

October 31, 2017

FASB Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
Norwalk, Connecticut 06856-5116

Re: File Reference No. 2017-270

Dear Technical Director:

I appreciate this opportunity to respond to the proposed Accounting Standards Update, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (the Draft). My comments reflect my views as a former chief financial officer for a large regional not-for-profit entity, a current member of the finance committee for a very large faith-based not-for-profit entity, and a former auditor of small and medium size not-for-profit entities.

I have ordered my response with a few general comments followed by responses to the specific questions raised in the exposure draft.

### **General Comments**

I commend the Board for taking on this project as my personal anecdotal evidence supports the need to provide guidance to eliminate the current diversity in practice relating to accounting for certain contributions (primarily grants). As a continuing education discussion leader for the AICPA for the past 12 years, I have seen first-hand how many different interpretations there are to the current guidance relating to accounting for contributions received.

The following demographic information is provided to assist in evaluating the potential challenges with implementing the proposed amendments and to put my responses in context. According to the latest information from the National Center for Charitable Statistics, there are 1,571,056 not-for-profit entities in the United States (US) and 1,097,689 (70%) of those represent entities organized under Internal Revenue Code (IRC) section 501(c)(3). Based on gross receipts, five of the ten largest 501(c)(3) organizations are universities, four are health care organizations and one is a foundation.

Based on expenses reported on Federal Form 990 by public charities, 82% of these organizations reported total revenues of less than \$1,000,000, 14% reported total revenues between \$1,000,000 and \$10,000,000, and only 4% reported total revenues in excess of \$10,000,000. For the entities reporting revenues of less than \$1,000,000, 57% of those revenues were reported as coming from contributions and grants. Revenues from contributions and grants represent 48% of total revenues for entities reporting total revenues between \$1,000,000 and \$10,000,000. For the largest of these organizations (revenues exceeding \$10,000,000), contributions and grants represent 17% of total revenues. Therefore, it appears smaller entities will be affected by the proposed amendments more than larger entities.

This information leads me to conclude the vast majority of not-for-profit entities (NFPs) in the US are not large and many are in fact small. In my experience, many small and medium size NFPs (which is the majority of not-for-profit entities in the US based on the above noted statistics) invest the majority of their human, capital, and financial resources in mission driven program activities. This leaves few resources available for support functions. As such, the accounting and finance staff in these entities may have limited knowledge of accounting and financial reporting requirements relating to not-for-profit entities.

To compensate for this lack of internal expertise, entities often engage their external auditor to assist them in preparing their external financial statements. As such, the auditor of these entities frequently provides other nonattest/nonaudit services to these entities including assisting with the classification of revenues. I realize the Board is an accounting standard setting body rather than an audit standard setting body. However, the reality is many auditors do provide multiple accounting and reporting services for their small and medium size NFP clients and many of these services relate to accounting for grants.

My responses below are in relation to government grants as this is the area of my expertise and experience. Also, based on my experience, government grants are more common funding sources than foundation grants.

## Responses to Questions

**Question 1:** I believe the proposed amendments may provide clarifying guidance which would be operable in practice. In my personal experience, many NFPs and their auditors believe government grants are exchange transactions but view foundation grants as contributions. The clarifications proposed for 958-10-65-2 to the definition of exchange transactions may or may not eliminate the current diversity in practice. However, the first sentence in paragraph (a) in 958-605-15-5A relating to Transactions provides very clear guidance. My concern is NFPs and their auditors, upon issuance of the final standard, may not read much past the guidance in 958-10-65-2 and conclude as they do now their grants are exchange transactions. Perhaps the Board could consider a reference in 958-10-65-2 to the guidance in 958-605-15-5A.

**Question 2:** The proposed guidance in 958-605-15-5A relating to commensurate value is very clear and covers a number of the situations existing in practice. The specific guidance in paragraph (a) is especially clear and it should, in my opinion, reduce diversity in practice when accounting for government grants.

**Question 3:** Donor-imposed conditions should include a barrier which must be overcome; however, I do not believe such conditions should also include a right of return of the assets/right of release of the obligations. Many government grants include standard language relating to the return of any unused advanced funds. Likewise there is typically standard language in reimbursement grants stating any unused funding is not re-appropriated or rolled forward to future awards. This situation is discussed in the Draft in 958-605-55-17D but only with respect to foundations and I believe this reference should be expanded to include government grants.

