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Proposed Accounting Standards Update: Not-for-Profit Entities (Topic 958) *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*

Hood & Strong LLP is an independent firm in California with 15 partners and over 85 professional and administrative staff. The Firm has been in business in San Francisco since 1917 and includes a strong not-for-profit practice in audit and tax.

We are pleased to have the opportunity to comment on the Financial Accounting standards Board's August 3, 2017 Exposure Draft of Proposed ASU, Not-for-Profit Entities (Topic 958) *Clarifying the Scope and The Accounting Guidance for Contributions Received and Contributions Made* (the ED or proposed ASU).

General Comments

We agree there should be some clarification to determine whether monies provided by a government agency are exchange transactions or contributions. We however feel that there continue to be many cases where not-for-profit entities are contracted by governmental agencies to provide particular services on behalf of the governmental agency. In these instances, it would be difficult to see the how this would be deemed a contribution. These types of arrangements are contract services. Should these types of arrangements be deemed contributions there will also need to be further consideration on how to allocate costs for fundraising, because these arrangements are generally contractual in nature.

Questions for Respondents

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

We believe the guidance in the proposed ASU will be operable in practice; however, there are some areas that require further clarification.

In the proposed ASU, section 958-605-15-15A, in determining whether a transfer of assets is an exchange transaction in which a resource provider receives commensurate value in return for the resources transferred or a contribution, an entity must evaluate the terms of the agreement and consider five items listed.

- a. The resource provider is not synonymous with the general public.
- b. Execution of the resource provider's mission shall not constitute commensurate value.
- c. If the expressed intent asserted by both the recipient and the resource provider is to exchange resources for goods and services that are of commensurate value, the transaction shall be indicative of an exchange transaction. What if one party to the transaction says it's a contribution and the other party says it's an exchange transaction?
- d. If the resource provider has full discretion in determining the amount of the transferred assets, the transaction shall be indicative of a contribution but if both parties agree it's an exchange with commensurate value, it's an exchange transaction.
- e. If the penalties assessed on the recipient for failure to comply with the terms of the agreement are limited to the delivery of assets provided and the return of the unspent amount, the transaction shall be indicative of a contribution. An exchange of commensurate value typically has an economic forfeiture beyond the amount of the asset transferred.

In reviewing the above items to consider, it would be helpful to include some clarification and examples for (1) an NFP receiving free, or discounted, rent, (2) below market loans, for example HUD loans or program related investment loans, and (3) other non-monetary transactions in addition to rent or use of building and lending activities.

Can there be some clarification on when the resource provider and recipient are not in agreement when the exchange of resources for goods and services are of commensurate value and deemed an exchange transaction?

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?

No, we don't think the proposed amendments are clear on whether a resource provider is receiving commensurate value within the scope of the proposed ASU. We believe that commensurate value does not fully distinguish when government entities are contracting for services from a not-for-profit versus providing a grant for an entity to provide services. There should be a clearer distinction to address payment for contract services from a governmental entity with clarification of how that distinction is made. A governmental entity which provides grant funding to a not-for-profit is receiving commensurate value as by "subcontracting" this work out, it relieves the obligation by the governmental entity to provide those benefits directly.

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 feel the use of the two criteria is appropriate when defining the term *donor-imposed condition*.

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?

We feel the proposed table of indicators is helpful, but it would be helpful if it is more clearly stated that the list does not include the only indicators. If we are moving to more principles based standards, there should be some room for professional judgment but that may be counter intuitive to this proposed ASU.

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 proposed amendments about the distinction between conditional and unconditional contributions should be applied to both the recipient and provider. We feel more outreach should be provided to resource providers to ensure symmetrical treatment. This may be a difficult area of implementation.

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.

Conditional promise to give is defined in the Master Glossary but conditional contribution appears to be missing. Some changes to the existing wording could correct that omission.

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.

Yes. Additional disclosure on conditional contributions which may have previously been accounted for as temporarily restricted net assets may need to be enhanced to ensure the information is useful to the reader of the financial statements.

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. A modified retrospective method in the year of adoption would be the least disruptive for the transition and adoption.

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?

This is a significant change without the same kind of lead time as Topic 606 has had. We feel the earliest this proposed ASU should be effective for is periods beginning on or after December 31, 2018. Early adoption should not be permitted.

We appreciate the opportunity to comment on the proposed ASU.

Very truly yours,



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On behalf of Hood & Strong LLP