

Proposed Accounting Standards Update

Issued: August 3, 2017
Comments Due: November 1, 2017

Not-for-Profit Entities (Topic 958)

Clarifying the Scope and the Accounting Guidance for
Contributions Received and Contributions Made

The Board issued this Exposure Draft to solicit public comment on proposed changes to Topic 958 of the *FASB Accounting Standards Codification*[®]. Individuals can submit comments in one of three ways: using the electronic feedback form on the FASB website, emailing comments to director@fasb.org, or sending a letter to “Technical Director, File Reference No. 2017-270, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116.”

Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update

The Board invites comments on all matters in this Exposure Draft until November 1, 2017. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at [Exposure Documents Open for Comment](#)
- Emailing comments to director@fasb.org, File Reference No. 2017-270
- Sending a letter to “Technical Director, File Reference No. 2017-270, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116.”

All comments received are part of the FASB’s public file and are available at www.fasb.org.

The *FASB Accounting Standards Codification*[®] is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective. A copy of this Exposure Draft is available at www.fasb.org.

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Proposed Accounting Standards Update

Not-for-Profit Entities (Topic 958)

Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made

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Summary and Questions for Respondents

Why Is the FASB Issuing This Proposed Accounting Standards Update (Update)?

The FASB is issuing this proposed Update to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this proposed Update would assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) distinguishing between conditional contributions and unconditional contributions.

Many stakeholders have noted difficulty in characterizing grants and similar contracts with resource providers as either exchange transactions or contributions and in distinguishing between conditional contributions and unconditional contributions when applying the guidance in Subtopic 958-605, Not-for-Profit Entities—Revenue Recognition. These challenges, which result in diversity in practice when applying current generally accepted accounting principles (GAAP), have been long-standing; however, the amendments in Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, place an increased focus on the issues because those amendments add new disclosure requirements and eliminate certain limited exchange transaction guidance in Subtopic 958-605.

Distinguishing between contributions and exchange transactions determines which guidance is applied. For contributions, an entity should follow the guidance in Subtopic 958-605, whereas for exchange transactions, an entity should follow other guidance (for example, Topic 606, Revenue from Contracts with Customers). Thus, the accounting may be different depending on the guidance applied. Diversity in practice occurs for grants and other similar contracts from various types of resource providers, but it is most prevalent for government grants and contracts.

In addition, once a transaction is deemed to be a contribution, stakeholders have noted that it can be difficult in practice to distinguish between conditional contributions and unconditional contributions, particularly when an entity receives assets accompanied by certain stipulations but with no specified return policy for when the stipulations are not met. Diversity also exists in assessments of whether 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. The guidance in Subtopic 958-605 indicates that if the possibility that a condition will not be met is remote, a conditional promise to give is considered unconditional, and contribution revenue is recognized immediately.

The contribution guidance in Subtopic 958-605 requires an entity to determine whether a transaction is conditional or unconditional, which affects the timing of the revenue recognized. Unconditional contributions are recognized immediately and classified as either net assets with restrictions or net assets without restrictions. Conditional contributions received are accounted for as a liability or are unrecognized initially, that is, until the barriers to entitlement are overcome, at which point the transaction is recognized as unconditional and classified as either net assets with restrictions or net assets without restrictions.

Who Would Be Affected by the Amendments in This Proposed Update?

Accounting for contributions is an issue primarily for not-for-profit (NFP) entities because contributions are a significant source of revenue for many of those entities. **However, the amendments in this proposed Update would apply to all entities, including business entities, that receive or make contributions of cash and other assets**, including promises to give within the scope of Subtopic 958-605 and contributions made within the scope of Subtopic 720-25, Other Expenses—Contributions Made. The proposed amendments would not apply to transfers of assets from the government to business entities.

What Are the Main Provisions and Why Would They Be an Improvement?

The amendments in this proposed Update would clarify and improve current guidance about whether a transfer of assets is an exchange transaction or a contribution. The proposed amendments would clarify how an entity determines whether a resource provider is participating in an exchange transaction by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred on the basis of the following:

1. A resource provider (including a private foundation, a government agency, or other) 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.
2. Execution of a resource providers' mission or the positive sentiment from acting as a donor would not constitute commensurate value received by a resource provider for purposes of determining whether a transfer of assets is a contribution or an exchange.

The amendments in this proposed Update would clarify that, consistent with current GAAP, in instances in which a resource provider is not itself receiving commensurate value for the resources provided, an entity must determine whether

a transfer of assets represents a payment from a third-party payer on behalf of an existing exchange transaction between the recipient and an identified customer. If so, other guidance (for example, Topic 606) would apply.

The amendments in this proposed Update would require that an entity determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. Either a right of return of the assets transferred or a right of release of the promisor from its obligation to transfer assets, as described in the current *FASB Accounting Standards Codification*[®] Master Glossary definition of the term *donor-imposed condition*, must be determinable from the agreement (or another document referenced in the agreement). The presence of both a barrier and a right of return or a right of release indicates that a recipient is not entitled to the transferred assets (or a future transfer of assets) until it has overcome the barriers in the agreement. After a contribution has been deemed unconditional, an entity would then consider whether the contribution is restricted on the basis of the current definition of the term *donor-imposed restriction*, which includes a consideration of how broad or narrow the purpose of the agreement is, and whether the resources are available for use only after a specified date.

Indicators would be used to guide the assessment of whether an agreement contains a barrier. Depending on the facts and circumstances, some indicators may be more significant than others, and no single indicator would be determinative. The indicators would include:

1. The inclusion of a measurable performance-related barrier or other measurable barrier. Examples of measurable performance-related barriers would include a requirement that the transferred assets be used to achieve a certain level of service, an identified number of units of output, or a specific outcome. An example of an other measurable barrier would be a stipulation that the recipient is entitled to the assets only upon the occurrence of an identified event (for example, a matching requirement).
2. Whether a stipulation is related to the purpose of the agreement. This indicator would generally exclude administrative tasks and trivial stipulations.
3. The extent to which a stipulation limits discretion by the recipient. The recipient has limited discretion over how the transferred assets should be spent. Limited discretion would exclude situations in which a recipient has broad discretion (for example, when the only requirement is that the transferred assets should be spent for general operating purposes, which could include amounts restricted for ongoing programs or activities).
4. The extent to which a stipulation requires an additional action or actions. To be entitled to the transferred assets, the recipient would need to

undertake additional identified actions it otherwise would not have undertaken.

The amendments in this proposed Update would provide a more robust framework to determine when a transaction should be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction accounted for under other guidance (for example, Topic 606). The proposed amendments also would provide additional guidance about how to determine whether a contribution is conditional or unconditional. Stakeholders have indicated that additional guidance would help reduce diversity in practice and ease the application of judgment because the current guidance is open to differences in interpretation and can be difficult to apply. The proposed amendments would provide for additional clarifying guidance for the evaluation of such arrangements, resulting in greater consistency in application of the guidance, and would make the accounting for contributions more operable.

The amendments in this proposed Update could result in more grants and contracts being accounted for as contributions (often conditional contributions) than under current GAAP. For this reason, clarifying the guidance about whether a contribution is conditional or unconditional is important because such classification affects the timing of contribution revenue recognition. Recipients of conditional promises to give would be required to comply with current disclosure requirements in paragraph 958-310-50-4.

The amendments in this proposed Update would apply to both contributions received by a recipient and contributions made by a resource provider.

What Would Be the Transition Requirements and When Would the Amendments Be Effective?

The amendments in this proposed Update would be applied 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.

A completed agreement is an agreement for which all the revenue (of a recipient) or expense (of a resource provider) has been recognized before the effective date in accordance with current guidance (for example, Topic 605, Topic 958, or other Topics).

The amendments in this proposed Update would be applied only to the portion of revenue or expense that has not yet been recognized before the effective date in accordance with current guidance. No prior-period results would be restated, and there would be no cumulative-effect adjustment to the opening balance of net

assets or retained earnings at the beginning of the year of adoption. Under this approach, an entity would be required to disclose both:

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

Retrospective application would be permitted.

The effective date of the amendments in this proposed Update would be the same as the effective date of the amendments in Update 2014-09. The amendments in Accounting Standards Update No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, defer the effective date of the amendments in Update 2014-09 by one year.

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 in this proposed Update to annual periods beginning after December 15, 2017, including interim periods within that annual period.

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

Early adoption of the amendments in this proposed Update would be permitted irrespective of the early adoption of the amendments in Update 2014-09.

Questions for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

Question 1: Would the amendments in this proposed Update provide clarifying guidance that would be operable in practice? If not, why not?

Question 2: Would the proposed amendments clarify whether a resource provider is receiving commensurate value in return for assets transferred and when a transaction is within the scope of Subtopic 958-605? If not, why not?

Question 3: Should the definition of the term *donor-imposed condition* include both (a) a barrier that must be overcome and (b) a right of return of the assets transferred or a right of release of the promisor from its obligation to transfer assets? If not, why not?

Question 4: Does the proposed table of indicators to describe a barrier provide useful guidance that will allow for the application of appropriate judgment? Should no single indicator be determinative? What changes should be made, if any, to the proposed indicators?

Question 5: Should the proposed amendments about distinguishing between conditional contributions and unconditional contributions be applied equally to both the recipient and the resource provider?

Question 6: Should certain other terms and/or their definitions be clarified (for example, *contribution* or *donor-imposed restriction*)? If yes, list which term(s) and/or definition(s) should be clarified, why they should be clarified, and any recommended changes.

Question 7: Should current recurring disclosure requirements be amended for either a recipient or a resource provider? Should new disclosure requirements be added? If yes, what amendment(s) and/or addition(s) do you recommend? Please explain why.

Question 8: Would the proposed transition requirements be operable, and would they provide decision-useful information? If not, please explain why and what you would recommend. Would modified prospective application be more operable than prospective application? If not, why not?

Question 9: Should the effective date of the proposed amendments be the same as the effective date of Topic 606? Should early adoption of the proposed amendments be permitted?

