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organizations and funders classified grants and contracts from federal, state and local governments and other funding sources such as foundations in the financial ...

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The FASB clarifies longstanding question for nonprofits

Nonprofits have finally received long-awaited clarification on a key accounting question from the Financial Accounting Standards Board (FASB). The FASB released a final accounting standards update (ASU), *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU aims to standardize how grants and other contracts are classified across the sector, as either an exchange transaction or a contribution.

[This article first appeared on BDO's Nonprofit Standard blog. You can access the original here.](#)

What does this new guidance change for nonprofit organizations, stakeholders, and donors?

The latest guidance from the FASB arrives at a time when nonprofit chief financial officers (CFOs), controllers, and other key financial players are facing a fast-approaching deadline to implement new revenue recognition requirements (Topic 606). The revenue standard aims to improve accounting for contracts with customers, but it also introduces a layer of complexity and challenge to nonprofits of every size. The newly released second edition of *Nonprofit Standards*, BDO's benchmarking survey, offers a glimpse of the administrative burden regulatory changes place on nonprofits: 45 percent of organizations say the time and effort required to deal with regulatory and legislative changes pose a moderate- or high-level challenge.

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scope and need to be accounted for following the new revenue recognition requirements.

In a recent BDO [webinar](#), my colleagues and I discuss that classifying grants as either a contribution or exchange transaction is the first step in implementing revenue recognition. The clarified guidance aims to help nonprofits complete that first step in a consistent way across the sector.

Practical Example: How to evaluate a grant under the new guidance

Description of ‘Nonprofit A’: A large research association that specializes in space exploration. Their mission is advancing scientific discoveries and supporting the advancement of new technology. The organization receives funding from various individuals, corporations, and governments to support its efforts.

Description of the grant: Nonprofit A received a \$15 million grant from the federal government to finance the costs of a research initiative to test the effectiveness of newly developed technology.

How should Nonprofit A classify the \$15 million grant?

This grant could be classified as either an exchange transaction or a contribution, depending on the exact parameters of the funding. Let’s examine both scenarios:

	Classify the grant as an exchange transaction if:	Classify the grant as a contribution if:
Specific provisions of the grant	The resources are paid by the federal government as the work is incurred (cost reimbursement) and request	Nonprofit A makes all decisions about research protocol, material the technology is made of, and the type and duration of testing

for payment is submitted. that must take place.

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requires a detailed report on the test outcome within two months of its conclusion and any intellectual property (IP) as a result of the grant belongs to the federal government.

Deciding factor: Reason for classifying the grant as an exchange transaction or contribution

This example would be an exchange transaction because of how prescriptive the grant is, and because the government owns the IP. Therefore, in this case **the federal government is receiving something of commensurate value.**

In this scenario, the transaction would be considered a contribution because there is **no commensurate value being exchanged.**

Even though Nonprofit A is expected to produce a report, the FASB does not consider this an equal exchange of value. The ASU deems filing this type of specified report to be administrative in nature and not a performance standard.

Is the grant subject to the new revenue

Yes. All exchange transactions are subject to revenue recognition.

No. The above scenario is a conditional contribution, which is not subject to revenue recognition. The condition is

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key to determining when the contribution can be recognized as revenue. The first consideration is whether the grant agreement has a right-of-return requirement in which grantee must return to the promisor (grantor) assets transferred as part of the agreement or a right to release of the promisor from its obligation to transfer assets. The scenario in the above does not meet any of these requirements.

Additionally, the ASU has provided the following indicators that could create a barrier and make the grant conditional:

- The inclusion of a measurable performance-related barrier or other measurable barrier
- Whether a stipulation is related to the purpose of the agreement

- The extent to which a

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- other funding entities will need to assess how they are accounting for contributions. College, universities, research institutions, and social services organizations that rely heavily grants and contracts could see the greatest impact.
- **Grantors:** Non-governmental organizations like public and private foundations, as well as for-profit entities that issue grants to nonprofits, will need to think about how they write their grants and contracts.

What organizations will not experience a significant impact?

- **Public charities:** As organizations that derive the bulk of their funding from individual contributions, they will be less impacted by this guidance.
- **Local, state, and federal governments:** Nonprofits will still need to assess how they classify federal and state funding, but governmental bodies are not within the FASB's scope and do not need to comply with this guidance. Governments are subject to standards issued by the Governmental Accounting Standards Board (GASB).

What's next for nonprofits?

Accounting changes are like a relay race. Today, the FASB handed off clarified guidance on accounting for contributions and answered a longstanding question for the sector. And now it's up to nonprofits to apply it to their own books, run the rest of the race to implement revenue recognition, and finish strong.

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Lee Klumpp, CPA, CGMA is the National Assurance Partner – Nonprofit & Government for BDO and has been with the firm for over a decade. He serves as a resource to BDO's Institute for Nonprofit ExcellenceSM, providing information about the current issues that the FASB is dealing with, as well as timely updates on Accounting Standards as they are released.

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