



FOUNDED BY BRIGHAM AND WOMEN'S HOSPITAL
AND MASSACHUSETTS GENERAL HOSPITAL

November 1, 2017

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

File reference No. 2017-270

To whom it may concern:

Partners HealthCare System, Inc. (We, Partners, or the System) appreciates the opportunity to comment on the Proposed Accounting Standards Update, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. We support the Financial Accounting Standards Board's (FASB) continuing efforts to improve the usefulness of the information provided by financial statements for stakeholders.

Background

Before addressing the specific questions outlined in the ED, we believe it is important for the FASB to understand our perspective when considering the potential impact of the proposed guidance. Partners is a conduit bond obligor which operates academic medical centers and community acute care facilities, physician organizations and practices, inpatient and outpatient non-acute and mental health facilities, graduate level programs for health professions and a licensed managed care organization. In addition, Partners is a nonuniversity-based nonprofit private medical research enterprise and is a principal teaching affiliate of the medical and dental schools of Harvard University.

Audience

While not all inclusive, the following list highlights the diverse nature of the users of our financial statements: donors, regulators, investors and creditors (e.g., bond holders, banks, vendors, etc. – collectively referred to as investors), rating agencies and board members. Like many not-for-profit (NFP) health systems within the US, we routinely access the capital markets.

Response

While supportive of the FASB's overall efforts to clarify, and improve the scope and existing guidance related the contribution accounting model, there are concerns we believe the FASB should consider in its deliberations.

Institutions within Partners receive significant funding for research activities from numerous departments and agencies of the U.S. Government, industry and other foundation sponsors. These grants and contracts normally provide for the recovery of direct and indirect costs. However, due to the inherent nature of scientific research, do not always provide "commensurate value in return", as defined in the ED, to the granting organization. The value received by granting organizations is the intrinsic good research provides to the population as investigators strive for the next breakthrough. Our interpretation of the ED would characterize much of the research grants received as contributions. What would the public's perception be if most grants issued by the federal government were considered "contributions"? Generally, Partners recognizes revenue associated with research grants as direct and indirect costs are incurred which we believe would not be very different than the model proposed in the ED.

Partners has developed an extensive infrastructure to comply with the complex rules and regulations governing the use of government research grants. If much of our research grants were to be considered contributions, in

Controller's Group

Partners HealthCare System, Inc.
File Reference No. 2017-270

Page 2 of 5

theory, we would have to allocate the cost of our research infrastructure to “fundraising” expenses. The definition in the Master Glossary of “fundraising activities” isn’t specific on this issue. If our determination that grants would be scoped into the contribution accounting model, our logic would be that costs to obtain and/or manage grants could be in scope of that definition. We believe this would be distortive to the cost of raising true philanthropic dollars and would expose research institutions to unnecessary questions on the cost of philanthropy.

Overall, we believe the new proposed definition of what constitutes a contribution is too broad and would lead to unintended consequences. In addition, it appears the literature would be swapping one set of judgments (grants vs. contributions) for another set of judgments (commensurate value in return) which ultimately may not eliminate diversity in practice. Ultimately, each institution is going to have to decide the appropriate accounting, which allows for diversity in practice, for these types of transactions and it appears this is an arbitrary shift of the line designed to help less sophisticated organizations.

If the FASB’s intent is to scope research grants out of exchange accounting (ASC 606) and to follow a non-exchange reporting model, we recommend a better approach would be to establish either a) a new comprehensive non-exchange reporting model or b) a reporting model specific to grants which addresses the concerns about commensurate value in return. This would allow the FASB to establish a principle based approach that would be more inclusive rather than expanding the definition of a contribution. Given the public focus on contributions, cost to raise philanthropic dollars and the stewardship of donations, to co-mingle research grants, in our opinion, would lead to more confusion.

If the FASB intends to move forward with the ED in its current form, the recommendations below we believe should be considered to clarify the guidance and provide flexibility for the large variety of not-for-profit institutions.

If adopted as proposed, a new accounting model would be applied to much of our research grants, however, we expect the pattern of revenue recognition to remain relatively consistent with the pattern that exists today. We plan to continue to report these federal grants in operating revenues whereas we account for contributions as nonoperating revenues. We recommend the FASB clarify that although some grants will now fall within the contribution accounting model, it would be acceptable to use alternative terminology and for users to maintain flexibility of financial statement presentation. Acknowledging this flexibility exists today, we have concerns based on past FASB exposure drafts, financial statement presentation may become more prescriptive.

