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Technical Director
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Via e-mail – director@fasb.org

Re: File Reference No. 2017-270. Proposed Accounting Standards Update (“ASU”): Not-for-Profit Entities (Topic 958) – *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*

Plante & Moran, PLLC (“Plante Moran”) is pleased to offer comments on the above referenced proposed ASU. We support the efforts of the Financial Accounting Standards Board (“Board”) to provide clarity on the accounting and financial reporting of contributions received and made for not-for-profit entities (“NFPs”).

Following, please find our responses to the specific Questions for Respondents in the proposed ASU.

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

Plante Moran Response 1: Generally, the amendments provide clarifying guidance. However, not all of the clarifying guidance appears to be operable in practice because it is difficult to understand without illustrative examples. For instance, there are sentences in the proposed ASU that require additional paragraphs of reading before that sentence can be understood. A lack of clarity in the language of the proposed ASU could lead to difficulty in applying some of the proposed amendments. We expect that NFPs with fewer resources and less sophistication will struggle with guidance that is less clear.

We would like to direct your attention to several paragraphs within the ASU that may cause confusion with users to serve as examples where clarification or simplification of the guidance would be beneficial. We have included suggestions for improving clarity, which often involve the use of examples (proposed deletions in strikethrough and proposed additions underlined):

958-605-25-5A A donor-imposed condition must have:

- a. A barrier, as further discussed in paragraph 958-605-5C

958-605-25-5C

<p>Measurable Performance-Related Barrier or Other Measurable Barrier</p>	<p>The agreement includes a measurable performance-related barrier or other measurable barrier.</p> <p>Measurable performance-related barriers or other measurable barriers often are coupled with a time limitation (for example, indicating that the outcomes are to be achieved within a specified time frame).</p> <p>Examples of measurable performance-related barriers include a requirement that transferred assets should be used to achieve any of the following:</p> <ul style="list-style-type: none"> a. A specified level of service b. An identified number of units of output c. A specific outcome. <p>An example of an other <u>another</u> measurable barrier, not related to performance, <u>includes a stipulation is</u> that a recipient is entitled to the assets only upon the occurrence of an identified event (for example, <u>soliciting donations to meet</u> a matching requirement).</p>
<p>Stipulations <u>Barrier</u> That Are <u>Is</u> Related to the Purpose of the Agreement</p>	<p>The stipulations are related to the purpose of the agreement.</p> <p><u>A stipulation that is related to the purpose of the agreement is an example of a barrier that is related to the purpose of the agreement.</u></p> <p>This indicator would generally exclude Administrative tasks and trivial stipulations <u>are examples of requirements that are not related to the purpose of the agreement.</u></p>
<p>Limited Discretion by the Recipient</p>	<p>The <u>A barrier exists when the</u> recipient has limited discretion over how the transferred assets should be spent.</p>

	<p><u>An example of limited discretion by the recipient is when a requirement to follow specific guidelines about qualifying expenses results in very close monitoring of the cost reporting by the resource provider (for example, the Office of Management and Budget).</u></p> <p>Limited discretion excludes situations in which a recipient has broad discretion (for example, the only stipulation is that the transferred assets should be spent for general operating purposes, which could include amounts restricted for specific programs or activities).</p> <p>If a recipient has broad discretion on how to use the assets and the agreement contains no other stipulations that would indicate that a barrier exists, the agreement shall be deemed unconditional.</p>
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We also believe it will be difficult for some NFPs to differentiate between an unconditional contribution with a purpose restriction and the barrier in a conditional contribution. We recommend the Board consider modifying the above indicator in the table to more clearly or strongly convey that a purpose restriction is not necessarily a barrier.

958-605-25-5E If a recipient has broad discretion on how to use the assets and the agreement contains no other stipulations that would indicate that a barrier exists, the agreement shall be deemed unconditional. [Paragraph moved from 958-605-25-5C because it appears to be prescriptive guidance that presents an absolute outcome rather than an indicator.]

958-605-55-17B As described in paragraph 958-605-25-5C, a measurable ~~performance-related barrier or other measurable~~ barrier may be indicative of a donor-imposed condition. Examples of measurable ~~performance-related barriers or other measurable~~ barriers could include:

958-605-15-6

e. Transfers of assets (~~typically from a government entity~~) from a third-party payor that are part of an existing exchange transaction between a recipient and an identified customer. ~~Some e~~Examples typically involve a government entity and include payments under Medicare and Medicaid programs, provisions of health care or

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education services by a government for its employees, and Pell Grants or similar state or local government tuition assistance programs. In those instances, an entity shall apply ~~the~~ other applicable guidance (for example, Topic 606 on revenue from contracts with customers).

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?

