September 19, 2012

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

Re: File Reference No. EITF-12B

Dear Ms. Cosper:

The Bill & Melinda Gates Foundation appreciates the opportunity to comment on the Proposed Accounting Standards Update, Not-for-Profit Entities (Topic 958) – Personnel Services Received from an Affiliate for Which the Affiliate Does Not Seek Compensation. We support the objective to increase consistency in recognizing the economic benefit when employees of an affiliated entity provide services at no cost to a Not-for-Profit (NFP) entity. As addressed in our responses to the questions below, we recommend that fair value is the preferred measurement amount for Contributed Services regardless of the source (affiliate or not).

Our responses to the questions addressed to respondents follow. We have excluded Question 4 as it appears to be directed primarily to entities in the health care industry.

**Question 1** - Do you agree that the scope of this proposed Update should be limited to the standalone financial statements of not-for-profit entities that receive personnel services from an affiliate, that is, a party that, directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with the recipient not-for-profit entity? If not, please explain why.

We believe consideration should be given to applying the proposed Update to the standalone financial statements of recipient not-for-profit entities as well as the standalone financial statements of the affiliated donor entities. Removing the scope limitation may further resolve potential inconsistencies in the recognition and measurement of personnel services provided to affiliated NFP’s by donor entities.

**Question 2** - Do you agree that a recipient not-for-profit entity should recognize all personnel services received from an affiliate that directly benefit the recipient not-for-profit entity (that is, are similar to personnel directly engaged by the recipient not-for-profit entity) but for which the affiliate does not seek compensation for the services provided? If not, please explain why.

Yes, we believe all material personnel services received from an affiliate that directly benefit a NFP entity should be recognized.

**Question 3** - Do you agree that a recipient not-for-profit entity should measure the personnel services received from an affiliate at the cost incurred by the affiliate? Furthermore, do you agree that, at a
minimum, cost should include all direct personnel costs (for example, compensation and any payroll-related fringe benefits) incurred by the affiliate in providing the services to the recipient not-for-profit entity? If not, please explain why.

We believe fair value should be the preferred measurement amount as it best reflects the economic benefit received. Contributed Services, as defined in subsection 958-605-25-16, either 'create or enhance non-financial assets or require specialized skills.' As no changes to the definition are being proposed, we believe personnel services meeting the definition of Contributed Services should be measured at fair value, regardless of whether they are provided by an external donor or an affiliate who does not seek compensation. If the personnel services provided do not meet the definition in 958-605-25-16 \textit{and} are provided by an affiliate who does not seek compensation, the services could be measured at cost.

For example, there can be circumstances wherein an affiliate is providing services (such as legal, accounting, or investment advisory services) to an organization and the organization is purchasing similar services from an outside provider that charges market rates. We believe there should be consistency in the economics and that regardless of where the service is obtained (i.e. from an affiliate or from an outside party), the value should be measured on a comparable basis - the fair value of the services the organization is receiving. If the organization was not receiving the services from an affiliate, it would have to purchase the service in the open market at fair value. For this reason, we believe fair value rather than cost is the most appropriate method for valuing contributed services and personnel services provided by an affiliate.

Because cost may generally be more accessible among affiliated entities and because the difference between cost and fair value may not be material or may not justify the effort to obtain fair value, cost should be an acceptable alternative (a practical expedient) for personnel services that do not meet the definition of Contributed Services and are provided by an affiliate who does not seek compensation. We do not believe that all personnel services provided from affiliates should be measured at cost, as is currently required in the proposed Update.

To ensure readers of financial statements understand the measurement bases used by the reporting entity, we recommend such information be included with existing related party disclosures.

Question 5 - For a recipient not-for-profit entity that does not present a performance indicator, do you agree that presentation guidance should not be prescribed for the increase in net assets associated with personnel services received from an affiliate other than prohibiting reporting as a contra-expense or contra-asset? If not, please explain why.

Yes, we believe the recipient NFP entity should determine the appropriate presentation and agree that in reporting an increase in net assets associated with personnel services received from an affiliate, the use of contra-expenses or contra-assets should not be an available option.

Question 6 - Do you agree that, except for the related party disclosures in Subtopic 850-10, no other recurring disclosures should be required for a not-for-profit entity that receives personnel services from an affiliate? If not, please explain why.

With the exception of our response to Question 3, wherein we recommended disclosure about the measurement method, and the related party disclosures required in Subtopic 850-10, we agree
that no other recurring disclosures should be required for NFP entities that receive personnel services from affiliates.

Question 7 - Do you agree that a recipient not-for-profit entity should apply the proposed amendments prospectively? If not, please explain why.

We believe having the option to apply the proposed amendments either prospectively or retrospectively (as described in Question 8) may be most appropriate for recipient NFP entities. The spectrum of the impact to the standalone financial statements of affected NFP entities for the proposed amendments may be quite wide. In some instances, comparability between years presented in the standalone financial statements may be negatively impacted if the proposed amendments are only applied prospectively.

Question 8 - Do you agree that a recipient not-for-profit entity should be provided with an option to apply the proposed amendments under a modified retrospective approach in which all prior periods presented upon the date of adoption would be adjusted but no adjustment would be made to the beginning balance of net assets of the earliest period presented? If not, please explain why.

Yes, we agree that adding the option of a modified retrospective approach in which all prior periods presented upon adoption would be adjusted but no adjustment would be made to the beginning balance of net assets of the earliest period presented, is appropriate and could improve the comparability of the years presented, upon adoption of the proposed amendments.

Question 9 - Do you agree that a recipient not-for-profit entity should be permitted to early adopt the proposed amendments? If not, please explain why.

Yes, we believe early adoption of the proposed amendments by recipient NFP entities should be permitted; however, early adoption might be most appropriate when combined with the use of the modified retrospective approach described in Question 8.

Question 10 - How much time is needed to implement the proposed amendments? Please explain.

Many NFP entities staff leanly in order to focus funds and efforts on their respective missions. In recognition of this and with the option of early adoption, we believe a minimum of 12 to 18 months may be a reasonable timeframe in which to implement the proposed amendments.

Thank you for allowing us the opportunity to comment on the proposed Update. If you have any questions regarding our response, and in particular our response to Question 3, please contact me at (206) 709-3100.

Sincerely,

Jennifer Deger
Controller

cc: Richard Henriques, Chief Financial Officer