



MARGARET A. CARGILL FOUNDATION | ANNE RAY FOUNDATION

November 1, 2017

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

RE: File Reference No. 2017-270 – Proposed Accounting Standards Update *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*

Dear Technical Director,

We appreciate the opportunity to comment on the Exposure Draft of Proposed Accounting Standards Update, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* (the Update) and respectfully submit the following comments for your consideration.

- Contingent payments -- We agree with the overall concept of a donor-imposed condition as described within the Update preamble which states “the presence of both a barrier and a right of return or right of release indicates that a recipient is not entitled to the transferred assets (or a future transfer of assets) until it has overcome the barriers in the agreement.” In other words, the right to assets is *contingent* upon overcoming barriers within the agreement. However, we believe this concept needs further clarification.

Documentation developed in connection with executing a grant may refer to a variety of planned program objectives which are specified in sufficient detail to ensure planned activities are aligned with program strategies of both the resource provider and the resource recipient and to accommodate evaluation of results by both parties. It is also not uncommon for grant documentation to include a requirement to use funds for charitable purposes as proposed by the resource recipient as well as prohibitions against using funds for certain impermissible purposes (e.g. in violation of tax, legal or other regulatory requirements) and to return funds not used for charitable purposes.

In these cases, there often is not a direct correlation between delivering the specified level of service and the right to receive or retain funds. As such, it should not be considered a “measurable performance-related barrier” as the payment is not contingent on delivering the specified levels of service. These interpretations are further complicated when there are a number of specific program objectives, none of which are directly tied to payments.

The use of consistent terminology regarding the contingent nature of payments is important to application of this concept. For instance, Paragraph 958-605-55-17B of the Update includes several examples of measurable performance-related barriers. Subparagraphs b. through d. include terms like “contingent upon” and “to be entitled to receive assets,” which is consistent with the overall concept of the donor-imposed condition described above (i.e. there is a direct correlation or *payment contingency* based on the delivery of service). For consistency, the standard in subparagraph a. should be revised so that a requirement to deliver a specified level of service is only viewed as a measurable performance-related barrier when there is a directly related payment contingent upon the delivery of the specific services.

- Facts and circumstances -- The Update requires an evaluation of facts and circumstances of each transaction to determine the appropriate accounting treatment, with no single factor being determinative. This facts-based assessment is important in light of the variety of relationships, terms and approaches of both resource providers and resource recipients. However, the parties to a transaction may not have the same visibility into information relevant to the assessment, leading to the potential for some divergence in accounting for a transaction. Interpretations of the substance of transactions based on facts and circumstances is enhanced by considering rights that are provided for in formal arrangements along with practices of enforcing (or waiving) legal rights and communications between the parties to the transaction on execution of the proposed arrangements.
- Definitions and examples -- Additional definitions and examples would provide beneficial clarifications and assist with more consistent interpretation of facts and circumstances, particularly:
 - Examples of stipulations that are related to the purpose of the agreement.
 - Further examples of additional actions.
 - Further examples of administrative tasks and trivial stipulations.
 - Further examples on discretion including amounts restricted for ongoing programs.
 - Definition and examples for “broad discretion”; for example, a resource recipient which agrees to use funds in alignment with a high level budget it developed and proposed as part of grant planning should be viewed as having broad discretion.
 - Definition and examples for “limited discretion” and “qualifying expenses” which make clear these apply when the arrangement calls for use of funds against a detailed or narrowly defined set of rules for identifying eligible expenses.

In conversations with fellow stakeholders in the not-for-profit sector, we observe the potential implications of the Update are not yet well understood, including the potential for significant contributions previously treated as restricted to be found to be conditional. In addition, some examples in the Update might benefit from further context on the effect of grant terms in practice. To ensure the Update has the desired impact of providing clarity in evaluating arrangements, increasing consistency in application of the guidance and making accounting for contributions more operable, we suggest more feedback from stakeholders be obtained before revising the standard.

Thank you for the opportunity to present these comments and we would be pleased to discuss these comments, if desired, at your convenience.

Sincerely,

A handwritten signature in cursive script that reads "Naomi Horsager".

Naomi Horsager
Chief Financial Officer
Margaret A. Cargill Philanthropies
Margaret A. Cargill Foundation | Anne Ray Foundation