October 31, 2017

Via e-mail to director@fasp.org

Technical Director
Financial Accounting Standards Board
401 Merritt 7
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Re: File Reference No. 2017-270, August 3, 2017 Exposure Draft of Proposed Accounting Standards Update (ASU), Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made

We are pleased to submit our comments on the Financial Accounting Standards Board’s (FASB) proposal to clarify the scope and guidance for contributions and exchange transactions. Please find our responses below to the specific questions for respondents asked in the exposure draft proposing changes to the FASB Accounting Standards Codification (ASC) applicable to not-for-profit entities (NFPs). We have also provided additional comments related to other observations in the exposure draft.

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

Response: Overall, we believe the guidance in the proposed update will be operable in practice. However, the following areas could use further explanation, illustration, and/or consideration to avoid inconsistency in the application of the new guidance:

- **ASC 958-605-55-1A** – We believe the diagram included in ASC 958-605-55-1A will be very helpful in the implementation of the new guidance. We would also recommend the following considerations for enhancement of this diagram:
  
  o The diagram should address the fact that some transactions could be in part exchange transactions and in part contributions somewhere toward the beginning of the diagram.
  
  o If the FASB determines that guidance should be provided around when or if all exchange elements of a transaction need to be valued to determine if there is any residual amount that should be allocated to an inherent contribution, then the diagram would likely need to be modified further. See our comments on Question 2 (second bullet point).
  
  o For the “Yes” outcome related to the question on third-party payers, consider adding some clarifying language explaining why it is a balance-sheet only transaction (i.e. because there is an existing agreement with the customer under ASC 606, the third-party payment only reduces the receivable balance and does not result in additional revenue).

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• **Qualifying Expenses** – The illustration provided on qualifying expenses at ASC 958-605-55-70B includes the following sentence:

   “The requirement that assets must be used for specified qualifying expenses differs from a standard budget that may accompany a grant, which is generally considered a guideline.”

We encourage the FASB to modify this language, as there are many foundations with specific terms around budget modifications in their grant agreements, such as the need for pre-approval of any variances of individual budget line items over XX%. Those foundations often do not view the detailed budget as a guideline, and fully expect the recipient to adhere to it and have limited discretion. The current wording in ASC 958-605-55-70B could lead practitioners to interpret that including budgets in grant agreements is not necessarily an important consideration. However, when coupled with other provisions in the grant agreement that limit discretion over how to spend the assets, the grant could be viewed as having a measurable barrier.

• **Conditional Promise to Give Recognition** – We believe it is likely many more transactions will be recognized as conditional promises to give in the proposed Update. Therefore, we recommend additional clarity be provided about the recognition of conditional promises to give whose conditions are substantially met over time vs. at a point in time. ASC 958-605-25-11 states the following in the proposed Update:

   “Conditional promises to give, which contain a donor-imposed condition that represents a barrier that must be overcome, as well as a right of release from obligation, shall be recognized when the conditions on which they depend are substantially met, that is, when the conditional promise becomes unconditional. Imposing a condition creates a barrier that must be overcome before the recipient is entitled to the assets promised.

   This wording could be revised to explain that conditional promises to give could contain a single barrier (e.g. and all-or-nothing matching gift) or a series of barriers that must be overcome (e.g. dollar-for-dollar matching gift), and the recognition can occur as each barrier is met.

   For example, a NFP may receive a Federal award to deliver meals to senior citizens. The terms of the award state that funds will be paid based on the number of delivered meals at an agreed-upon price per meal during the period of availability. Since the Federal agency is not receiving any direct value in exchange for the assets, the award would likely be recognized as a contribution. The NFP evaluates the terms of the award and determines that the fact funding is contingent on delivered meals during the period of availability there is a measurable performance-related barrier triggering recognition as a conditional promise to give. Since the agreement clearly provides a price per meal up to the amount of the award, we believe each delivered meal is a separate barrier and recognition of the contribution can occur upon the delivery of each meal.

**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?
Response: The additional considerations outlined in ASC 958-605-15-5A through 15-6 provide appropriate clarity around indicators of commensurate value. Below are some additional comments to consider for further enhancement:

- ASC 958-605-15-16a includes the following statement:

  “However, if an entity voluntarily transfers assets to another or performs services for another in exchange for assets of substantially lower value and no unstated rights or privileges are involved, the contribution received that is inherent in that transaction is within the scope of the Contributions Received Subsections.”

We believe additional illustrative examples may be helpful so practitioners can apply the guidance consistently. In particular, we believe additional clarification around corporate sponsorships is warranted, as there is often significant judgment involved in determining the value inherent in corporate sponsorships when intangible benefits are received (i.e. valuable marketing services).