Amendments to the *FASB Accounting Standards Codification*[®]

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–8. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

Amendments to Master Glossary

2. Amend the following Master Glossary terms, with a link to transition paragraph 958-10-65-2, as follows:

Contribution

An unconditional transfer of cash or other assets to an entity or a settlement or cancellation of its liabilities in a voluntary nonreciprocal transfer by another entity acting other than as an owner. Those characteristics distinguish contributions ~~from~~from:

- a. ~~exchange~~Exchange transactions, which are reciprocal transfers in which each party receives and sacrifices approximately ~~equal~~equal commensurate value; ~~from investments~~
- b. Investments by owners and distributions to owners, which are nonreciprocal transfers between an entity and its owners; ~~and from other~~
- c. Other nonreciprocal transfers, such as impositions of taxes or legal judgments, fines, and thefts, which are not voluntary transfers.

In a contribution transaction, ~~the value, if any, returned to the resource provider often receives value indirectly by providing a societal benefits incidental to potential public benefits.~~ In an exchange transaction, the potential public benefits are secondary to the potential proprietary benefits to the resource provider. The term *contribution revenue* is used to apply to transactions that are part of the entity's ongoing major or central activities (revenues), or are peripheral or incidental to the entity (gains). See also **Inherent Contribution**.

Donor-Imposed Condition

A donor stipulation (donors include other types of contributors, including makers of certain grants)~~that specifies a future and uncertain event whose occurrence or failure to occur~~ 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 promisor a right of return of the assets it has transferred or ~~releases the promisor a right of release~~ from its obligation to transfer its assets.

[Note: The term *donor-imposed restriction* is shown for context.]

Donor-Imposed Restriction

A donor stipulation (donors include other types of contributors, including makers of certain grants) that specifies a use for a contributed asset that is more specific than broad limits resulting from the following:

- a. The nature of the not-for-profit entity (NFP)
- b. The environment in which it operates
- c. The purposes specified in its articles of incorporation or bylaws or comparable documents for an unincorporated association.

Some donors impose restrictions that are temporary in nature, for example, stipulating that resources be used after a specified date, for particular programs or services, or to acquire buildings or equipment. Other donors impose restrictions that are perpetual in nature, for example, stipulating that resources be maintained in perpetuity. Laws may extend those limits to investment returns from those resources and to other enhancements (diminishments) of those resources. Thus, those laws extend donor-imposed restrictions.

Amendments to Subtopic 958-605

3. Add paragraphs 958-605-15-5A, 958-605-25-2A, 958-605-25-5A through 25-5D, 958-605-55-1A, 958-605-55-13A and its related heading, 958-605-55-14A through 55-14I and their related headings, 958-605-55-17A through 55-17F and their related headings, and 958-605-55-70A through 55-70R and their related headings, amend paragraphs 958-605-15-6, 958-605-25-1 through 25-2, 958-605-25-11, 958-605-25-13, 958-605-55-2A, 958-605-55-7, 958-605-55-14 and its related heading, 958-605-55-15 through 55-17, and 958-605-55-20 through 55-21, and supersede paragraphs 958-605-25-12, 958-605-25-14, 958-605-55-3, 958-605-55-8, and 958-605-55-82 and its related heading, with a link to transition paragraph 958-10-65-2, as follows:

Not-for-Profit Entities—Revenue Recognition

Scope and Scope Exceptions

Contributions Received

> Entities

958-605-15-4 Accounting for **contributions** is an issue primarily for **not-for-profit entities** (NFPs) because contributions are a significant source of revenues for many of those entities. However, except for Section 958-605-45, the guidance in

the Contributions Received Subsections applies to all entities (NFPs and business entities) that receive contributions unless otherwise indicated.

> Transactions

958-605-15-5 The guidance in the Contributions Received Subsections applies to the following transactions and activities:

- a. Contributions of cash and other assets, including **promises to give**.

958-605-15-5A In determining whether a transfer of assets is an exchange transaction in which a resource provider (for example, a government agency, a private foundation, a corporation, or other organization) receives commensurate value in return for the resources transferred or a contribution, an entity shall evaluate the terms of an agreement and consider the following (additional clarification is provided in paragraphs 958-605-55-4 through 55-7 and 958-605-55-13A through 55-14I):

- 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. Therefore, if the resource provider receives no direct value in exchange for the assets transferred or if the value received by the resource provider is incidental to the potential public benefit from using the assets transferred, the transaction shall not be considered commensurate value received in return.
- 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.
- 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. The transaction shall be indicative of a contribution if the recipient solicits assets from the resource provider without the intent of exchanging goods or services of commensurate value.
- 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.
- 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.

958-605-15-6 The guidance in the Contributions Received Subsections does not apply to the following transactions and activities:

- a. Transfers of assets that are in substance purchases of goods or services—exchange transactions in which each party receives and sacrifices commensurate value (in accordance with the guidance in paragraph 958-605-15-5A). However, if an entity voluntarily transfers assets to another or performs services for another in exchange for assets of substantially lower value and no unstated rights or privileges are involved, the contribution received that is inherent in that transaction is within the scope of the Contributions Received Subsections.
- b. Transfers of assets in which the reporting entity acts as an **agent, trustee, or intermediary**, rather than as a donor or donee (see the Transfers of Assets to a Not-for-Profit Entity or Charitable Trust That Raises or Holds Contributions for Others Subsections of This Subtopic).
- c. Tax exemptions, tax incentives, or tax abatements.
- d. Transfers of assets from ~~governmental units~~ government entities to business entities.
- e. Transfers of assets (typically from a government entity) that are part of an existing exchange transaction between a recipient and an identified customer. Some examples include payments under Medicare and Medicaid programs, provisions of health care or education services by a government for its employees, and Pell Grants or similar state or local government tuition assistance programs. In those instances, an entity shall apply the applicable guidance (for example, Topic 606 on revenue from contracts with customers).

Recognition

General

958-605-25-1 Exchange transactions shall be accounted for in accordance with other applicable Topics, such as Topic 606 on revenue from contracts with customers.

Contributions Received

958-605-25-2 Except as provided in paragraphs 958-605-25-16 through 25-18 (related to contributed services, works of art, historical treasures, and similar items), **contributions** received shall be recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. The classification of contributions received as revenues or gains depends on whether the transactions are part of the NFP's ongoing major or central activities (revenues), or are peripheral or incidental to the

NFP (gains). A contribution made and a corresponding contribution received generally are recognized by both the donor and the donee at the same time, that is, when the barrier is overcome upon occurrence of the underlying event—the **nonreciprocal transfer** of an economic benefit. The definition of contribution encompasses both a transfer of cash or other assets to an entity or a settlement or cancellation of its liabilities.

958-605-25-2A After a contribution has been deemed unconditional, an entity shall consider whether the contribution is restricted on the basis of the current definition of a **donor-imposed restriction**, which includes the consideration about how broad or narrow the purpose of the agreement is and whether the resources can be used only after a specified date.

958-605-25-5A A **donor-imposed condition** must have:

- 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.

958-605-25-5B It must be determinable from the agreement (or another document referenced in the agreement) that a recipient is only entitled to the transferred assets or a future transfer of assets if it has overcome the barrier. An agreement does not need to include the specific phrase *right of return* or *release from obligation*; however, an agreement should be sufficiently clear to be able to support a reasonable conclusion about when a recipient would be entitled to the transfer of assets. In the absence of any apparent indication that a recipient is only entitled to the transferred assets or a future transfer of assets if it has overcome a barrier, the agreement shall not be considered to contain a right of return of assets transferred or a right of release from obligation and shall be deemed an unconditional contribution.

958-605-25-5C The following table contains a list of indicators that may be helpful in determining whether an agreement contains a barrier. Depending on the facts and circumstances, some indicators may be more significant than others, and no single indicator shall be determinative. See paragraphs 958-605-55-17A through 55-17F and 958-605-55-70A through 55-70R for implementation guidance and illustrative examples on determining whether a contribution is conditional or unconditional.

<u>Indicates a Barrier</u>	
<u>Measurable Performance-Related Barrier or Other Measurable Barrier</u>	<u>The agreement includes a measurable performance-related</u>

	<p><u>barrier or other measurable barrier.</u></p> <p><u>Measurable performance-related barriers or other measurable barriers often are coupled with a time limitation (for example, indicating that the outcomes are to be achieved within a specified time frame).</u></p> <p><u>Examples of measurable performance-related barriers include a requirement that transferred assets should be used to achieve any of the following:</u></p> <ul style="list-style-type: none"> <u>a. A specified level of service</u> <u>b. An identified number of units of output</u> <u>c. A specific outcome.</u> <p><u>An example of an other measurable barrier includes a stipulation that a recipient is entitled to the assets only upon the occurrence of an identified event (for example, a matching requirement).</u></p>
<p><u>Stipulations That Are Related to the Purpose of the Agreement</u></p>	<p><u>The stipulations are related to the purpose of the agreement. This indicator would generally exclude administrative tasks and trivial stipulations.</u></p>
<p><u>Limited Discretion by the Recipient</u></p>	<p><u>The recipient has limited discretion over how the transferred assets should be spent. Limited discretion excludes situations in which a recipient has broad discretion (for example, the only stipulation is that the transferred assets should be spent for general operating purposes, which could include</u></p>

	<p><u>amounts restricted for ongoing programs or activities).</u></p> <p><u>If a recipient has broad discretion on how to use the assets and the agreement contains no other stipulations that would indicate that a barrier exists, the agreement shall be deemed unconditional.</u></p>
<p><u>Additional Action(s)</u></p>	<p><u>To be entitled to the transferred assets, the recipient shall undertake an additional action or actions (for either a new or existing activity) it otherwise would not have undertaken.</u></p> <p><u>If a resource provider's stipulation results in a recipient's requirement to undertake additional actions, endeavors, or goals along with the activities that the recipient intends to pursue, the stipulation would be more indicative of a conditional contribution because the barrier that must be overcome for entitlement to the assets would be the establishment of the increased activity to meet the resource provider's stipulation.</u></p> <p><u>If the recipient must undertake additional activity, the agreement also often is coupled with measurable barriers.</u></p>

958-605-25-5D Determining whether a ~~contribution promise~~ is conditional or unconditional can be difficult if it contains donor stipulations that do not clearly state ~~whether~~ both:

- a. Whether a barrier exists
- b. Whether the right to receive payment or delivery of the promised assets depends on meeting these stipulations that barrier.

