FINANCIAL ACCOUNTING SERIES

ACCOUNTING STANDARDS UPDATE

No. 2018-08
June 2018

Not-for-Profit Entities (Topic 958)

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

An Amendment of the *FASB Accounting Standards Codification®*

Financial Accounting Standards Board

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CONTENTS

Page Numbers

Summary

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

The FASB is issuing this Update to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this Update should 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) determining whether a contribution is conditional.

Many stakeholders noted difficulty in characterizing grants and similar contracts with resource providers as either exchange transactions or contributions and in determining whether a contribution is conditional 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 longstanding; 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 that was previously contained 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 noted that it can be difficult in practice to determine when a contribution is conditional, particularly when an entity receives assets accompanied by certain stipulations but with no specified return requirement 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, which affects the timing of the revenue recognized. Contributions are recognized immediately and classified as either net assets with donor restrictions or net assets without donor 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 Is Affected by the Amendments in This 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 Update 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 amendments do not apply to transfers of assets from government entities to business entities.

Contribution revenue may be presented in the financial statements of an entity using different terms (for example, gift, grant, donation, or other terms). The term used in the presentation of financial statements to label revenue is not a factor for determining whether an agreement is within the scope of the guidance.

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

The amendments in this Update clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. The amendments 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 foundation, a government agency, or other) is not synonymous with the general public. A 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 provider's mission or the positive sentiment from acting as a donor does 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 Update 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) applies.

The amendments in this Update 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 barrier(s) 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 are 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 is determinative. The indicators include:

1. The inclusion of a measurable performance-related barrier or other measurable barrier. Examples of measurable performance-related barriers include a requirement that indicates that a recipient’s entitlement to transferred assets is contingent upon the achievement of a certain level of service, an identified number of units of output, or a specific outcome. An example of another measurable barrier is a stipulation that the recipient is entitled to the assets only upon the occurrence of an identified event (for example, a matching requirement).
2. The extent to which a stipulation limits discretion by the recipient on the conduct of an activity. Limited discretion by the recipient is more specific than the general activity being conducted by the recipient or the time frame in which the contribution must be used. Examples of limited discretion could include a requirement to follow specific guidelines about qualifying allowable expenses, a requirement to hire specific individuals as part of the workforce conducting the activity, or a specific protocol that must be adhered to.
3. Whether a stipulation is related to the purpose of the agreement. This indicator generally excludes administrative tasks and trivial stipulations.

The amendments in this Update 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 amendments provide additional guidance about how to determine whether a contribution is conditional. Stakeholders 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 amendments provide for additional clarifying guidance for the evaluation of such arrangements, resulting in greater consistency in application of the guidance, and make the accounting for contributions more operable.

The amendments in this Update likely will result in more grants and contracts being accounted for as either contributions or conditional contributions than observed in practice under current guidance. For this reason, clarifying the guidance about whether a contribution is conditional is important because such classification affects the timing of contribution revenue and expense recognition. Recipients of conditional promises to give are required to comply with current disclosure requirements in paragraph 958-310-50-4.

The amendments in this Update amend, for recipients, what is generally known as the simultaneous release accounting policy option in paragraphs 958-605-45-4A through 45-4B. Specifically, the amendments allow an NFP to elect that policy option for donor-restricted contributions that were initially conditional contributions without also having to elect the policy for other donor-restricted contributions.

The amendments in this Update apply to both resources received by a recipient and resources given by a resource provider, except for transfers of assets from government entities to business entities.

When Will the Amendments Be Effective?

The amendments in this Update should be applied on a modified prospective basis. Retrospective application is permitted. Under a modified prospective basis, in the first set of financial statements following the effective date the amendments should be applied 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 Update should 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 should be restated, and there should 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 is 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 amendments instead of the previous guidance.

For transactions in which an entity is either a public business entity or 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 and serves as a resource recipient, the entity should apply the amendments in this Update on contributions received to annual periods beginning after June 15, 2018, including interim periods within those annual periods. All other entities should apply the amendments for transactions in which the entity serves as the resource recipient to annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019.

For transactions in which an entity is either a public business entity or 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 and serves as a resource provider, the entity should apply the amendments in this Update on contributions made to annual periods beginning after December 15, 2018, including interim periods within those annual periods. All other entities should apply the amendments for transactions in which the entity serves as the resource provider to annual periods beginning after December 15, 2019, and interim periods within annual periods beginning after December 15, 2020.

Early adoption of the amendments is permitted.

