From: <u>Mike Batts</u>
To: <u>Director - FASB</u>

Subject: RE: File Reference No. EITF-12B

Date: Tuesday, September 18, 2012 4:07:53 PM

This message is being re-sent. Please confirm receipt. Thank you.

Dear FASB Friends:

I am writing to address concerns about the Proposed ASU referenced above.

First, we do not see the need for the proposed guidance, as existing standards already include guidance for recognizing contributed services. We do not see any reason that the accounting treatment for contributed services should vary based on whether the services are contributed by an affiliated (related) organization or by an unrelated organization. That would represent inconsistent accounting principles within GAAP in our view. Presumably, one premise for the proposed ASU is that one "affiliate" can easily obtain cost information from another affiliate. While that assumption may be correct with respect to some affiliated groups, it is not correct with respect to many. The mere fact that entities are under some form of common governance control does not necessarily mean that one can easily obtain detailed accounting information and related supporting documents from the other in a timely manner.

If you are interested in addressing revenue recognition in a scenario where services are contributed by one entity to a not-for-profit organization, and where the providing entity compensates the workers who perform the services, we propose that you consider an alternative approach. We understand that when workers are compensated for their services by one entity, but provide the services to a not-for-profit organization that does not pay for the services, such an arrangement is different from a classic volunteer services arrangement. Ideally, if you were to pursue an alternate approach to the proposed ASU, the accounting treatment should not depend on whether the entity providing the services is related to the receiving organization or not, and it should also address the scenario where the receiving organization does not have or cannot obtain the cost information from the provider. We propose the following alternative approach:

- Provide that when a not-for-profit organization receives personnel services from another organization (related or unrelated, for-profit or not-for-profit), and such services are not of the type that would otherwise be required to be recognized as revenue at fair value (i.e., they do not require specialized skills and do not create or enhance an asset), and where the receiving organization is aware that the providing organization compensates the people performing the services, then:
  - The receiving organization may (but is not required to) recognize the services provided as revenue provided that the providing entity shares the cost information and related supporting documentation with the receiving organization (an act which is voluntary on the part of the providing entity), and further provided that the receiving organization determines that the

cost information is reasonable and does not exceed the fair value of such services.

(We note that accounting standards obviously cannot compel one entity to provide information or documents to another.)

In addition to the commentary above, I submit the following specific concerns about the proposed accounting treatment:

- 1. Services provided by an affiliate are not always discrete and easily measurable. If the services are in the form of a specific person's services who is secunded by one entity to another, the measurement of that person's cost by the entity paying him/her is pretty straightforward. However, if the services are a mixed bag of administrative, accounting, and other back-office services performed by people who have other duties in the organization paying them, the measurement and cost allocation process may be a rather complex accounting exercise that is burdensome to the organization providing the free services. For these and other reasons, a providing entity may not desire to provide the cost information requested by the receiving entity. Obviously, accounting standards cannot compel one entity to provide information and/or documentation to another.
- 2. Even when the cost of the services is easily measurable (such as in a secunding arrangement where a person is paid by one organization and provides services to another), the proposed accounting change will require the receiving organization to request the providing organization to disclose to the receiving organization the compensation of the people providing the services. We suspect there will be circumstances where such a disclosure may not be desirable for one or more of the parties.
- 3. The providing organization may not have the accounting or financial sophistication to provide the required information either in a timely manner or at all. In a scenario where the receiving organization issues audited GAAP financial statements and the providing organization does not, the providing organization may not have the capability of providing the required information to the receiving organization in a timely manner.
- 4. Auditability. Imagine a scenario where the receiving organization issues GAAP financial statements and receives services from an affiliate at no charge that would be material if the proposed ASU were adopted. Suppose the providing organization shares information with the receiving organization about the cost of the services provided. Will auditors be able to rely solely on the representation of the affiliate regarding the costs, or will the auditor be required to somehow test information in the affiliate's records? Requiring the auditor to test the records of an affiliate that is not being audited would seem problematic.

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