It may be difficult to determine whether those stipulations are conditions or restrictions. In cases of ambiguous donor stipulations, a contribution promise containing stipulations that are not clearly unconditional shall be presumed to be a conditional contribution promise. **[Paragraph amended as shown and moved from paragraph 958-605-25-14]**

> Promises to Give

> > Conditional Promise to Give

958-605-25-11 ~~Conditional promises to give, which depend on the occurrence of a specified future and uncertain event, contain a donor-imposed condition that represents a barrier that must be overcome to bind the promisor, as well as a right of release from obligation, shall be recognized when the conditions on which they depend are substantially met, that is, when the conditional promise becomes unconditional. Imposing a condition creates a barrier that must be overcome before the recipient of the transferred assets has an unconditional right to retain those promised assets.~~ is entitled to the assets promised. For example, a ~~transfer of cash with a promise to contribute that cash if a like amount of new gifts are raised from others within 30 days and a provision that the cash will not be transferred~~ returned if the gifts are not raised ~~imposes~~ impose a condition on which entitlement to a promised gift depends.

958-605-25-12 ~~Paragraph superseded by Accounting Standards Update No. 2017-XX. A conditional promise to give is considered unconditional if the possibility that the condition will not be met is remote. See paragraph 958-605-55-16 for examples of conditions that are remote of occurrence.~~

958-605-25-13 A transfer of assets with a conditional promise to contribute them shall be accounted for as a refundable advance until the conditions have been substantially met or explicitly waived by the donor. Some entities transfer cash or other assets with both donor-imposed restrictions and ~~stipulations~~ barriers that impose a condition on which a gift depends. If a restriction and a condition exist, the transfer shall be accounted for as a refundable advance until the condition on which it depends is substantially met. A transfer of assets after a ~~{add glossary link}~~ **{add glossary link}** conditional promise to give ~~{add glossary link}~~ **{add glossary link}** is made and before the conditions are met is the same as a transfer of assets with a conditional promise to contribute those assets. A change in the original conditions of the agreement between promisor and promisee shall not be implied without an explicit waiver (see paragraph 958-605-35-2).

> > Determining Whether a Promise Is Conditional or Unconditional

958-605-25-14 ~~Paragraph superseded by Accounting Standards Update No. 2017-XX. Determining whether a promise is conditional or unconditional can be difficult if it contains donor stipulations that do not clearly state whether the right to receive payment or delivery of the promised assets depends on meeting those stipulations. It may be difficult to determine whether those stipulations are~~

~~conditions or restrictions. In cases of ambiguous donor stipulations, a promise containing stipulations that are not clearly unconditional shall be presumed to be a conditional promise. [Paragraph amended and moved to paragraph 958-605-25-5D]~~

958-605-25-15 Absence of a specified time for transfer of cash or other assets, by itself, does not necessarily lead to a determination that a promise to give is ambiguous. If the parties fail to express the time or place of performance and performance is unconditional, performance within a reasonable time after making a promise is an appropriate expectation; similarly, if a promise is conditional, performance within a reasonable time after fulfilling the condition is an appropriate expectation. Promises to give that are silent about payment terms but otherwise are clearly unconditional shall be accounted for as unconditional promises to give.

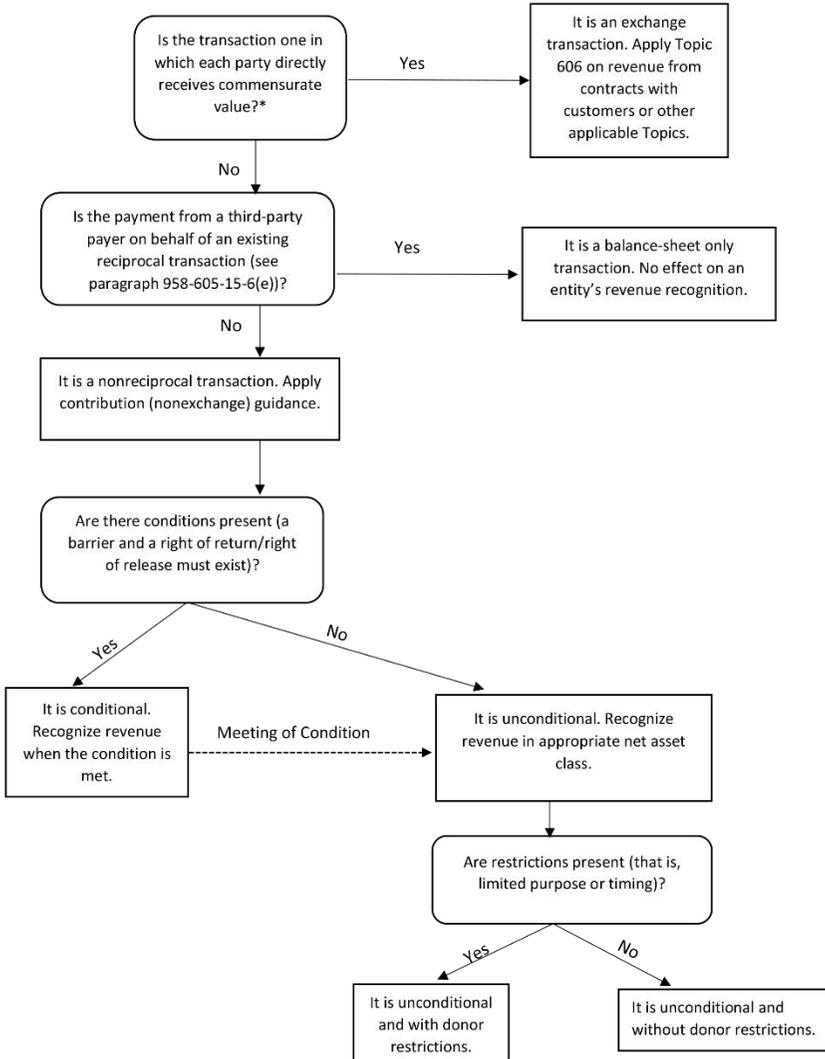
Implementation Guidance and Illustrations

General

> Implementation Guidance

958-605-55-1A The following diagram illustrates the process for determining whether a transfer of assets to a recipient is a contribution or an exchange transaction and how to distinguish between a conditional contribution and an unconditional contribution. The diagram also illustrates whether there is an associated donor restriction with an unconditional contribution.

[For ease of readability, the new diagram is not underlined.]



*See paragraph 958-605-55-6 for guidance about transactions that are in part an exchange and in part a contribution.

958-605-55-2 The accounting and reporting of grants, membership dues, and sponsorships is determined by the underlying substance of the transaction. Those terms are broadly used to refer not only to contributions but also to assets transferred in exchange transactions. A grant, sponsorship, or membership may be entirely a contribution, entirely an exchange, or a combination of the two; therefore, care must be taken in evaluating each grant, sponsorship, or membership agreement. In addition, those resource transfers may also have the characteristics of agency transactions.

958-605-55-2A The implementation guidance is organized as follows:

- a. Distinguishing contributions from exchange transactions (see paragraphs ~~958-605-55-3~~958-605-55-4 through ~~55-755-8~~)
- b. Distinguishing the contribution portion of membership dues (see paragraphs 958-605-55-9 through 55-12)
- c. Distinguishing contributions from agency transactions (see paragraph 958-605-55-13).

> > Distinguishing Contributions from Exchange Transactions

958-605-55-3 Paragraph superseded by Accounting Standards Update No. 2017-XX. ~~Some transfers of assets that are exchange transactions may appear to be contributions if the services or other assets given in exchange are perceived to be a sacrifice of little value and the exchanges are compatible with the recipient's mission.~~

958-605-55-4 Foundations, business entities, and other types of entities may provide resources to not-for-profit entities (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. A grant made by a resource provider to a **not-for-profit entity** (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 in the activity and that retains the right to any patents or other results of the activity, the grant would likely be an exchange transaction. A careful assessment of the characteristics of the transaction, from the perspectives of both the resource provider and the recipient, is necessary to determine whether a contribution has occurred.

958-605-55-5 For example, a resource provider may sponsor research and development activities at a research university and retain proprietary rights or other privileges, such as patents, copyrights, or advance and exclusive knowledge of the research outcomes. The research outcomes may be intangible, uncertain, or difficult to measure, and may be perceived by the university as a sacrifice of little or no value; however, their value often is commensurate with the value that a

resource provider expects in exchange. Similarly, a resource provider may sponsor research and development activities and specify the protocol of the testing so the research outcomes are particularly valuable to the resource provider. Those transactions are not contributions if their potential public benefits are secondary to the potential proprietary benefits to the resource providers.

958-605-55-6 Moreover, a single transaction may be in part an exchange and in part a contribution. For example, if a donor transfers a building to an entity at a price significantly lower than its fair value and no unstated rights or privileges are involved, the transaction is in part an exchange of assets and in part a contribution to be accounted for as required by the Contributions Received Subsections of this Subtopic. See paragraphs 958-720-45-18 through 45-19 for premiums provided to donors and Example 4 (paragraphs 958-225-55-11 through 55-15) for direct benefits provided to donors at special events.

958-605-55-7 ~~Examples~~Example 1 (see paragraph 958-30-55-2) and 4 (see paragraph 958-605-55-14) paragraphs 958-605-55-13A through 55-14I illustrate the need to assess the relevant facts and circumstances to distinguish between the receipt of resources in an exchange and the receipt of resources in a contribution.

