October 30, 2017

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

By e-mail: director@fasb.org

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

(File Reference No. 2017-270)

Dear Ms. Cosper:

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 26,000 CPAs in public practice, business, government and education, welcomes the opportunity to comment on the above-captioned exposure draft.

The NYSSCPA's Financial Accounting Standards and Not-for-Profit Organizations Committees deliberated the proposed accounting standards update and prepared the attached comments. If you would like additional discussion with us, please contact Margaret A. Wood, Chair of the Financial Accounting Standards Committee, at (201) 401-7844, Travis Carey, Chair of the Not-for-Profit Organizations Committee at (646) 580-8728, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

Harold L. Deiters III
President

Attachment

NEW YORK STATE SOCIETY OF

CERTIFIED PUBLIC ACCOUNTANTS

COMMENTS ON

PROPOSED ACCOUNTING STANDARDS UPDATE—*NOT-FOR-PROFIT ENTITIES (TOPIC 958): CLARIFYING THE SCOPE AND ACCOUNTING GUIDANCE FOR CONTRIBUTIONS RECEIVED AND CONTRIBUTIONS MADE*

(File Reference No. 2017-270)

October 30, 2017

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New York State Society of Certified Public Accountants

Comments on

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

(File Reference No. 2017-270)

General Comments

We welcome the opportunity to respond to the Financial Accounting Standards Board's (the (Board's) invitation to comment 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 Update or Proposed ASU).

The stated objectives of the Proposed Update are to:

- Provide a more robust framework to determine when a transaction should be accounted for as a contribution under Subtopic 958-605 or an exchange to be accounted for under other guidance, such as Topic 606; and
- Clarify the guidance about whether a contribution is conditional or unconditional.

We support the Board's efforts and, in general, we agree with the Proposed Update. However, we identified areas where additional clarification should be provided. We believe the Proposed Update should clarify that if a transfer of resources does not constitute an exchange transaction and is not a payment from a third-party payor on behalf of an existing exchange transaction between the recipient and an identified customer, the accounting should follow the contribution model in Topic 958-605. We suggest explicitly stating that there is no requirement to describe the transaction as a "contribution" on the statement of activities. The line item may be described as "Government Contract Revenues," "Government Grants," or any other relevant description.

The comments below reflect those areas which we believe should be addressed, amplified, or clarified. Please note that the principal drafters of this comment letter are comprised of auditors, preparers of financial statements, and board members of not-for-profits.

Identification of an Exchange Transaction

While we agree with the process as illustrated in the flowchart in proposed paragraph 958-605-55-1A and discussed in proposed paragraph 958-605-15-5A and proposed paragraph 958-605-15-6, we recommend that the guidance be enhanced to provide more clarity.

We believe that the Proposed Update has not provided guidance on situations where a transaction has elements of both an exchange transaction and a contribution (a "bifurcated transaction"). For such bifurcated transactions, we propose that application guidance and examples would be helpful. For example, subparagraph (a) asserts that a transaction is not considered an exchange transaction if a resource provider receives no direct value in the exchange for the assets transferred or if the value received is incidental. We believe that it would be helpful if the guidance specifically addressed fund raising events where a contributor receives a direct benefit whose monetary value is less than the amount paid.

Additionally, we are concerned that many government contracts will be classified as contributions under the Proposed Update while significantly fewer will be interpreted as exchange transactions. These types of contracts should be specifically considered by the Board when drafting the final Update.

Change in Definition of "Donor Imposed Condition"

Not-For-Profit Entities (NFP) receive contributions that are unrestricted, have donor-imposed restrictions, or have donor-imposed conditions. Unrestricted contributions are not affected by the Proposed Update, nor has the definition of donor-imposed restrictions been revised by the Proposed Update. The Proposed Update, however, changes the definition of donor-imposed conditions. While we agree with the general concept presented in the Proposed Update, we recommend that the Board provide additional explanatory guidance in the final ASU.

The Proposed Update changes the definition of donor-imposed condition to "a donor stipulation that represents a barrier that must be overcome before the recipient is entitled to the assets transferred or promised." In essence, the Proposed Update appears to analogize donor-imposed conditions with "performing a contractually agreed-upon task," which is identified in ASC Paragraph 606-10-25-18d as a promise in a contract with customers. Therefore, a NFP would be required to recognize contribution revenue when it satisfies donor-imposed conditions. This is consistent with Topic 606, which requires the recognition of revenue when a reporting entity satisfies a performance obligation. The concept of overcoming a barrier replaces the concept that a future event is certain to occur.

The concept of "barrier," as applied in the Proposed Update, could be further illustrated with either additions to the table of indicators in proposed paragraph 958-605-25-5C or more specific examples. We believe that the definition of a "barrier" (which should be included in the glossary) versus an "administrative requirement" could be best explained by presenting common scenarios. Additionally, we suggest that the guidance and examples be provided both from the position of a resource provider and a recipient.

We also believe that the implementation guidance presented in Topic 958-605-55 needs to be clarified to avoid unnecessary classification of contributions as conditional. According to proposed paragraph 958-605-25-5D, ambiguous donor stipulations could create a presumption that a contribution is conditional and, hence, cannot be recognized as revenue until those conditions are met. As a result, we believe that the potential exists for the timing of revenue recognition to be different than under extant standards.

An example helps to illustrate our perspective:

- Suppose a NFP awards a three-year fellowship for scientific research to a university (e.g., $50k per year or $150k). The NFP requires the university to submit detailed progress reports annually, as well as a report on how funds were spent. Donor approval of the progress report triggers the next installment of the fellowship and funds must be returned if not used.

- Under extant guidance, this grant is recognized by the university as a restricted contribution (with respect to both time and purpose) for the full amount of the three-year award. Similarly, the NFP would recognize the full amount of the fellowship (subject to present value discounting) as an expense in the year awarded. Following the Proposed Update, the reporting requirements are "administrative" and do not constitute a barrier. It could be determined that an "Additional Action" as prescribed in paragraph 958-605-55-17F is required.

- We believe that applying the guidance in the Proposed Update could result in divergent opinions and treatments, particularly with respect to the recipient. For example, some recipients may be more conservative and defer recognition of the contribution, resulting from the conclusion that the reports constitute a barrier. From the provider side, some providers may be conservative and recognize the entire expense when awarded. This is a common practice in private foundations and other grant-making organizations.

- If we were to assume the same fact pattern as the above example, except that after two years the NFP board meets to review the university's reports to determine if the final year's grant should be awarded, this would be a clearer barrier that would make the final year installment of a $50k payment conditional from both the resource provider's and recipient's perspective and would result in delayed recognition for both the resource provider and the recipient. Clearly, the clarity of a barrier can drive different accounting results.