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November 1, 2017

Susan M. Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

Re: File Reference No. 2017-270

Dear Ms. Cospers:

On behalf of the National Association of College and University Business Officers (NACUBO), we submit the following comments on the Proposed Accounting Standards Update, “*Not -for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*” (Proposed ASU). NACUBO’s comments on the Proposed ASU were developed with input from our member institutions and our Accounting Principles Council (APC). The APC consists of experienced business officers from various types of institutions who, collectively, possess a thorough knowledge of higher education accounting and reporting issues and practices.

NACUBO is a nonprofit professional organization representing chief financial and administrative officers at more than 1,900 colleges and universities. In its capacity as a professional association, NACUBO issues accounting and reporting guidance for the higher education industry and educates more than 2,000 higher education professionals annually on accounting and reporting issues and practices.

Overall Comments on the Proposed ASU

We appreciate the effort that the Board and staff have taken to provide clarification around the accounting for grants and similar contracts by Not-for-Profit entities (NFPs). As shared previously, for higher education the volume (in both numbers and dollars) and complexity of these transactions is significant. Therefore, we appreciate the time devoted to understanding the nuances and developing guidance that addresses our constituents’ needs. We generally agree with the concepts included in the Proposed ASU but feel that additional clarification in certain areas is needed in order to provide the greatest consistency in application. We have addressed these areas in the answers to specific questions posed in the Proposed ASU. We also include two appendices; Appendix A provides examples of additional barriers that can exist in grants that include a cost sharing component and Appendix B offers suggested edits to various sections in the proposed guidance.

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

We believe that some clarification to the description of barriers and, perhaps, some additional examples are needed in order for the guidance to be operable in practice. We have expanded on these clarification recommendations in related comment sections of this letter.

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?

We believe that the amendments would clarify whether a resource provider is receiving commensurate value in return for assets transferred. However, we find the sentence “A resource provider (including a private foundation, a government agency, or other) is not synonymous with the general public” to be problematic as it may be misconstrued to mean that the general public cannot be a resource provider. We believe that sentence could be deleted entirely from the proposed guidance with no loss of clarity as follows:

958-605-15-5A(a) ~~The resource provider (including a private foundation, a government agency, a corporation, or other organization) is not synonymous with the general public.~~ Indirect benefit received by the public as a result of the assets transferred is not equivalent to commensurate value received by the resource provider. Therefore, if the resource provider receives no direct value in exchange for the assets transferred or if the value received by the resource provider is incidental to the potential public benefit from using the assets transferred, the transaction shall not be considered commensurate value received in return.

With regard to scope, it is unclear to us how transactions described in paragraph 958-605-15-6e differ from those described in 958-605-15-6b (both of which are outside the scope of the proposed guidance). Perhaps the distinction relates to the existence of an exchange transaction between the reporting entity and a customer for which payment is made by a third party. If that is the case, we suggest that more appropriate wording for 958-605-15-6e would be “Transfers of assets by a third party that **are payments relating to an** existing exchange transaction between a recipient and an identified customer” (emphasis added). In addition, the last sentence of paragraph e indicates that for these types of transactions other guidance should be applied and refers to Topic 606. We are concerned that this may cause a reader to think that either (a) these transactions are inseparable from an existing exchange transaction or that (b) third party payments are themselves exchange transactions and should be accounted for under Topic 606. To avoid confusion, we recommend that the final sentence in paragraph e be deleted.

We are also concerned that, as written, paragraph e may be inaccurately describing transactions such as Pell Grants (and unintentionally leading the reader to believe that Pell Grants are subject to Topic 606 guidance). Pell Grants are transfers of resources to a college or university (reporting entity) for students, from the Department of Education, and are applied as payments on behalf of specifically identified students (customers) for

exchange transactions such as tuition or housing. As such, the reporting entity acts as an agent (for the Department of Education) rather than as a donee. Therefore, Pell Grants should be removed from the cited examples.

Finally, we believe it is problematic to include two examples (examples 2 and 3) that are neither contribution nor exchange under the heading, “Distinguishing Contributions from Exchange Transactions.” Both examples illustrate payments received from third parties on behalf of an existing customer. If the Board feels the need to include these examples, we recommend that a separate heading such as “Payments Related to an Existing Exchange Transaction” or “Examples of Transactions Outside the Scope of Guidance” be added and these examples included there.

We believe that including discussion and examples related to these types of transactions detracts from the core concepts that the Board is attempting to clarify.

