

FASB's New Guidance for Contributions Received and Contributions Made

By Laurence Scot

Over the years, there has been much confusion about whether to treat certain types of transactions as contributions or as exchanges, especially when they involve government grants. There has been further confusion when the transactions include donor-imposed dictates, called "restrictions" or "conditions." Many people, including accountants, don't always know the difference between a restriction or condition and how to treat a transaction that has one or the other—or both—elements. The correct treatment of transactions as exchanges or contributions, and then as contributions with donor-imposed conditions or restrictions, can have a significant impact on the timing of revenue recognition, making proper treatment of these transactions imperative.

Although Accounting Standards Update (ASU 2018-08), *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, does not make any fundamental changes to the existing rules for how to treat contributions and exchanges, it aims to clarify the meaning of these terms and provide more succinct guidance for determining which classification to apply for reporting purposes. It also aims to clearly define and qualify what a donor-imposed condition is, how it is accounted for, and how it differs from a donor-imposed restriction. It is believed that the amendments in ASU 2018-08 will likely result in more grants and contracts being accounted for as either unconditional or conditional contributions, instead of as exchanges.

New Methodology

In addition to providing clearer definitions and examples of how to treat cash and other resources received and paid through grants and contracts, ASU 2018-08 suggests a methodology for determining the proper classification and treatment of these types of transactions. The methodology involves a step-down approach as follows:

- Has the resource provider (e.g., not-for-profit entity) received commensurate value in return for the resources transferred? If yes, then the transaction is an exchange, and one must follow the appropriate accounting rules for exchanges.

If no, go to step 2.

- Is the transaction a nonreciprocal transaction (i.e., contribution)? If yes, follow contribution (i.e., nonexchange) accounting rules and go to step 3.

- Determine whether there is a donor-imposed condition (i.e., a barrier). If yes, only recognize revenue when the condition or conditions are met. If no, then go to step 4.

- If it is determined that there are no donor-imposed conditions, the transaction is deemed an unconditional contribution. Next, a determination must be made as to whether there are donor-imposed restrictions. Then, depending on whether or not there are donor-imposed restrictions, recognize revenue as contributions with or without donor restrictions.

Definitions/Clarifications

ASU 2018-08 provides the following definitions or clarifications:

- **Exchange:** Reciprocal transfers in which each party receives and sacrifices approximately commensurate value.

- **Conditional contribution:** A contribution with a donor/contributor/grantor stipulation 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 donor/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.

- **Unconditional contribution:** A transfer of cash or other assets, as well as promises to give, with no donor-imposed conditions, 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.

Conditional Contributions

Many times, it is difficult to ascertain whether a donor-imposed condition exists. A thorough reading of the agreement or other referenced document must be made to determine if a barrier exists. The update states clearly that a donor-imposed condition must have both—

- one or more barriers that must be overcome before a recipient is entitled to the assets transferred or promised, and

- a right of return to the contributor for assets transferred (or the reduction, settlement, or cancellation of liabilities), or a right of release of the promisor from its obligation to transfer assets (or reduce, settle, or cancel liabilities).

If only one of these elements exists, then the contribution will not be deemed conditional.

Furthermore, it is important to note that a probability assessment about whether the recipient is likely to meet the stipulation is not a factor in determining whether a barrier exists and whether the contribution is conditional. When it is not

clear whether the stipulation is unconditional and no further information is available, then the contribution is considered conditional.

ASU 2018-08 provides many examples of what defines a barrier or condition, such as when—

- a measurable performance (e.g., level of service, number of output units, specific outcome, or milestones) must be obtained or obtained within a specified time frame;

- an identified event occurs (e.g., receiving matching funds, receiving governmental approval); or

- a recipient has limited discretion on such activities as incurring qualifying expenses (e.g., first expending funds) or hiring specific individuals.

The guidance also clearly states that administrative and trivial stipulations are not indicative of a barrier; for example, a requirement to provide an annual report or a report summarizing the recipient's performance of terms of the contribution/grant. As such, these stipulations will not cause the transaction to be conditional.

Cash or other assets received as a conditional contribution will be accounted for as a refundable advance until the conditions have been substantially met or waived by the donor. Conditional promises to give that contain a donor-imposed condition (i.e., a barrier) that must be overcome are recognized when the condition or conditions are substantially met.

Government Grants or Contracts

Whether to treat resources received from a federal, state, city, or other governmental agency as a contribution or as an exchange has been one of the more perplexing challenges faced by accountants over the years. ASU 2018-08 attempts to resolve the issue by requiring that a determination first be made of who is the ultimate customer or beneficiary of the resources. In many cases, this is not the government but the general public; thus, the transaction is between the recipient of the resources (i.e., the not-for-profit entity) and the general public. The government agency is in many cases merely an agent or third-party payer.

Once the true beneficiary of the resources is determined, the next step is to determine whether the transfer of assets will benefit the general public or be part of an existing exchange between a recipient and an identified customer. If



it is determined that the transaction is furthering the not-for-profit entity's mission and benefiting the public, then the transaction will be treated as an unconditional or conditional contribution. If it is determined that the transaction is between the not-for-profit and an identified customer (and not the government, which is just a funds transfer agent), then the transaction will be treated as an exchange. ASU 2018-08 provides some examples of these kinds of transactions, including payments received under Medicare and Medicaid programs, provisions of healthcare or education services by a government for its employees, and Pell Grants or similar state/local government tuition assistance programs.

Effective Date

For most entities that are resource recipients, the effective date for applying the amendments of ASU 2018-08 will be for annual periods beginning after December 15, 2018. For either a public business entity or a not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market, the effective date will be for periods beginning after June 15, 2018. □

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