New NFP Guidance – Contribution or Exchange Transaction?

The Financial Accounting Standards Board (FASB) finalized new guidance making it easier for not-for-profit (NFP) organizations such as charities and foundations to evaluate whether gifts, grants or contracts should be accounted for as contributions—subject to Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*—or as reciprocal (exchange) transactions accounted for under other topics such as ASC 606, *Revenue from Contracts with Customers*. Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, requires all entities—both donors and recipients—to evaluate whether the resource provider is receiving commensurate value in a transfer of assets transaction and whether contributions are conditional or unconditional. No additional disclosures are required under this standard, although additional disclosures may occur as the result of additional conditional contributions to which there are existing disclosure requirements.

FASB expects that the improved guidance could result in more grants and contracts being accounted for as contributions (often conditional contributions) than under current practice.

Scope

The new guidance applies to all entities—NFPs and business entities—that receive or make contributions. FASB's intent was that contributions received and contributions made should apply the same guidance, but would not need to track each other's accounting to achieve parallel accounting. An entity's financial statement labeling—contribution, grant or donation—is **not** a factor if an agreement is under contribution accounting guidance.

The rules do not apply to the transfers of assets from government entities to business entities. In addition, FASB maintained the existing scope exclusion and clarified that if a government is paying for an existing exchange transaction between a recipient and identified customer, the transaction is not a contribution. These transactions will continue to be separately evaluated to determine whether there is an exchange transaction between the identified customer and the recipient entity. The government is simply making payments on behalf of the identified customer. The ASU lists Medicare, Medicaid, Pell Grants or similar state or local government tuition assistance programs as examples.

Revised Definitions

The ASU updates several definitions to make FASB's intent clearer.

Current	ASU 2018-08
Conditional Promise to Give	
A promise to give that depends on the occurrence of a specified future and uncertain event to bind the promisor	A promise to give that is subject to a donor-imposed condition
Contribution	
An unconditional transfer of cash or other assets to an entity or settlement or cancellation of its liabilities in a voluntary nonreciprocal transfer by another entity acting other than as an owner	An unconditional transfer of cash or other assets, **as well as unconditional promises** to give, to an entity or a **reduction,** settlement or cancellation of its liabilities in a voluntary nonreciprocal transfer by another entity acting other than as an owner

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Donor-Imposed Condition	
A donor stipulation that specifies a future and uncertain event whose occurrence or failure to occur gives the promisor a right of return of the assets it has transferred or releases the promisor a right of release from its obligation to transfer its assets	A donor stipulation **(donors include other types of contributors, including makers of certain grants) that represents a barrier that must be overcome before the recipient is entitled to the assets transferred or promised**. **Failure to overcome the barrier** gives the **contributor** a right of return of the assets it has transferred or gives the promisor **a right of release** from its obligation to transfer its assets

Contribution Versus Exchange – Commensurate Value

The primary determinant of whether a grant or contract is a contribution or an exchange is if the two parties receive and sacrifice commensurate value. If commensurate value is **not** received, the recipient should account for the transaction as a contribution under ASC 958-605. If commensurate value is received, the transaction should be accounted for as an exchange transaction by applying ASC 606 or other appropriate guidance.

Determining whether a transaction is an exchange should focus on whether reciprocal benefits flow between two parties and not on the resource provider's role, mission or obligation. An entity should consider the facts and circumstances of each arrangement.

The type of resource provider—government, corporation or foundation—should **not** factor into the determination of commensurate value. The ASU provides the following items to consider in evaluating commensurate value. A single factor is not definitive in determining whether the transaction is a contribution or exchange transaction; judgment will be required.