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?

We agree that both a barrier and a right of return (or release of the promisor from its obligation to transfer assets) should be present for a contribution to be considered conditional.

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 agree that no single indicator should be determinative and appreciate the guidance provided in the table. However, because the introductory prose (958-605-25-5C) indicates that the table contains a list of indicators that may be helpful in determining whether an agreement contains a barrier, that some indicators may be more significant than others, and that no single indicator shall be determinative, we believe that the table should be titled, “Considerations for Determining if a Barrier Exists.” In addition, we recommend that references to the examples that illustrate the concepts be added to the table. When the guidance becomes codified, the examples will not be in close proximity to the table and users may not know to look to them for further clarification.

Following are our thoughts and recommendations related to the individual indicators.

Measurable Performance-Related or Other Measurable Barrier

We believe that the majority of conditions will fall within this indicator and think that the description in the table will be useful for determining whether a barrier exists.

Stipulations That Are Related to the Purpose of the Agreement

We understand that the point of this indicator is to make it clear that administrative tasks and trivial stipulations should not be considered barriers. Therefore, we

recommend that the description not lead with repeating the indicator but rather with the second sentence and a clarifier, “This indicator would generally exclude administrative tasks and trivial stipulations such as routine reporting to the grantor.”

Limited Discretion by the Recipient

We suggest adding explanatory information to ensure that there is a clear definition of “limited discretion by the recipient.” Otherwise, the description in the table only emphasizes what would not be considered limited discretion, which may detract from a reader’s ability to understand limited discretion. In addition, we think the proposed description makes it difficult to discern how this barrier differs from a restriction – particularly when the term “restricted” is used as part of the explanation. Consider the following: “The recipient has limited discretion over how the transferred assets may be spent. For example, the funds must be spent only on qualifying expenses or in accordance with a detailed line-item budget from which the recipient cannot deviate without approval from the funder. Limited discretion imposes conditions on the manner in which the funds may be spent. Consequently, limited discretion is different than a stipulation by the donor that restricts the purpose for which the funds may be spent.”

Although example 15 (paragraphs 958-605-55-70G and 70H) attempts to illustrate when a recipient has broad discretion (i.e., does not have limited discretion), we do not believe the facts in the example support the conclusion that the contribution is unconditional. Specifically, the fact that the award includes a budget that must be followed with approval required from the grantor for significant deviations would seem to indicate that the recipient has limited discretion over how the funds may be spent. The conclusion, however, describes the recipient as having broad discretion and therefore the grant is determined to be unconditional. This is not the conclusion we reached after reading the facts; thus, we believe that this example could cause confusion and some may assume that a budget would not be considered a barrier in any case. That is certainly not the case for many awards where adherence to the approved budget is just as limiting as incurring qualifying expenses on a federal award. As such, we recommend that this example, as well as discussion throughout the guidance related to budgets as indicators of a barrier, be clarified.

Additional Actions

We find the examples associated with this indicator troublesome. The way this is illustrated, the existence of a barrier seems to hinge on whether the funds were solicited by the NFP. Specifically, Example 17 inserts the fact that the grant was unsolicited to indicate a barrier. We do not believe that solicitation of funds by a recipient is an indicator of a barrier. However, if the Board concludes that solicitation is generally an indication of a barrier, it should be included in the earlier discussion of barrier indicators (905-605-25-5C).

Overall, we find this indicator to be too broad to be beneficial in determining whether a barrier exists. If the indicator is to be retained, we believe it should be clear that the existence of a barrier must be based on the terms of the agreement and, therefore, any additional actions required would need to be specified in the agreement. Unless parameters can be added to narrow the focus of this indicator, we recommend that it be removed.

We also suggest that the final ASU include examples of situations in which there may be multiple barriers. A common situation for higher education is when a grant includes a cost sharing component (in addition to a qualifying expense requirement).

These are often, though not always, federal grants under which the institution agrees to contribute a certain amount of its own resources as part of the award agreement. While many higher education institutions have such awards, they are generally not material to total sponsored research revenue and the match is often met through contributed effort – salary and benefits – that is provided ratably over the term of the award. This, however, is not always the case. For some awards, the cost sharing is in the form of cash and may be contributed at any time during the term of the grant.