958-605-55-8 Paragraph superseded by Accounting Standards Update No. 2017-XX. The following table contains a list of indicators that may be helpful in determining whether individual asset transfers are contributions, exchange transactions, or a combination of both. Depending on the facts and circumstances, some indicators may be more significant than others; however, no single indicator is determinative of the classification of a particular transaction. Indicators of a contribution tend to describe transactions in which the value, if any, returned to the resource provider is incidental to potential public benefits. Indicators of an exchange tend to describe transactions in which the potential public benefits are secondary to the potential proprietary benefits to the resource provider.

Indicators Useful in Distinguishing Contributions from Exchange Transactions

Indicator	Contribution	Exchange Transaction
Recipient not-for-profit entity's (NFP's) intent in soliciting the asset. ^(a)	Recipient NFP asserts that it is soliciting the asset as a contribution.	Recipient NFP asserts that it is seeking resources in exchange for specified benefits.
Resource provider's expressed intent about the purpose of the asset to be provided to recipient NFP	Resource provider asserts that it is making a donation to support the NFP's programs.	Resource provider asserts that it is transferring resources in exchange for specified benefits.

Method of delivery	The time or place of delivery of the asset to be provided by the recipient NFP to third-party recipients is at the discretion of the NFP.	The method of delivery of the asset to be provided by the recipient NFP to third-party recipients is specified by the resource provider.
Method of determining amount of payment	The resource provider determines the amount of the payment.	Payment by the resource provider equals the value of the assets to be provided by the recipient NFP, or the assets' cost plus markup; the total payment is based on the quantity of assets to be provided.
Penalties assessed if NFP fails to make timely delivery of assets	Penalties are limited to the delivery of assets already produced and the return of the unspent amount. (The NFP is not penalized for nonperformance.)	Provisions for economic penalties exist beyond the amount of payment. (The NFP is penalized for nonperformance.)
Delivery of assets to be provided by the recipient NFP	Assets are delivered to individuals or organizations other than the resource provider.	Assets are to be delivered to the resource provider or to individuals or organizations closely connected to the resource provider.

(a) This table refers to assets. Assets may include services. The terms assets and services are used interchangeably in this table.

> Illustrations

> > Distinguishing Contributions from Exchange Transactions

958-605-55-13A Examples 1 through 5 illustrate the guidance in Section 958-605-15 for determining whether a transaction is an exchange or a contribution. The analysis in each Example is not intended to represent the only manner in which the guidance could be applied, and the Examples are not intended to apply to only

a specific illustration. Although some aspects of the Examples may be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern should be evaluated when applying the guidance in this Subtopic. The guidance in this Subtopic about distinguishing between contributions and exchange transactions applies to both a resource provider (for example, a private entity or a corporate foundation, a corporation, or an NFP) and a recipient.

>>> Example 1: Receipt of Resources in Exchange

~~958-605-55-14 This Example illustrates the guidance in paragraphs 958-605-15-5 through 15-6. Not-for-Profit Entity A (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. Because the results of the clinical trial have particular commercial value for the pharmaceutical entity, 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. [Content amended and moved to paragraph 958-605-55-14A]~~

958-605-55-14A 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. See paragraph 958-605-15-5A. [Content amended as shown and moved from paragraph 958-605-55-14]

>>> Example 2: Payment Relating to an Existing Exchange Transaction—University

958-605-55-14B Student RC is enrolled at University A. Student RC's total tuition charged for the semester is \$30,000. Student RC has received a grant in the amount of \$2,000 to use toward the tuition fee, which is paid directly by the grantor to University A.

958-605-55-14C The grant was awarded to Student RC, not to University A. University A has entered into an exchange transaction with Student RC and accounts for the \$30,000 of revenue in accordance with the guidance in the appropriate Subtopic. The \$2,000 grant does not create additional revenue but, rather, serves as a partial payment against the \$30,000 due to University A. Student RC is an identified customer of University A who is receiving the benefit from the grant transaction. See paragraph 958-605-15-5A(e).

> > > Example 3: Payment Relating to an Existing Exchange Transaction—Hospital

958-605-55-14D Patient LG is a patient at Hospital B. The total amount due for services rendered is \$10,000. Patient LG has Medicare, and it covers \$8,000 of the services, which is paid directly by the government to Hospital B. Hospital B bills Patient LG for \$2,000.

958-605-55-14E Medicare is a form of insurance. Hospital B has a contract with a customer (Patient LG) 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 LG payment of \$2,000 serve as a payment source for services rendered in the amount of \$10,000 owed to Hospital B. The payment to Hospital B relates to an existing exchange transaction between Hospital B and an identified customer (Patient LG). See paragraph 958-605-15-5A(e).

> > > Example 4: Procurement Arrangement

958-605-55-14F 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.

958-605-55-14G 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. See paragraph 958-605-15-5A(a).

> > > Example 5: Research Grant

958-605-55-14H University D applied for and was awarded a grant from the federal government. University D must follow the rules and regulations established by the Office of Management and Budget of the federal government and the federal awarding agency. University D is required to incur qualified expenses to be entitled to the assets. Any unspent money during the grant period is forfeited, and University D is required to return any advanced funding that does not have related qualifying expenses. University D also is required to submit a summary of research findings to the federal government, but University D retains the rights to the findings and has permission to publish the findings if it desires.

958-605-55-14I University D 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 D because University D retains all rights to the research and findings. University D 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 D determines that this grant should be accounted for following the contribution guidance in this Subtopic. See paragraph 958-605-15-5A(a).

Contributions Received

> Implementation Guidance

> > Distinguishing Between Donor-Imposed Conditions and Donor-Imposed Restrictions

958-605-55-15 Distinguishing between a condition stipulated by a donor and a restriction on the use of a **contribution** imposed by a donor may require the exercise of judgment. A **donor-imposed condition** depends on whether the agreement includes a barrier that must be overcome before a recipient is entitled to the assets transferred or promised. The agreement also must give the promisor either a right of return of the assets it has transferred or a right of release from its obligation to transfer assets. Conditional transfers are not contributions yet; they may become contributions upon the occurrence of one or more future and uncertain events. Because of the uncertainty about whether they will be met, conditions imposed by resource providers may cast doubt on whether the resource provider's intent was to make a contribution, to make a conditional contribution, or to make no contribution. As a result of this uncertainty, **donor-imposed conditions** Donor-imposed conditions should be substantially met by the entity before the receipt of assets (including contributions receivable) is recognized as a contribution. In contrast to donor-imposed conditions, donor-imposed restrictions limit the use of the contribution, but they do not change the transaction's fundamental nature from that of a contribution.

958-605-55-16 If donor stipulations do not clearly state whether the right to receive payment or take delivery depends on meeting those stipulations, or if those stipulations are ambiguous, distinguishing a **conditional promise to give** from an **unconditional promise to give** may be difficult. ~~First, review the facts and circumstances surrounding the gift and communicate with the donor. If the ambiguity cannot be resolved by reviewing the facts and circumstances surrounding the contribution and communicating with the donor as a result of these efforts,~~ presume that a promise containing **{add glossary link}** stipulations **{add glossary link}** that are not clearly unconditional is a conditional **{add glossary link}** promise to give **{add glossary link}**. However, if the stipulation is not related to the purpose of the agreement (generally stipulations that are administrative or trivial), that stipulation is not indicative of a barrier ~~possibility that the condition will not be met is remote,~~ a conditional **promise to give** is considered unconditional. ~~(for~~ For example, a **{remove glossary link}** stipulation **{remove glossary link}** that an annual report must be provided by the donee to receive subsequent annual payments on a multiyear promise is not a barrier condition if the possibility of not meeting that administrative requirement is remote ~~not related to the purpose of the agreement~~).

958-605-55-17 A challenge (matching) grant is a common form of a conditional promise to give. For example, a resource provider promises to contribute \$1 for each \$1 of contributions received by a **not-for-profit entity** (NFP), up to \$100,000, over the next 6 months. As contributions are received from other resource providers, the conditions would be met and the promise would become unconditional. For example, if \$10,000 is received in the first month from donors, \$10,000 of the conditional promise would become unconditional and should be recognized as contribution revenue.

> > Determining Whether a Contribution Is Conditional or Unconditional

958-605-55-17A 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.

> > > Measurable Performance-Related Barriers or Other Measurable Barriers

958-605-55-17B As described in paragraph 958-605-25-5C, a measurable performance-related barrier or other measurable barrier may be indicative of a donor-imposed condition. Examples of measurable performance-related barriers or other measurable barriers could include:

- a. Specified level of service. An entity is given assets, and the resource provider stipulates that the assets must be used to provide a specific level of service (for example, 200 meals per week for a soup kitchen). The barrier that must be overcome is that the specified level of service must be achieved.
- b. Specific output or outcome. An entity is given assets contingent upon producing a specific output or achieving a measurable outcome stemming from the entity's activities (for example, students achieving a minimum standardized test score, a decline in drop-out rates following an entity's educational efforts, or community residents exhibiting a decline in symptoms of malnutrition following an entity's efforts in providing meals).
- c. Matching. A resource provider specifies the ratio or amount of a matching contribution. The recipient is not entitled to receive the promised assets until it has met the required match (the barrier or hurdle that must be overcome).
- d. Outside event. A resource provider specifies that a certain outside event needs to occur for the recipient to be entitled to receive the assets (for example, a resource provider promises to contribute a certain amount of assets if a company's net worth reaches a specified level).

> > > Limited Discretion by the Recipient

958-605-55-17C As described in paragraph 958-605-25-5C, limited discretion may be indicative of a donor-imposed condition. A resource provider could indicate that

an agreement should be used for broad organizational support. However, the resource provider also could include a requirement that the transferred assets must be spent or used to achieve a certain level of service or an identified number of units of output before a recipient is entitled to the assets. Many agreements to which a recipient would be deemed to have limited discretion also could contain another indicator (such as a measurable barrier).

958-605-55-17D It is possible that some agreements that do not contain any barriers (and in which the assets are solely restricted for use and the recipient has broad discretion on how to use the assets) could contain either a right of return of assets transferred or a right of release from obligation. For example, some foundations 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.