- The resource provider is not synonymous with the general public. Public benefit is not equivalent to commensurate value received by the resource provider. If the resource provider receives indirect value for the assets transferred or if the value received by the resource provider is incidental to the potential public benefit from using the assets transferred, the transaction shall not be considered commensurate value received in return
- Execution of the resource provider's mission or the positive donor sentiment does **not** constitute commensurate value in determining whether the transfer of assets is a contribution or exchange
- If the expressed intent asserted by both the recipient and resource provider is to exchange resources for goods or services that are of commensurate value, the transaction shall be indicative of an exchange transaction. The transaction shall be indicative of a contribution if the recipient solicits assets from the resource provider without the intent of exchanging goods or services of commensurate value
- If the resource provider has full discretion in determining the amount of the transferred assets, the transaction shall be indicative of a contribution. If both the recipient and resource provider agree on the amount of assets transferred in exchange for goods and services that are of commensurate value, the transaction shall be indicative of an exchange transaction
- If the penalties assessed on the recipient for failure to comply with the agreement's terms are limited to the delivery of assets or services already provided and the return of the unspent amount, the transaction is generally indicative of a contribution. The existence of contractual provisions for economic forfeiture beyond the assets transferred by the resource provider to penalize the recipient for nonperformance generally indicates the transaction is an exchange of commensurate value

Appendix B has several examples for various NFP organizations.

Exchanges

If commensurate value is received by the resource provider, the transaction would be accounted for as an exchange transaction by applying ASC 606 or other topics.

Contributions

If commensurate value is **not** received by the resource provider—a nonexchange transaction—the recipient would record the transaction as a contribution under ASC 958 and must determine whether the contribution is conditional or unconditional. The ASU expands on what is considered to be a conditional contribution from under previous guidance.

Conditional or Unconditional

Organizations would evaluate whether contributions are conditional or unconditional to determine timing of recognition. A conditional contribution would be accounted for as a refundable advance until the conditions have been substantially met or explicitly waived, *i.e.*, deferred revenue, by the donor. A donor-imposed condition must have both a barrier that must be overcome and a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. Appendix C contains several examples.

For a donor-imposed condition to exist, it must be apparent from the agreement—or another document referenced in the agreement—that a recipient only is entitled to the gift if it has overcome the barrier. An agreement does not need to include the specific phrase right of return or release from obligation; however, an agreement should be sufficiently clear to be able to support a reasonable conclusion about when a recipient would be entitled to the transfer of assets. In the absence of any apparent indication that a recipient only is entitled to the transferred assets or a future transfer of assets if it has overcome a barrier, the agreement shall not be considered to contain a right of return of assets transferred or a right of release from obligation and shall be deemed a contribution without donor-imposed conditions.

Barriers

To determine if there is a barrier, an NFP will consider indicators, which include:

- **The inclusion of a measurable performance-related barrier or other measurable barrier.** Measurable performance-related barriers or other measurable barriers often are coupled with a time limitation, *e.g.*, outcomes to be achieved within a specified time frame. Examples of measurable performance-related barriers include a requirement that indicates a recipient's entitlement to transferred assets is contingent on the achievement of any of the following:

  - A specified level of service
  - An identified number of units of output
  - A specific outcome

  Other measurable barriers stipulate a recipient is entitled to the resources if an identified event occurs, *e.g.*, a matching requirement

Best effort metrics are not considered measurable barriers.

- **The extent to which a stipulation limits the recipient's discretion on the conduct of an activity.** Limited recipient discretion may be indicative of a donor-imposed condition. Limited recipient discretion is more specific than a donor-imposed restriction. Restrictions limit the use of a contribution to a specific activity or time but do not necessarily place limitations on **how** the activity is performed to be entitled to the resources. Examples of limited discretion could include:

- A requirement to follow specific guidelines about incurring qualifying expenses
- A requirement to hire specific individuals as part of the workforce conducting the activity (such as the hiring of specified employees or an identified professor at a university)
- A specific protocol that must be adhered to

- **The extent to which a stipulation is related to the purpose of the agreement.** An example of stipulations related to purpose could include a requirement for:
  - A homeless shelter to provide a specified number of meals to the homeless (also an example of a measurable performance-related barrier)
  - An animal shelter to expand its facility to accommodate a specified number of additional animals
  - A research report that summarizes the findings from a grant on gluten-related allergies

Administrative and trivial stipulations could include routine reporting, such as a requirement to provide an annual report or a report that summarizes the recipient's performance to demonstrate the underlying actions that were taken to meet the barrier(s) specified in the agreement. For example, a report that indicates the number of meals a homeless shelter provided to the homeless is typically **not** a stipulation that would contribute to achieving the agreement's purpose. Rather, the action of providing a specified number of meals to the homeless would meet the stipulation that is required by a recipient to achieve the agreement's purpose.