A question has been raised about whether cost sharing is similar in nature to a matching grant, and therefore, may impact the timing of revenue recognition. In making that determination we believe the recipient should look to the terms of the award to determine whether the cost sharing constitutes a barrier to entitlement of the funds provided by the grantor. We note that in many instances, failure by the recipient to meet the match may result in reductions to future funding but would not require the recipient to return funds already received for performance under the award. In those circumstances, we do not believe that the cost sharing represents a barrier. If, however, the grant specifically stated that funds would have to be returned to the grantor (or the grantor would be released from its obligation to transfer funds) if the cost sharing was not met, a barrier to entitlement would exist. In some circumstances, there may be discretion as to when the cost sharing is provided, or opportunities to extend the terms of the grant in order to meet the cost sharing requirement. In other cases, certification of the cost sharing may be required to accompany each request for funds. In each case, the recipient would need to determine, based on the terms of the award, when the barrier had been overcome and revenue could be recognized.

Because this is a complex area that impacts many NFPs, we believe that the final guidance should include examples illustrating these types of arrangements. To assist the Board in its deliberations on this topic, we have included some examples illustrating the points discussed above in Appendix A.

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 recommend that the following terms be clarified:

- Contribution – As defined in the Master Glossary, a contribution is unconditional. However, the proposed guidance makes distinctions between conditional and unconditional contributions. Therefore, we believe that both terms should be included in the Master Glossary.
- Conditional Promise to Give – The current definition should be revised to eliminate the words "future and uncertain event," similar to other changes made throughout the Proposed ASU.
- Unconditional Promise to Give – The current definition reads: "A promise to give that depends only upon the passage of time or demand by the promisee for performance." It is not clear what the last part of that sentence means. Consider taking this opportunity to better describe what is trying to be conveyed.

In addition, we recommend that the Board consider adding definitions for the following terms to the Master Glossary.

- Conditional Contribution – See the comment above related to the current definition of contribution.
- Unconditional Contribution – See the comment above related to the current definition of contribution.
- Qualifying Expenses – This term is used throughout but never defined. We believe that providing a definition would be useful in reducing diversity in practice. We note that in its letter to the Board, the AICPA proposed the following definition: "Resources provided with specific guidelines that result in the recipient organization having limited discretion over how to use those resources in order to be entitled to them (for example, compliance with principles issued by the Office of Management and Budget, or specified approved or allowable costs which are mandated by the resource provider, in conformance with the terms of the agreement, where significant deviations require approval)."

We concur with this proposed definition.

- Donor – The term "donor" is used throughout the document and often parenthetically states, "donors include other types of contributors, including makers of certain grants." Rather than including that clarification throughout, consider adding "donor" as a defined term.

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 disclosures currently required by ASC 958-310-50-4 for conditional promises to give are not widely used today. In fact, we were unable to identify any financial statement users with an interest in those disclosures. As such, we do not believe that requiring such disclosures for conditional contributions would be of value and we believe it could be misleading were a user to make assumptions about the timing of future revenue. In addition, the time and effort involved in preparing the disclosures would likely outweigh the benefit. If desired, however, the Board may wish to make the disclosures optional.

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?

We believe that prospective application would be the most operable transition method. Under a modified prospective application, an entity would still have to go through all of its grants, gifts, and pledges – which could be in the thousands – to determine the appropriate accounting going forward. This could take considerable time and effort to achieve. With prospective application, however, an entity would only need to assess agreements entered into after the effective date while allowing for current accounting of existing agreements to “play itself out,” similar to the practical expedient provided in ASC 842-10-65-1(f) for the lease accounting transition.

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?

For institutions with significant numbers of grants and contributions, certain system and process redesigns may be required that could be labor intensive and time consuming. These would typically be large institutions that meet the definition of public entities for reporting purposes. Given the short amount of time between the issuance of this standard and the effective date of Topic 606 for public entities, we believe that there will be some institutions that are unable to complete the work necessary to accurately reflect contributions in their financial statements. Therefore, we request that the ASU be effective for all not-for-profit entities (public and nonpublic) for fiscal years beginning after December 15, 2018 – the effective date of Topic 606 for nonpublic entities. If, however, institutions wish to early adopt the proposed amendments, we believe that should be permitted.

We wish to express our appreciation for the opportunity to comment. We look forward to answering any questions the Board or the staff may have about our response. Please direct your questions to Sue Menditto at 202-861-2542 or sue.menditto@nacubo.org.