>>> Stipulations That Are Related to the Purpose of the Agreement

958-605-55-17E An indicator noting that a stipulation is related to the purpose of the agreement could be helpful in the context of considering the agreement collectively with the 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. If administrative tasks are required that are unrelated to the purpose of the agreement, there most likely would be other requirements that would be more indicative of a barrier (for example, a specific event or activity to occur). Producing an annual report is a common requirement in contribution agreements; however, it typically is not related to the underlying purpose of an agreement. Generally, a report is intended to provide a resource provider with information to confirm that the transferred assets were used in accordance with the purpose of the agreement and could be deemed administrative in nature.

>>> Additional Actions

958-605-55-17F For instances in which a resource provider could provide a significant amount of assets that exceeds the amount requested by a recipient, there typically would be additional stipulations in the agreement that indicate a condition. If additional activity is required by the recipient, the agreement also often is coupled with measurable barriers. An indicator for additional actions may not be an indicator that exists in many agreements (and that is not likely to exist without other indicators being present); however, it is another indicator to review when determining whether the agreement contains a barrier on the basis of the individual facts and circumstances of that agreement.

>> Promises to Give

958-605-55-20 Promises to give services generally involve personal services that, if not explicitly conditional, are often implicitly conditioned upon the ~~future and uncertain~~ availability of specific individuals whose services have been promised.

958-605-55-21 Certain promises become unconditional in stages because they are dependent on several or a series of conditions—milestones—rather than on a single ~~future and uncertain event condition~~ and are recognized in increments as each of the conditions is met. Similarly, other promises are conditioned on promisees' incurring certain qualifying expenses (or costs). Those promises become unconditional and are recognized to the extent that the expenses are incurred. A portion of those ~~contributions shall~~should be recognized as revenue as each of those stages is met.

> Illustrations

>> Determining Whether a Contribution Is Conditional or Unconditional

958-605-55-70A Examples 13 through 20 (paragraphs 958-605-55-70C through 55-70R) illustrate how an entity might apply certain aspects of the guidance in this Subtopic in determining whether a contribution is conditional or unconditional (all fact patterns are considered to be contributions within the scope of this Subtopic). The analysis in each Example is not intended to represent the only manner in which the guidance could be applied, and the Examples are not intended to apply to only a specific illustration. Although some aspects of the Examples may be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying the guidance in this Subtopic (for guidance on release from restrictions, see Section 958-605-45). The guidance in this Subtopic on distinguishing between conditional contributions and unconditional contributions applies to contributions made by a resource provider (for example, a private entity or a corporate foundation, a corporation, or an NFP) and contributions received by a recipient.

>>> Qualifying Expenses

958-605-55-70B Many agreements include a requirement that assets must be used for specific qualifying expenses (or costs) (for example, in compliance with principles issued by the Office of Management and Budget). These agreements often are paid on a cost-reimbursement basis that is based on a recipient incurring specific qualifying expenses. The requirement that a recipient must follow specific guidelines about qualifying expenses may reflect more than one of the indicators used to determine whether an agreement contains a barrier. For example, the requirement to adhere to qualifying expenses may result in a recipient having limited discretion over how to spend the assets. Qualifying expenses also could be viewed as a measurable barrier because the spending of the assets as specified by the requirements of the agreement (for example, adherence to cost principles) would need to be overcome for a recipient to be entitled to the assets. The

requirement that assets must be used for specified qualifying expenses differs from a standard budget that may accompany a grant, which is generally considered a guideline. An entity must review the individual facts and circumstances of an agreement to determine whether the agreement contains a requirement to spend assets on specific qualifying expenses and related requirements that would result in significant limitations on the discretion of a recipient.

> > > Example 13: Contribution from a Private Foundation

958-605-55-70C 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 resource 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.

958-605-55-70D 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.

> > > Example 14: Contribution That Includes Qualifying Expenses

958-605-55-70E NFP B is a hospital that has a research program. NFP B applies for and receives a \$300,000 grant from the federal awarding agency to fund thyroid cancer research. The terms of the grant include a standard budget and specify that NFP B must incur certain qualifying expenses (or costs) in compliance with rules and regulations established by the Office of Management and Budget and the federal awarding agency. The grant is paid on a reimbursement basis by NFP B initiating drawdowns of the grant assets. Any unused assets are forfeited, and any unallowed costs that have been drawn down by NFP B are required to be refunded. The grant agreement also states that an audit needs to be performed annually in accordance with the Office of Management and Budget guidelines.

958-605-55-70F NFP B determines that this grant is conditional. The grant agreement limits NFP's discretion as a result of the specific requirements on how NFP B may spend the assets (incurring certain qualifying expenses in accordance with the Office of Management and Budget compliance requirements). The grant also includes a right of return for any assets advanced that have been spent on unallowed items and a release from the promisor's obligation for unused assets.

NFP B concludes that the requirement to spend the assets on qualifying expenses is a barrier to entitlement because the requirement limits NFP B's discretion about how to use the assets in contrast with a general budget. The submission of a general budget alone is considered to be routine in nature and does not limit NFP B's discretion as would the specificity of incurring qualifying expenses. NFP B also determines that the specificity of the qualifying costs could be a measurable barrier because the assets would need to be spent on specific items based on the requirements of the agreement (for example, adherence to cost principles) before NFP B is entitled to the assets. NFP B records revenue during the grant period when the barriers have been overcome as it incurs qualifying expenses. NFP B does not consider the audit requirement alone to be a barrier to entitlement because it is not related to the purpose of the agreement.

> > Example 15: Contribution for a Research Grant

958-605-55-70G 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 corporate 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 that approval must be obtained from the corporate 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 corporate foundation that explains how the assets were spent.

958-605-55-70H 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.

> > > Example 16: Contribution to a Hospital

958-605-55-70I NFP DD is a hospital that received an upfront cash contribution from an individual to perform research on Alzheimer's disease during NFP DD's next fiscal year. The agreement does not include a right of return.

958-605-55-70J NFP DD determines that this contribution is unconditional because it does not include a right of return (or similar language) of the assets that have been transferred upfront. NFP DD does not need to consider if there is a

barrier to entitlement because no right of return exists in the agreement. NFP DD concludes that it should recognize the revenue upon receipt of the assets from the individual as donor restricted because it is required to use the assets for Alzheimer's research, which is narrower than NFP DD's overall mission, and during the next fiscal year.

> > Example 17: Grant to an Animal Shelter

958-605-55-70K 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.

958-605-55-70L 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.

> > Example 18: Contribution to a University

958-605-55-70M 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 private 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 resource provider if the assets are not used for the purposes outlined in the capital campaign solicitation materials. The resource provider does not include any specifications in the agreement about how the building should be constructed or on how other improvements should be made.

958-605-55-70N 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 within existing buildings on campus). 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.

> > Example 19: Contribution to a Museum

958-605-55-700 NFP I is a museum that owns the land it is on. An individual donor responded to a grant solicitation that it received from NFP I to build a new wing on the existing museum building. The agreement contains a \$1 million multiyear promise to give the money to be used for the new wing on the building. The agreement also includes specific building requirements, including square footage and that the new wing must be environmentally friendly with Leadership in Energy and Environmental Design certification. The first installment of the gift will not be paid until NFP I submits architectural designs that meet the building requirements. Additional installments of the grant will be paid in specified increments upon meeting specific requirements of the grant agreement. If the building is not built in compliance with the grant agreement, the donor is released from its obligation to make installment payments.

958-605-55-70P NFP I determines that this agreement is conditional because it includes measurable performance-related barriers to be overcome (for example, an architectural plan including square footage and Leadership in Energy and Environmental Design certification) for NFP I to be entitled to the assets. In addition, the agreement includes a release of the resource provider's obligation to transfer assets if the stipulations are not met. NFP I recognizes the revenue as the barriers are overcome, which is upon meeting the specific requirements as NFP I builds the new wing.

> > Example 20: Contribution to a Homeless Shelter

958-605-55-70Q NFP J operates as a homeless shelter and provides meals to the homeless. NFP J receives an upfront grant of \$75,000 from the city. The grant requires NFP J to use the assets to provide 5,000 meals to the homeless. The grant contains a right of return for meals not served, and there are no minimum thresholds.

958-605-55-70R NFP J determines that that this grant is conditional because it contains a measurable performance-related barrier (to provide 5,000 meals) and a right of return. NFP J recognizes assets received in advance of satisfying the conditions as a refundable advance liability and will then recognize a pro rata share of the grant received as donor-restricted revenue for each meal that it serves because the purpose of the grant is narrower than the overall purpose of NFP J.

Transfers of Assets to a Not-for-Profit Entity or Charitable Trust That Raises or Holds Contributions for Others

> Illustrations

>> Example 3: Recipient Entity Is an Intermediary

958-605-55-82 Paragraph superseded by Accounting Standards Update No. 2017-XX. This Example illustrates the guidance in paragraph 958-605-25-23. Hospital C provides health care services to patients that are entitled to Medicaid

assistance under a joint federal and state program. The program sets forth various administrative and technical requirements covering provider participation, payment mechanisms, and individual eligibility and benefit provisions. Medicaid payments made to Hospital C on behalf of the program beneficiaries are third-party payments for patient services rendered. Hospital C provides patient care for a fee—an exchange transaction—and acts as an intermediary between the government provider of assistance and the eligible beneficiary. The Medicaid payments are not contributions to Hospital C.

