To whom it may concern,

United Way is a worldwide network operating in 41 countries and territories, including approximately 1,150 local organizations in the United States of America. Each local United Way in the USA is a separate legal entity, under Section 501(c)(3) of the Internal Revenue Code, each is governed by its own volunteer board and maintains its own financial records.

In order to promote consistency and transparency in financial reporting, United Way Worldwide has created the Financial Issues Committee (FIC), a group of Chief Financial Officers from member United Ways, charged with acting as a policy advisory and educational body to address United Way network accounting and financial issues from a national perspective. These issues are identified by local United Way Presidents and/or Chief Financial Officers and the United Way Worldwide Chief Financial Officer. The FIC acts as a policy recommendation body guiding work teams that “flesh out” the extent and nature of the issue, produce recommended standards, guidelines, policy guidance or research useful to the United Way Network.

The following comments were prepared by a FIC work group and endorsed by the full FIC. They are intended to represent the consensus view of the member United Ways in the USA though individual United Ways were encouraged to offer their own comments, which may vary from those outlined in this letter.

Questions for Respondents

The Board invited individuals and organizations to comment on all matters in this proposed update, particularly on the issues and questions below. Comments were requested from those who agree with the proposed guidance as well as from those who disagree.

United Way Worldwide appreciates this opportunity to submit comments to the Board. While overall we agree with and support the proposed guidance, specific elements do exist which raise concern or could be improved. As requested, we have endeavored to provide comments that identify and clearly explain the issue or question to which they relate, as well as, to describe our suggested alternatives (e.g. ways to increase the expected benefits, minimize complexities, or reduce costs), supported by specific reasoning.
Guidance for Contributions Received and Contributions Made

Overall, we support the Board’s initiative in tackling this subject in an effort to bring about consistency in practice which we believe will provide added value to the primary users of financial statements. We wholeheartedly concur with the Board that these standards are needed because the questions it clarifies are common discussion items among United Way CFOs given the current inconsistency in practice, even among our own ranks.

We also commend the Board for moving so quickly, ensuring these standards can be implemented coincidental with the larger Revenue Recognition standards, while at the same time getting the various elements of this expedited exposure draft pretty much right the first time. We find the examples provided particularly valuable in confirming understanding of the concepts being forwarded.

Before diving into the specific questions for which the Board is seeking comment, we would like to suggest that in the final standard, the Board consider placing the Framework (currently page 16 of the exposure draft) at the beginning rather than the end of the guidance. We believe that starting with this general guideline, followed by greater detail will prove to be of greater value to preparers, like United Way CFOs, who need an initial general understanding of the standards and generally will only explore the details of the standards that relate to the specific situations they encounter.

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

United Way Comments: Yes, generally speaking the guidance will be operable. However, as outlined in our answers to other questions, there will remain a level of judgment on the part of the preparer and auditor. For example:

- While the necessity for a "right of return" to be in evidence serves as a fairly clear "bright line", there can be situations where the documentation lacks a clearly written right but rather contains only an implied right. If such an implied right were to be recognized for purposes of applying this standard, then judgment is necessary to determine the enforceability of an implied right.
- While clearly the Board indicated that no single barrier is determinative, one must then use judgment to determine if two or three or more, working in combination, rise to the level of an actual barrier.

We will provide suggestions for improvement with our answers to the remaining questions.

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?

United Way Comments:

- The FASB In-Focus (page 1) and paragraph BC13 of the exposure draft indicate that in order to make the determination about commensurate value being received, one should not consider "Execution of a resource providers’ mission or the positive sentiment from acting as a donor would not constitute commensurate value received by a resource provider for purposes of determining whether a transfer of assets is a contribution or an exchange." We wholeheartedly agree that "positive sentiment from acting
as a donor" would not represent commensurate value received, however we do not agree that "execution of... mission" should not be considered.

- When a drug company's foundation provides a grant and the resulting study is used to raise awareness of a disease for which a new medication is available, likely no argument could be made that commensurate value was received, even though the result may be more people aware of the disease, because the foundation's likely mission is to raise general awareness of a broad variety of diseases.

- However, if the Foundation funding the same study were an organization whose mission it is to specifically raise awareness of the particular disease in question, it seems a reasonable argument could be made that the organization is receiving commensurate value.