Sincerely,

Susan M. Menditto
Director, Accounting Policy

Appendix A—Illustrations of Multiple Barriers in the form of Cost Sharing

Example 1

NFP K is a university that receives a grant from the federal government to conduct research. University K must follow the rules and regulations established by the Office of Management and Budget of the federal government and the federal awarding agency and is required to incur qualified expenses to be entitled to the assets. In addition, the grant requires University K to fund qualifying institutional expenses equal to 20 percent of the total project expenses. The agreement is silent as to when the institutional expenses must be incurred; University K may meet the cost sharing obligation ratably over the term of the grant or at the end of the grant period. University K has the option to request a no cost extension to incur the institutional qualifying expenses if they have not been incurred by the grant termination date. If the cost sharing requirements are not met, the awarding agency may apply any difference between the agreed upon and the actual cost sharing amount to reduce incremental funding in the following funding period, or if the award has expired or has been terminated, the awarding agency may reduce the amount of cost sharing required under the award.

University K determines that the grant is conditional as it must incur qualifying expenses in order to be entitled to the funds. In addition, University K determines that the cost sharing requirement does not constitute a barrier as it will not have to return any of the grant funds already received. Consequently, revenue will be recognized as the federal qualifying expense barrier is met.

Example 2

NFP L is a university that has received a grant from the federal government to conduct research. University L must follow the rules and regulations established by the Office of Management and Budget of the federal government and the federal awarding agency and is required to incur qualified expenses to be entitled to the assets. The grant includes mandatory cost sharing of qualifying institutional expenses equal to 50 percent of the total project expenses, which must be met ratably over the term of the grant. With each request for grant funds, the university must certify that it has met the cost sharing requirement.

University L determines that the grant is conditional as it must incur qualifying expenses in order to be entitled to the funds. In addition, University L determines that the cost sharing requirement represents an additional barrier as funding of expenses incurred will not be made available until the University certifies that it has met the cost sharing requirement. Consequently, revenue will be recognized only when both barriers are met.

Appendix B

The following table includes items that we identified in our review of the proposed changes to the FASB ASC. We believe that these should be considered when drafting the final standard.

Note - text in red represents potential changes to the wording in the Proposed ASU	
Paragraph Reference	Comment
958-605-15-5A	Consider making the following change: "In determining whether a transfer of assets is an exchange transaction in which a resource provider (for example, a government agency, a private foundation, a corporation, or other organization entity)..." This change broadens the definition of a resource provider to encompass individuals.
958-605-15-5A(a)	Consider changing "other organization" in the parenthetical description of a resource provider to "other entity" to encompass individuals.
958-605-15-5A(e)	It is unclear what the first sentence in this paragraph is attempting to convey. In particular, the words "delivery of assets provided" are confusing. Consider rewording the sentence to clarify the concept being communicated.
958-605-25-2	The reference in the first sentence should be to paragraphs 958-605-25-16 through 25- 19 19 .
958-605-25-2	Consider the following change to the penultimate sentence: "A contribution made and a corresponding contribution received generally are recognized by both the donor and the donee at the same time, that is, when the barrier, if any , is overcome." Because the sentence relates to all contributions, a barrier may or may not exist.
958-605-25-2A	Consider the following wording changes to this paragraph: "After a contribution has been deemed unconditional, an entity shall consider whether the contribution is restricted on the basis of the current definition of includes a donor-imposed restriction..."
958-605-25-5A 958-605-55-17A	Consider the following wording changes: A donor-imposed condition must have both : a. A barrier that must be overcome for the recipient to be entitled to the resources provided . b. A right of return to the promisor for assets transferred or a right of release of the promisor from its obligation to transfer assets.

958-605-25-5B	Consider changing the first sentence as follows: " For a donor-imposed condition to exist , it must be determinable from the agreement..."
958-605-55-13A	Should the cross-reference in this paragraph be to 958-605-15-5A, or is it meant to include all of section 958-605-15?
958-605-55-14G	It is unclear why the last two sentences in this paragraph, which are part of the previous paragraph, are repeated here.
958-605-55-15	The penultimate sentence in this paragraph states, "Donor-imposed conditions should be substantially met by the entity before the receipt of assets (including contributions receivable) is recognized as a contribution." As the probability assessment that exists today is being eliminated, we suggest that the word "substantially" be removed.
958-605-55-16	Consider expanding this paragraph beyond just promises to give as it applies equally to all contributions (and is in the Contributions Received subsection). In addition, we recommend that the language in the first sentence be revised to conform to the new terminology introduced in the ASU. Consider the following: "If donor stipulations do not clearly state whether a barrier exists and whether the right to receive payment or delivery of the promised resources depends on meeting that barrier, or if those stipulations are ambiguous, distinguishing between a conditional contribution or promise to give and an unconditional contribution or promise to give may be difficult."
958-605-55-16	In the last sentence of the paragraph, consider inserting the word "primary" before "purpose of the agreement."
958-605-55-17B(d)	The parenthetical example in this paragraph is confusing. It is not clear whether the "company's net worth reaches a specified level" is meant to refer to a company with which the donor is affiliated. If that is the case, consider the following change to the wording: "(for example, a resource provider promises to contribute a certain amount of assets if the net worth of a company with which the resource provider is related reaches a specified level.)"

