

September 2020

## Private Foundations Bulletin

# Have You Reviewed Your Foundation's Grant Agreements in Response to ASU 2018-08?

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08 which is intended to clarify and improve the scope and accounting guidance for contributions received and made, primarily for not-for-profit organizations. The ASU seeks to provide clarity in determining whether a transaction should be accounted for as a contribution or an exchange transaction, and provides a framework that characterizes the parties entering the transactions as a **resource recipient** or a **resource provider**.

The ASU is effective for annual periods beginning after December 15, 2018 for resource recipients, and after December 15, 2019 for resource providers, with early adoption permissible. As a grant-making organization, **private foundations** are considered to be a resource provider as defined by the ASU.

### Exchange Transactions versus Contributions

This ASU is either in effect or will be applicable in the following fiscal year (see effective dates below). As a reminder: the purpose of this new guidance is to clarify the determination of exchange transactions versus contributions.

As it pertains to private foundations, the ASU clarifies how the foundation should evaluate whether or not they are receiving value in return for the resource(s) provided to the recipient. The ASU further assists foundations in determining whether a contribution or grant agreement is conditional, and suggests the following questions:

- Does your grant agreement include the right of return of assets transferred?
- Does your grant agreement include a barrier that must be overcome?

If the agreement includes both, the recipient is not entitled to the transferred assets – thus precluding the:

- Recipient from recognizing contribution revenue, and
- Foundation from recognizing the awarded grant expense

### The Time Is Now

It is strongly recommended that private foundations review their grant agreements for such conditional language. In some cases, it may be necessary to revise certain conditional language so as to conform to the spirit and intent of the awarded grant. Consider the following questions when evaluating grant agreement language for conditional barriers and right of return of assets:

- Must the grantee produce a stated number of units, e.g. meals served in a soup kitchen, or participants confirmed for an event?
- Must the grantee meet a stated fundraising goal before receiving a payment of grant funding i.e., a matching grant?
- Is the foundation serving as the guarantor of certain obligations incurred by the grantee?

If the answers to any of the previous questions are “yes,” then the new ASU will have a direct impact on you and your grantees' financial reporting.

As a resource provider, efforts should be made to ensure the language included in your grant agreements clearly dictate the intentions of the grant to avoid any discrepancies in financial reporting.

Since the requirements for determination of conditional versus unconditional are the same for both resource provider and recipient, interpretation of the agreement has potential implications with the IRS.

## Effective Dates

For resource recipients that are:

- Public companies or NFPs that are conduit bond obligors: Annual reporting periods beginning after June 15, 2018, including interim periods within that annual period.
- All other organizations: Annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019.

For resource providers that are:

- Public companies or NFPs that are conduit bond obligors: Annual reporting periods beginning after December 15, 2018, including interim periods within that annual period.
- All other organizations: Annual reporting periods beginning after December 15, 2019, and interim periods within annual periods beginning after December 15, 2020.

## Contact Us

We welcome the opportunity to answer any questions you may have related to this topic or any other accounting, audit, tax or advisory matters relative to private foundations. Please call 212.286.2600 or email any of the Private Foundation Services team members below:

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