Based on my experience with state and federal agencies, they do not view this type of standard language as a condition but simply a mechanism to ensure funds spent are for the intended purpose of the grant. Additionally, small and medium size NFPs typically do not leave “money on the table” when it comes to grant funds. Even when they do, the amounts are usually immaterial to the total grant and to the entity as a whole.

I believe the Board should consider reinstating current guidance in 958-605-25-12 whereby a conditional promise to give is unconditional if the possibility the condition will not be met is remote. If this were to be reinstated, I would agree the proposed definition of donor-imposed conditions should include a barrier as well as a right of return/right of release. As noted above, NFPs do not leave “money on the table” which would make the return of the assets remote and accordingly grants would be reported as unconditional contributions. In addition, I believe this would result in efficiency in accounting and reporting of grant revenues.

**Question 4:** The proposed table of indicators of a barrier provides useful guidance but may create additional diversity in practice. For example, the proposed indicator “Limited Discretion by the Recipient” is very similar to the “Method of Delivery” indicator currently in 958-605-55-8. Based on my anecdotal experience, the current indicator is often not considered or interpreted differently by NFPs and their auditors. Also, I am not sure the second sentence provides useful and/or clear guidance. The phrase

“...transferred assets should be spent for general operating purposes...” may create diversity in practice because NFPs and/or their auditors might interpret this to mean support activities rather than the program activities addressed at the end of this phrase. It might be less confusing to reword the parenthetical information to something such as “...spent for ongoing program activities” followed by “...general operating purposes ...”

I am not sure what the barrier “Stipulations That Are Related to the Purpose of the Agreement” is intended to address. Is this intended to address grantor stipulations relating to the “Method of Delivery” as noted currently in 958-605-55-8? If this is the case (or not), I would ask the Board to consider further explaining this concept in the table. I do not believe the example in 958-605-55-17E provides adequate information to understand the proposed indicator of a barrier.

The “Additional Action(s)” section should specifically state simply preparing a request for reimbursement is not an additional action. Additionally, I would ask the Board to make a similar specific clarification in 958-605-55-16. I do not believe such action is a barrier because the NFP will not receive reimbursement unless it files a claim for reimbursement. Realistically, this would likely never intentionally happen. Based on my anecdotal experiences as a discussion leader AICPA, some NFPs and/or their auditors currently believe preparing and filing a reimbursement report is a condition.

**Question 5:** The proposed amendments relating to distinguishing between conditional and unconditional contributions should be applied equally to both recipients and resource providers. However, this is not realistic with respect to government grants as the federal government and state and local governments have their own standards relating to accounting for contributions received and made. Currently in practice I am not sure foundations awarding conditional grants record them as such; therefore, I am not sure the proposed guidance would do much to change the diversity present in current practice.

**Question 6:** Use of the phrase “qualifying expenses” in several of the illustrations needs to be defined beyond the parenthetical references to expenses in accordance with the Office of Management and Budget (OMB). The cost principles promulgated by OMB do not use this phrase and I believe a definition to document the Board’s connotation of this phrase is needed. If “qualifying expenses” are considered a measurable performance-related barrier (as indicated in several of the illustrations), they need to be included as such in the table of indicators in 958-605-25-5C. Other than this, I do not believe any other terms and/or their definitions need to be clarified. In my experience, there is little confusion or diversity in practice with respect to current definitions.

**Question 7:** Information as to how a NFP determined a grant was an exchange transaction, unconditional contribution, or conditional contribution would be relevant to users of NFP financial statements. In addition, it might help in identifying areas of diversity in practice. For example, two NFPs receiving funding from the same grantor from the same grant appropriation classify the transaction differently. If disclosure of the reasons for the classification is made, the grantor would be able to appropriately evaluate the financial information of both entities. Other than this, I believe current disclosure requirements should not be amended.

**Question 8:** As proposed, the transition guidance is operable and will provide decision-useful information which may, in my opinion, be of limited use. For example, assume a NFP previously reporting grant revenue as an exchange transaction will be required to report said grant as a conditional contribution on a prospective basis. Since retrospective application is permitted but not required, and only an explanation of significant changes is required in the year of adoption, users may not be able to discern the quantitative effect of the accounting change. I believe retrospective application should be permitted; however, I would ask the Board to consider requiring quantitative disclosures relating to the accounting change.

**Question 9:** The effective date of the proposed amendments should be the same as the effective date of Topic 606 since exchange transactions under the amendments in the draft would need to be reported using the requirements of Topic 606.

