New Accounting Guidance for Contributions Received and Made

ASU 2018-08 Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made

New Accounting Guidance for Contributions Received and Made

LEE KLUMPP
National Assurance Partner

703-336-1497
lklumpp@bdo.com

Scope

- Applies to all entities (NFPs and business entities) that receive or make contributions unless otherwise indicated.
- Excludes transfers of assets from the government to business entities.
- Applies to both contributions received by a recipient and contributions made by a resource provider.
- The term used in the presentation of financial statements to label revenue (for example, contribution, grant, donation) that is accounted for within the Scope of Subtopic 958-605 is not a factor for determining whether an agreement is within the scope of that guidance.

Effective Date of Implementation

- Apply amendments on a modified prospective basis in the first set of financial statements following the effective date to agreements that are either:
  1. Not completed as of the effective date
  2. Entered into after the effective date.

- Apply amendments to the portion of revenue or expense that has not yet been recognized before the effective date. No prior-period results would be restated, and there would be no cumulative-effect adjustment to the opening balance of net assets. An entity would be required to disclose both:
  1. The nature of and reason for the accounting change
  2. An explanation of reasons for significant changes in each financial statement line items in the current annual or interim period resulting from applying the amendments compared with current guidance

Effective Date of Implementation (Cont'd)

Retrospective application is permitted.

- The effective date of the amendments would be the same as the effective date of the amendments in Topic 606.

Resource Recipients:

- A public business entity and an NFP 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 would apply the amendments to annual periods beginning after June 15, 2017, including interim periods within that annual period.

- All other entities would apply the amendments to annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019.

Effective Date of Implementation (Cont’d)

Resource Providers:

- A public business entity and an NFP 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 would apply the amendments to annual periods beginning after June 15, 2017, including interim periods within that annual period.

- All other entities would apply the amendments to annual periods beginning after December 15, 2019, and interim periods within annual periods beginning after December 15, 2020.

- Early adoption of the amendments would be permitted irrespective of the early adoption of the amendments in Topic 606.

Grants and Contracts to NFPs—Background

Project added to FASB's Technical Agenda to improve and clarify existing guidance

ASU 2014-09, *Revenue from Contracts with Customers*, including related disclosures, heightened the issue

Raised question as to whether grants and contracts are in scope of that guidance (reciprocal or nonreciprocal)

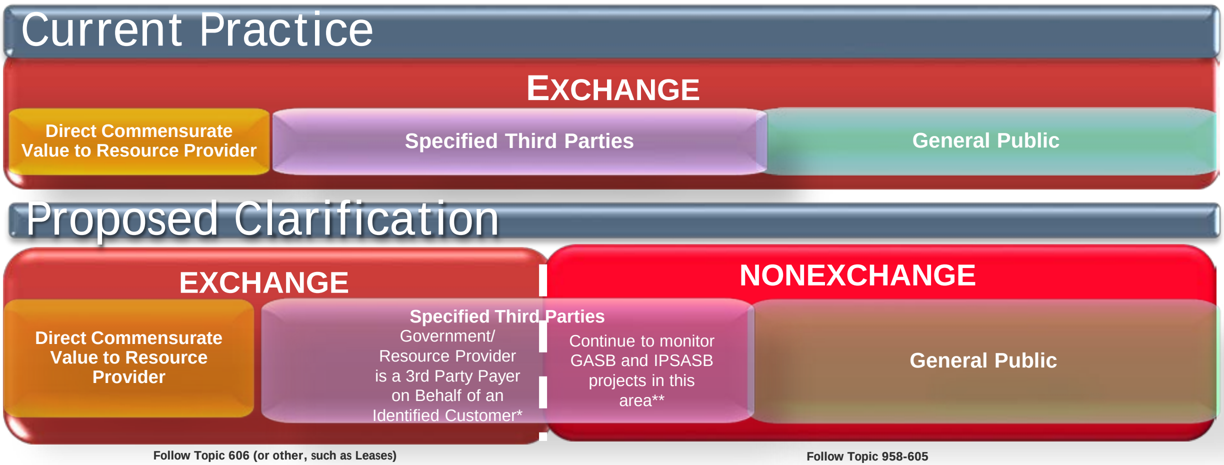
Long-standing diversity in practice in classifying grants and contracts, particularly from governmental entities