Plante Moran Response 2: We believe the proposed amendments will clarify whether a resource provider is receiving commensurate value, but we think there are opportunities to provide further clarification. For instance, we recommend the Board consider including examples demonstrating the concept of “incidental to the public benefit” as discussed in paragraph 958-605-15-5A(a). For example, if the resource provider is a health organization that seeks out the NFP to develop a vaccine for public use, but the resource provider also receives a non-exclusive, perpetual, royalty-free license to the research, is that direct commensurate value to the resource provider? Or is the value to the resource provider incidental to the public benefit? Further, it is not clear whether all of items (a) through (e) in paragraph 958-605-15-5A should be considered. If the intention is that all items should be considered, we suggest stating in the first sentence that an entity shall consider all of the following.

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?

Plante Moran Response 3: Yes, the definition should include both factors. Factor (b) is necessary because without it, all contributions with a barrier would be considered conditional. A condition (barrier) does not exist unless there is a consequence (return or release) of not meeting it, and the inclusion of factor (b) reflects that. It would not be appropriate to account for contributions with a consequence-free barrier as 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?

Plante Moran Response 4: Yes, the proposed table of indicators to describe a barrier provides useful guidance; however, as stated in **Plante Moran Response 1**, providing examples in the table would improve clarity and practice. If the table is not meant to be all-inclusive, we suggest stating so. We agree that no single indicator should be determinative.

In the Basis for Conclusions for the proposed ASU, paragraph BC27 states that “The Board decided that the term *remote* as used in current guidance originally was not intended to require a probability assessment of the likelihood of a condition not being met.” Because we believe the clarification of intent will be a surprise to many NFPs, we suggest illustrating this concept with an example. Example 13 in paragraphs 958-605-55-70C and 55-70D could be used to clarify whether

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the likelihood of serving at least 2,000 disabled veterans for the quarter should play a role in assessing whether the contribution is conditional (our understanding is that it should not).

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?

Plante Moran Response 5: Yes, distinguishing between conditional and unconditional contributions should be applied equally to both the recipient and the resource provider. However, as a matter of practice, there are likely to be differences in accounting between the resource provider and recipient in a transaction due to differences in available information. For example, the resource provider knows its intent when providing resources, which the recipient must interpret. This could result in one party accounting for a contribution as conditional and the other accounting for it as unconditional. Similarly, the resource recipient has more timely information with respect to the timing of satisfying a condition, which could result in the recipient recognizing revenue before the provider recognizes the expense.

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.

Plante Moran Response 6: No, we have not identified other terms and/or definitions that should be clarified. We considered whether the term *commensurate value* should be defined, but we do not believe that it should be. This term has historically been used in the NFP guidance in the ASC, and any new definition would also affect those current uses of the 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.

Plante Moran Response 7: No, current recurring disclosure requirements do not need to be amended for recipients or resource providers. Additional disclosures to consider include:

- Revenue recognized that involved significant management judgment about the existence of a donor-imposed condition. This would allow readers to assess uncertainty related to revenue that has already been recognized.
- Refunds or releases required by resource providers that were significant to the entity in the current period. This would allow readers to assess potential cash flow issues and would inform resource-allocation decisions when there is a choice of recipient.

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?

Plante Moran Response 8: Yes, the proposed transition requirements would generally be operable and provide decision-useful information in most circumstances. There are limited

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situations in which entities have previously accounted for contributions from governmental entities as unconditional contributions that will be considered conditional contributions under the proposed standard. Therefore, these entities will have large amounts of revenue already recognized and included in temporarily restricted net assets as of the implementation date. As a result of the prospective application, future periods would not be comparable with prior periods until the previously recognized revenue was released from restriction as allowable expenditures were incurred. However, we believe the challenge to comparability is outweighed by the reduction in implementation effort provided by prospective application.

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?

Plante Moran Response 9: Yes, the effective date of the proposed amendments should be the same as the effective date of Topic 606. The proposed amendments are necessary for NFPs to determine whether their contracts are in the scope of Topic 606, and that determination must be made by the time Topic 606 becomes effective. Accordingly, the proposed amendments need to be effective at least by that time.

However, accelerating the effective date of the proposed amendments before the effective date of Topic 606 would not give entities adequate time to analyze the impact and prepare for implementation. Especially across NFPs, there are widely varying sophistication levels and available resources to analyze new accounting standards. Nevertheless, consistency across NFPs in terms of revenue classification is not a major concern, and as such, we do not foresee significant problems in permitting early adoption of the proposed amendments.

Thank you again for the opportunity to comment on this proposed ASU. We would be pleased to respond to any questions the Board or its staff may have about these comments. Please direct any questions to David Grubb at david.grubb@plante Moran.com or (248) 223-3745.

Very truly yours,

PLANTE & MORAN, PLLC