounting & Attestation Committee (the "A&A Committee") and Not-for-Profit Committee (the "NFP Committee") have reviewed FASB August 3, 2017 Proposed Accounting Standards Update Not-for-Profit Entities (Topic 958) *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* and, with input from the NCACPA staff, is providing the following comments for your consideration.

GENERAL

The A&A Committee and the NFP Committee (collectively "the Committees") supports the Board's efforts to provide further clarification and accounting guidance for contributions received and contributions made. From a practical standpoint, we feel that the guidance can generally be implemented by all entities affected. However, we also wish to point out that the degree of difficulty in implementing this guidance will vary among entities, especially among smaller for-profit entities and not-for-profit organizations who typically operate with limited resources.

SPECIFIC

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

The Committees believe that the clarifying guidance contained in the proposed update would be operable in practice. The Committees appreciate the additional clarification that a resource provider who transfers assets to another not-for-profit specifically for the purpose of executing the resource provider's mission or transfers assets and receives only indirect public benefit does not constitute commensurate value.

Susan M. Cospers
Financial Accounting Standards Board
October 30, 2017
Page 2 of 4

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?

The Committees agree that the proposed amendments go a long way in clarifying when a transaction should be accounted for as a contribution that falls under Subtopic 958-605 and when it is an exchange transaction that falls under other guidance.

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 Committees agree that the definition is informative as written. Including both a barrier that must be overcome and either a right of return or a right of release is appropriate and provides needed clarity that will enhance the proper analysis of grant agreements. Further, we appreciate the guidance that donor imposed conditions must be determinable from the agreement.

It is also our opinion that the amendments will improve consistency by removing broad interpretations that can occur under the current Codification. Many practitioners may consider the existence of a right of return as the sole indicator that the grant is a conditional contribution. The amendments provide clarity that a right of return of assets or a right of release of a promisor's obligations are the consequences of failing to overcome a stated barrier, not the barrier itself.

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 Committees generally agree that the proposed table of indicators to describe a barrier provide clarity and guidance that will allow for more consistent judgement. Additionally, we feel that no single barrier, in and by itself should be determinative. This strikes us as a "bright line" which is contrary to the body of guidance being considered.

As noted in Question 3, the Committees agree that *donor imposed conditions* must be determinable from the agreement. However, we are having difficulty understanding why the table of indicators as presented need an "additional action(s)" section. The guidance states that "if the recipient must undertake additional activity, the agreement also often is coupled with measurable barriers". Per the example at 958-605-55-70K and 958-605-55-70L, the barrier, the expansion of the facility, is considered both a measurable barrier and an additional action. We feel that making this distinction between these two indicators is unnecessary as it relates to determining whether the resource provider has included a donor imposed condition. We are also concerned that of all the indicators, "additional action(s)" would be subjected to the greatest amount of interpretation in practice.

Susan M. Cospers
Financial Accounting Standards Board
October 30, 2017
Page 3 of 4

If "additional action(s)" is kept in the table of indicators, we feel that the language needs to better describe the intent of the condition.

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 Committees agree under most circumstances the proposed amendments about distinguishing between *conditional contributions* and *unconditional contributions* be applied equally to both the recipient and the resource provider. However there will be situations where this specific application will be problematic if not impossible. For example when a resource provider who follows GASB transfers assets to a recipient who follows FASB.

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.

We feel the general definition of a *contribution* as stated in the Master Glossary doesn't quite align with the amendments in the Exposure Draft. The definition itself begins with the words "unconditional transfer" and that choice of words creates confusion as it relates to *conditional contributions*. A minor revision would provide better linkage and clarity to the proposed amendments regarding the two distinct type of contributions. We recommend revising the general definition of a *Contribution* to read as "a transfer of cash or other assets to an entity or a settlement or cancellation of its liabilities, either on a conditional or unconditional basis, in a voluntary nonreciprocal transfer by another entity acting other than as an owner".

Additionally, given the importance of the two distinct types of contributions, we would also like to see the terms *unconditional contribution* and *conditional contribution* included in the master glossary given their relevance to the proposed amendments.

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 Committees feel that current disclosures are sufficient.

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 Committees believe that the effective date as specified in the exposure draft is very ambitious and would create significant difficulties in implementing the transition requirements using the modified prospective basis. To lessen this burden, the Committees recommend allowing constituents to continue

Susan M. Cospers
Financial Accounting Standards Board
October 30, 2017
Page 4 of 4

following current guidance for agreements falling within the transition period and apply the proposed amendments prospectively.

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?

The Committees believe that under normal circumstances and given the interrelationship that the proposed amendments share with Topic 606 for exchange transactions, we feel the effective date should be the same as Topic 606. However, we have concerns that the logistics of taking the proposed accounting standards update from the comment period, through evaluation and onto final issuance will prevent a concurrent effective date with Topic 606. Specifically, the Board needs to address not-for-profit organizations that are conduit bond obligors and the likelihood that the proposed amendments will be issued after the effective date of Topic 606. If this occurs, certain not-for-profits will not have adequate time to adopt the changes required by the new standard. We feel the Board should reconsider the effective date for not-for-profit conduit bond obligors.

Thank you for the opportunity to provide feedback on this proposed standard. If you would like additional discussion with respect to the above comments, please contact Nick Lombardi, Chair of the NCACPA Accounting & Attestation Committee, at 919-872-1260. This response was approved for release by the North Carolina Association of Certified Public Accountants on October 30, 2017.

Sincerely,



Nicholas Lombardi, Jr., CPA
Chair, NCACPA Accounting & Attestation Committee



Karen Stanley, CPA
Member, NCACPA Not-for-Profit Committee

cc: NCACPA Board of Directors
NCACPA Accounting & Attestation Committee
NCACPA Not-for-Profit Committee
Sharon H. Bryson, M.Ed., NCACPA CEO
Mark P Sotichuck II, CPA, CGMA, NCACPA COO