



November 8, 2017

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

File Reference No. Topic 2017-270

The Not-for-Profit Committee and Accounting Principles Committee of the Illinois CPA Society (“Committees”) appreciate the opportunity to provide their perspective on the Proposed Accounting Standards Update (ASU), *Not-for-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our comments represent the collective views of the Committees and not the individual views of the members or the organizations with which they are affiliated. The organization and operating procedures of the Committees are outlined in Appendix A to this letter.

We appreciate the Board’s efforts and are supportive of the goal to reduce complexities and inconsistencies in the accounting and financial reporting of contributions received and made primarily for not-for-profit entities (NFP’s).

The State of Illinois has a fairly low threshold for its audit requirement for not-for-profits. As such, there are a large number of small not-for-profit audits conducted annually. The Illinois CPA Society’s Not-for-Profit Committee is not only quite large but very active. Our responses to the questions below have therefore been impacted by the large number of smaller NFP’s served by our constituency.

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

ICPAS Response: Yes, we believe these amendments will be useful in providing clarity and will be operable in practice. However, for practical application, more examples would be beneficial, such as examples illustrating application of the proposed guidance to pass-through contracts with other NFP’s and fundraising event revenues. For example, an NFP with a June 30 year-end holds a fundraiser on August 30. Sponsorships and other event payments are received before June 30. In that case, the event is considered a barrier. The right of return is implicit as the donor/sponsor would normally expect the whole payment refunded if the event was cancelled, not just the portion applicable to the benefit to be received (the quid pro quo) Therefore, the amount related to the benefit is recorded as deferred/advance revenue and the balance of the payment, or the contribution portion, which would normally be recorded when received, is now considered conditional and recorded as a liability at June 30.

In addition, we believe an example illustrating the evaluation of generic language on rights of return would be helpful. Considering the current issues surrounding the interpretation of grant agreements and the vast amount of subjective judgment currently in use, we are concerned that this guidance may not be sufficient to eliminate the inconsistencies and interpretation for which it is intended. For example, for a payment already received from the resource provider if the barrier is something an ordinary person, rather than an NFP professional or CPA, would consider as implying that the funds must be returned in the case of nonperformance, then that should be sufficient. However, a payment between a grantor resource provider and a recipient NFP could be held to a higher standard as they would understand the accounting principles, and should be able to craft an agreement that is clear to both



ILLINOIS CPA SOCIETY

parties. An ordinary donor would generally not have such specialized knowledge, and therefore interpreting the facts and circumstances may be different for these different parties.

We also believe that this is compounded by the continued inclusion of the sentence on ambiguous donor stipulations in paragraph 958-605-25-5D – “in cases of ambiguous donor stipulations, a contribution containing stipulations that are not clearly unconditional shall be presumed to be a conditional contribution”. We believe an example illustrating stipulations that *are* clearly unconditional would assist preparers in applying this proposed guidance.

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?

ICPAS Response: Yes, we believe these amendments will clarify whether a resource provider is receiving commensurate value when applied in conjunction with Subtopic 958-605. The applicability to other than not-for-profit or business entities needs to be further emphasized; however, perhaps through separate communication, such as supplementary educational materials, from the Board. We appreciate the clarification that the benefits received by the general public would not be construed as commensurate value. However, we recommend including additional examples of what constitutes commensurate values, which would clarify the proper treatment in situations such as the following: An NFP resource provider makes an agreement with another NFP who will provide services to specific beneficiaries which are normally served by the NFP resource provider. Although the services may also be provided as part of the recipient NFP’s mission, these particular beneficiaries would not receive the services without the resources provided. The funds must be used for this particular group of beneficiaries, not for others that the recipient NFP might serve. Although the NFP resource provider does not necessarily receive a direct benefit, this is still considered receiving commensurate value and should be treated as an exchange transaction by both parties.

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?

ICPAS Response: Yes, we believe the condition should include both factors; however, more clarification on right of return or release might be useful. As this right does not need to be specifically “spelled out” in the agreement, judgment must be utilized to determine whether it is implied in the agreement and this may result in varied interpretations in practice. As mentioned in our response to Question 1, we believe that an additional example illustrating the evaluation of generic right of return language would help preparers to implement this proposed guidance. Ultimately, we believe that preparers will need to identify “substantive” rights of return, and an example illustrating a non-substantive right of return would be helpful in this endeavor.

Questions 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?



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ICPAS Response: Yes, the proposed table of indicators to describe a barrier provides useful guidance; however, assessing whether it allows application of appropriate judgment is difficult because of the diversity of preparers. Perhaps supplying examples within the table might provide better and consistent application. We also recognize that the list is not all-inclusive and that this should be disclosed. We agree that no single indicator should be determinative. One example that might be addressed is when the resource provider reserves the right to withhold subsequent payments unless the recipient demonstrates satisfactory progress towards meeting the awards goal. The recipient may believe it has satisfactorily performed; however, if the resource provider does not agree then this could be a performance related barrier. Therefore, judgment comes into play and the recipient needs to make sure the resource provider has concurred on the satisfactory progress before recording the promised subsequent payment.

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?

ICPAS Response: Although we believe distinguishing between conditional and unconditional contributions should be applied equally to both the recipient and the resource provider, we recognize that the resource provider may not always be aware of when the condition was met, especially if the resources were already provided rather than promised. Therefore, we suggest that language be added to the proposed guidance that a resource provider has the responsibility to obtain the necessary information to determine if the condition they imposed was met and when, and that this should be obtained without undue effort or expense. The current guidance does not sufficiently address the necessary information for the full application by resource providers.