Issue 1: Reciprocal Versus Nonreciprocal

Issue 2: Conditional Versus Unconditional

Issue 1: Reciprocal (Exchange) vs. Nonreciprocal (Nonexchange/Contribution) Transactions

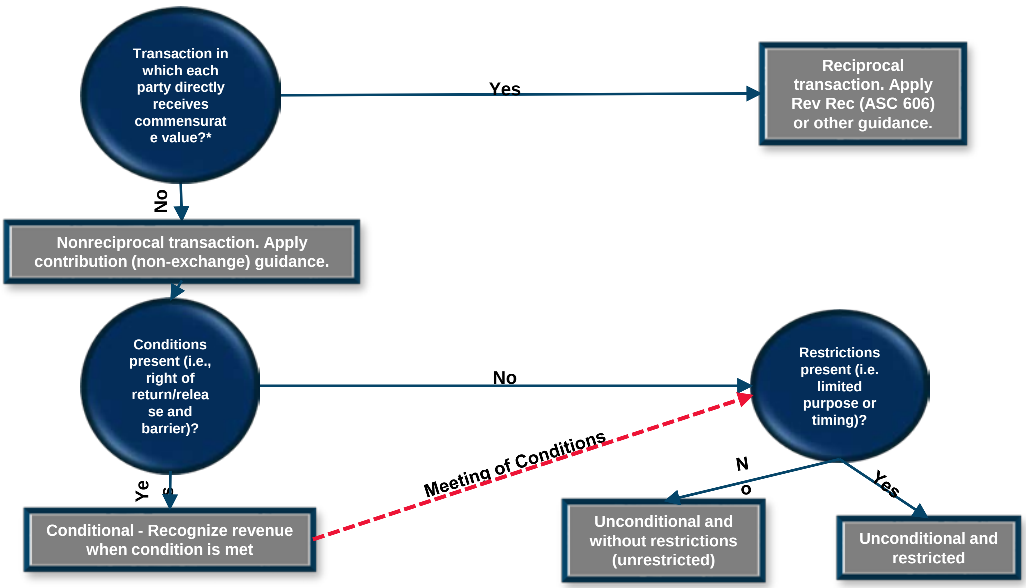
Who Receives the Benefit?



***The revenue recognized would actually be the underlying contract's patient service revenue, tuition revenue, etc.**

****A focus on whether or not there is a "performance obligation" could even ultimately include some contracts where the general public is the primary beneficiary.**

NFP Revenue Recognition Decision Process



*Includes third-party payments on behalf of identified customers. These do not create new revenue.

Distinguishing Contributions from Exchange Transactions

- Some transfers of assets that are exchange transactions may appear to be contributions if services or assets given in exchange are perceived to be a sacrifice of little value and the exchanges are compatible with the recipient's mission.

- Foundations, business entities, and other types of entities may provide resources to NFPs under programs referred to as grants, awards, or sponsorships. Those asset transfers are contributions if the resource providers receive no value in exchange for the assets transferred or if the value received by the resource providers is incidental to the potential public benefit from using the assets transferred.

Distinguishing Contributions from Exchange Transactions

- A grant made by a resource provider to a NFP would likely be a contribution if the activity specified by the grant is to be planned and carried out by the NFP and the NFP has the right to the benefits of carrying out the activity. If, however, the grant is made by a resource provider that provides materials to be tested and retains the right to any patents or other results of the activity, the grant would likely be an exchange transaction.

- A single transaction may be in part an exchange and in part a contribution.