Practitioners will often evaluate guidance from the IRS on qualified sponsorship payments and whether there are any substantial return benefits provided that could trigger unrelated business income, as well as guidance from the AICPA’s Audit and Accounting Guide, Not-for-Profit Entities (AICPA NFP Guide) to determine the value inherent in corporate sponsorships. In the AICPA NFP Guide, the Financial Reporting Executive Committee (FinREC) states the following in paragraph 5.54 with regard to corporate sponsorships and naming opportunities:

  “if public recognition and accompanying rights and privileges result in only nominal value to the resource provider, the NFP has received a contribution. However, an NFP should consider the specific facts and circumstances of the naming opportunity and accompanying rights and privileges, such as the type of resource provider (individual or corporation), the length of time that the naming benefit is provided, control over name and logo use, and other contract stipulations.”

- To continue from the comments on the previous bullet, we would like the FASB to address the extent to which an entity should determine values for all exchange elements in a transaction, or when the entity should default to allocating the portion of unknown value to an inherent contribution. How would such guidance interact with ASC 606-10-32-31 through 32-35, which includes the residual approach as one of the acceptable methods for estimating the standalone selling prices of goods or services by taking the total transaction price, less the sum of observable standalone selling prices of other goods or services promised in the contract? It may be difficult to determine if the remaining portion of an agreement without standalone values should be allocated to remaining performance obligations under the ASC 606 residual approach or as an inherent contribution.

Using a corporate sponsorship example for a trade show hosted by an industry association, assume a sponsorship agreement includes multiple provisions (i.e. tickets to attend the trade show, meals, exclusive sponsor-only events, sponsor recognition, and distribution/surveying of the sponsor’s product samples at the trade show. The industry association would likely be able to easily determine the standalone values of the tickets to the trade show, meals provided, and sponsor-only events. However, the determination of value for the sponsor recognition and distribution/surveying of product samples may be more difficult to value. Is it required for the industry association to determine a value of these remaining items, even if they meet the criteria for the residual approach under ASC 606-10-32-31 through 32-35, to evaluate if a contribution portion of the transaction should be recognized?
We recommend reviewing the wording in ASC 958-605-15-16e to be more clear and understandable. The illustrative Example 2: Payment Relating to an Existing Exchange Transaction – University at ASC 958-605-55-14B and 55-14C is very helpful and makes this point more clear, but a practitioner may not necessarily know that ASC 958-605-15-16e is explained by Example 2. The main point seems to be that a payment on behalf of an identified customer for an existing exchange transaction between that customer and a not-for-profit entity does not involve a contribution since the payment is just means of satisfying the obligation between the identified customer and the not-for-profit entity.

We noted that the description of commensurate value does not include considerations for individuals, when evaluating if value is received by a resource provider. Individuals can certainly be party to exchange transactions with a not-for-profit entity, at least in part, such as purchasing tickets to a gala, country club memberships, symphony tickets, school tuition, purchasing interment rights at a cemetery, etc. We recommend the FASB address its views on whether individuals may receive commensurate value when evaluating if an exchange transaction exists. The FASB should also address its views when individuals receive intangible benefits. Let's take an example of naming rights for a new building at a University with the following facts:

- An individual owns a construction company that bears her name.
- The University is constructing a new building for its School of Engineering.
- The building will be named after the donor and include appropriate signage acknowledging the donor all around the building.
- The donor and the University agree on a specific term for the naming rights.
- No other names may be placed on the building during the agreed-upon term of the naming rights.
- The signage will be appropriate positioned and lit so that it may be prominently displayed at all times.

Given the facts above, should the individual be considered to have received commensurate value for these intangible benefits? Assuming the facts remain consistent, other than a slightly different name on the signage, should the conclusion be different if the transaction was entered into by a private family foundation created by the individual, a donor-advised fund they created, or the corporation that bears her name? We believe that a conclusion could be reached that commensurate value has been received, regardless of the source of funding, and therefore the transaction with an individual should be evaluated. When evaluating if commensurate value has been received by individuals, the FASB should also consider whether to link the individual's entitlement to a tax deduction, at least for donors in the U.S., to the assessment of commensurate value.

**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?

**Response:** Yes, we agree that the new criteria of barriers and right of return are appropriate for defining donor-imposed conditions. The new criteria should allow for more consistent treatment between entities and is better than the prior probability guidance, which was very subjective.
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?

Response: Including a table of indicators to describe a barrier is very helpful for practitioners. We understand that having no single indicator being determinative allows flexibility for entities to apply judgment to the specific facts and circumstances of the situation, but we feel additional illustrations or guidance would be helpful. We believe the FASB could also expand its table of indicators with a column for when a barrier is indicated and another column for when a barrier is not indicated, similar to the way the FASB had included indicators distinguishing contributions from exchange transactions in ASC 958-605-55-8.