4. Add paragraph 958-10-65-2 and its related heading as follows:

> Transition Related to Accounting Standards Update No. 2017-XX, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made

958-10-65-2 The following represents the transition and effective date information related to Accounting Standards Update No. 2017-XX, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*:

- a. A public business entity and 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 shall apply the pending content that links to this paragraph for annual periods beginning after December 15, 2017, including interim periods within that annual period.
- b. All other entities shall apply the pending content that links to this paragraph for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019.
- c. Early application of the pending content that links to this paragraph is permitted.
- d. An entity shall apply the pending content that links to this paragraph using one of the following methods:
 1. Retrospectively to each period presented in the financial statements in accordance with the guidance on accounting changes in paragraphs 250-10-45-5 through 45-10.
 2. On a modified prospective basis in the first set of financial statements following the effective date to agreements that are either:
 - i. Not completed as of the effective date
 - ii. Entered into after the effective date.
- e. For purposes of the transition guidance in (d)(2):
 1. A completed agreement shall be considered an agreement for which all of the revenue (of a recipient) or expense (of a resource provider) has been recognized before the effective date in accordance with current guidance (for example, Topic 605 on revenue recognition, this Topic, or other Topics).
 2. The pending content that links to this paragraph shall apply only to the portion of revenue (of a recipient) or expense (of a resource

- provider) that has not been recognized before the effective date. No prior-period results shall be restated, and there shall be no cumulative-effect adjustment to opening net assets or retained earnings at the beginning of the year of adoption.
3. In the first interim and annual period of adoption, for periods that include the date of initial application, an entity shall disclose both:
- i. The nature of and reason for the accounting change
 - ii. An explanation of the reasons for significant changes in each financial statement line item in the current annual or interim period resulting from applying the pending content that links to this paragraph compared with current guidance.
- f. If an entity elects to apply the pending content that links to this paragraph retrospectively in accordance with (d)(1), the entity shall provide the disclosures required in paragraphs 250-10-50-1 through 50-2 in the period of adoption.

Amendments to Subtopic 958-720

5. Supersede paragraph 958-720-25-2, with a link to transition paragraph 958-10 65-2, as follows:

Not-for-Profit Entities—Other Expenses

Recognition

> Contributions Made

958-720-25-1 A **not-for-profit entity** (NFP) shall comply with the applicable guidance in Subtopic 720-25, as well as the following guidance.

958-720-25-2 ~~Paragraph superseded by Accounting Standards Update No. 2017-XX. **Unconditional promises to give** shall be recognized at the time the donor has an obligation to transfer the promised assets in the future, which generally occurs when the donor approves a specific grant or when the recipient of the promise is notified. If a donor explicitly reserves the right to rescind an intention to contribute, or if a solicitation explicitly allows a donor to rescind the intention, a **promise to give** shall not be recognized by the donor. If payments of the unconditional promise to give are to be made to a recipient over several fiscal periods and the recipient is subject only to routine performance requirements, a liability and an expense for the entire amount payable shall be recognized.~~

958-720-25-3 If an NFP makes **contributions** or awards grants to other NFPs upon specific requests of others, the NFP may be acting as an **agent, trustee, or intermediary** in a transfer between the donor and the beneficiary specified by the donor (**agency transaction**) (see paragraph 958-605-25-24).

Amendments to Subtopic 720-25

6. Amend paragraphs 720-25-15-2 through 15-3, 720-25-25-1, and 720-25-50-1, with a link to transition paragraph 958-10-65-2, as follows:

Other Expenses—Contributions Made

Scope and Scope Exceptions

> Entities

720-25-15-1 The guidance in this Subtopic applies to all entities.

> Transactions

720-25-15-2 The guidance in this Subtopic applies to **contributions** of cash and other assets, including **promises to give**. For all entities that receive contributions, see the contributions received guidance in paragraphs 958-605-15-3 through 15-5A45-4.

720-25-15-3 The guidance in this Subtopic does not apply to the ~~following transactions and activities~~activities specified in paragraph 958-605-15-6, which is in the Contributions Received Subsection of this Subtopic.

- a. ~~Subparagraph superseded by Accounting Standards Update No. 2017-XX. Transfers of assets that are in substance purchases of goods or services—exchange transactions in which each party receives and sacrifices commensurate value. However, if a donor entity voluntarily transfers assets to another or performs services for another in exchange for assets of substantially lower value and no unstated rights or privileges are involved, the contribution inherent in that transaction is within the scope of this Subtopic.~~
- b. ~~Subparagraph superseded by Accounting Standards Update No. 2017-XX. Transfers of assets in which the reporting entity acts as an agent, trustee, or intermediary, rather than as a donor.~~
- c. ~~Subparagraph superseded by Accounting Standards Update No. 2017-XX. Tax exemptions, tax incentives, or tax abatements.~~
- d. ~~Subparagraph superseded by Accounting Standards Update No. 2017-XX. Transfers of assets from governmental units to business entities.~~

Recognition

720-25-25-1 Contributions made shall be recognized as expenses in the period made and as decreases of assets or increases of liabilities depending on the form

of the benefits given. For example, gifts of items from inventory held for sale are recognized as decreases of inventory and contribution expenses, and **unconditional promises to give** cash are recognized as payables and contribution expenses. For guidance on conditional and unconditional contributions including a donor-imposed condition, conditional promises to give, give and determining whether a promise is conditional or unconditional, see paragraphs 958-605-25-5A through 25-5D, 958-605-25-11, 958-605-25-13, 958-605-25-15, through 25-15 and paragraph 958-605-25-33. See paragraphs 958-605-55-45 through 55-48 for an example that illustrates a donor's accounting for an unconditional promise.

Disclosure

720-25-50-1 This Subtopic does not require disclosures for makers of promises and indications of intentions to give because Topics 450 and 470 provide the relevant disclosure requirements~~standards~~.

7. Add Section 720-25-55, with a link to transition paragraph 958-10-65-2, as follows:

Implementation Guidance and Illustrations

General

> Implementation Guidance

720-25-55-1 See paragraph 958-605-55-1A for a diagram that depicts the process for distinguishing between conditional contributions and unconditional contributions in addition to distinguishing contributions from exchange transactions. The diagram also depicts whether there is an associated donor restriction with an unconditional contribution.

>> Determining Whether a Contribution Is Conditional or Unconditional

720-25-55-2 See paragraphs 958-605-55-17A through 55-17F and 958-605-55-70A through 55-70R for implementation guidance and illustrations on determining whether a contribution is conditional or unconditional. That guidance applies to both contributions made by a resource provider (for example, a private entity or a corporate foundation, a corporation, or a not-for-profit entity [NFP]) and contributions received by a recipient.

Amendments to Topic 606

8. Add paragraph 606-10-15-2A, with a link to transition paragraph 958-10-65-2, as follows:

Revenue from Contracts with Customers—Overall Scope and Scope Exceptions

> Transactions

606-10-15-2A An entity shall consider the guidance in Subtopic 958-605 on not-for-profit entities—revenue recognition when determining whether a transaction is a contribution within the scope of Subtopic 958-605 or a transaction within the scope of this Topic.

The amendments in this proposed Update were approved for publication by six members of the Financial Accounting Standards Board. Ms. Hunt abstained.

Members of the Financial Accounting Standards Board:

Russell G. Golden, *Chairman*
James L. Kroeker, *Vice Chairman*
Christine A. Botosan
Marsha L. Hunt
Harold L. Monk, Jr.
R. Harold Schroeder
Marc A. Siegel

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this proposed Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

Background Information

BC2. Several stakeholder groups, which include the American Institute of Certified Public Accountants (AICPA) Not-for-Profit (NFP) Expert Panel, the members of the AICPA NFP and Health Care Revenue Recognition Task Force, the National Association of College and University Business Officers, and the FASB NFP Advisory Committee, have noted that there is difficulty in applying the guidance in Subtopic 958-605, which has led to significant diversity in practice about the conclusions that result from the application of the scope and recognition guidance on:

- a. Characterizing grants and similar contracts with resource providers as exchange transactions or contributions
- b. Distinguishing between conditional contributions and unconditional contributions.

BC3. In some instances, similar grants and contracts are accounted for as contributions by some entities and as exchanges by other entities. There is difficulty in practice in determining whether a resource provider receives commensurate value by directing an entity to fulfill its own mission to benefit the public (obtaining a service). Some entities conclude that they are stepping in to fulfill the resource provider's mission or goal and, thus, the resource provider is receiving commensurate value in return (exchange transaction). However, others place less emphasis on the resource provider's role, mission, obligation, or intent and, instead, focus on whether reciprocal benefits flow between the two parties to the agreement.

BC4. Stakeholders have questions about whether grants and similar contracts within the scope of Subtopic 958-605 should be accounted for similarly, regardless of the type of resource provider. Stakeholders have indicated that grants received from a government entity typically result in the greatest amount of diversity and concern in practice and that grants from government entities often are classified

differently (typically as an exchange transaction) than grants from private foundations.

BC5. Stakeholders have stated that clarification is needed about whether instances in which an entity receives assets from a third-party payer (typically from a government entity) for an existing reciprocal transaction between the recipient and an identified customer are within the scope of Subtopic 958-605. Examples include payments under Medicare and Medicaid programs, provisions of health care or tuition for government employees, and Pell Grants or similar state or local government tuition assistance programs.

BC6. Once a transaction is deemed a contribution, stakeholders experience difficulty distinguishing between conditional contributions and unconditional restricted contributions because current guidance does not clearly distinguish between a condition on which entitlement to a promised contribution depends and a donor-imposed restriction, which limits how transferred assets can be used. Topic 958 indicates that the distinction lies in whether the assets will be returned if the outcome should not occur or, if the assets are not provided in advance, whether they will be given at all. Ambiguity and uncertainty created by cases in which a return policy is not stipulated have led to diversity in practice. There also is diversity in practice in determining whether the likelihood of failing to meet a condition is remote (remote notion). The diversity in practice can result in differences in the timing and/or net asset classification of the revenue recognized.

BC7. Pre-agenda research confirmed that diversity exists in practice and that these issues are pervasive among NFPs, but they also extend to business entities. Consequently, the Board considered the timeline of the FASB's project on disclosures by business entities about government assistance and decided to move forward on the issues in practice raised for NFPs without waiting for the project on business entities to be completed or to potentially enter a recognition and measurement phase. On April 20, 2016, the Board added a project to its technical agenda with the objective of improving and clarifying the current guidance on revenue recognition of grants and contracts within the scope of Subtopic 958-605. The determination about whether a contribution is conditional under current guidance is the same for both a resource provider and a recipient. Therefore, the amendments in this proposed Update would clarify that the guidance also applies to resource providers.