BDO

Distinguishing Contributions from Exchange Transactions

- Items to consider that would result in determination of exchange transaction versus a contribution include:

  a. The resource provider (including a private foundation, a government agency, a corporation, or other organization) is not synonymous with the general public. Indirect benefit received by the public as a result of the assets transferred is not equivalent to commensurate value received by the resource provider.

  b. Execution of the resource provider's mission or the positive sentiment from acting as a donor shall not constitute commensurate value received by the resource provider for purposes of determining whether the transfer of assets is a contribution or an exchange.

Distinguishing Contributions from Exchange Transactions

- Items to consider that would result in determination of exchange transaction versus a contribution include (continued):

  c. If the expressed intent asserted by both the recipient and the resource provider is to exchange resources for goods and services that are of commensurate value, the transaction shall be indicative of an exchange transaction.

  d. 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 the 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.

Distinguishing Contributions from Exchange Transactions

- Items to consider that would result in determination of exchange transaction versus a contribution include (continued):

    e. If the penalties assessed on the recipient for failure to comply with the terms of the agreement are limited to the delivery of assets provided and the return of the unspent amount, the transaction shall be indicative of a contribution. Exchanges of commensurate value typically include contractual provisions for economic forfeiture beyond the amount of assets transferred by the resource provider to penalize the recipient for nonperformance.

Case Study #1 – Distinguishing Contributions from Exchange Transactions

FACTS:

- NFP A is a large research university with a cancer research center. NFP A regularly conducts research to discover more effective methods of treating cancer and often receives contributions to support its efforts. NFP A receives resources from a pharmaceutical entity to finance the costs of a clinical trial of an experimental cancer drug the pharmaceutical entity developed. The pharmaceutical entity specifies the protocol of the testing, including the number of participants to be tested, the dosages to be administered, and the frequency and nature of follow-up examinations. The pharmaceutical entity requires a detailed report of the test outcome within two months of the test's conclusion.

QUESTION:

- **EXCHANGE TRANSACTION OR CONTRIBUTION?**

Excerpt from Proposed Exposure Draft Topic 958

Case Study #1 – Distinguishing Contributions from Exchange Transactions

ANSWER:

This should be considered an exchange transaction. Because the results of the clinical trial have particular commercial value for the pharmaceutical entity, the pharmaceutical entity is receiving commensurate value as the resource provider. Therefore, the receipt of the resources is not a contribution received by NFP A, nor is the disbursement of the resources a contribution made by the pharmaceutical entity.

Excerpt from Proposed Exposure Draft Topic 958

Case Study #2 – Distinguishing Contributions from Exchange Transactions

FACTS:

- Patient JR is a patient at Hospital X. The total amount due for services rendered is $10,000. Patient JR has Medicare, and it covers $8,000 of the services, which is paid directly by the government to Hospital X. Hospital X bills Patient JR for the remainder of $2,000.

Excerpt from Proposed Exposure Draft Topic 958

QUESTION:

- **EXCHANGE TRANSACTION OR CONTRIBUTION?**

Case Study #2 – Distinguishing Contributions from Exchange Transactions

ANSWER:

This should be considered an exchange transaction. Medicare is a form of insurance. Hospital X has a contract with a customer (Patient JR) and determines that the $10,000 should be accounted for as an exchange transaction in accordance with the guidance in the appropriate Topic. The Medicare payment of $8,000 and the Patient JR payment of $2,000 serve as a payment source for services rendered in the amount of $10,000 owed to Hospital X. The payment to Hospital X relates to an existing exchange transaction between Hospital X and an identified customer (Patient JR).

Excerpt from Proposed Exposure Draft Topic 958

Case Study #3 – Distinguishing Contributions from Exchange Transactions

FACTS:

- 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.

QUESTION:

- **EXCHANGE TRANSACTION OR CONTRIBUTION?**

Excerpt from Proposed Exposure Draft Topic 958

Case Study #3 – Distinguishing Contributions from Exchange Transactions

ANSWER:

This should considered an exchange transaction. 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.