Amendments to the *FASB Accounting Standards Codification®*

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–37. 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:

Conditional Promise to Give

A promise to give that is subject to a **donor-imposed condition**~~depends on the occurrence of a specified future and uncertain event to bind the promisor~~.

Contribution

An unconditional transfer of cash or other assets, as well as **unconditional promises to give,** to an entity or a reduction, settlement,~~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~~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 benefit although that benefit is not considered to be of commensurate value~~is incidental to potential public benefits~~. In an exchange transaction, the potential public benefits are secondary to the potential ~~proprietary~~direct 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** and **Conditional 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~~contributor a right of return of the assets it has transferred or ~~releases~~gives 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.

3. Add the new Master Glossary term *Conditional Contribution*, with a link to transition paragraph 958-10-65-2, as follows:

Conditional Contribution

A contribution that contains a **donor-imposed condition**.

Amendments to Subtopic 958-605

4. Add paragraphs 958-605-15-2A, 958-605-15-5A, 958-605-15-7A, 958-605-25-2A, 958-605-25-5A through 25-5F and the related heading, and 958-605-45-4A through 45-4B and their related heading, amend paragraphs 958-605-15-4 through 15-6, 958-605-25-1 through 25-2, 958-605-25-11, 958-605-25-13, and 958-605-45-4, and supersede paragraphs 958-605-25-12 and 958-605-25-14, with a link to transition paragraph 958-10-65-2, as follows:

Not-for-Profit Entities—Revenue Recognition—Contributions

Scope and Scope Exceptions

General

> Overall Guidance

958-605-15-1 This Subtopic follows the same Scope and Scope Exceptions as outlined in the Overall Subtopic, see Section 958-10-15.

958-605-15-2 The General Subsection of this Section establishes the pervasive scope for this Subtopic, with specific exceptions noted in the other Subsections of this Section.

958-605-15-2A A business entity shall consider the guidance in this Subtopic when determining whether a transaction is a **contribution** within the scope of this Subtopic. Additionally, paragraphs 958-605-55-4 through 55-7 and 958-605-55-13A through 55-14I apply to all resource providers, including business entities that act as resource providers.

Contributions Received

> Entities

958-605-15-4 Accounting for **contributions** is an issue primarily for **not-for-profit entities** (NFPs) because contributions received 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**, or a reduction, settlement, or cancellation of liabilities.

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 foundation, a corporation, or other entity) receives commensurate value in return for the resources transferred or a contribution, the type of resource provider shall not factor into the determination and 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 foundation, a government agency, a corporation, or other entity) is not synonymous with the general public. A 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 indirect 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 or 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 or services already provided and the return of the unspent amount, the transaction is generally indicative of a contribution. The existence of contractual provisions for economic forfeiture beyond the amount of assets transferred by the resource provider to penalize the recipient for nonperformance generally indicates that the transaction is an exchange of commensurate value.

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~~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) to the underlying transaction with the customer, and the payments from the third parties would be payments on behalf of those customers.

958-605-15-7A Contribution revenue within the scope of this Subtopic can be presented in the financial statements of an entity using different terms (for example, gift, grant, donation, or other terms). While some of those terms are generally not used in this guidance, the term used in the presentation of financial statements to label revenue that is accounted for within the scope of this Subtopic is not a factor in determining whether an agreement is within the scope of this Subtopic.

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~~25-19 (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 made or received, respectively, or if conditional, when the barrier is overcome~~upon occurrence of the underlying event—the **nonreciprocal transfer** of an economic benefit~~. The definition of a contribution encompasses both a transfer of cash or other assets to an entity and a reduction, settlement, or cancellation of its liabilities.

958-605-25-2A After a contribution has been deemed not to contain a **donor-imposed condition** (see paragraphs 958-605-25-5A through 25-5F), an entity shall consider whether the contribution includes 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 both:

a. One or more barriers that must be overcome before a recipient is entitled to the assets transferred or promised
b. A right of return to the contributor for assets transferred (or for a reduction, settlement, or cancellation of liabilities) or a right of release of the promisor from its obligation to transfer assets (or reduce, settle, or cancel liabilities).

958-605-25-5B For a donor-imposed condition to exist, 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 a contribution without donor-imposed conditions.

> Barrier

958-605-25-5C An entity must evaluate the facts and circumstances of an agreement to determine whether a stipulation represents a barrier that must be overcome before the recipient is entitled to the assets transferred or promised. A barrier often places specific requirements on an organization about the use of the transferred assets to be entitled to those assets. A probability assessment about whether the recipient is likely to meet the stipulation is not a factor when determining whether an agreement contains a barrier. In cases of ambiguous donor stipulations, see paragraph 958-605-25-5E.

