NATIONAL COUNCIL OF NONPROFITS
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November 1, 2017

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

File Reference No. Topic 2017-270

Dear Ms. Cosper,

On behalf of the National Council of Nonprofits, I write to provide comments to Proposed Accounting Standards Update (ASU) Not-for-Profit Entities (Topic 958) relating to clarifying the scope and the accounting guidance for contributions received and contributions made. The National Council of Nonprofits, the largest network of charitable nonprofit organizations in the United States, serves as a central coordinator and mobilizer to help nonprofits achieve greater collective impact in local communities across the country. Most notably for the purposes of commenting on the ASU, the Council of Nonprofits works closely with charitable nonprofits and governments at the local, state, and federal levels to improve government-nonprofit grantmaking and contracting practices and procedures. In this area, our mission is to reduce the burdens on all parties by promoting streamlined processes and consistencies across nonprofits and levels of government. It is from this perspective that we offer comments on three of the questions presented in the ASU.

We appreciate the efforts of the Financial Accounting Standards Board to attempt to clarify and improve the scope and accounting guidance for contributions received and contributions made. However, whether proposed changes are improvements often depends on a person's perspective. We believe that portions of the proposed ASU, like recent changes meant to align more with for-profit financial statements, do not fully consider or prioritize the views of nonprofits about how those changes may impact them.

For example, eliminating the temporarily and permanently restricted funds in favor of donor restricted and unrestricted net asset classes is not particularly helpful for nonprofits and their boards. The delineation of funds by type of restriction, without having to look at notes or more detailed reports, is helpful in making certain that contributions, grants, and contracts are managed as required. This reporting structure is extremely beneficial in helping board members and other lay people understand more easily which funds are and are not available for general use. But, similarly as we explain in the attached comments, expanding the definition of "contributions" to include revenues generated with conditions, is an over-simplification that is not reflective of actual revenue generation.

In the proposed ASU, the issue is not so much about the actual revenue recognition guidelines as it is about the terminology for classifying revenues. The thesaurus includes *donation, gift, handout, subsidy,* etc. as synonyms for contribution. This language conveys an inaccurate message about nonprofits.

Using the term *contribution* to describe transfers of assets with conditions perpetuates the misconception that nonprofits are *given* money by public and private sources that they can use however they want with no accountability. In effect, what this proposed ASU does is negate the fact that many asset transfers are not gifts at all, but revenues earned by the nonprofit for providing programs and services to the public.

Notably, what the ASU describes as a conditional contribution fails to account for situations where the revenues generated, especially from government grants and contracts, is not a handout but rather is earned revenue. We are very concerned that use of the term *contribution* for earned revenues also undermines the nonprofit community and their importance in providing services to the public on behalf of governments.

Although in some cases the revenues may be considered a *contract*, Topic 606 suggests that this is only the case when the expenses can be directly attributed to a specific person or client, such as with Medicaid. But, government grants and contracts are not always structured in this manner. For example, a nonprofit may obtain a grant or contract to provide an afterschool program and may bill the government monthly according to the number of days the program operated. While the beneficiary may not have a direct relationship with the resource provider and a commensurate value may not be readily apparent as in an exchange transaction, the revenue is not a contract, but must be earned nonetheless and therefore should not be considered a contribution.

The proposed ASU also creates problems because of inconsistencies. At the end of the first paragraph on page one, one of the purposes of the ASU is identified as, "distinguishing between conditional contributions and unconditional contributions." Language throughout the document appears to assume that contributions can be conditional or unconditional. Yet, page seven, *Amendment to the Master Glossary,* defines a contribution as, "an *unconditional* transfer of cash or other assets to an entity or a settlement or cancellation of its liabilities in a voluntary nonreciprocal transfer by another entity acting other than as an owner."

We recommend that FASB promote consistency in revenue recognition by focusing on the mechanics of the funding regarding when assets are transferred relative to providing the service or activity, no matter the source.

Thank you for your interest and concern.

Respectfully,

Beth Bowsky

Beth Bowsky
Policy Specialist, Government-Nonprofit Contracting

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

- In attempting to determine whether something is a contribution or exchange transaction, applying the distinctions, especially to government grants/contracts, does not provide clarity. Quite often the conditions identified for each are split.

The chart below shows how the application of the conditions for contributions and exchange transactions are likely to relate to a federal grant. As noted, what this ASU identifies as a conditional contribution meets more of the standards for an exchange transaction.