Benefits and Costs

BC8. Overall, the Board concluded that the benefits of the amendments in this proposed Update would justify the costs. The proposed amendments would clarify existing guidance and reduce diversity in practice about the scope and application of Topic 958 when accounting for contributions. Additional discussion about the costs and benefits of the proposed amendments is provided throughout the basis for conclusions.

Scope

Distinguishing Contributions from Exchange Transactions

BC9. In practice, contribution revenue can be presented in the financial statements of an entity using different terms (for example, gift, grant, donation, or other terms). The Board acknowledges this diversity in practice and believes that the primary issue relates to whether an entity should apply the guidance in Subtopic 958-605 or other guidance (for example, Topic 606) to account for an agreement. The term used in the presentation of financial statements to label revenue 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.

BC10. The Board concluded that the current guidance in Subtopic 958-605 on contributions should be clarified to help entities determine whether a grant or contract is a contribution within the scope of Topic 958 or an exchange transaction subject to other guidance. The Board decided that, consistent with the current guidance, a primary aspect of this determination would be whether the two parties receive and sacrifice commensurate value. This clarification would consider the following aspects:

- a. Instances in which the general public receives the primary benefit
- b. Types of value that do not constitute commensurate value
- c. Type of resource provider
- d. Instances in which a transfer of assets from a resource provider relates to an existing exchange transaction between an entity and an identified customer.

BC11. The amendments in this proposed Update would clarify that some transactions that may be currently considered exchanges should be accounted for as contributions (likely conditional), which is expected to be more relevant and less costly than applying Topic 606 (including the additional disclosure requirements), which is an accounting model that was not developed to address the exchange nature of such grants and contracts.

Instances in Which the General Public Receives the Primary Benefit

BC12. The Board decided that the amendments in this proposed Update would clarify that the commensurate value received in return for resources transferred in an exchange transaction must be received by the resource provider. Thus, when the potential benefits resulting from a transfer of assets are intended to serve the general public such that the general public is receiving the primary benefit, that transfer of assets would be considered a contribution. In those instances, the

resource provider (including government agencies and others) is not synonymous with the general public.

Types of Value That Do Not Constitute Commensurate Value

BC13. The Board decided that the benefit from furthering a resource provider's mission or the positive sentiment from acting as a donor does not constitute commensurate value received in return by a resource provider for purposes of determining whether the transfer of assets is an exchange transaction. Determining whether a transaction is an exchange should focus on whether reciprocal benefits flow between two parties to an agreement and not on the resource provider's role, mission, or obligation.

Type of Resource Provider

BC14. The scope of the amendments in this proposed Update would clarify that the type of resource provider should not dictate whether a grant is accounted for as an exchange transaction or a contribution. Consistent with the Board's original intent in FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made*, the Board decided that regardless of whether a transfer of assets is from a government agency, a private foundation, a corporation, or other organization, the difficulties in determining whether a transfer is an exchange transaction or a contribution are essentially the same. Regardless of the type of resource provider, an entity should consider the facts and circumstances of each grant in making that determination.

Instances in Which a Transfer of Assets from a Resource Provider Relates to an Existing Exchange Transaction between an Entity and an Identified Customer

BC15. The amendments in this proposed Update would clarify that when the resource provider is not itself receiving commensurate value for resources provided, a recipient must consider the facts and circumstances of the transaction to determine whether the resources provided represent a payment in connection with an existing exchange transaction between the recipient and an identified customer. Those types of payments would be considered part of an existing contract with the identified customer and would be accounted for in accordance with other guidance, such as Topic 606 or Topic 842, Leases.

BC16. The Board decided that clarifying this guidance would be useful in avoiding possible misinterpretation by preparers that such transfers of assets from a resource provider should be accounted for as contributions under Subtopic 958-605.

Recognition

Determining Whether a Contribution Is Conditional or Unconditional

BC17. Under the amendments in this proposed Update, to meet the definition of the term *donor-imposed condition*, there must be a barrier to overcome and a right of return of assets transferred or a right of release of the promisor's obligation to transfer assets. Both features must be present for the recipient to be entitled to the transferred or promised assets. The right of return of assets transferred or a right of release of the promisor's obligation to transfer assets often indicates the existence of a barrier or hurdle that must be overcome for a recipient to be entitled to the assets. The Board decided that including both a barrier and either a right of return of assets transferred or a right of release of the promisor's obligation to transfer assets would better reflect the economics of the transaction when compared with other proposed solutions. The existence of a barrier would be determined on the basis of indicators. The indicators are intended to provide additional guidance for preparers to exercise judgment (in comparison with bright lines) on the basis of individual facts and circumstances to determine whether the agreement indicates a condition.

BC18. The Board determined that the amendments in this proposed Update generally would be in line with the Board's original intent in Statement 116. That is because the current definition of the term *donor-imposed condition* includes the concepts of both a barrier and either a right of return of assets transferred or a right of release of the promisor's obligation to transfer assets. In addition, the proposed amendments no longer would require the need for the remote notion because the revised guidance would clarify that a donor-imposed condition exists only when there are barriers that the recipient must overcome to be entitled to the assets. Stipulations unrelated to the underlying purpose of the agreement, such as many administrative tasks and trivial tasks, do not constitute such barriers. Removing the term *remote* and including indicators could prevent entities from assessing the likelihood of a condition being met to decide when to recognize revenue. Such assessments would be misaligned with the Board's original intent in Statement 116.

BC19. The Board considered but rejected an alternative that would have required a probability assessment about whether it is likely that a recipient will meet the stipulations in an agreement. Under a probability assessment, if the recipient determines that there is not a high likelihood that it will fulfill the stipulation, the agreement would be accounted for as conditional regardless of the type of stipulation if the agreement contains a right of return of assets transferred or a right of release of the promisor's obligation to transfer assets. If the recipient determines there is a high likelihood that it will fulfill the stipulation, the agreement would be accounted for as unconditional. The Board decided that a probability assessment

would not always produce financial reporting outcomes that represent the substance of the transaction, would not reduce existing diversity in practice, and would be inconsistent with the Board's original intent. Statement 116 indicated that upon acceptance of a contribution, there is a presumption that the recipient will comply with the stipulations. Thus, if a recipient concludes that upon acceptance of a contribution it is likely it will meet the stipulations in the agreement, a probability assessment could result in many transactions being considered unconditional. In addition, for ongoing agreements, it could be impractical to require recipients to reassess the probability of a condition being met at each reporting date.

Distinguishing a Condition versus a Restriction

BC20. The amendments in this proposed Update focus on distinguishing between conditional contributions and unconditional contributions. After a contribution has been deemed unconditional, an entity would consider whether the contribution is restricted on the basis of the current definition of the term *donor-imposed restriction*. That definition includes consideration about how broad or narrow the purpose of the agreement is and whether the resources can be used only after a specified date.

Barrier

BC21. To meet the definition of the term *donor-imposed condition*, the Board provided clarification that for a recipient to be entitled to the assets the agreement must contain a barrier that must be overcome and a right of return of assets transferred or a right of release of the promisor's obligation. That decision is consistent with current guidance. Specifically, paragraph 958-605-25-11 indicates that imposing a condition creates a barrier that must be overcome before the recipient of the transferred assets has an unconditional right to the promised assets. The Board decided that clarification that both a barrier *and* a right of return or a right of release of the promisor's obligation are necessary to an assessment of whether a recipient is entitled to promised assets to assist preparers in distinguishing between conditional contributions and unconditional contributions.

BC22. The amendments in this proposed Update would remove the phrase *future and uncertain event* from the definition of a donor-imposed condition and replace it with the concept of a barrier. Adding the idea of a barrier is intended to clarify that, in the presence of a right of return of assets transferred or a right of release of the promisor's obligation, to be entitled to assets received or assets promised, a recipient must overcome that barrier through measurable performance or some other means. Removing the phrase *future and uncertain event* is intended to reduce diversity in practice by not implying that an entity must assess the likelihood of a condition being met to decide whether to recognize revenue. In addition, the Board decided that the word *future* was unnecessary.

BC23. The Board decided to add to the guidance a table of indicators that would assist in determining whether an agreement includes a barrier that must be overcome for the recipient to be entitled to the transferred assets. Depending on the facts and circumstances, some indicators may be more significant than others; however, no single indicator would be determinative. The indicators would include:

- a. Measurable performance-related barriers or other measurable barriers
- b. Stipulations that are related to the purpose of the agreement
- c. Limited discretion by the recipient
- d. Additional actions.

BC24. Because of the varying types of arrangements, some indicators may be more significant than others based on the facts and circumstances of an individual agreement. In addition, the Board decided to emphasize the guidance in paragraph 958-605-25-5D, which states that “in cases of ambiguous donor stipulations, a contribution containing stipulations that are not clearly unconditional shall be presumed to be a conditional contribution.”

Measurable performance-related barriers or other measurable barriers

BC25. The Board decided that in the presence of a right of return of assets transferred or a right of release of the promisor’s obligation, most donor stipulations that require a recipient to achieve measurable performance levels or goals (in terms of outputs or outcomes) indicate conditions (barriers that need to be met by a recipient to be entitled to the assets). In addition, there can be other measurable barriers that do not require performance (such as a stipulation that the recipient will not be entitled to assets unless a certain event occurs or a stipulation that depends on the net worth of the resource provider). In contrast, even in the presence of a right of return or a right of release of the promisor’s obligation, most stipulations that simply state the assets are for the recipient’s broad activities without imposing performance targets or measurable stipulations indicate unconditional, restricted contributions. The concept is that an entity would be able to determine and measure what the condition is that must be satisfied.

BC26. Some examples of measurable performance-related barriers or other barriers could include a specified level of service, a specific outcome, and matching requirements.

