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2017-270
Comment Letter No. 15
330 North Wabash, Suite 3200
Chicago, IL 60611

October 30, 2017

Via email to director@fasb.org

Susan M. Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Exposure Draft: Not-for-Profit Entities (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (File Reference No. 2017-270)

Dear Ms. Cospers:

We are pleased to provide comments on the Board's proposal on contributions to and from Not-for-Profit Entities. We support the Board's efforts to clarify and improve the scope and accounting guidance for contributions received and made. Our responses to the specific questions posed are presented in the Appendix of this letter.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Adam Brown at (214) 665-0673 or Lee Klumpp at (703) 336-1497.

Very truly yours,

A handwritten signature in blue ink that reads "BDO USA, LLP". The letters are written in a cursive, slightly slanted style.

BDO USA, LLP

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Appendix

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

We agree that the amendments in the proposed Update would generally be operable in practice. We concur with the statement in paragraph 9 in the Basis for Conclusions that the term used to label a transaction (i.e., grant, contract, cooperative agreement, memorandum of understanding, fee for service etc.) is not a factor in the determination of the accounting treatment for the transaction. Each transaction should be evaluated based on its substance and the guidance outlined in the Update, regardless of the title of the agreement or the revenue stream itself. We believe it would be helpful to include this concept in the Update itself.

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?

We believe that the proposed amendments clarify when a resource provider is receiving 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?

We agree with having both the definition of a barrier and a right of return of the assets in the term for donor-imposed condition.

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?

We agree that the proposed table of indicators to describe a barrier provides useful guidance to permit appropriate judgment. We also concur that no single indicator should be determinative. However, we also note that the guidance provided in the examples is critical to understanding how to interpret and apply the indicators in practice. We believe that certain examples in the proposed Update raise additional questions that may require clarification in order to assist with the implementation in practice. Specifically:

Example 14: Contribution That Includes Qualifying Expenses

One factor considered is that *"Any unused assets are forfeited, and any unallowed costs that have been drawn down by NFP are required to be refunded."* However, it is not clear whether this concept must be specifically stated in the agreement between the resource provider and the organization, and thus represent a negotiated term, or if any contribution received under the Office of Management and Budget ("OMB") guidelines, which include a similar provision, would be deemed to include a barrier.

We also note that in practice, many private foundations refer to OMB or other Federal guidelines as a basis for internal cost principles, or have developed their own internal cost principles that must

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be complied with as a matter of policy. It is not clear, based on this example, whether such internal cost principles would be deemed barriers under the Update.

Example 15: Contribution for a Research Grant

This example concludes that despite the requirement to obtain approval from the donor for significant deviations in spending from the general operating budget that was provided as part of the grant proposal, no barrier exists, and thus the grant is unconditional. While we understand and agree with this conclusion, it raises a question regarding the need for additional factors to consider when an entity is subject to the terms of a budget. For example, there are certain scenarios whereby an entity will provide a proposal to a resource provider that outlines the costs they anticipate incurring for the project, i.e. a project-specific budget rather than a general operating budget. The Update does not provide a clear indication of how specific the terms of the budget provided and the required approval process must be in order for the budget to meet the definition of qualifying expenses or 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?

We concur with the application of the proposed amendments for distinguishing between conditional and unconditional contributions to both the recipient and the resource provider. We agree that there should not be separate criteria or treatment between the two parties to these transactions.

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.

We believe that including a definition for Qualifying Expenses in the Master Glossary would assist in practice as the evaluation of the transaction is performed. We recommend defining Qualifying Expenses as follows: "Expenses incurred by a grant recipient that either: (a) comply with the provisions in a grant or contract with a resource provider that limits how the recipient may use the funds or (b) deviate from the grant or contract provisions, but such deviation has been approved by the resource provider such that the resource provider no longer has the right to cancel their obligation to transfer funds in the future or the right to demand the return of funds already transferred."

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.

We do not feel that the current recurring disclosure requirements need to be amended for the recipient. We also do not feel that there should be any additional disclosures added under the current terms of the exposure draft. However, we recommend including a requirement for the resource provider to disclose information about any conditional grants not recognized but that are reasonably likely to be paid in the future such as a matching grant, with a goal of providing a general understanding of the grant and its related terms, as well as the expected amount of such grant.

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

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modified prospective application be more operable than prospective application? If not, why not?

We agree that the proposed transition requirements would be operable, and would provide decision-useful information. However, we would not object to allowing a prospective application of the proposed guidance. We believe that allowing entities the option of a prospective method of adoption might allow for an easier transition.

In addition, we recommend that the Board amend the proposed definition of a completed agreement in ASC 958-10-65-2(e)(1) to state, "A completed agreement shall be considered an agreement for which all, or substantially all, of the revenue . . ." to be consistent with the transition guidance in Topic 606.

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?

We concur with establishing the same effective date as Topic 606. We feel that this is appropriate since nonprofit organizations with conduit debt will need to adopt Topic 606 and the guidance in this Update is instrumental to their adoption of Topic 606.

We also believe that early adoption of the proposed amendments should be permitted.