958-605-25-5D 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 55-70T for implementation guidance and illustrative examples on determining whether a contribution is conditional.

Indicates a Barrier	
Measurable Performance-Related Barrier or Other Measurable Barrier	The agreement includes a measurable performance-related barrier or other measurable barrier. 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). Examples of measurable performance-related barriers include a requirement that indicates that a recipient's entitlement to transferred assets is contingent upon the achievement of any of the following: a. A specified level of service b. An identified number of units of output c. A specific outcome. Other measurable barriers stipulate that a recipient is entitled to the resources if an identified event occurs (for example, a matching requirement).
Limited Discretion by the Recipient on the Conduct of an Activity	The recipient has limited discretion over the manner in which an activity can be conducted. Limited discretion of the recipient is more specific than a donor-imposed restriction. Restrictions limit the

Indicates a Barrier (continued)	
	use of a contribution to a specific activity or time but do not necessarily place limitations on how the activity is performed. Examples of limited discretion could include a requirement to follow specific guidelines about incurring qualifying expenses, a requirement to hire specific individuals as part of the workforce conducting the activity (such as the hiring of specified employees or an identified professor at a university), and a specific protocol that must be adhered to.
Stipulations That Are Related to the Purpose of the Agreement	The stipulations are related to the purpose of the agreement. Examples could include a requirement for (a) a homeless shelter to provide a specified number of meals to the homeless (also an example of a measurable performance-related barrier), (b) an animal shelter to expand its facility to accommodate a specified number of additional animals, and (c) a research report that summarizes the findings from a grant on gluten-related allergies. A stipulation that is unrelated to the purpose of the agreement (for example, administrative and trivial stipulations) is not indicative of a barrier. Administrative and trivial stipulations could include routine reporting such as a requirement to

Indicates a Barrier (continued)	
	provide (a) an annual report or (b) a report that summarizes the recipient's performance to demonstrate the underlying actions that were taken to meet the barrier(s) specified in the agreement. For example, a report that indicates the number of meals that a homeless shelter provided to the homeless is typically not a stipulation that would contribute to achieving the purpose of the agreement. Rather, the action of providing a specified number of meals to the homeless would meet the stipulation that is required by a recipient to achieve the purpose of the agreement.

958-605-25-5E 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. One or more barriers exist
b. ~~the~~The right to receive or retain payment or delivery of the promised assets depends on meeting those ~~stipulations~~barriers.

~~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**~~conditional promise~~. **[Content amended as shown and moved from paragraph 958-605-25-14]**

958-605-25-5F A transfer of assets that is a conditional contribution~~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 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.~~ **[Content amended as shown and moved from paragraph 958-605-25-13]**

> Promises to Give

> > Conditional Promise to Give

958-605-25-11 {add glossary link}Conditional promises to give**{add glossary link}**, which ~~depend on the occurrence of a specified future and uncertain event to bind the promisor~~contain donor-imposed conditions that represent a barrier that must be overcome as well as a right of release from obligation, shall be recognized when the condition or 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~~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. 2018-08.~~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 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.~~ **[Content amended and moved to paragraph 958-605-25-5F]** A transfer of assets after a conditional promise to give is made and before the conditions are met is the same as a transfer of assets that is a conditional contribution (see paragraph 958-605-25-5F)~~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. 2018-08.~~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.~~ **[Content amended and moved to paragraph 958-605-25-5E]**

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.

Other Presentation Matters

Contributions Received

958-605-45-4 A restriction on an NFP's use of the assets contributed results either from a donor's explicit **stipulation** or from circumstances surrounding the receipt of the contribution that make clear the donor's implicit restriction on use. ~~Donor-restricted contributions whose restrictions are met in the same reporting period may be reported as support within net assets without donor restrictions provided that an NFP has a similar policy for reporting investment gains and income (see paragraph 958-220-45-24), reports consistently from period to period, and discloses its accounting policy.~~ **[Content amended and moved to paragraph 958-605-45-4A]**

> Simultaneous Release Option

958-605-45-4A An NFP may elect a policy to report donor-restricted~~Donor-restricted~~ contributions whose restrictions are met in the same reporting period as the revenue is recognized~~may be reported~~ as support within net assets without donor restrictions provided that ~~an~~the NFP has a similar policy for reporting investment gains and income (see paragraph 958-220-45-24), reports consistently from period to period, and discloses its accounting policy. **[Content amended as shown and moved from paragraph 958-605-45-4]**

958-605-45-4B An NFP may elect the policy described in paragraph 958-605-45-4A for donor-restricted contributions that were initially **conditional contributions** (the condition has been met) without also having to elect it for other donor-restricted contributions or investment gains and income provided that the NFP reports consistently from period to period and discloses its accounting policy.

