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

The California Society of CPA’s (“CalCPA”) Accounting Principles and Assurance Services Committee (the “Committee”) is the senior technical committee of CalCPA. CalCPA has approximately 43,500 members. The Committee consists of 55 members, of whom 45 percent are from local or regional firms, 32 percent are from large multi-office CPA firms, 12 percent are sole practitioners in public practice, 6 percent are in academia and 5 percent are in international firms. Members of the Committee are with CPA firms serving a large number of public and nonpublic business entities, as well as many non-business entities such as not-for-profits, pension plans and governmental organizations.

The Committee is pleased to have the opportunity 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 (the “ED” or the “Proposal”).

GENERAL COMMENTS

In addition to responding to those questions specifically posed within the proposed ASU, our Committee has included the following general observations:

Distinguishing Between Contributions and Exchange Transactions

With regret, we wish to advise FASB that we do not agree with the notion that most government grants can and should be considered a conditional contribution (and therefore scoped out of ASC 606). The Committee believes that most government grants involve the relief of an obligation of the government to provide services (and in this way are exchange transactions). In this regard:

- The Committee believes that grants that relieve a resource provider (e.g., the government) of an obligation to provide benefits (e.g., goods or services that the government is obligated to provide) is of value to the resource provider. In these circumstances, an exchange of value occurs;
• Our collective experience indicates that there is little diversity in practice around how certain types of government grants (e.g., Housing and Social Services, etc.) are treated. In general, these grants are treated as exchange transactions; and

• The Committee consulted a constitutional scholar as to the question of whether governmental entities could legally make contributions. According to the attorney, contributions may not be permitted under certain state constitutions. For example, we have been advised that California Constitution, Article XVI, section 6 may prohibit the State of California from making contributions. Similarly, Texas Code Section 53 and New York Constitution, article Vii, section 8 may also prohibit contributions from each respective state. While we are not attorneys, we encourage the FASB to research this issue prior to adopting its proposed standard to determine whether any legal conflicts exist with the proposal to classify government grants as contributions.

The Committee agrees with the general notion that the type of resource provider itself should not, in theory, dictate the accounting for a grant or similar contract. However, the Committee feels on balance that the motive of the donor in making the grant, if it can be clearly established, should in practice continue to play a role in determining if a grant is an exchange transaction or a contribution. Indeed, if FASB is looking to the notion of easing burdens on nonprofits, using the practical expedient (absent other factors) of foundation grant – contribution, government grant – exchange transaction could continue to be encouraged. This would certainly achieve FASB’s goals of simplicity.

If FASB feels it needs to respond to the concerns of the nonprofit community that implementing ASC 606 is overly burdensome, rather than FASB’s current approach, we suggest it offer nonprofits a limited exemption from some provisions of ASC 606. There is plenty of precedence for FASB to take this approach.

We agree with the notion of the introduction of the performance related barrier and also the guidance related to differentiating between conditions and restrictions. Despite this committee’s objection as it relates to the proposed treatment of government grants, this committee does not recommend FASB abandon this exposure draft. Accordingly, we feel the easiest way to modify FASB’s proposal is to add in this notion as follows:

Whereas indirect benefit received by the public may not be synonymous to value received by the resource provider, where the resource provider is at the same time relieved of the obligation it would otherwise have to provide such benefits, this does represent value received by the resource provider.

Effective Date

Finally, we believe this proposal is significant, and has (or should have) little to do with ASC 606. We urge FASB to establish an effective date no earlier than for interim and annual periods beginning after December 15, 2018, with early adoption permitted.
**QUESTIONS:**

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

No. In our experience, most government grants involve the relief of the obligation by the government agency to provide such benefits to the public and therefore represent value received by the government agency. This understanding renders this proposal inoperable in practice.

We also wish to note that our committee was advised that many state constitutions may prohibit the states from making contributions. We have heard that FASB may not believe this fact is relevant to the issue of accounting for government grants and has therefore not made mention of such. We believe this is important and urge FASB to address this potential issue.

**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?

No. As aforementioned, we believe that most government grants involve the relief of the obligation by the government agency to provide such benefits to the public and therefore represent commensurate value received by the government agency (an exchange transaction). This understanding renders this proposal confusing.

**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?

Yes. We are fine with this definition.

**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?

Yes, this is a good list and helpful. This will likely be used as frequently as the table in 958-605-55-8 is currently used.

**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?

Yes.


**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.

Yes. Please see our responses to Questions 1. and 2. above. Exchange transactions should be defined to include transactions that involve the relief of an obligation.

**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.

Yes. There will likely be many more conditional contributions which were previously accounted for as temporarily restricted net assets. Accordingly, enhancing the disclosure requirement for conditional contributions may prove useful.

**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?

No. Our committee believes the proposed transition requirements would lead to stakeholder confusion. The committee believes the only way to implement this amendment would be to use the modified retrospective method in the year of adoption.

**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?

No. We recognize that this proposed amendment is significant. It should have little to do with ASC 606. We recommend de-coupling the effective date of this amendment with ASC 606 and pushing out the effective date to no earlier than for interim and annual periods beginning after December 15, 2018.

We commend FASB for trying to offer nonprofits relief from the burden of implementing ASC 606. For reasons stated above we do not believe this is the way to do this. Instead, we recommend FASB simply offer nonprofits reporting under ASC 958 a limited exemption from adopting ASC 606. FASB can have ASC 606 become effective for nonprofits only if and when this proposed exposure draft is refined and finalized by FASB and adopted by the nonprofit.

Early adoption under the framework we suggest above should be permitted.

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We thank you for the opportunity to comment on this matter. We would be glad to discuss our opinions with you further should you have any questions or require additional information.

Sincerely,

[Signature]

Matthew J. Lombardi
Chair
Accounting Principles and Assurance Services Committee
California Society of Certified Public Accountants