Stipulations related to the purpose of the agreement

BC27. The Board decided that the term *remote* as used in current guidance originally was not intended to require a probability assessment of the likelihood of a condition not being met. Instead, it was intended to be applied to stipulations unrelated to the purpose of the agreement and to prevent makers and recipients of grants and similar contracts from avoiding expense and revenue recognition by including trivial or administrative conditions in agreements. For example,

producing an annual report is a common requirement for grant agreements; however, it typically is unrelated to the underlying purpose of the grant. Generally, an annual report is intended to provide the resource provider with information to confirm that the transferred assets were spent or used in accordance with the agreement's purpose and could be deemed an administrative requirement. If administrative tasks that are unrelated to the purpose of the agreement are required, there often could be other requirements that would better indicate a barrier (for example, a specific event or an activity to occur). The Board decided that this indicator could be helpful in the context of considering the agreement collectively with the other indicators.

BC28. However, the Board is aware of diversity in practice related to assessing whether and how the term *remote* is applied to determine the conditionality of contributions. Accordingly, the Board decided to remove the term *remote* as used in the current guidance and instead to provide an indicator to determine what a barrier is. This would place less emphasis on determining whether something is remote and would allow only barriers to delay revenue recognition.

Limited discretion by the recipient

BC29. The Board concluded that using limited discretion as an indicator could prevent the unintended consequence of an agreement being deemed conditional in which the only requirement is that the transferred assets be used for broad purposes (for example, next year's operating budget). The Board decided that limited discretion by the recipient should be an indicator because it would encourage the use of judgment on the basis of an assessment of the facts and circumstances of an agreement. For example, a resource provider could indicate that a grant should be used for broad organizational support, which, if this were the only requirement in the agreement, would indicate an unconditional contribution.

BC30. It is possible that some agreements that do not contain any barriers could contain a right of return of transferred assets or a right of release of the promisor's obligation. For example, some foundations include a right of return or a right of release of the promisor's obligation as standard wording but do not include barriers in the agreement. The indicator about limited discretion is intended to provide for a continuation of this practice for those agreements in which both a recipient has broad discretion on how to use the assets and no other requirements indicate that a barrier exists. The Board decided that the substance of those transactions is an unconditional grant and, therefore, should not be recognized as conditional simply because a right of return or a right of release of the promisor's obligation exists.

Additional actions

BC31. The Board created an indicator that would be based on whether the recipient needs to perform an additional action or actions to use the transferred assets to address situations in which a resource provider could donate assets that require the recipient to engage in a new or a significantly increased level of activity for the assets to be spent. This indicator is based on whether the barrier is one for which the recipient will need to take additional actions for either a new activity or an existing activity. If a resource provider's stipulation results in a recipient having to perform additional actions, endeavors, or goals in addition to the activities that the recipient would otherwise pursue, the agreement would be more indicative of a condition. The necessary additional actions could create a barrier that must be overcome for the recipient to become entitled to the assets.

BC32. As indicated to the Board during outreach with stakeholders, in the rare instances in which a resource provider could provide a significant amount of assets that exceeds the amount requested, there typically would be additional stipulations in the agreement that could better indicate a condition. If additional activity is required by the recipient, the agreement also is often coupled with measurable barriers. Thus, the Board decided that while an indicator about additional actions is not an indicator that would exist in many arrangements (and not likely to exist without other indicators being present), it would be helpful in limited instances to determine whether an agreement contains a condition.

BC33. The Board decided to include the additional actions indicator because it could be another factor for stakeholders to review when determining whether the agreement contains a barrier based on the individual facts and circumstances of the agreement. Thus, the recipient should consider all the indicators when making a distinction about whether an agreement contains a barrier.

Qualifying Expenses

BC34. Many agreements require assets to be used in a specified manner (for example, in compliance with principles issued by the Office of Management and Budget). These grants often are paid on a cost-reimbursement basis; that is, based on a recipient incurring specific qualifying expenses. Consistent with current guidance, the Board decided that incurring specific qualifying expenses may be a barrier that must be overcome for a recipient to be entitled to the assets. The requirement that a recipient must follow specific guidelines about qualifying expenses results in the recipient having limited discretion over how to spend the assets. Qualifying expenses also could be viewed as a measurable barrier because the spending of the assets on specific items would need to be overcome to be entitled to the assets.

Right of Return or a Right of Release of the Promisor's Obligation to Transfer Assets

BC35. The Board decided to retain the guidance on a return of assets transferred or a right of release of the promisor from its obligation to transfer assets, which is included in the current definition of the term *donor-imposed condition*. A right of return of transferred assets or a right of release of the promisor's obligation typically indicates that the recipient is not entitled to the assets until a specified barrier is overcome. However, a right of return or a right of release of the promisor's obligation is not a sufficiently determinative factor in the absence of a barrier, which, if not overcome, could trigger the right of return or right of release of the promisor's obligation. Therefore, to be considered conditional, a transaction should include both a barrier *and* a right of return or a right of release of the promisor's obligation.

BC36. The Board decided that the agreement (or another document referenced in the agreement) must include either a right of return of transferred assets or a release of the promisor from its obligation to meet the definition of a donor-imposed condition. An agreement would not need to include the specific phrase *right of return or release from obligation*; however, the agreement should be sufficiently clear to be able to support a reasonable conclusion about when a recipient would be entitled to the transferred assets. Resource providers generally only have legal standing to enforce a right of return or a release from obligation when such a clause is included in the agreement or if the resource provider is supported by a state's attorney general.

BC37. The Board considered but rejected an alternative that would have limited the guidance to *legally enforceable* rights of return or rights of release of obligation. Including a legal requirement would have been inconsistent with the Board's original intent in Statement 116 and the current guidance, which indicates that the definition of the Master Glossary term *promise to give* generally includes a legal obligation, but does not require it. In addition, requiring legal enforceability would have resulted in additional complexity to the amendments in this proposed Update and diversity in practice because of the varying differences in laws among jurisdictions.

Accounting from the Resource Provider's Perspective

BC38. The Board considered an alternative whereby a resource provider would consider whether, in the event the recipient fails to fulfill the agreement's objectives, it intends to enforce its right of return of transferred assets or right of release from obligation. The Board rejected that alternative. The Board's original intent in Statement 116 was to have consistent guidance from the perspective of both the maker and the recipient of a contribution, which also would provide symmetry in the accounting. The current guidance provides the same

requirements for a recipient and a resource provider about determining whether a contribution is conditional. Therefore, the Board decided that a deviation would be beyond the scope of this project. Any amendments the Board makes to the guidance on determining whether a contribution is conditional for a recipient would be consequentially amended to clarify that it also would apply to resource providers. The Board decided that its conclusion that both a barrier *and* a right of return or a right of release of the promisor's obligation must be present for a contribution to be conditional would be equally applicable for both resource providers and recipients and would be in line with the existing definition of the term *donor-imposed condition*.

Recurring Disclosures

BC39. The Board decided not to require recipients to provide any additional recurring disclosures. Generally, the existing disclosure requirements provide users with sufficient information and are consistent with the amendments in this proposed Update. Stakeholders also agreed that no additional disclosures should be required.

BC40. For resource providers, the guidance in Topic 958 includes a cross-reference to the disclosures in Topic 450, Contingencies, and in Topic 470, Debt. Resource providers also are required to provide information about unconditional promises to give. The Board decided that no additional disclosures should be required because the current disclosure requirements provide valuable information and are sufficient for users.

Transition and Transition Disclosures

BC41. The Board decided that the amendments in this proposed Update would be applied on a modified prospective basis in the first set of financial statements following the effective date to agreements that are either:

- a. Not completed as of the effective date
- b. Entered into after the effective date.

BC42. The amendments in this proposed Update would apply to revenue (of a recipient) or expense (of a resource provider) not yet recognized before the effective date in accordance with current guidance (for example, Topic 958, Topic 605, or other Topics). An agreement for which all the revenue (of a recipient) or expense (of a resource provider) has been recognized before the effective date is considered completed. Thus, the proposed amendments would apply to revenue (of a recipient) or expense (of a resource provider) remaining to be recognized on agreements that are not completed as of the beginning of the period of adoption. No prior-period results would be restated, and there would be no cumulative-effect

adjustment to opening net assets or retained earnings at the beginning of the year of adoption.

BC43. The Board concluded that the cost of full retrospective application would outweigh the benefits and that the proposed modified prospective transition method would provide comparable information in current periods and future periods. Nevertheless, the Board decided to allow an option to apply retrospective application by an entity choosing to do so.

BC44. The Board discussed whether full prospective application would be more cost beneficial than the proposed modified prospective application. In the Board's view, full prospective application would potentially result in less comparable information over several annual or interim periods. It also would leave the accounting for ongoing grants and contracts unresolved following the elimination of guidance in Subtopic 958-605 as a result of the amendments in Update 2014-09. Consequently, the Board would be required to retain the existing guidance for revenue arising from ongoing exchange transactions, which may cause confusion in practice. In addition, full prospective application would require entities to assess whether existing agreements are modified after the effective date. Thus, the Board concluded that the proposed modified prospective transition application would provide greater short-term comparability while reducing cost and complexity.

BC45. The Board decided to require qualitative transition disclosure, including the nature of and reason for the accounting change, as well as an explanation of the reasons for significant changes between reported results under the amendments in this proposed Update and those under current guidance. Qualitative disclosure about the effects of the proposed amendments on the prior period could provide cost-beneficial information to users.

Effective Date and Early Adoption

BC46. The amendments in this proposed Update could affect whether agreements are accounted for under Topic 606. Topic 606 is not yet effective, and, accordingly, the Board proposed to align the effective date of the proposed amendments with Topic 606. However, early adoption of the proposed amendments would be permitted irrespective of early adoption of Topic 606. The Board decided to allow early adoption so preparers would have an opportunity to apply the clarified guidance in the proposed amendments, which should reduce diversity in practice and yield more decision-useful information for users.

Amendments to the XBRL Taxonomy

The provisions of this Exposure Draft, if finalized as proposed, would require changes to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). We welcome comments on these proposed changes to the Taxonomy through [ASU Taxonomy Changes](#) provided at www.fasb.org. After the FASB has completed its deliberations and issued a final Accounting Standards Update, proposed amendments to the Taxonomy will be made available for public comment at www.fasb.org and finalized as part of the annual release process.