5. Add paragraphs 958-605-55-1A, 958-605-55-3A, 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 55-70T and their related headings, amend paragraphs 958-605-55-2A, 958-605-55-4, 958-605-55-7, 958-605-55-14 and its related heading, 958-605-55-15 through 55-17, 958-605-55-21, and 958-605-55-51, and supersede paragraphs 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:

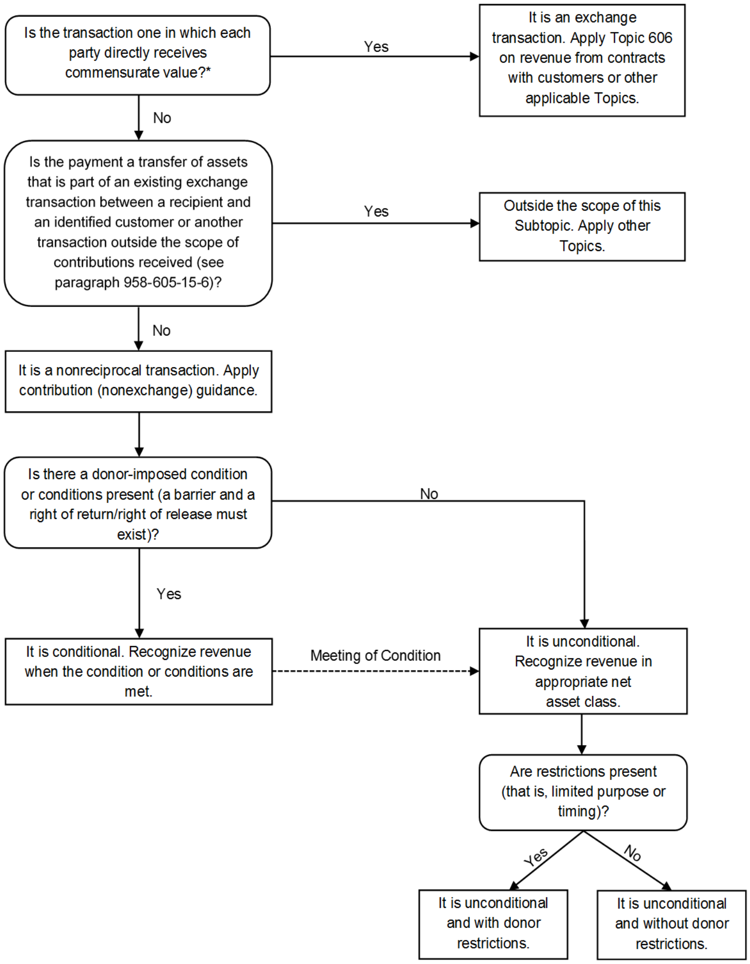
Implementation Guidance and Illustrations

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, an exchange transaction, or another type of transaction and whether a contribution is conditional. The diagram also illustrates whether there is an associated donor restriction with a 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~~958-605-55-3A through 55-7~~55-8~~)
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. 2018-08.~~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.~~

958-605-55-3A The guidance in this Subtopic about distinguishing between contributions and exchange transactions applies to both a resource provider (for example, a corporate foundation, a corporation, or a **not-for-profit entity** [NFP]) and a recipient.

958-605-55-4 Foundations, business entities, and other types of entities may provide resources to ~~not-for-profit entities (NFPs)~~NFPs or business entities under programs referred to as grants, awards, or sponsorships. Those asset transfers are contributions if the resource providers do not receive commensurate~~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 an~~a~~ ~~**not-for-profit entity**~~ ~~(NFP)~~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 958-220-55-11 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 ~~1 (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. 2018-08.~~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.~~

~~Indicator~~	~~Contribution~~	~~Exchange Transaction~~
~~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

<u>> > Distinguishing Contributions from Exchange Transactions</u>

<u>**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</u>

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 these Examples about distinguishing between contributions and exchange transactions applies to both a resource provider (for example, 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. Additionally, the rights to the results of the study belong to the pharmaceutical entity.~~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 L is enrolled at University A. Student L's total tuition charged for the semester is $30,000. Student L 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 L, not to University A. University A entered into an exchange transaction with Student L 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 L is an identified customer of University A who is receiving the benefit from the grant transaction. See paragraph 958-605-15-6(e).