- We see from paragraph BC13 of the Exposure Draft that the Board's intent is that "Determining whether a transaction is an exchange should focus on whether reciprocal benefits flow between two parties to an agreement" but is it arguable in some cases that the resource provider has simply "outsourced" a portion of its mission related work and therefore benefits are flowing between the parties?

- We also find the change in the definition of "Contribution" (paragraph 2, page 7) to be something of a distinction without a difference in terms of correcting the existing contradiction in the definition:

  - A strict reading of the phrase "approximately equal" in the current definition has never made sense:
    - Is it "approximately", meaning almost the same, or
    - Is it "equal", meaning exactly the same?

- The change, replacing "equal" with "commensurate" imposes a double adjective that appears to be unnecessary:
  - Commensurate: adjective - corresponding in amount, magnitude, or degree; proportionate; adequate; having the same measure; of equal extent or duration; having a common measure or divisor.
  - Approximate: adjective - near or approaching a certain state, condition, goal, or standard; nearly exact; not perfectly accurate or correct; near; close together; very similar; nearly identical.

- Our assumption is that the Board intends to convey the idea that if not equal in value (because value can be a somewhat vague measure in this context), then so close to it that in the eyes of a reasonable observer it is surely "close enough".

- Therefore, we recommend using only one of the two words, our preference would be commensurate rather than approximate.

**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?

**United Way Comments:** Yes, we agree with the Board’s decision to include a requirement for both. In particular, we like the necessity of a right of return being one of the factors because it creates a bright line for decision making. That said, we note that it does raise several questions:

- It appears from the proposed wording of paragraph 958-605-25-5b that the possibility exists for there to be an "implied" right of return of assets in absence of a written one and that it can be substantiated by other extemporaneous documentation referenced in the document.
• In addition, there seems to be indication that other factors could support "a reasonable conclusion" of the existence of the implied right
• If our understanding is correct, it may be useful to provide an example or two that would illustrate the appropriateness of what those other factors could be (e.g. examination of written communications, precedent, and perhaps even consider "moral/ethical" norms)?

**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?

**United Way Comments:** there are several elements that could/should be improved, specifically:

• **Barriers:** The draft does provide a number of examples of what a barrier may consist of, which is helpful. However, equally helpful would be several examples of things that are clearly not barriers. Combined, the examples will serve as valuable book ends that will help preparers navigate the grey areas in between. To that end, we offer the following two examples of wording we have encountered in existing grant agreements:
  o Example 1:

  **Payment:** Upon receipt of Grantee’s signed acceptance of this Agreement, payment of $287,600 will be made to Grantee. Successive payments are contingent upon receipt and approval of an annual report, as defined in the Reporting section, which demonstrates to the Foundation satisfactory progress of the stated objectives of the Project. The Foundation reserves the right to change or adjust the payment schedule of the grant at any time and will inform Grantee of such change.

  While a right of return (release from obligation to make future payments) appears to exist, the initial payment is contingent upon only a signature on the agreement. While consideration of the "likelihood of meeting the requirement" is not considered in determining the existence of a barrier, the fact is that the recipient organization would record no revenue until the agreement is signed, so there is no question that the requirement would be met and thus no barrier seems to exist.

  Note: The remainder of the grant would however be subject to both a barrier and a right of return.

  o Example 2:

  **If accurate and complete financial and program reports are not furnished to the Endowment on or before the dates reflected in the schedule on page 1 and the Endowment agrees to an extension of such dates, the Endowment will not be required to disburse related payments until the end of the fourth full calendar quarter after the quarter in which such delinquent reports are furnished, unless the Special Conditions expressly provide otherwise.**

  In this example, there seems to be a barrier, furnishing of reports, but there is no actual or implied right of return, only a right to delay payments, because it is stipulated that there is an automatic "extension" of required filing dates. Clearly the resource provider has every intention of making payment.

• **Conditions:** A valuable addition to the standards would be to place more emphasis on what constitutes a condition versus what is not. For instance:
We find Example 13 provided in the exposure draft to provide a very bright line while in practice things are often not this clear.

