February 18, 2019

Submitted via email: director@fasb.org
Technical Director
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. 2018-320

Dear Technical Director:

The Technical Issues Group (TIG) of the Missouri Society of CPAs (MOCPA) appreciates the opportunity to respond to certain matters in the Proposed Accounting Standards Update. The views expressed herein are written on behalf of the TIG of the MOCPA. The TIG has been authorized by the MOCPA Board of Directors to submit comments on matters of interest to the society’s membership.

We generally agree with the proposal to extend the private company accounting alternative for the subsequent accounting of goodwill and the accounting for certain identifiable intangible assets in a business combination. We believe the proposal will reduce costs and complexity while not decreasing the relevance and usefulness of the financial statements to the users of not-for-profit financial statements.

As discussed in our response to question 6 attached, we believe that it would be appropriate to have an indefinite effective date for adoption of the accounting alternatives consistent with Accounting Standards Update No. 2016-03, Intangibles-Goodwill and Other (Topic 350), Business Combinations (Topic 805), Consolidation (Topic 810), Derivatives and Hedging (Topic 815): Effective Date and Transition Guidance (Update 2016-03).

The appendix to this letter includes our responses to the questions for respondents raised in the Proposed Accounting Standards Update. Thank you for considering our comments. We would be pleased to respond to any questions the Board or its staff may have about any of the following comments. Please direct any questions to Mark Winiarski, TIG Chairman, MWiniarski@CBIZ.com.

Sincerely,

Mark Winiarski, CPA
TIG Chairman

Robert A. Singer, CPA
TIG Member
**Question 1:** Would the amendments in this proposed Update reduce overall costs and complexity compared with existing guidance? If not, please explain why.

Response: Extending the accounting electives provided private entities in ASU No. 2014-02 and 2014-18 to not-for-profit entities would significantly reduce the overall costs and complexity compared with existing guidance. We believe that extending these provisions to not-for-profit entities is consistent with reducing the cost and complexity of applying US GAAP while still meeting the needs of financial statement users that underlies the creation of the Private Company Council and the simplification projects. Moreover, we see no reason why the Board would not extend these provisions to not-for-profit entities. Indeed, the reasoning the Board used in granting private companies a practical expedient that would free such entities from the burden of having to apply the goodwill impairment test and to recognize separate intangible assets (meeting separability and contractual criteria) is even more compelling in not-for-profit entities.

**Question 2:** What effect would the proposed amendments have as it relates to the decision usefulness of financial reporting? For example, would the proposed amendments decrease, increase, or not affect decision usefulness? Please explain

Response: We agree with the results of outreach that financial statement users of not-for-profit entities are more interested in the “entity's mission, operations and sustainability as well as its ability to repay debt” than to impute a value on the acquired entity in the same sense an analyst or investor would in connection with an acquisition of a public business entity. The complexities associated with the goodwill impairment test if conditions so warrant inject undue complexity for not-for-profit entities with little to no benefit in terms of the information produced. Users of not-for-profit financial statements view such entities from a different perspective than users of public business entities.

The existing impairment test for goodwill could provide any not-for-profit financial statements users some information about the continued sustainability of the operations of the not-for-profit by signaling when a change in the outlook for operations indicates that the goodwill is impaired. We believe that the limited information this existing test provides given its basis on a historical amount that has no relationship to the existing or internally developed value of the operation, is effectively communicated through either the impairment test based on triggering events contained in the accounting alternative or a not-for-profits ongoing analysis of going concern. Any additional information gleaned from the existing goodwill model is more costly than it is beneficial. Therefore, we believe the proposed amendments in this exposure draft would have limited or no discernible effect on the decision usefulness of financial reporting to users of not-for-profit entities.

**Question 3** Should the accounting alternatives in Topics 350 and 805 be extended to not-for-profit entities? If not, which aspects of the accounting alternatives do you disagree with and why?

Response: Based on our responses to Questions 1 and 2, we believe the provisions should be extended to not-for-profit entities. We believe that the extension of the accounting alternative to not-for-profit entities that are conduit bond obligors may raise additional accounting issues that should be considered.
1. If a not-for-profit entity acquires a for-profit entity is the accounting alternative permitted to be used by the goodwill associated with the for-profit entity in the consolidated financial statements? What if the for-profit subsidiary would meet the definition of a public business entity?

2. If a public business entity for-profit subsidiary of a not-for-profit entity is not permitted to apply the accounting alternative, does the not-for-profit entity’s status as a conduit bond obligor trigger the for-profit subsidiary to be a public business entity?

3. If the for-profit subsidiary of a not-for-profit is a conduit bond obligor (public business entity) and it issues standalone financial statements, can it apply the accounting alternative to its standalone financial statements?

Although, the circumstance where these questions would apply are likely rare, they are issues that may arise in practice. We believe that as proposed, practice would require that a for-profit subsidiary of a not-for-profit that meets the definition of a public business entity would not be permitted to apply the accounting alternative for its standalone financial statements, nor could the accounting alternative be applied by the for-profit subsidiary in the consolidated financial statements of the not-for-profit entity. Otherwise, the accounting alternative would be permitted for the for-profit subsidiary.