Excerpt from Proposed Exposure Draft Topic 958

BDO

Case Study #4 – Distinguishing Contributions from Exchange Transactions

FACTS:

- University of Pennsylvania applied for and was awarded a grant from the federal government. University of Pennsylvania must follow the rules and regulations established by the OMB of the federal government and the federal awarding agency. University of Pennsylvania is required to incur qualified expenses to be entitled to the assets. Any unspent money during the grant period is forfeited, and University of Pennsylvania is required to return any advanced funding that does not have related qualifying expenses. University of Pennsylvania also is required to submit a summary of research findings to the federal government, but University of Pennsylvania retains the rights to the findings and has permission to publish the findings if it desires.

QUESTION:

- **EXCHANGE TRANSACTION OR CONTRIBUTION?**

Excerpt from Proposed Exposure Draft Topic 958

Case Study #4 – Distinguishing Contributions from Exchange Transactions

ANSWER:

University of Pennsylvania 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 of Pennsylvania because University of Pennsylvania retains all rights to the research and findings. University of Pennsylvania 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 of Pennsylvania determines that this grant should be accounted for following the contribution guidance in this Subtopic.

Excerpt from Proposed Exposure Draft Topic 958

Distinguishing Conditional from Unconditional Contributions

- Some difficulties in determining conditional from unconditional contributions arise in these instances:
  - An entity receives assets accompanied by certain stipulations but with no specified return policy for when the stipulations are not met.
  - The likelihood of failing to meet a condition is remote and in evaluating whether and how remote provisions affect the timing of when a contribution is recognized.

- Differences in these conclusions can affect the timing of revenue recognized.

Distinguishing Conditional from Unconditional Contributions

- A donor-imposed condition must have both:
  a. A barrier
  b. A right of return to the promisor for assets transferred or a right of release of the promisor from its obligation to transfer assets.

- A single transaction may be in part an exchange and in part a contribution.

BDO

Indicators to Determine a Barrier

To determine what is a barrier, an NFP would consider indicators, which would include, but are not limited to, the following:

- The inclusion of a measurable performance-related barrier or other measurable barrier.
- The extent to which a stipulation limits discretion by the recipient.
- Whether a stipulation is related to the purpose of the agreement.

Barrier #1: Measurable Performance-Related Barriers

- Measurable performance-related barriers can include:
  - Specified level of service
  - Specific output or outcome
  - Matching
  - Outside event

Barrier #2 – Stipulation Limits Discretion by the Recipient

- Limited Discretion may be indicative of a donor-imposed condition.
- A resource provider could include a requirement that the assets must be spent to achieve a certain level of service or number of units of output before recipient is entitled to the assets.
- A resource provider may include a right of return or a right of release from obligation in the agreement because of standard wording but place no barriers on the recipient. The agreement would be determined to be donor restricted but unconditional, and revenue would be recognized immediately.

Barrier #3 - Stipulations that are Related to Purpose of Agreement

- Stipulations that are related to the purpose of the agreement barriers can be helpful in context of considering agreement with other indicators.

- If a stipulation is unrelated to the purpose of the agreement (for example, trivial or administrative stipulations), the stipulation would not be indicative of a barrier. For example, producing an annual report is a common requirement in contribution agreements; however, it typically is not related to the underlying purpose of an agreement.

Case Study #5 – Distinguishing Conditional from Unconditional Contributions

FACTS:

- NFP D applies for and receives a grant from a private foundation for funding 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, with specific minimum targets that must be met each quarter. The provider 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.
- Assumption: The fact patterns are considered to be contributions within the scope of this Subtopic.

Excerpt from Proposed Exposure Draft Topic 958

QUESTION:

- **CONDITIONAL OR UNCONDITIONAL CONTRIBUTION?**

Case Study #5 – Distinguishing Conditional from Unconditional Contributions

ANSWER:

This would be considered a conditional contribution. NFP D 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. The private foundation 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). NFP D records the revenue as it overcomes the barrier of providing services to 2,000 disabled veterans during each quarter.