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.

ICPAS Response: Yes, we believe the definition of “contribution” should be amended, as the term “conditional contribution” appears to be in conflict with the current definition in the master glossary which states that it is an “unconditional transfer of cash or other assets”. Perhaps the term “unconditional” should be replaced by “voluntary assets” and that term removed where it currently appears.

In addition, we believe the guidance would benefit from the inclusion of an example illustrating a performance barrier that is not measurable. For example, a contract that requires a payment in year two based on completion of a “successful” annual conference in year one.

Also, we believe that further guidance on “qualifying expenses” would be helpful to preparers. While the proposed guidance states that standard budgets accompanying grants are often guidelines, we are aware of scenarios involving state agencies where a budget acts as a measurable performance barrier. An example or a statement to this effect in the proposed guidance would be helpful in preventing preparers from taking a “default” position in which all budgets are assumed to be guidelines rather than performance barriers.



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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.

ICPAS Response: We do not believe that disclosures need to be amended or additional disclosures added. However, we do not believe there is consistency in the requirement to disclose conditional contributions. With the clarification currently provided in the exposure draft, there will most likely be a significant amount of conditional contributions resulting. As the requirements currently stand, the recipient must disclose these contributions. Agreeing that the requirement should apply to both parties would require the resource provider to disclose as well. As both parties may not be aware at the same time when the condition has been met, the requirement on both parties to disclose may give rise to asymmetric disclosures. Please see our response to question #5 for our suggestion to help alleviate issues with respect to information asymmetry among resource providers and recipients.

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?

ICPAS Response: Yes, we believe the transition requirements are operable and would provide decision-useful information. Although the modified prospective application may be more time consuming or difficult in the short-term, it will provide useful information and a clear cut-off date for those NFP's who have agreements that cross fiscal years after the application date.

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?

ICPAS Response: Yes, it makes sense to have the effective date coincide with Topic 606, considering the applicability of exchange transactions to the revenue recognition topic. We also believe that NFP's should have the option to early adopt if they so choose.

We appreciate the opportunity to offer our comments.

Sincerely,

Melissa Struck, CPA
Chair, Not-for-Profit Organizations Committee

Ryan Brady, CPA
Chair, Accounting Principles Committee

Brian Kot, CPA
Vice Chair, Accounting Principles Committee



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APPENDIX A

ILLINOIS CPA SOCIETY
NOT-FOR-PROFIT ORGANIZATIONS COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2017-2018

The Not-for-Profit Organizations Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from government and public accounting. These members have Committee service ranging from newly appointed to more than 30 years. The Committee's comments reflect solely the views of the Committee, and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to study and discuss fully exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed, and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times, includes a minority viewpoint.

Current members of the Committee and their business affiliations are as follows:

Public Accounting/Professional Service Firms:

Megan Angle	Porte Brown LLC
Gary Bausch	Baker Tilly Virchow Krause, LLP
David Berezewski	Desmond & Ahern, Ltd
Joshua Bream	Mueller & Company LLP
Sheree Brugmann	Capin Crouse LLP
Jennifer Casacchia	Sikich LLP
Jennifer Culotta	Plante Moran, PLLC
Edwin Czopek	Edwin Czopek, CPA
Rose Doherty	Legacy Professionals LLP
Scott Duenser	Klein Hall CPAs, LLC
Rebekuh Eley	BKD
Alison Fetzer	Ostrow Reisin Berk & Abrams Ltd
Dauida Finkle	Mann, Weitz & Associates LLC
Timothy Flaherty	Johnson Lambert LLP
Jody Gauthier	BKD, LLP
Nancy Gonsiorek	Nancy L. Gonsiorek, CPA LLC
Susan Greggo	Warady & Davis LLP
Susan Jones	Miller Cooper & Co., Ltd.
Fan Li	Prominent CPAs and Associates, LLC
Emmett Murphy	The Murphy Financial Group
Alex Pekler	Kessler, Orlean, Silver & Co., PC
Kurt Peterson	Wipfli, LLP
Izabela Poludniak	Sassetti, LLC
Jason Rosheisen	KPMG LLP
Mark Rozowicz	RSM US LLP
Mickey Scheffki	Morningbelle Consulting
Judith Segal	Baker Tilly Virchow Krause, LLP
Rosemarie Sison	E.C. Ortiz & Co. LLP
Marcy Steindler	Mann, Weitz & Associates LLC
Melissa Struck (chairperson)	CliftonLarsonAllen LLP
Laurie Styron	Styron Consulting
Linda Swick	MissionFirst Accounting PC
Gabriela Ursu	CJBS, LLC



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Jack Medor
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Christopher Schrantz
Dina Tsourdinis
Frances Wallace

YMCA of Metropolitan Chicago
Illinois College of Optometry
Cedille Chicago, NFP
The Art Institute of Chicago
Greater Chicago Food Depository
Lutheran Child & Family Services
College of DuPage
Medical Library Association
Thresholds
Heartland Alliance For Human Needs & Human Rights
Big Shoulders Fund
Allendale Association
Adler University
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Staff Representative:

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ACCOUNTING PRINCIPLES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2017-2018

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee's comments reflect solely the views of the Committee and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to fully study and discuss exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

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Michael Kidd, CPA
Danielle Martin, CPA
Iryna Prokhorov, CPA
Jeffery Watson, CPA

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