In the case of ambiguous donor stipulations, a contribution containing stipulations that are not clearly unconditional shall be presumed to be a conditional contribution.

These indicators are intended to provide additional guidance for preparers to exercise judgment—rather than bright-line tests—on the basis of individual facts and circumstances to determine whether the agreement indicates a condition. Some of these indicators may be more significant than others. Entities are no longer required to assess the likelihood of a condition being met.

Right of Return

To be considered conditional, a transaction should include **both** a barrier and a right of return or a right of release of the promisor's obligation. A right of return or a right of release of the promisor's obligation **alone** is not a sufficiently determinative factor in the absence of a barrier, which—if not overcome—could trigger the right of return or right of release of the promisor's obligation. FASB retained the guidance on a return of assets transferred or a right of release of the promisor from its obligation to transfer assets. These terms typically indicate the recipient is not entitled to the assets until a specified barrier is overcome.

An agreement does not need to include the specific phrase "right of return" or "release from obligation." However, the agreement should be sufficiently clear to be able to support a reasonable conclusion about when a recipient would be entitled to the transferred assets.

Simultaneous Release Option

The ASU modifies the current simultaneous release option, which allows an NFP to recognize a donor-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. Currently, this is an all-or-none policy so that all donor-restricted contributions are subject to the release policy if elected.

In a lot of cases, the condition and restriction will be met simultaneously or close to it. Under ASU 2018-08, 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 if the restriction is met in the same period the revenue is recognized. An NFP must disclose this accounting policy, if elected, and report consistently from period to period. The goal of this provision is to allow for the same revenue recognition as under previous guidance.

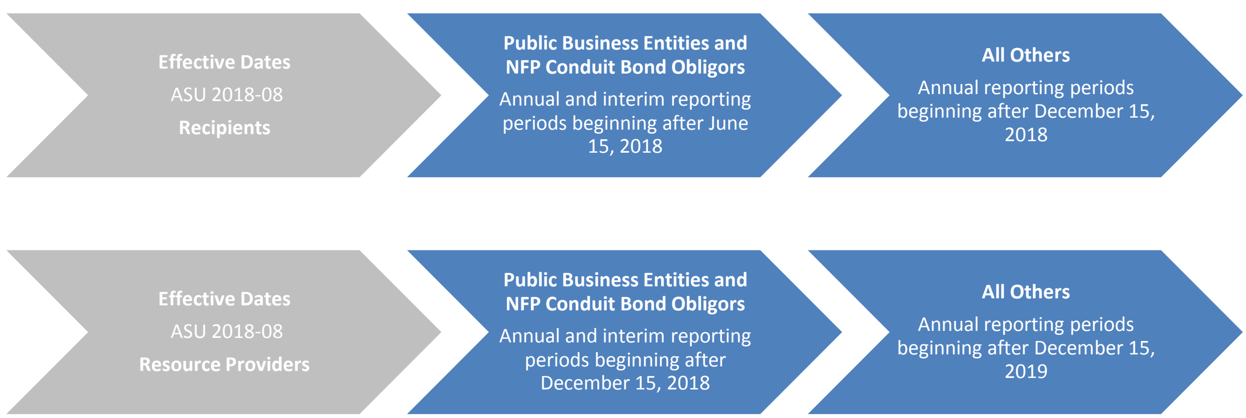
Transition

The amendments should be applied on a modified prospective basis in the first set of financial statements following the effective date to agreements that are either not completed as of the effective date or entered into after the effective date. A completed agreement is one in which all revenue (of a recipient) or expense (of a resource provider) has been recognized before the effective date in accordance with current guidance, *e.g.*, ASC 605, ASC 958 or other topics. Retrospective application is permitted.