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

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

958-605-55-14E Medicare is a form of insurance. Hospital B has a contract with a customer (Patient R) 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 Patient R's 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 R). See paragraph 958-605-15-6(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(c).

> > > 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 qualifying 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 under 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 either the contributor a right of return of the assets it has transferred or the promisor 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~~affect whether the recipient is entitled to the contribution.

958-605-55-16 If donor stipulations do not clearly state whether the right to receive or retain 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 those 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

958-605-55-17A A donor-imposed condition must have both:

a. One or more barriers that must be overcome before a recipient is entitled to the assets transferred or promised.
b. A right of return to the contributor for assets transferred (or for a reduction, settlement, or cancellation of liabilities) or a right of release of the promisor from its obligation to transfer assets (or to reduce, settle, or cancel liabilities).

See paragraphs 958-605-55-70A through 55-70T for examples.

958-605-55-17B It is possible that some agreements that do not contain any barriers 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 clause in their agreements as a matter of policy and standard wording but impose no barriers that must be achieved before a recipient is entitled to the resources. The resources would be considered unconditional, and revenue would be recognized immediately.

958-605-55-17C Some agreements include multiple requirements that must be overcome before an entity is entitled to transferred assets or a future transfer of assets. An entity must consider facts and circumstances and use judgment to determine which stipulations, if any, of an agreement are deemed to be a barrier or barriers that must be achieved before an entity is entitled to assets.

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

958-605-55-17D As described in paragraph 958-605-25-5D, 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, 1,000 meals per week for a soup kitchen). The barrier that must be overcome before the recipient is entitled to the resources is the specified level of service that must be achieved.
b. Specific output or outcome. An entity is given assets, entitlement to which is 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, and 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. Agreements may include requirements that are imposed on, and would need to be overcome by, other parties, including the resource provider. 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 the resource provider's net worth reaches a specified level).

> > > Limited Discretion by the Recipient on the Conduct of an Activity

958-605-55-17E As described in paragraph 958-605-25-5D, limited discretion may be indicative of a donor-imposed condition. Limited discretion of the recipient on the conduct of an activity is more specific than a donor-imposed restriction. Restrictions limit the use of a contribution to a specific activity or time but do not necessarily place limitations on how the activity is performed. This indicator focuses on limitations concerning specific requirements about how an activity must be conducted for a recipient to be entitled to the resources. For example, an agreement might specify that the recipient should incur qualifying expenses in compliance with established rules and regulations. This is in contrast to a restriction, which typically places limits only on a specific activity that is being funded and does not affect the extent to which a recipient is entitled to the resources (for example, a requirement that a contribution be used to fund one of an organization's programs).

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

958-605-55-17F 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 that must be overcome before the recipient is entitled to the resources (for example, a specific event or activity to occur). Producing an annual report is a common requirement in contribution agreements; however, the annual report typically is not related to the underlying purpose of the agreement. Generally, a report is administrative in nature and 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 is not intended to affect the extent to which the recipient is entitled to the contribution.

> > 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 **{add glossary link} contributions {add glossary link}** ~~shall~~should be recognized as revenue as each of those stages is met.

> Illustrations

> > Example 6: Contribution of an Interest in an Estate

958-605-55-49 This Example illustrates the application of the recognition and measurement principles of paragraphs 958-605-25-2 and 958-605-30-2.

958-605-55-50 In 19X0, Individual notifies Church F that she has remembered the church in her will and provides a written copy of the will. In 19X5, Individual dies. In 19X6, Individual's last will and testament enters probate and the probate court declares the will valid. The executor informs Church F that the will has been declared valid and that it will receive 10 percent of Individual's estate, after satisfying the estate's liabilities and certain specific bequests. The executor provides an estimate of the estate's assets and liabilities and the expected amount and time for payment of Church F's interest in the estate.

958-605-55-51 The 19X0 communication between Individual and Church F specified an intention to give. The ability to modify a will at any time prior to death is well established; thus in 19X0 Church F did not receive a promise to give and did not recognize a contribution received. When the probate court declares the will valid, Church F would recognize a receivable and revenue for an unconditional promise to give at the fair value of its interest in the estate (see paragraphs 958-310-35-6, 958-605-30-5, and 958-605-30-6). If the promise to give contained in the valid will was instead conditional based on a barrier that must be overcome for Church F to be entitled to the assets~~conditioned on a future and uncertain event~~, Church F would recognize the contribution when the condition was substantially met. A conditional promise in a valid will would be disclosed in notes to financial statements (see paragraph 958-310-50-4).

