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Non-Profit Notes Newsletter

Update on the FASB Grants and Contracts Project

By Mark Piszko, CPA, CGMA, Partner

The Financial Accounting Standards Board (FASB or Board) continues to inch closer to finalizing its guidance for contributions received and contributions made. At its latest February 2018 meeting, the Board considered comments received from stakeholders and other potential users of financial statements and reached tentative decisions regarding amendments following their own deliberations. The decisions reached are not final and may be changed at future FASB meetings.

During 2017, the FASB introduced amendments to its proposed Accounting Standards Update (ASU), *Not-for-Profit Entities (Topic 958)*: *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made.* The amendments were made in an attempt (a) to eliminate the diversity in practice in recognizing grants received, particularly those from governmental sources, as either exchange transactions or contributions, and (b) to distinguish between conditional and unconditional contributions. The FASB also sought to clarify whether grants or contracts fall under the scope of ASU 2014-09, *Revenue from Contracts with Customers.*

The FASB's tentative decisions in finalizing its guidance are summarized in this newsletter.

Conditional Contributions: Indicators to Determine a Barrier

Entities would have to determine whether a contribution is conditional based on whether an agreement includes a barrier that must be overcome and either a right of return of assets or a right of release of a promisor's obligation to transfer assets exists. The FASB developed four indicators that would be used by entities to make this determination. Some indicators may be more significant than others, but no single indicator would be determinative. The indicators originally proposed were as follows:

- A measurable performance-related barrier or other measurable barrier
- Whether a stipulation is related to the purpose of the agreement
- The extent to which a stipulation limits discretion by the recipient
- The extent to which a stipulation requires an additional action or actions.

At its February meeting, the FASB decided that the proposed indicators should be further refined and the "additional actions" indicator should be removed.

Contributions Made by a Resource Provider

The FASB concluded that the guidance for distinguishing between conditional and unconditional contributions should be the same for both recipients and resource providers.

Recurring Disclosures by Recipients about Conditional Promises to Give

The FASB affirmed that current existing disclosure requirements about conditional promises to give should remain. Paragraph 958-310-51-4 in current guidance requires recipients of conditional promises to give to disclose the following:

- The total of amounts promised
- A description and amount for each group of promises having similar characteristics, such as amounts of promises conditioned on establishing new programs, completing a new building, and raising matching gifts by a specified date.

Simultaneous Release of a Condition and a Restriction

The FASB agreed that the simultaneous release option for restricted contributions could be elected for *conditional* restricted contributions separately from unconditional restricted contributions.

Under current generally accepted accounting principles, an option exists that allows organizations to report donor-restricted contributions directly to the unrestricted net assets category if the donor restriction was satisfied in the same reporting period as the receipt of the restricted contribution as long as the organization has a similar policy for reporting investment income.

Transition

The FASB affirmed that when the amendments to the ASU become final they should be applied on a modified prospective basis following the effective date of the ASU to donor agreements that are either incomplete as of the effective date, or are entered into after the effective date.

Under current guidance, a completed agreement is one for which all of the revenue of a recipient or expense of a resource provider has been recognized before the effective date of the amended ASU. The final amendments would apply only to the portion of revenue or expense that has not yet been recognized before the effective date of the ASU. No prior year restatements will be necessary; however, retrospective application will be allowed.

An entity will be required to disclose the following:

- The nature and reason for the accounting change
- An explanation of the reasons for significant changes in each financial statement line item in the current annual or interim reporting period resulting from applying the proposed amendments compared with current guidance.

Effective Dates

The FASB concluded that, for recipients, the effective date of the amendments will be the same as ASU 2014-09, *Revenue from Contracts with Customers (Topic 606).* The effective date for resource providers will be delayed by one year.

For non-public entities, ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2018 and interim reporting periods within annual reporting periods beginning after December 15, 2019.

The FASB also confirmed that early adoption will be permitted.

Contact Us

If you have any questions about grant and contribution accounting — or not-for-profit accounting and auditing matters in general — please contact Mark Piszko, CPA, CGMA, Partner-in-Charge, Not-for Profit Services, at mpiszko@pkfod.com or 646.449.6316 or the partner in charge of your account.

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