958-605-55-70E	<p>This example includes facts that are irrelevant to the assessment of the transaction and create confusion. We are concerned that by including the reference to the need to return funds deemed to be spent on unallowable costs, a reader might interpret that to be a barrier and not recognize revenue on the grant until the audit has been performed and any unallowable costs identified. Consider the following changes:</p> <p>"NFP B is a hospital that has a research program. NFP B applies for and receives a \$300,000 grant from the federal awarding agency to fund thyroid cancer research. The terms of the grant include a standard budget and specify that NFP B must incur certain qualifying expenses (or costs) in compliance with rules and regulations established by the Office of Management and Budget and the federal awarding agency. The grant is paid on a reimbursement basis by NFP B initiating drawdowns of the grant assets. Any unused assets at the end of the award period are forfeited., and any unallowed costs that have been drawn down by NFP B are required to be refunded. The grant agreement also states that an audit needs to must be performed annually in accordance with the Office of Management and Budget guidelines."</p>
958-605-55-70F	<p>Following on the edits in the previous paragraph, consider the following changes: "NFP B determines that this grant is conditional. The grant agreement limits NFP's discretion as a result of the specific requirements on how NFP B may spend the assets (incurring certain qualifying expenses in accordance with the Office of Management and Budget compliance requirements). The grant also includes a right of return for any assets advanced that have been spent on unallowed items and a release from the promisor's obligation for unused assets."</p>
958-605-55-70K	<p>If this paragraph is not deleted as recommended, consider the following wording changes: "NFP F is an animal shelter and receives a two-year unsolicited grant from a private foundation in the amount of \$500,000 provided upfront to be used to expand its operations. The agreement indicates that NFP F must expand its facility by 5,000 square feet to accommodate additional animals by the end of the 2 years within two years of inception of the grant. The grant contains a right of return for any unused assets."</p> <p>Note that we have removed the word "unsolicited" because we do not believe that should have a bearing on the determination of conditional vs. unconditional.</p>
958-605-55-70L	<p>If this paragraph is not deleted as recommended, consider changing the indicator to a measurable barrier (expanding the facility by 5,000 square feet) rather than an additional actions barrier that seems to hinge on the fact that the grant was unsolicited. Again, we do not believe that whether a contribution was solicited should have a bearing on the determination of whether it is conditional or unconditional.</p>

<p>958-605-55-70M</p>	<p>If this paragraph is not deleted as recommended, consider the following minor wording changes: "NFP G is a university that is conducting a capital campaign to buildconstruct a new building to house its school of mathematics and to make capital improvements to existing buildings on campus, including a new heating system and an upgraded telephone and computer network. NFP G receives an upfront grant in the amount of \$10,000 from a private foundation in response to a proposal submitted as part of its capital campaign. The agreement contains a right of return requiring that the assets be reimbursed returned to the resource provider if the assets they are not used for the purposes outlined in the capital campaign solicitation materials. The resource provider does not include any specifications in the agreement about how the building should be constructed or on how other improvements should be made."</p>
<p>958-605-55-70P</p>	<p>Consider revising the last sentence of this paragraph as follows: "NFP I recognizes the revenue as the barriers are overcome., which is upon meeting the specific requirements as NFP I builds the new wing."</p>
<p>958-10-65-2(d)</p>	<p>Consider switching the order of the two methods as modified prospective appears to be the recommended approach. If the practical expedient of full prospective application is approved, consider putting that method first.</p>
<p>720-25-25-1</p>	<p>Insert the word "Unconditional" at the beginning of the first sentence so that it reads: "Unconditional contributions made shall be recognized as expenses in the period made and as decreases of assets or increases of liabilities depending on the form of the benefits given."</p>