An entity is required to qualitatively disclose the nature of and reason for the accounting change and an explanation of the reasons for significant changes in each financial statement line item in the current annual or interim period resulting from applying these amendments compared with current guidance.

Effective Date

Because ASC 606 is already effective for public entities, FASB has delayed the effective date on these amendments for recipients as noted below. Nonpublic NFPs would be adopting ASC 606 and these amendments together. Because expense recognition is not affected by ASC 606, resource providers have an additional year to implement the provisions on the standard. Early adoption would be permitted for all entities irrespective of early adoption of ASC 606.



BKD has prepared a library of **BKD Thoughtware®** on revenue recognition and NFP issues. Visit our [Hot Topics page] to learn more. If you have questions about this standard, contact your BKD advisor.

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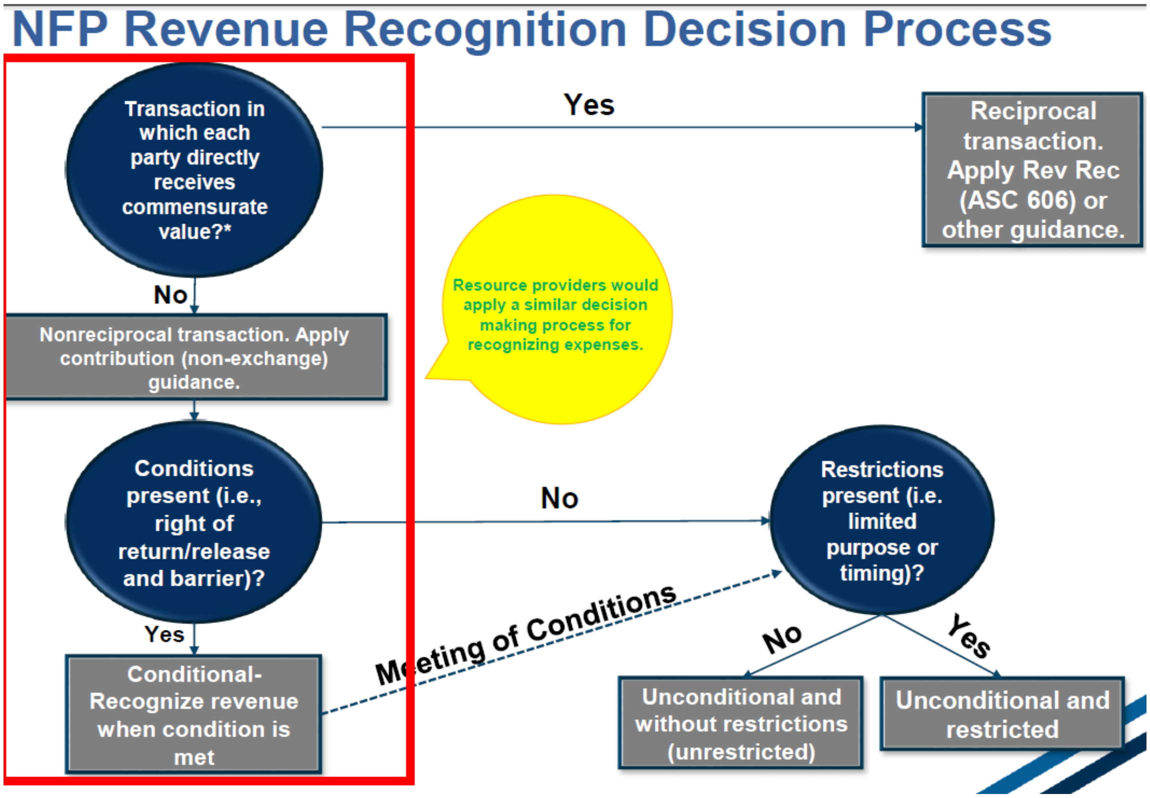
Appendix A – Revenue Recognition Decision Process