We are particularly concerned about the weight that should be placed on the Measurable Performance-Related Barrier or Other Measurable Barrier, described at ASC 958-605-25-5C, when evaluating whether a barrier exists. This indicator describes items such as outcomes and outputs. Our observation of recent trends in grant making and philanthropy is that key performance indicators (KPIs) and performance measurements (e.g., outputs and outcomes) have become much more prevalent for not-for-profits.

For example, the recently effective Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) also includes guidance for the responsibilities of Federal agencies to require recipients to relate financial data to performance accomplishments of the Federal award, see 2 CFR § 200.301. Foundations are also working harder to collect more data on the effectiveness of their grants, and we are therefore seeing more specific language being put in grant agreements about KPIs and performance measurements as deliverables or milestones.

While some foundations fully expect the KPIs and performance measurements specified in the grant agreements to be requirements for earning the grant funds, many others treat these as more fluid guidelines that will likely change over time, or just as a way of documenting the data they expect to receive when reporting back on the use of grant funds.

We believe an unintended consequence of the Measurable Performance-Related Barrier is that grant makers and grant recipients will end up determining their agreements should be viewed as having donor-imposed conditions, and therefore delay the recognition of the agreement as a contribution received or contribution made until a later date. We expect that most grant makers and grant recipients do not prefer to delay recognition until the future for agreements they would recognize today under current standards.

We recommend the FASB expand its illustration at ASC 958-605-55-17Bb to clarify with examples of when a specific output or outcome in an agreement would likely be indicative of a donor-imposed condition and when it would not. For example, outputs and outcomes specified in an agreement subject to the Uniform Guidance, but does not qualify as an exchange transaction, could likely be viewed as strict requirements of that award and indicative of donor-imposed conditions. However, a grant from a foundation with specific outputs and outcomes in an agreement may not be indicative of a donor-imposed condition, because they are primarily collecting data to aggregate for reporting on the impact of their philanthropy and they have consistently given to the organization for the last 10 years, even when the levels of outputs and outcomes have not always been met.
**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?

**Response:** Yes, we believe that consistent treatment between recipients and resource providers is preferable when distinguishing between conditional and unconditional contributions. However, we also acknowledge that the resource provider often has more information about their intent, beyond what is written in an agreement, than a recipient does. For example, we have seen instances where a foundation makes a grant to a recipient that might include a stipulation, such as a matching requirement. Despite the existence of a matching requirement, the foundation may still intend to pay the entire grant, even if the recipient does not fulfill the entire matching requirement. They may have only included the stipulation as a way to encourage the recipient to continue expanding its fundraising capacity. In this example, the foundation may choose to recognize the grant up front, while the recipient may follow the terms of the grant agreement and defer recognition until the matching requirement has been met.

We recommend the FASB consider providing an example or additional guidance for when a resource provider includes a measurable performance-related barrier in its agreement that it does not intend to strictly enforce. Since KPIs and other performance measurements could now be considered barriers to be met, we could see foundations and other resource providers taking the position that they intend to be flexible with the recipients on the outputs and outcomes if they are not fully achieved.

Additionally, we recommend the FASB do further outreach to foundations and other resource providers to determine if equal application between the recipient and resource provider is practical. The information needed by the resource provider may not be available timely, due to the nature of the reporting associated with their grant. For example, foundations will often provide multi-year grants to recipients in order to reduce the administrative effort involved with providing a new grant agreement every year. If a multi-year grant is determined to be conditional, the foundation may not get the necessary information in time for the preparation of its financial statements. For example, the annual grant reporting due date could be different timing than the foundation’s fiscal year-end close cycle, or the recipient may not need to provide reporting until the end of the multi-year grant period. In either scenario, if the conditional grant included barriers that could be met over time by the recipient then the foundation would not necessarily be able to recognize grant expense similar to the recipient without incurring additional time and effort to follow up in between grant reporting periods.

**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.

**Response:** We recommend the following clarification of terms and/or definitions:

- **Commensurate Value** – We did not see a definition of commensurate value added in the ASC master glossary with this proposed ASU. A definition may be appropriate to address potential questions, such as whether “commensurate value” means there can be profit in the transaction or if expenses need to equal revenues.
Many grants and contracts are only cost-reimbursement based, but we believe that an exchange transaction following ASC Topic 606 should be allowed to have profits, if not otherwise restricted by the terms of the agreement.

