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Certified Public Accountants

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

Dear Ms. Cospers:

We appreciate the opportunity to comment on the FASB Exposure Draft regarding Not-for-Profit Entities (Topic 958) Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. We believe the work of the FASB staff will indeed provide clarity to current contribution recognition guidance.

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? Yes, the amendments will provide clarifying and operable guidance.

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? Yes, the amendments will clarify commensurate value in a much clearer manner than previous guidance.

It appears the previous table distinguishing exchange from contribution transactions will be removed, and not replaced. We would find it extremely helpful to have a revised table included in the guidance, in addition to the examples that are given later in the exposure draft.

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? No, a donor-imposed condition should include a barrier OR a right of return/release, not both.

Using the right of return OR barrier should be implemented as it will result in the most understandable and accurate financial picture of an organization. The barriers should include indicators relating to incurring costs in accordance with a grant budget OR incurring costs on the project when there is not specific grant budget, even when the grant is not a government grant.

We represent the voice of the smaller NPO community – we consider the impact existing guidance has on the smaller end-user NPO's who are attempting to budget for purpose restricted grants, and must constantly adjust for purpose restricted revenue being recognized in a year prior to the expenditure of funds needed to fulfill restrictions. We hoped that this reconsideration of contribution accounting would also consider purpose restricted as well as conditional grants, and believe the barrier and right of return/release discussion should include the impact on purpose restrictions more clearly. Our next comment includes this consideration.

Many financial statement users in the NPO community have a difficult time understanding the financial picture when it is clouded by an unclear image of future expenditure commitments that are not recorded in the financial statements (the future expenditures required under these grants). We also spend a lot of time at Board meetings explaining why there are large swings in the Statement of Activities due to restricted revenue being recognized in year 1, and trailing expenses in years 1, 2, 3.... The footnote disclosures may not provide sufficient clarity as footnotes are not allowed to conflict with GAAP, even if it would help explain the future commitments not recorded in the financial statements. Knowledgeable CPA's agree that existing guidance violates the fundamental accounting concepts of matching and conservatism. Requiring all performance obligations barriers be met prior to recognizing revenue is much more logical and understandable to most users.

A prime consideration for the FASB should be the clarity and consistency of financial reporting. The FASB should strive for the simplest methods possible to achieve a clear financial picture for the majority of users in the Accounting Standards, and unnecessary complexity and artificial distinctions (such as drawing a line between limited discretion indicators due to cost circulars and those due to non-governmental funder requirements) serve no useful purpose.

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? Generally yes, but we have two concerns with the proposed guidance – one relating to the administrative requirements and the other relating to Qualifying Expenses.

Administrative Requirements - We agree that the filing of a report to inform a funder of project status is a nonsignificant administrative indicator. However, in practice, for multi-year grants, we must sometimes consider whether or not a required report must not only be filed, but also be approved by the funder prior to additional funding being released. This is often an indicator that the funder is approving the progress of the project in stages, and tying the release of additional funds to satisfactory progress. We would encourage the FASB to include in the guidance that approval of a progress report prior to release of additional funds be considered a significant indicator of a barrier.

Qualifying Expenses - The issue of Qualifying Expenses is more complex. First, we believe the term Qualifying Expense should be defined in the Glossary. Next, it appears the FASB is making a distinction between Qualifying Expenses from 1. government grants subject to cost circulars, and Qualifying Expenses from foundations and other entities subject to 2. Budgeted line item spending requirements or 3. Must Expend All Funds Or Return Them expenditure requirements.

I see no meaningful distinction between such grants in terms of limited discretion. In all 3 cases, the NPO must expend the funds on the project or return them, and whether or not they have to do so in accordance with a grant budget or a federal cost circular is not significant. It may be slightly more difficult to expend under the federal cost principles, but not enough to warrant disparate accounting treatment. I have clients who were required to return unexpended foundation funds with Must Expend All Funds language, so the funders have the absolute right of return in all 3 of these scenarios, and will use it when they deem advantageous.

We are not alone in this concern about Qualifying Expenses – at least 3 other comment letters (1 from FinRec, 2, and 4) are expressing the same concern, and arriving at a similar conclusion. Qualifying Expenses are limitations on discretion that go beyond government grants.

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.

Relating to this topic, I find the proposed guidance unclear when discussing ambiguous stipulations or grants that are silent as to indicators of the right of return/release. Paragraph 958-605-25-5B says it must be determinable from the agreement (or another document referenced in the agreement) that a recipient is entitled to the assets if the barrier is overcome, and goes on to say that the exact phrase “right of return/release” need not be stated, but it should be sufficiently clear to support a reasonable conclusion.

It then goes on to say that in the absence of **ANY** apparent indication of the above, the grant shall NOT be considered to contain a right of return/release and is unconditional. This appears to conflict somewhat with paragraph 958-605-25-5D. 5D indicates that if the stipulations are ambiguous, there is a presumption that the contribution is conditional. We find this confusing. The use of the word ANY would include non-significant barriers. The concept of conservatism would support the treatment in 5D. Perhaps paragraph 5B could be expanded to make very clear how ANY indication of right of return/release (which would include non-significant indicators such as administrative or trivial matters) should be handled.

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. Yes – Qualifying Expenses should be clearly defined and consistently treated whether from government or private foundation limitations.

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. No comment

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? No comment

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? No comment

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