Appendix B – Distinguishing Contributions from Exchange Transactions

Payment Relating to an Existing Exchange Transaction – University

Student L is enrolled at University A. Student L's total tuition charged for the semester is $30,000. Student L received a grant in the amount of $2,000 to use toward the tuition fee, which is paid directly by the grantor to University A. The grant was awarded to Student L, not to University A. University A entered into an exchange transaction with Student L and accounts for the $30,000 of revenue in accordance with the guidance in the appropriate Subtopic. The $2,000 grant does not create additional revenue but, rather, serves as a partial payment against the $30,000 due to University A. Student L is an identified customer of University A who is receiving the benefit from the grant transaction.

Payment Relating to an Existing Exchange Transaction – Hospital

Patient R is a patient at Hospital B. The total amount due for services rendered is $10,000. Patient R has Medicare, and it covers $8,000 of the services, which is paid directly by the government to Hospital B. Hospital B bills Patient R for $2,000. Medicare is a form of insurance. Hospital B has a contract with a customer (Patient R) and determines that the $10,000 should be accounted for as an exchange transaction. The Medicare payment of $8,000 and Patient R's payment of $2,000 serve as a payment source for services rendered in the amount of $10,000 owed to Hospital B. The payment to Hospital B relates to an existing exchange transaction between Hospital B and an identified customer (Patient R).

Procurement Arrangement

The local government provided funding to NFP C to perform a research study on the benefits of a longer school year. The agreement requires NFP C to plan the study, perform the research and summarize and submit the research to the local government. The local government retains all rights to the study. NFP C concludes that this is a procurement arrangement in which commensurate value is being exchanged between two parties and that it should follow the relevant guidance for exchange transactions. NFP C is to perform a research study for the local government and turn over a summary of the study's findings to the local government. The local government retains the rights to the study.

Research Grant

University D applied for and was awarded a grant from the federal government. University D must follow the rules and regulations established by the Office of Management and Budget of the federal government and the federal awarding agency. University D is required to incur qualifying expenses to be entitled to the assets. Any unspent money during the grant period is forfeited, and University D is required to return any advanced funding that does not have related qualifying expenses. University D also is required to submit a summary of research findings to the federal government, but University D retains the rights to the findings and has permission to publish the findings if it desires. University D concludes that this grant is not a transaction in which there is commensurate value being exchanged. The federal government, as the resource provider, does not receive direct commensurate value in exchange for the assets provided to University D because University D retains all rights to the research and findings. University D and the public receive the primary benefit of any findings, and the federal government receives an indirect benefit because the research and findings serve the general public. Thus, University D determines that this grant should be accounted for under the contribution guidance in ASC 958.

Appendix C – Determining Whether a Contribution Is Conditional

Contribution by Foundation A

Foundation A gives NFP D a grant in the amount of $400,000 to provide specific career training to disabled veterans. The grant requires NFP D to provide training to at least 8,000 disabled veterans during the next fiscal year (2,000 during each quarter), with specific minimum targets that must be met each quarter. Foundation A specifies a right of release from the obligation in the agreement that it will only give NFP D $100,000 each quarter if NFP D demonstrates that those services have been provided to at least 2,000 disabled veterans during the quarter.

Foundation A determines that it should account for this grant as conditional. The agreement contains a right of release from obligation because the resource provider will only transfer assets if NFP D provides training to at least 8,000 disabled veterans during the year (with a minimum requirement of 2,000 disabled veterans per quarter) as specified in the agreement. Foundation A requires NFP D to achieve a specific level of service that would be considered a measurable performance-related barrier (in the form of milestones by specifying 2,000 disabled veterans per quarter). In this example, NFP D's entitlement to the transferred assets is contingent upon serving at least 2,000 disabled veterans. The likelihood of serving at least 2,000 disabled veterans for the quarter is not a consideration from the perspective of either Foundation A or NFP D when assessing whether the contribution contains a barrier and is deemed conditional.