**Illustrations:** While the Board did not specifically ask for comments on the illustrations I would like to provide comments relating to some of them.

***Distinguishing Contributions from Exchange Transactions:*** Three of the examples relate to research grants, one relates to health care services, and one relates to tuition grants. Of the entities in the examples, three examples involve universities. Based on the statistics noted in my General Comments, most of the entities likely to be affected by the proposed guidance are small and medium size entities and not likely to be universities or large health care organizations. Therefore, I would ask the Board to consider adding examples more appropriate for the affected audience such as health and human services grants, education related grants, or other types of grants more common across the industry. I believe a lot of the current diversity in practice results from illustrations which are not relevant to many NFPs and/or their auditors.

***Determining Whether a Contribution is Conditional or Unconditional:*** I believe the Qualifying Expenses illustration in 958-605-55-70B will create diversity in practice which does not exist today. This may be especially true for small and medium size NFPs and their auditors who may have previously reported grants as exchange transactions which would need to be reported as unconditional/conditional contributions under the proposed amendments. In my experience, many NFPs of all sizes receive numerous government grants many of which are subject to the Uniform Guidance issued by the OMB. Therefore, I believe any illustrations included in the final guidance should accurately reflect the possible scenarios under these types of grants using very specific examples. If this is not done, I believe additional diversity in practice will exist.

Reference to a NFP having limited discretion over how to spend grant assets is one of the areas creating diversity in practice today. For example, some NFPs and their auditors believe being able to only provide services to a certain income group constitutes limited discretion because they are only able to serve individuals in the proscribed income group. Other NFPs and their auditors believe such a requirement is broad in nature because the NFP has discretion over which individuals in the proscribed income group receive services. I believe the current “Method of Delivery” indicator (958-60505508) addresses this situation better than the “Limited Discretion by the Recipient” indicator of a barrier.

The suggestion a measurable barrier may exist because spending of the assets is required to be done in accordance with the Cost Principles in the Uniform Guidance is problematic for me. Under 2 CFR 200.210, Information Contained in a Federal Award, the grantor is required to include specific information in the grant award itself including the general terms and conditions with which the recipient is required to comply. This information includes references to the Cost Principles (2 CFR 200 Subpart E) as well as pre- and post-award requirements with which the granting agency assumes the recipient will comply. As a result, the recipient is fully aware of all of the grantor’s expectations when they execute the grant award agreement.

Additionally, 2 CFR 200.400, Policy Guide, states “The application of these cost principles should require no significant changes in the internal accounting policies and practices of the non-Federal entity. However, the accounting practices of the non-Federal entity must be consistent with these cost principles and support the accumulation of costs as required by the principles, and must provide for adequate documentation to support costs charged to the Federal award.” In my mind, this indicates the OMB (and by default the grantor) does not view adherence to the cost principles as a barrier.

***Illustrative Transactions:*** Based on the various illustrations included in the proposed amendments I would suggest the Board consider including the journal entries for the transactions noted in each example. As stated throughout my response, for many NFPs and their auditors the proposed amendments may have a significant impact on current practice.

For example, reimbursement grants previously accounted for as exchange transactions affected payables and expenses when amounts were incurred and receivables and revenues when the reimbursement request was prepared. Under the proposed amendments, if the same grant is now determined to be a conditional contribution what would the NFP record when the incur costs under the grant? Is there an entry when the NFP prepares the reimbursement request? Are amounts reimbursed by the grantor recorded as refundable advances and then recognized as unconditional contribution revenue when the current year compliance audit is complete or when the grant is closed and the period of availability has passed? These questions are also important in light of the guidance in 958-605-55-21 as the guidance in the illustrations included in the proposed amendments seems contradictory.

My biggest concern with the proposed amendments as they relate to government grants is the current diversity in practice will continue. To me, the illustrations provided in the proposed amendment relating to government grants create more questions than answers.

Again, I appreciate the opportunity to provide my comments on the above noted Draft. Should you have any questions, please feel free to contact me at [lkmdennis@gmail.com](mailto:lkmdennis@gmail.com) or [lynda.dennis@ucf.edu](mailto:lynda.dennis@ucf.edu).

Sincerely,

*s/ Lynda M. Dennis*

Lynda M. Dennis; CPA, CGFO, PhD  
Lecturer, Dixon School of Accounting  
University of Central Florida  
P.O. Box 161400  
Orlando, Florida 32816-1400