

Non-Profit Notes

Reporting Government Revenue Under FASB ASU 2018-08: Providing Some Clarity

By Mark J. Piszko, CPA, CGMA, Partner

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, [*Not-For-Profit Entities \(Topic 958\): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made \(Subtopic 958-605\)*](#), in part, to eliminate the diversity in practice in recognizing grants received from governmental sources. These grants were historically reported as either exchange transactions or contributions.

The ASU includes the following within its scope:

- Applies to all entities (not-for-profit and business entities) that receive or make contributions (unless otherwise noted)
- Applies to both contributions received by a recipient and contributions made by a resource provider
- Excludes transfers of assets from the government to business entities
- Precludes the use of terms in the financial statements to describe revenue — such as contributions, grants, and donations that are accounted for under Subtopic 958-605 — from determining whether an agreement is within the scope of that guidance.

Entities, including government agencies, foundations and other third parties may provide resources to NFPs under arrangements such as grants, awards, and sponsorships. Those asset transfers are considered contributions if the resource providers do not receive commensurate 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.

Key Points

Guidance for the treatment of contributions received and contributions made includes the following:

- The term “contribution” is meant to provide a distinction between resources transferred from a third party to a beneficiary (i.e., an NFP) in exchange for something of equal value, referred to as an exchange transaction, and a transfer of resources to an NFP in a non-exchange transaction (i.e., a contribution), where the resource provider does not receive something of equal value in exchange.
- Although a transfer of assets may meet the accounting definition of a “contribution,” alternative language is permissible on the statement of activities. Government payments can be described as “government grants,” “revenue from government contracts,” or “revenue from government sources.” However, when government payments are determined to be contributions, NFPs must further determine whether those payments are conditional or unconditional, and then assess if they are with donor restriction or without donor restriction.
- The resource provider is not synonymous with the general public, even a governmental entity. If a resource provider receives value indirectly by providing a societal benefit, this is considered a nonreciprocal transaction. In other words, it is entirely possible that a payment received by an NFP to operate certain of its programs from which the general public derives benefit could be

reported as a contribution rather than an exchange transaction because the governmental entity did not receive *commensurate value* for the resources it provided to the NFP.

- If the primary beneficiary of a grant or contract is an identified third party (e.g., a named scholarship recipient), a not-for-profit must use judgment to determine if the transaction is reciprocal or nonreciprocal.
- Two important questions are:
 1. Who receives the benefit of the resource? and
 2. Does the resource provider receive direct commensurate value?
- In a contribution transaction, furthering a resource provider's mission or "feel good" sentiment does not constitute commensurate value received.
- The type of resource provider should not override the substance of the transaction. Focus should be placed on the terms of the agreement, not the type of resource provider, such as a governmental entity.

Conditional Contributions: Indicators to Determine a Barrier

Entities will 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 indicators that would be used by NFPs to make this determination.

Some indicators may be more significant than others, but no single indicator would be determinative. The indicators include the following:

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

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.

Required Disclosures by Recipients

The new ASU confirms that current existing disclosure requirements about conditional promises to give should remain. Paragraph 958-310-51-4 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

Under previous generally accepted accounting principles, an option existed that allowed 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 had a similar policy for reporting investment income.

The new ASU allows a simultaneous release option for restricted contributions by creating two "buckets" into which amounts will be released:

- Restricted contributions that were initially conditional, and
- All other restricted contributions.

Transition

The FASB affirmed that the ASU should be applied on a modified prospective basis following the effective date of the ASU to donor agreements that are either existing but incomplete as of the effective date (would apply only to the portion of revenue or expense that has not yet been recognized before the effective date of the ASU), or are entered into after the effective date. No prior year restatements are necessary; however, retrospective application will be allowed.

An entity is 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 Date

For Recipients

- For non-public entities, the ASU is effective for annual reporting periods beginning after December 15, 2018 and interim reporting periods beginning after December 15, 2019.
- For public business entities and not-for-profits that have issued or are a conduit bond obligor for securities that are traded, listed or quoted on an exchange or market, the ASU is effective for fiscal periods beginning after June 15, 2018, including interim periods.

For Resource Providers

- For public business entities and not-for-profits that have issued or are a conduit bond obligor for securities that are traded, listed or quoted on an exchange or market, the ASU is effective for fiscal periods beginning after December 15, 2018, including interim periods.
- For non-public entities, the effective date will be delayed by one year. The FASB 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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