Providing more explicit definitions or guidance would likely be helpful. For example, a not-for-profit entity that determines a grant or contract provides commensurate value and is allowed to follow the guidance in ASC Topic 606 may not be as concerned with its allocation of indirect costs to that grant or contract, because it is allowed to have profits from the agreement that do not need to be justified by incurring sufficient costs.

- **Resource Provider** – The term resource provider is used many times in ASC 958-605 and could be helpful to include as a defined term. For example, we note that the use of resource provider in ASC 958-605-15-5A excludes individuals in the examples included. We are not sure if individuals were specifically excluded for a reason in these examples. Transactions with individuals can certainly be considered exchange transactions, at least partially, at times (e.g. gala dinners, country club memberships, symphony tickets, school tuition, cemetery interment rights, etc.). See our comments on Question 1 regarding individuals for reasons why this term should be defined.

- **Stipulation** – The term stipulation is used widely in ASC 958-605 and we find it would be helpful to include as a defined term, since stipulations could be associated with barriers, conditions, and/or restrictions. It also appears was intended to be added to the ASC Master Glossary, see ASC 958-605-55-16.

**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.

**Response:** For transactions that are in part a contribution and part exchange (i.e. membership dues, special events, etc.), there are different options utilized in practice for the presentation of income from such transactions. Some present the contribution element separate from the exchange element, while others just show a single line for membership dues, special events, etc. One entity may be interested in allocating as much of the transaction to contributions as possible, because it strengthens their fundraising efficiency ratio. Another organization may prefer to keep the entire balance of transactions on one line for simplicity and consistency with internal management reporting. Assuming the option for this presentation continues, disclosing which option is being utilized could be useful information for a reader of financial statements for comparison purposes.

Additionally, we encourage the FASB to review the current disclosure requirements for conditional promises to give. ASU 958-310-50-4 currently requires the following disclosures for recipients of conditional promises to give:

“a. The total of the amounts promised

b. A description and amount for each group of promises having similar characteristics, such as amounts of promises conditioned on establishing new programs, completing a new building, and raising matching gifts by a specified date.”
We suggest either eliminating the requirement to provide these disclosures or make them optional. A potential outcome of this proposed ASU is that many more grants and contracts will be considered conditional contributions. Many grants and contracts are currently treated as exchange transactions, based on current interpretations of GAAP, and no such disclosures are currently required for these exchange transactions. While these disclosures could provide useful information about the future activities of the entity, the potential increased disclosures for additional grants and contracts that will likely be considered conditional promises to give could be substantial. The FASB should also consider how the future disclosure requirements under ASC Topic 606 should possibly align with disclosure requirements for conditional contributions.

**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?

**Response:** We acknowledge that the FASB wants to avoid confusion that may arise with a full prospective application of the proposed ASU by having to maintain some of the existing guidance in ASC 958-605, and that they also want to allow entities some degree of flexibility between electing to apply the new guidance retrospectively or on a modified prospective basis. Full prospective application would allow a little more time for entities to fully adopt this new guidance to their agreements, which is already a short timeframe.

However, the transition guidance in ASC 606-10-65 currently requires adoption on a retrospective basis already. Without additional modification to the transition guidance in ASC 606-10-65, it would be confusing for entities to know what parts of the proposed amendments require retrospective application (i.e., exchange transaction guidance) and which have the option for modified prospective application (i.e., donor-imposed conditions guidance).

Since both the modified prospective and retrospective application methods will require entities to invest potentially significant time before the effective date, we believe the proposed ASU should be consistent with transition guidance in ASC 606-10-65, and only allow for retrospective application. The modified prospective application potentially adds additional time and effort for entities. In addition to determining how transactions should have been accounted for under the new guidance, entities applying the modified prospective method would also need to figure out the proper allocation and cutoff of the elements of a transaction between periods before the new guidance and periods after.

**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?

**Response:** The proposed amendments should be the same as the effective date of Topic 606. We also do not see any compelling reasons to prohibit early adoption, so it should therefore be an option.
OTHER COMMENTS

• We recognize the importance of addressing these issues for NFPs at this time, but we wish to express our views regarding the importance of maintaining consistency in accounting between business entities and NFPs in accounting for similar transactions. We suggest the FASB further emphasize and clarify in the final standard its intentions for business entities receiving funds from government entities regarding the applicability of the proposed ASU. For example, many practitioners today look to international standards related to the accounting for government grants by business entities, since no clear guidance exists related to the accounting for these transactions in existing U. S. standards.

We want to thank the FASB for taking on this project to clarify the scope and guidance for contributions received and made. We appreciate the significant effort and time put into educating the community about the planned changes, and for the opportunity to provide feedback.

Sincerely,

BPM LLP