**Question 4:** What reasons would prevent a not-for-profit entity from adopting the alternatives on these Topics?

**Response:** Since the accounting alternatives would significantly reduce the burden of accounting and reporting requirements for combinations made by not-for-profit entities, we believe most not-for-profit entities would adopt the accounting alternatives if they have goodwill or a combination. However, we see the potential following barriers for why a not-for-profit may not adopt, or not adopt upon the effective date, the accounting alternative:

- The not-for-profit is unaware that they are permitted to apply the accounting alternative either because they do not have the resources in place to be informed or because of oversight upon the first combination that occurs subsequent to the issuance of the accounting alternative.

- The not-for-profit may believe the reduction in net assets caused by the annual amortization expense would not depict the operations and ability to meet the mission of the entity. Therefore, such a not-for-profit may prefer a model where assets and net assets do not decrease annually by an arbitrary amortization rate.

- The not-for-profit may wish to avoid having to expend resources explaining the accounting change or the annual amortization expense to the users of its financial statements. The not-for-profit entity may further conclude that it is unlikely to have additional combinations that would require valuation effort and that the standard model for goodwill impairment contained in Accounting Standards Update 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* is not a significant cost burden. The standard impairment may not be a significant cost burden when a not-for-profit entity is able to rely on the qualitative test or due to the relative immateriality of goodwill.
• The not-for-profit may wish to avoid the risk that they would change accounting models twice, and therefore wait for the outcome of the Board’s technical agenda project on these Topics.

• The not-for-profit entity may perceive use of the accounting alternative as inferior financial reporting to the standard model or believe it is not “full” US GAAP.

• The governance body or users of the financial statements may be experienced with public business entities and have a preference for the standard model.

• Although we are not presently aware of the circumstance, there may be not-for-profit entities that have contractual obligations to maintain certain net asset or asset balances, or related ratios, which would be determinately affected by the amortization of goodwill.

Question 5: Do you agree with the optionality of the accounting alternatives? If not, why should the accounting alternatives be required?

Response: We agree that the proposal should be optional. We encourage the Board to include in its technical agenda project questions about whether a single required model, different models based on entity type, or multiple optional models for these Topics would be appropriate.

Question 6: Accounting Standards Update No. 2016-03, Intangibles—Goodwill and Other (Topic 350), Business Combinations (Topic 805), Consolidation (Topic 810), Derivatives and Hedging (Topic 815): Effective Date and Transition Guidance, removes the effective date of these accounting alternatives for private companies. This was done to accommodate those companies that initially chose not to elect those alternatives because of public company exit strategies and may wish to later adopt the alternatives without having to establish preferability if their strategies subsequently change. Do not-for-profit entities experience changes in circumstances that would similarly warrant an indefinite effective date? If so, please describe those circumstances in detail.

Response: We believe not-for-profit entities should be extended an indefinite effective date for the following reasons:

- Not-for-profit entities typically have limited resources dedicated to accounting and financial reporting. In many instances, they have even less resources than private business entities of comparable size. As a result, not-for-profit entities may not become aware of the accounting alternative by the effective date.

- The people who make up the governance of not-for-profit entities change more frequently than in private companies. Although a governance body that exists at the time of the initial effective date may choose to not adopt the accounting alternative for one of the reasons we noted in Question 4, the people that make up a governance body at a later date may desire the election in order to reduce costs.

- Consistent with the reasoning in Update 2016-03, we believe that a not-for-profit entity unaware of the accounting alternative should be permitted to avoid the cost of justifying preferability afforded by an indefinite deferral date. We believe this
reasoning should also be extended to not-for-profit entities for which the governing board decides at a later date to adopt the standard for cost saving reasons as we see requirement to assess preferability as an unnecessary barrier to a first time adoption of the accounting alternative.

An additional advantage of the indefinite deferral date is that a not-for-profit entity would also avoid the costs of retroactively recasting prior financial information if it were to, subsequent to the initial effective date, adopt the accounting alternative.

Question 7: The Board recently added to its technical agenda another project on these Topics that, among other issues, will examine the amortization period for goodwill if the Board decides to pursue amortization as an alternative for public business entities or as a requirement for the system overall. The Board could decide that amendments developed as part of that project also should apply to not-for-profit entities within the scope of this proposed Update. Thus, it is possible that entities electing these alternatives could be subject to future changes on the same Topics. Are there any reasons why the Board should exclude not-for-profit entities as part of that other project? If so, please explain why.

Response: We believe the circumstances and events confronting not-for-profit entities are fundamentally different from those confronting public business entities and private companies. For this reason, we believe that the Board should include not-for-profit entities in the technical agenda and specifically seek feedback to determine if not-for-profit entities should have different models from for-profit entities related to these Topics.

Consideration in the technical agenda may include whether a not-for-profit may be inherently different than for-profit business entity, thus warrant radically different treatment. For instance, could goodwill arising from acquisitions by not-for-profit entities warrant treatment as an unlimited life intangible given that the motivation of such acquisitions derives from a charitable, educational or social mission? What if the acquisition at some future date would prove counterproductive as evidenced by the occurrence of some event (e.g., some irreparable action violating a restricted endowment provision)? Whether a practical approach using an arbitrary 10-year amortization period is reasonable, or should the amortization period correspond to an expected term of the mission to which the goodwill relates, which may exceed 10 years? Or would the immediate write-off of goodwill be a more appropriate reflection of the not-for-profit entities ability to meet its mission? These questions are beyond the scope of the current project and, although worthy of exploring, should not postpone the issuance of this cost saving proposal.