To demonstrate better what those type of examples could be, we offer this example that appears to fall into the “grey” area:

NFP U applies for and receives a grant from a private foundation for funding of an amount up to $1,000,000 to be disbursed in two payments:

<table>
<thead>
<tr>
<th>Payment Date</th>
<th>Amount</th>
<th>Contingent upon submission of the following:</th>
</tr>
</thead>
<tbody>
<tr>
<td>3/31/X1</td>
<td>500,000</td>
<td>Executed Installment Grant Terms &amp; Conditions</td>
</tr>
<tr>
<td>1/31/X2</td>
<td>Up to 500,000</td>
<td>2017 Interim Reports and Funds Raised Report</td>
</tr>
</tbody>
</table>

Special Conditions:
1. Additional funds raised from sources other than The Foundation in support of the projects funded by this grant may reduce the amount of this grant
2. Grantee agrees to abide by the submitted and attached Project Budget which addresses items to be funded by this grant
3. This grant is made subject to the attached, executed Fiscal Sponsorship Agreement dated February 6, 2017.

The special condition related to “Additional funds raised...” brings up several questions with regards to how the grant should ultimately be recorded:
1. Do conditions 2 and/or 3 also constitute an implied “right of return”?
2. Does an open ended final amount, represent a barrier that would make the grant conditional?
3. If conditional, should the total grant be considered “conditional” and contributions not recorded until funds are expended as opposed to when received?
4. Is it possible for only the second $500,000 to be considered conditional?
5. If it is conditional and deemed a barrier, what disclosure would be required about the potential receipt of funds?

**Establish a Default:** If the Board prefers not to include too many examples, then perhaps they could consider offering a default directive. Such a directive might be, “lacking clear evidence of a condition[s] that the preparer believes amounts to a barrier, then the transaction should be reported as a contribution” (e.g. when in doubt, call it a contribution).

- While it is possible that there be one single condition (for example “if an agreement says you must produce at least this level of output”) pointing to the conclusion that there would be no need to seek other barriers, generally speaking one ought to be able to find more than one and that would add strength to the determination.
- What if the level of output is so easy to achieve would it still be a barrier? (example: $1mil to get 10 people out of homelessness, no other restrictions)
- Might a hierarchy template, in addition to the table lead to better decision making? Or might it actually make it harder.
- Ultimately, we think that if there is only one, the default should be that there is not a barrier.
**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?

*United Way Comments:* It would seem most appropriate for both to use the same accounting, however from a practical perspective, there would be a number of challenges in ensuring this outcome. In considering this as a part of the standard, we encourage the Board to consider the following questions:

- If the two parties come to different conclusions, how will one know about the other?
- If applied to both, is there an implied obligation for the two to communicate with each other and align their approaches?
- Do we as recipients of resources care how the resource provider accounts for the disbursement?
- Is FASB’s intent to eventually create an opportunity for AICPA to create audit guidelines that would effectively “police” the application on both sides?
- How would this work in practice?

**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.

*United Way Comments:* We find the terms and definitions to be generally well written and thought out, but as noted earlier, would like to see a more precise definition of “Contribution” that includes only the word “commensurate”.

**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.

*United Way Comments:* We agree with the Board decision to make no changes to the current recurring disclosure requirement provided judgment with regard to a materiality threshold is allowed.

**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?

*United Way Comments:* Prospective application makes more sense than transitional disclosure... because talking about how it was reported last year is not decision useful in this case.

**Effective Date**

**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?

*United Way Comments:* Our opinion is, the proposed effective date should be workable.
In addition to answering the specific questions raised by the Board, we wish to reiterate that overall, we believe the proposed changes are important for making GAAP financial statements more meaningful and bringing about greater consistency in practice, specifically for governing boards, whom we believe to be the primary users of Not-for-Profit Financial Statements. We are encouraged by the fact the FASB has taken such a broad view of the potential parameters of this topic and are providing us with this opportunity to share our ideas and feedback.

United Way Worldwide appreciates the opportunity to participate in any discussion of improving the clarity and decision usefulness of financial statements and would be happy to provide additional observations for the Board’s consideration if needed.

If the Board would like to discuss our responses further, please feel free to contact me or Kenneth C. Euwema, Vice President - Controller, United Way Worldwide.

Thank you for your consideration of our comments. We look forward to the opportunity to discuss them further.

For the United Way Worldwide Financial Issues Committee,

Mark D. Sutton
Executive Vice President and Chief Financial Officer
United Way Worldwide
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