> > Determining Whether a Contribution Is Conditional

958-605-55-70A Examples 13 through 21 (paragraphs 958-605-55-70C through 55-70T) illustrate how an entity might apply certain aspects of the guidance in this Subtopic in determining whether a contribution is conditional (all fact patterns are considered to be contributions or conditional 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). Some examples are presented from the perspective of a resource provider (for example, an individual, a business corporation, a foundation, or an other NFP), and other examples are presented from the perspective of a resource recipient. The guidance in this Subtopic on determining whether a contribution is conditional applies to both contributions made by a resource provider and contributions received by a recipient.

> > > Qualifying Expenses

958-605-55-70B Many agreements include a requirement that assets must be used for allowable and reasonable qualifying expenses (or costs) that are based on specific requirements of an agreement about the conduct of an activity (for example, in compliance with principles issued by the Office of Management and Budget or other similarly restrictive grant documents) that results in limited discretion by a recipient on the conduct of an activity and, thus, is indicative of a donor-imposed condition. These agreements often are paid on a cost-reimbursement basis that requires a recipient to incur specific qualifying expenses to be entitled to the promised resources. The specific requirements about allowable qualifying expenses are often accompanied by very close cost reporting and monitoring by the resource provider.

> > > Example 13: Contribution by Foundation A

958-605-55-70C Foundation A gives NFP D a grant 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 (2,000 during each quarter), with specific minimum targets that must be met each quarter. Foundation A 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 Foundation A 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. Foundation A 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). In this Example, NFP D's entitlement to the transferred assets is contingent upon serving at least 2,000 disabled veterans. The likelihood of serving at least 2,000 disabled veterans for the quarter is not a consideration from the perspective of either Foundation A or NFP D when assessing whether the contribution contains a barrier and is deemed conditional.

> > > Example 14: Contribution That Includes Qualifying Expenses

958-605-55-70E NFP B is a hospital that has a research program. NFP B receives a $300,000 grant from the federal awarding agency to fund thyroid cancer research. The terms of the grant 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 cost-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.

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 rules and regulations). The grant also includes a release from the promisor's obligation for unused assets. 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, and the assets would need to be spent on specific items on the basis of the requirements of the agreement (for example, adherence to cost principles) before NFP B is entitled to the assets. This is in contrast to a restriction that typically places limits only on a specific activity that is being funded. NFP B records revenue during the grant period when the barriers have been overcome as it incurs qualifying expenses. The likelihood of incurring qualifying expenses is not a consideration when assessing whether the contribution is deemed conditional.

> > > Example 15: Contribution for a Research Grant

958-605-55-70G NFP E is a public charity that performs research on various diseases and allergies, including gluten-related allergies, as part of its overall mission. It receives a $100,000 grant from a foundation to perform research on gluten-related allergies over the next year. The grant agreement includes a right of return as part of the foundation's standard wording and a requirement that at the end of the grant period a report must be filed with the foundation that explains how the assets were spent.

958-605-55-70H NFP E determines that the grant is not a conditional contribution. The purpose of research on gluten-related allergies results in donor-restricted revenue because the purpose of the grant (working on gluten-free allergies) is narrower than the overall mission of the entity. There are no requirements in the agreement that would indicate that a barrier exists, which must be overcome before the recipient is entitled to the resources. 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 not be considered conditional 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 or a barrier that must be overcome to be entitled to the funds.

958-605-55-70J NFP DD determines that this contribution is not conditional because it does not include a right of return (or similar language) of the assets that have been transferred upfront. 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, during the next fiscal year.

> > > Example 17: Contribution from a Foundation

958-605-55-70K Foundation B receives a grant proposal from an animal rescue facility, NFP F, which requests a 2-year grant in the amount of $500,000 upfront to be used to expand its operations. The agreement indicates that NFP F must expand its facility by at least 5,000 square feet to accommodate additional animals by the end of the 2 years. The grant contains a right of return if the minimum expansion target is not achieved.

958-605-55-70L Foundation B determines that this grant is conditional. The grant includes a measurable barrier (5,000 additional square feet) that must be achieved by NFP F to be entitled to the assets and a right of return for unused assets or unmet requirements.