Under the contribution model, there will be situations in which a grant is determined to within the contribution model and to have both conditions and restrictions. We believe that in many instances the conditions and restrictions will be satisfied at the same point in time. Instead of presenting these as an increase in temporarily restricted net assets and an immediate release into unrestricted net assets, we recommend the FASB include the existing guidance relating to the simultaneous release of restrictions if met in the same period into the proposed update.

The language and terms included in the wide variety of agreements Partners receives can vary significantly and we do have some concerns about the ability to implement some of the proposed guidance considering the large spectrum of agreements we have in place. For instance, a “right of return” could potentially exist in various forms: as a requirement to return only unspent funds, as a requirement to return all funds (including those spent), and/or as the inability to receive reimbursement or future funding. Given the varying terms, we have concerns about the inconsistencies that may arise from implementing this guidance across the many complex agreements we have in place – as well as in comparison to other NFP organizations.

Conclusion

We acknowledge diversity in practice exists and appreciate the FASB’s efforts to eliminate these instances when possible. However, we believe that even with the proposed changes, there will always be diversity in practice due to the inherent nature of the individual judgments involved when distinguishing between grants or gifts and

Partners HealthCare System, Inc.

File Reference No. 2017-270

Page 3 of 5

conditional or unconditional. As noted above, although many of our grants would be evaluated differently, we do not expect a significantly different revenue recognition pattern or presentation. Therefore, we question the cost benefit of implementing this proposed standard as is as we are unsure it will provide the consistency stakeholders desire.

Partners thanks the FASB for allowing us to provide commentary on the proposed standard and for considering our concerns about the impact the ED would have on our organization and others like us.

The section that follows contains specific responses to some of the FASB's questions contained in the ED.

* * * * *

If you have any questions in relation to the letter, please do not hesitate to contact Brian Huggins (857-282-0756).

Very truly yours,



Brian J. Huggins
Corporate Controller
Partners HealthCare System, Inc.

Partners HealthCare System, Inc.
File Reference No. 2017-270
Page 4 of 5

Our 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?

While we believe, the guidance may be operable in practice but not without additional effort and potential cost. For example, we would have to develop a different process than we currently have in place to account for research grants which are considered non-exchange transactions. Given the volume of transactions this would put further burden on stretched resources. In addition, we believe additional opportunities for diversity in practice have been created.

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 proposed amendments in ASC 958-605-15A (a-e) provide sufficient clarification as to whether a resource provider is receiving commensurate value in return for assets transferred from a GAAP perspective. However, there is significant concern about whether stakeholders would understand this accounting distinction given what we interpreted as much of our government research grants would be considered non-exchange.

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?

Yes – we agree with the clarifications made to the definition for the term *donor-imposed condition*, however, additional guidance on how to apply the right of return concept would be beneficial.

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 proposed table of indicators provides useful guidance that will assist in transition. We do believe that additional details could be included related to the fourth indicator “additional action(s)” to clarify when such instances may occur. Does this include any additional action(s) or only substantial actions that would have otherwise not been undertaken? Are there scenarios where an additional action is not accompanied by another barrier (measurable or stipulation)?

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?

No significant preference.

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 definition for *contribution* that is currently included the proposed update is a bit misleading as it states a contribution is “an unconditional transfer of cash or other assets...”. A contribution can be unconditional or conditional, so we recommend this definition be clarified to include this.

Partners HealthCare System, Inc.

File Reference No. 2017-270

Page 5 of 5

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.

We believe current disclosure requirements are reasonable if focused on true philanthropic contributions and exclude grants which were previously considered exchange transactions and have been scoped in. Attempting to include grants into the existing gifts/pledges disclosures would be burdensome and not add commensurate value to the readers of the financial statements. We do not believe that additional disclosure requirements beyond these (and the disclosures on the accounting change) are necessary.

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 proposed transition requirements for modified prospective application will be operable and more comparable than prospective application. We do agree with the Board allowing full retrospective application as an option.

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?

We agree that the effective date of the proposed amendments should be the same as the effective date of Topic 606. Early adoption should be permitted.