Contribution	Exchange Transaction	Federal Grant
Nonprofit states it is soliciting a contribution.	Nonprofit asserts it is seeking resources in exchange for providing specific benefits.	Nonprofit submits a proposal to obtain funds to provide a program or service. Often this is done in response to a notice of funding availability rather than being unsolicited. (E)
Resource provider asserts it is making a tax-deductible donation to support the nonprofit's programs.	Resource provider asserts it is transferring resources in exchange for specified benefits.	Resource provider asserts it is transferring resources in exchange for specified benefits. This is the definition of a federal grant. (E)
Delivery method of goods or services to the public at the discretion of the nonprofit.	Delivery method is specified by the resource provider.	Delivery method is specified by the resource provider or is negotiated with the nonprofit. (E)
Resource provider determines the amount of the payment.	Payment by the resource provider equals the value of the assets to be provided by recipient nonprofit or the assets' plus cost markup.	Nonprofit provides documentation of costs to establish payment amount or resource provider establishes amount. (E)
Penalties are limited to the amounts already paid and the return of unspent amounts.	Provision of economic penalties exist beyond the amount of payment.	Penalties are limited to the delivery of assets already produced and the return of unspent amounts. (C)
Assets must be used in providing goods or services to individuals or organizations other than the resource provider. (Note: the federal government defines this as a grant.)	Assets are to be delivered to the resource provider or to individuals or organizations closely connected to the resource provider. (Note: the federal government defines this as a contract.)	Assets are to be delivered to individuals or organizations other than the resource provider. (C)

- The very fact that the ASU contains numerous examples to illustrate the various classifications and their interpretations in different situations suggests that the changes do not simplify or clarify anything.

- The terminology used is also inconsistent with federal definitions. The federal government utilizes *contracts* to purchase goods and services for its own benefit. Grants, on the other hand, are to purchase goods and services for public benefit. The federal government's definition of grant aligns with the intent of a conditional contribution by considering a grant as a transfer of anything of value to carry out a public purpose. Moreover, federal grants inherently limit penalties to the delivery of assets already produced and the return of unspent amounts at 2 CFR §200.338 *Remedies for* *noncompliance*. For the sake of consistency, FASB should use the term *grant* to describe revenues earned that include performance obligations instead of the phrase *conditional contributions*.

- Rather than defining what revenue received is called, it would be more helpful to establish how the revenue is recognized based on when it is received relative to the provision of services or activities. This would also assist in overcoming the different definitions of contributions, grants, and contracts used by various public and private resource providers.

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?

- *Commensurate value* is a matter of perspective. Determining whether the resource provider is receiving commensurate value fails to recognize that governments often hire nonprofits to provide services to the public on the behalf of governments. This is done because the government either does not have the capacity to provide the services itself and/or nonprofits can provide the service more effectively at lower cost. The term also does not consider future savings that may occur because of services provided. For instance, if an afterschool program for elementary school children prevents the young people who participated from getting involved in the juvenile justice system in high school, is this considered commensurate value for this purpose?

- Furthermore, there are not parameters for determining commensurate value. Must it be a dollar value? Over what period of time must the value be incurred? Who decides what the value is and what should be included in determining the value?

- The National Council of Nonprofits recommends that FASB provide additional clarity for determining what is commensurate.

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.

- It is peculiar that the FASB does not actually define the term *grant*, yet uses it throughout this proposed ASU.

- As previously noted, the use to the term *conditional* contribution creates several concerns.

The following terminology aligns with the federal government definitions. Using terms consistently across various stakeholders would be extremely beneficial in simplifying and clarifying the treatment of nonprofit revenues.

Contribution: A charitable contribution is an unconditional transfer of assets to a qualified organization. It is voluntary and made without getting, or expecting to get, anything of equal value.[1]

Grant: A transfer of assets to a nonprofit organization to provide goods and services for the public good.[2]

Contract: A transfer of assets to a nonprofit organization to provide goods and services for the direct benefit of the resource provider.[3]

- Additionally, more clarity is needed between a “condition” and a “restriction.” If funds cannot be used until a specific time, or passage of time, how does one distinguish whether this is a condition or restriction? Is it the fact that the stipulation is accompanied by right of release that makes it a condition rather than a restriction?

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[1] See IRS Publication 526 and FAS 116.

[2] 2 C.F.R §200.51.

[3] 2 C.F.R. §200.22.