

# New Grant Versus Contract Guidance for NFPs

At long last, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08 to help not-for-profit (NFP) organizations evaluate whether gifts, grants or contracts should be accounted for as a contribution—subject to Accounting Standards Codification (ASC) 958, *Not-For-Profit Entities*—or as a reciprocal (exchange) transaction accounted for under other topics such as ASC 606, *Revenue from Contracts with Customers*.

## Background

As NFPs digested the new revenue guidance in [ASC 606](#), many re-evaluated their existing accounting policies and classifications. These reviews highlighted diversity in practice in distinguishing between a conditional promise of financial support (nonexchange transaction) and a transaction where the resource provider receives commensurate value in return (exchange transaction).

## Scope

The new guidance applies to all entities (NFPs and business entities) that receive or make contributions. The rules do not apply to the transfers of assets from the government to business entities.

## Contributions Versus Exchange Transactions

If commensurate value is received by the resource provider, the transaction should be accounted for as an exchange transaction by applying ASC 606 or other topics. If commensurate value is not received by the resource provider, *i.e.*, the transaction is nonexchange, the recipient organization would record the transaction as a contribution under ASC 958 and determine whether the contribution is conditional or unconditional.

*FASB expects the new guidance could result in more grants and contracts being accounted for as contributions (often conditional contributions) than under current practice. Because of this, it believes the clarifying guidance about whether a contribution is conditional or unconditional, which affects the timing of revenue recognition, is important.*

## Conditional or Unconditional

Organizations would evaluate whether contributions (“nonexchange” transactions) are conditional or unconditional by determining whether there is a barrier or hurdle that must be overcome and whether the agreement or other referenced document includes either a right of return of assets transferred or a right of release of a promisor’s obligation to transfer assets. To determine if there is a barrier, an NFP will consider indicators, which include, but are not limited to:

- The inclusion of a measurable performance-related barrier or other measurable barrier
- The extent to which a stipulation limits discretion by the recipients on the conduct of an activity
- The extent to which a stipulation is related to the purpose of the agreement

After a contribution has been deemed unconditional—either initially or when all conditions are met—an organization would consider whether the contribution is restricted on the basis of the current definition of a donor-imposed restriction, which includes the consideration about how broad or narrow the purpose of the agreement is and whether the resources only can be used after a specified date.

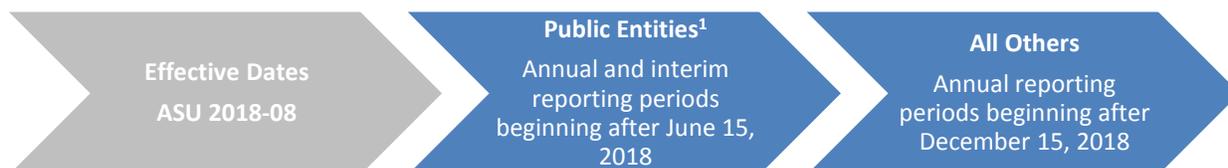
## Simultaneous Release Option

The ASU modifies the current simultaneous release option, which allows an NFP to recognize a restricted contribution directly in unrestricted net assets/net assets without donor restrictions if the restriction is met in the same period that the revenue is recognized. This election may now be made for all restricted contributions that were initially classified as conditional without having to elect it for all other restricted contributions and investment returns.

## Effective Date

Because ASC 606 is already effective for public entities, FASB has delayed the effective date on these amendments for public entities as noted below. Nonpublic NFPs would be adopting ASC 606 and these amendments together. Early adoption would be permitted irrespective of early adoption of ASC 606.

The final standard should be applied on a modified prospective basis following the effective date to agreements that are either (1) incomplete as of the effective date or (2) entered into after the effective date. Retrospective application is permitted. Resource providers have an additional year to implement the provisions on the standard.



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## Contributor

Anne Coughlan  
Director  
317.383.4000  
[acoughlan@bkd.com](mailto:acoughlan@bkd.com)

<sup>1</sup> The new revenue standard defines a public entity as any one of these:

- A public business entity
- An NFP entity that has issued—or is a conduit bond obligor for—securities traded, listed or quoted on an exchange or over-the-counter market
- An employee benefit plan that files or furnishes financial statements to the U.S. Securities and Exchange Commission