CPA Practice Advisor

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To nonaccountants the difference between a "restriction" versus a "condition" on a donation to a charity may not sound like that big of a deal. But in U.S. GAAP, the difference determines when an organization can record the revenue from the contribution. The FASB is trying to clarify the distinction so charities, museums, colleges, and other organizations have an easier time applying the board's landmark standard for recognizing revenue.

Individuals, companies, and foundations that donate money to a charity and earmark it for a specific program or scholarship are making restricted or conditional contributions, according to U.S. GAAP.

But differentiating between a restriction and a condition for accounting purposes is

"This is an area where there's already a great deal of judgment out there in practice", Mechanick said. "We're trying to give better guidance to provide the framework for making that judgment."

The Not-for-Profit Advisory Committee consists of universities, charities, foundations, and watchdog groups, and they had varying degrees of comfort with the plan the FASB is drawing up. The board has tentatively decided that for a donor-imposed condition to exist, a right of return — the ability for the donor to ask for his or her money back — must exist, and the agreement must include a "barrier". The FASB has a draft list of indicators to describe the barriers. If a not-for-profit group must perform a measurable task, such as erecting a building or creating a scholarship, the organization has limited discretion about how the money can be spent.

To some members of the group, the existence of a right-of-return agreement should not be required to meet the definition of a donor-imposed condition.

Andrew Prather, a shareholder at Clark Nuber P.S., a CPA and consulting firm, said a right-of-return should be a strong indicator versus a requirement. Others said a right-of-return typically was not a legally enforceable agreement. Most gifts are received with the idea that if an organization does not follow through on the terms of the gift, the donor has the right to get its money back.

Mary Connick, senior vice president, finance and corporate controller for Dignity Health, said organizations felt a moral obligation to use funds as intended, regardless of whether there was a written agreement or other formal document stipulating that money could be returned.

"Recipients intend to follow donors' requests or make other arrangements, not just pocket it and run along", Connick said.

Without a right-of-return stipulation, however, FASB member Christine Botosan

between conditions and restrictions, the accounting board wants to clarify whether to characterize grants and other contracts with government agencies or foundations as exchanges or contributions.

Distinguishing between exchanges, which are often called reciprocal transactions, and contributions, which are called nonreciprocal transactions, is sometimes a difficult task for not-for-profits receiving funds, goods, and services. For example, if a government agency grants money to a group to conduct cancer research, it could be interpreted as a reciprocal transaction — a purchase, essentially, of the organization's research services — or as a contribution to provide financial support for a worthy cause.

The difference is important because contributions must follow Subtopic 958-605, *Not-for-Profit Entities—Revenue Recognition*, while exchanges must follow the revenue standard, which was published in May 2014 as Accounting Standard Update (ASU) No. 2014-09, *Revenue From Contracts With Customers (Topic 606)*. The guidance from ASU No. 2014-09 goes into effect for not-for-profit organizations in 2018.

The FASB hopes to issue a proposal by midyear.

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