> > > 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 foundation 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 not conditional because the agreement places limits only on the specific activity that is being funded (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 must 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 a contribution that does not contain a donor-imposed condition 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

958-605-55-70O NFP I is a museum that receives a grant from an individual donor 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 achieving other milestones identified in the grant agreement. If a particular milestone is not achieved, the donor is released from its obligation to make installment payments.

958-605-55-70P NFP I determines that this agreement is conditional because NFP I is not entitled to the assets until a milestone is met (for example, an architectural plan including square footage and Leadership in Energy and Environmental Design certification). In this example, a milestone is deemed a measurable performance barrier because NFP I's entitlement to the transferred assets is contingent upon the completion of a milestone. 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. The likelihood of meeting a milestone is not a consideration when assessing whether the contribution is deemed conditional.

> > > Example 20: Contribution to a Homeless Shelter

958-605-55-70Q NFP J operates as a homeless shelter that provides individuals with temporary accommodations, meals, and counseling. NFP J receives an upfront grant of $75,000 from the city for its meals program. The grant requires NFP J to use the assets to provide at least 5,000 meals to the homeless. The grant contains a right of return for meals not served.

958-605-55-70R NFP J determines 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 $75,000 as donor-restricted revenue when at least 5,000 meals are served because the purpose of the grant is narrower than the overall purpose of NFP J. The likelihood of providing the meals is not a consideration when assessing whether the contribution is deemed conditional.

> > > Example 21: Contribution to a Recreational Organization

958-605-55-70S NFP H is a recreational organization that provides various sports programs to children that live in the community. NFP H receives an upfront grant in the amount of $40,000 from a foundation to be used toward its tennis program. Consistent with NFP H's grant proposal, the agreement includes specific guidelines for which NFP H could use the assets (for example, to hire 10 tennis instructors or to provide a summer camp for 9 weeks) but does not specify that NFP H's entitlement to the $40,000 is dependent upon NFP H meeting any of the specific indicated guidelines in the agreement. The grant contains a right of return for funds not spent on the tennis program.

958-605-55-70T NFP H determines that this grant is not conditional because it does not contain a barrier to overcome to be entitled to the transferred assets. Although the grant agreement contains guidelines for how NFP H could spend the

$40,000, the agreement does not specify that entitlement to the transferred assets are dependent upon meeting any of the guidelines. Because the guidelines in the grant agreement were not required to be met to be entitled to the funding, the agreement does not contain a barrier to overcome. NFP H should recognize the revenue upon receipt of the assets as donor restricted because it is required to use the assets for the tennis program, which is narrower than NFP H's overall mission.

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. 2018-08.~~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.~~

Amendments to Subtopic 958-10

6. Amend paragraph 958-10-15-1, with a link to transition paragraph 958-10-65-2, as follows

Not-for-Profit Entities—Overall

Scope and Scope Exceptions

> Overall Guidance

958-10-15-1 The Subtopics within the Not-for-Profit Entities Topic only provide incremental industry-specific guidance for the entities defined in this Scope Section, or as further defined in the Scope Sections of the individual Not-for-Profit Entities Subtopics. Entities within the scope of this Topic shall also comply with the applicable guidance not included in this Topic. Certain Subtopics within Subtopic

958-605 on revenue recognition also apply to business entities. Those Subtopics will be specifically identified in their Scope Sections.

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

Transition and Open Effective Date Information

> Transition Related to Accounting Standards Update No. 2018-08, *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. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made:*

a. An entity that is either a **public business entity** or 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 transactions in which the entity serves as a resource recipient to annual periods beginning after June 15, 2018, including interim periods within those annual periods. All other entities shall apply the pending content that links to this paragraph for transactions in which the entity serves as a resource recipient to annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019.
b. An entity that is either a public business entity or a not-for-profit entity (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 shall apply the pending content that links to this paragraph for transactions in which the entity serves as a resource provider to annual periods beginning after December 15, 2018, including interim periods within those annual periods. All other entities shall apply the pending content that links to this paragraph for transactions in which the entity serves as the resource provider to annual periods beginning after December 15, 2019, and interim periods within those annual periods beginning after December 15, 2020.
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 on a modified prospective basis in the first set of financial statements following the effective date to agreements that either are not completed as of the effective date or entered into after the effective date. Retrospective application 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 is permitted.

e. For purposes of the transition guidance in (d):
   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 existing 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 as compared with the prior period.

f. If an entity elects to apply the pending content that links to this paragraph retrospectively in accordance with (d), 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

8. Amend paragraphs 958-720-25-1 and 958-720-30-1, supersede paragraphs 958-720-25-2 and 958-720-55-1, and add paragraphs 958-720-55-1A through 55-1B and the related Subsection title and headings, 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. For guidance on promises to give, see Subtopic 958-405 on not-for-profit entities—liabilities.