Contribution That Includes Qualifying Expenses

NFP B is a hospital that has a research program. NFP B receives a $300,000 grant from the federal awarding agency to fund thyroid cancer research. The terms of the grant specify that NFP B must incur certain qualifying expenses (or costs) in compliance with rules and regulations established by the Office of Management and Budget and the federal awarding agency. The grant is paid on a cost-reimbursement basis by NFP B initiating drawdowns of the grant assets. Any unused assets are forfeited, and any unallowed costs that have been drawn down by NFP B are required to be refunded.

NFP B determines that this grant is conditional. The grant agreement limits NFP's discretion as a result of the specific requirements on how NFP B may spend the assets (incurring certain qualifying expenses in accordance with the Office of Management and Budget rules and regulations). The grant also includes a release from the promisor's obligation for unused assets. The requirement to spend the assets on qualifying expenses is a barrier to entitlement because the requirement limits NFP B's discretion about how to use the assets, and the assets would need to be spent on specific items on the basis of the requirements of the agreement (for example, adherence to cost principles) before NFP B is entitled to the assets. This is in contrast to a restriction that typically places limits only on a specific activity that is being funded. NFP B records revenue during the grant period when the barriers have been overcome as it incurs qualifying expenses. The likelihood of incurring qualifying expenses is not a consideration when assessing whether the contribution is deemed conditional.

Contribution for a Research Grant

NFP E is a public charity that performs research on various diseases and allergies, including gluten-related allergies, as part of its overall mission. It receives a $100,000 grant from a foundation to perform research on gluten-related allergies over the next year. The grant agreement includes a right of return as part of the foundation's standard wording and a requirement that at the end of the grant period a report must be filed with the foundation that explains how the assets were spent.

NFP E determines that the grant is not a conditional contribution. The purpose of research on gluten-related allergies results in donor-restricted revenue because the purpose of the grant (working on gluten-free allergies) is narrower than the overall mission of the entity. There are no requirements in the agreement that would indicate that a barrier exists, which must be overcome before the recipient is entitled to the resources. NFP E also determines that the reporting requirement alone is not a barrier because it is an administrative requirement and not related to the purpose of the agreement, which is the actual research. This is an example in which a grant including a right of return could not be considered conditional because the return clause is not coupled with a barrier to be overcome, as determined by NFP E using judgment to assess the indicators of a barrier.

Contribution to a Hospital

NFP DD is a hospital that received an upfront cash contribution from an individual to perform research on Alzheimer's disease during the next fiscal year. The agreement does not include a right of return or a barrier that must be overcome to be entitled to the funds. NFP DD determines that this contribution is **not conditional** because it does not include a right of return (or similar language) of the assets that have been transferred upfront. NFP DD concludes that it should recognize the revenue upon receipt of the assets from the individual as donor-restricted because it is required to use the assets for Alzheimer's research, which is narrower than NFP DD's overall mission, during the next fiscal year.

Contribution from a Foundation

Foundation B receives a grant proposal from an animal rescue facility, NFP F, which requests a two-year grant in the amount of $500,000 upfront to be used to expand its operations. The agreement indicates that NFP F must expand its facility by at least 5,000 square feet to accommodate additional animals by the end of the two years. The grant contains a right of return if the minimum expansion target is not achieved.

Foundation B determines that this grant is **conditional**. The grant includes a measurable barrier (5,000 additional square feet) that must be achieved by NFP F to be entitled to the assets and a right of return for unused assets or unmet requirements.

Contribution to a University

NFP G is a university that is conducting a capital campaign to build a new building to house its school of mathematics and to make capital improvements to existing buildings on campus, including a new heating system and an upgraded telephone and computer network. NFP G receives an upfront grant in the amount of $10,000 from a foundation as part of its capital campaign. The agreement contains a right of return requiring that the assets be reimbursed to the resource provider if the assets are not used for the purposes outlined in the capital campaign solicitation materials. The resource provider does not include any specifications in the agreement about how the building should be constructed or on how other improvements should be made.