Excerpt from Proposed Exposure Draft Topic 958

Case Study #6 – Distinguishing Conditional from Unconditional Contributions

FACTS:

- NFP F is an animal shelter and receives a 2-year unsolicited grant from a private foundation in the amount of $500,000 provided upfront to be used to expand its operations. The agreement indicates that NFP F must expand its facility by 5,000 square feet to accommodate additional animals by the end of the 2 years. The grant contains a right of return for any unused assets.
- Assumption: The fact patterns are considered to be contributions within the scope of this Subtopic.

QUESTION:

- **CONDITIONAL OR UNCONDITIONAL CONTRIBUTION?**

Excerpt from Proposed Exposure Draft Topic 958

Case Study #6 – Distinguishing Conditional from Unconditional Contributions

ANSWER:

This would be considered a conditional contribution. NFP F determines that this grant is conditional. The grant includes a measurable barrier (5,000 additional square feet) that must be achieved and a right of return for unused assets or unmet requirements. NFP F concludes that the requirement to expand its facility also would meet the additional actions indicator because the grant was unsolicited and would require NFP F to take additional action it otherwise would not have taken.

Excerpt from Proposed Exposure Draft Topic 958

Case Study #7 – Distinguishing Conditional from Unconditional Contributions

FACTS:

- NFP E is a public charity that works with gluten-related allergies as part of its overall mission. It applies for and 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. It also indicates that the general budget submitted previously with the grant proposal must be followed or approval must be obtained from the foundation for any significant deviations in spending. The grant also includes 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.
- Assumption: The fact patterns are considered to be contributions within the scope of this Subtopic.

Excerpt from Proposed Exposure Draft Topic 958

QUESTION:

- **CONDITIONAL OR UNCONDITIONAL CONTRIBUTION?**

Case Study #7 – Distinguishing Conditional from Unconditional Contributions

ANSWER:

This would be considered an unconditional contribution. NFP E determines that the grant is unconditional. The purpose of research on gluten-related allergies results in donor-restricted revenue because working on gluten-related allergies aligns with NFP E's overall mission. NFP E determines that the general budget included in the grant proposal is not a barrier to entitlement because adherence to a general budget allows for broad discretion and there are no additional requirements in the agreement, such as incurring qualifying expenses, that would indicate that a barrier exists. 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 be considered unconditional 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.

Excerpt from Proposed Exposure Draft Topic 958

Case Study #8 – Distinguishing Conditional from Unconditional Contributions

FACTS:

- 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 in response to a proposal submitted as part of its capital campaign. The agreement contains a right of return requiring that the assets be reimbursed to the provider if the assets are not used for the purposes outlined in the capital campaign materials. The provider does not include any specifications in the agreement about how the building should be constructed or on how other improvements should be made.
- Assumption: The fact patterns are considered to be contributions within the scope of this Subtopic.

Excerpt from Proposed Exposure Draft Topic 958

QUESTION:

- **CONDITIONAL OR UNCONDITIONAL CONTRIBUTION?**

Case Study #8 – Distinguishing Conditional from Unconditional Contributions

ANSWER:

This would be considered an unconditional contribution. NFP G determines that this grant is unconditional because it has broad discretion over how the transferred assets should be used (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). The resource provider does not include any specifications about how the building should be constructed, and the agreement only indicates that NFP G 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 unconditional 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.

Excerpt from Proposed Exposure Draft Topic 958

Resources

- BDO Institute for Nonprofit Excellence Resource Center for information on ASU includes:
  - podcasts and videos
  - articles and blog posts
  - Links to FASB Resources

  https://www.bdo.com/resource-centers/institute-for-nonprofit-excellence


BDO
NONPROFITSTANDARD
NONPROFITS: THE NEW KIDS ON THE BLOCKCHAIN

- Nonprofit Standard Newsletter

  https://www.bdo.com/insights/industries/nonprofit/nonprofit-standard-newsletter-summer-2018

- FASB ASU 2018-08 (Topic 958) Clarifying the Scope and Accounting Guidance For Contributions Received and Contributions Made

  http://www.fasb.org