NFP G determines that this grant is **not conditional** because the agreement places limits only on the specific activity that is being funded (for example, the assets can be used toward the new building or toward other capital improvements such as the heating system and an upgraded telephone and computer network within existing buildings on campus). The resource provider does not include any specifications about how the building should be constructed, and the agreement only indicates that NFP G must use the grant for the purpose outlined in the capital campaign materials. NFP G recognizes this grant as donor-restricted revenue because it must be used for capital purposes, which is narrower than NFP G's overall mission. This example illustrates a fact pattern in which a grant can include a right of return and would be deemed a contribution that does not contain a donor-imposed condition because the return clause is not coupled with a barrier to be overcome, as determined by NFP G using judgment to assess the indicators of a barrier.

Contribution to a Museum

NFP I is a museum that receives a grant from an individual donor to build a new wing on the existing museum building. The agreement contains a $1 million multiyear promise to give the money to be used for the new wing on the building. The agreement also includes specific building requirements, including square footage and that the new wing must be environmentally friendly with Leadership in Energy and Environmental Design certification. The first installment of the gift will not be paid until NFP I submits architectural designs that meet the building requirements. Additional installments of the grant will be paid in specified increments upon achieving other milestones identified in the grant agreement. If a particular milestone is not achieved, the donor is released from its obligation to make installment payments.

NFP I determines that this agreement is **conditional** because NFP I is not entitled to the assets until a milestone is met (for example, an architectural plan including square footage and Leadership in Energy and Environmental Design certification). In this example, a milestone is deemed a measurable performance barrier because NFP I's entitlement to the transferred assets is contingent upon the completion of a milestone. In addition, the agreement includes a release of the resource provider's obligation to transfer assets if the stipulations are not met. NFP I recognizes the revenue as the barriers are overcome, which is upon meeting the specific requirements as NFP I builds the new wing. The likelihood of meeting a milestone is not a consideration when assessing whether the contribution is deemed conditional.

Contribution to a Homeless Shelter

NFP J operates as a homeless shelter that provides individuals with temporary accommodations, meals and counseling. NFP J receives an upfront grant of $75,000 from the city for its meals program. The grant requires NFP J to use the assets to provide at least 5,000 meals to the homeless. The grant contains a right of return for meals not served.

NFP J determines that this grant is **conditional** because it contains a measurable performance-related barrier (to provide 5,000 meals) and a right of return. NFP J recognizes assets received in advance of satisfying the conditions as a refundable advance liability and will then recognize $75,000 as donor-restricted revenue when at least 5,000 meals are served because the purpose of the grant is narrower than the overall purpose of NFP J. The likelihood of providing the meals is not a consideration when assessing whether the contribution is deemed conditional.

Contribution to a Recreational Organization

NFP H is a recreational organization that provides various sports programs to children who live in the community. NFP H receives an upfront grant in the amount of $40,000 from a foundation to be used toward its tennis program. Consistent with NFP H's grant proposal, the agreement includes specific guidelines for which NFP H could use the assets (for example, to hire 10 tennis instructors or to provide a summer camp for 9 weeks) but does not specify that NFP H's entitlement to the $40,000 is dependent upon NFP H meeting any of the specific indicated guidelines in the agreement. The grant contains a right of return for funds not spent on the tennis program.

NFP H determines that this grant is **not conditional** because it does not contain a barrier to overcome to be entitled to the transferred assets. Although the grant agreement contains guidelines for how NFP H could spend the $40,000, the agreement does not specify that entitlement to the transferred assets are dependent upon meeting any of the guidelines. Because the guidelines in the grant agreement were not required to be met to be entitled to the funding, the agreement does not contain a barrier to overcome. NFP H should recognize the revenue upon receipt of the assets as donor-restricted because it is required to use the assets for the tennis program, which is narrower than NFP H's overall mission.