958-720-25-2 Paragraph superseded by Accounting Standards Update No. 2018-08.~~**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).

Initial Measurement

> Contributions Made

958-720-30-1 A liability and an expense recognized under paragraph ~~958-720-25-2~~958-720-25-1 shall be measured initially at **fair value.**

Implementation Guidance and Illustrations

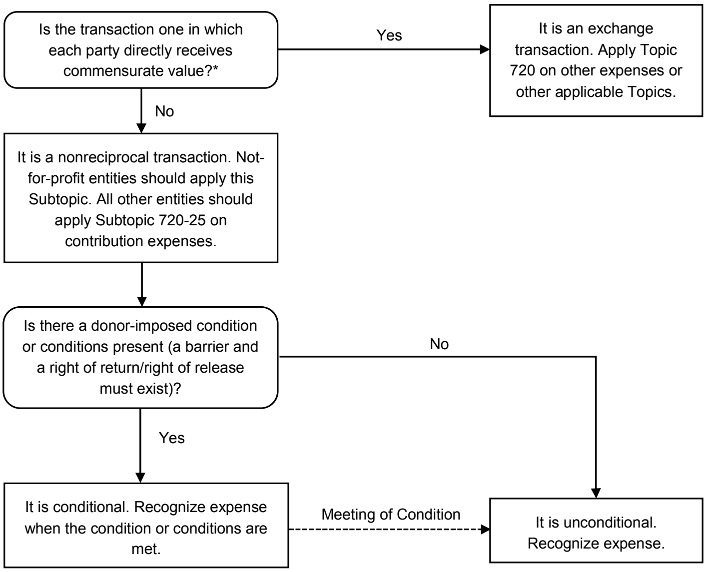
General

> Implementation Guidance

> > Contributions Made

958-720-55-1A 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 determine whether a contribution is conditional. Further guidance on what is an exchange transaction or a contribution as well as guidance on what is a **conditional contribution** can be found in Subtopic 958-605 on not-for-profit entities—revenue recognition.

[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.

Accounting for Costs of Activities That Include Fundraising

958-720-55-1 Paragraph superseded by Accounting Standards Update No. 2018-08.~~This Subsection, which is an integral part of the requirements of the Accounting for Costs of Activities That Include Fundraising Subsections of this Subtopic, provides general guidance to be used in the classification and allocation of costs incurred in **activities** that include fundraising.~~ **[Content moved to paragraph 958-720-55-1B]**

> Implementation Guidance

958-720-55-1B This Subsection, which is an integral part of the requirements of the Accounting for Costs of Activities That Include Fundraising Subsections of this Subtopic, provides general guidance to be used in the classification and allocation of costs incurred in **activities** that include fundraising. **[Content moved from paragraph 958-720-55-1]**

Amendments to Subtopic 720-25

9. Amend paragraphs 720-25-15-1 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. Not-for-profit entities (NFP) should see Subtopic 958-720 on other expenses for additional guidance on contributions made.

> Transactions

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

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 that Subtopic.

a. Subparagraph superseded by Accounting Standards Update No. 2018-08.~~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. 2018-08.~~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. 2018-08.~~Tax exemptions, tax incentives, or tax abatements.~~
d. Subparagraph superseded by Accounting Standards Update No. 2018-08.~~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 determining whether a contribution, including promises to give, is conditional, see the Contributions Received

Subsection of Section 958-605-25~~conditional promises to give and determining whether a promise is conditional or unconditional, see paragraphs 958-605-25-11 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~~.

10. 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 958-720-55-1A for a diagram that depicts the process for determining whether a **contribution** is conditional in addition to distinguishing contributions from exchange transactions. Paragraphs 958-605-55-4 through 55-6 and 958-605-55-13A through 55-14I provide additional guidance and illustrations on what is a **conditional contribution**.

> > Determining Whether a Contribution Is Conditional

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

Amendments to Subtopic 606-10

11. 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—contributions when determining whether a transaction is a contribution within the scope of Subtopic 958-605 or a transaction within the scope of this Topic.

Amendments to Status Sections

12. Amend paragraph 230-10-00-1, by adding the following items to the table, as follows:

230-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Conditional Contribution	Added	2018-08	06/21/2018
Contribution	Amended	2018-08	06/21/2018
Donor-Imposed Condition	Added	2018-08	06/21/2018
Promise to Give	Added	2018-08	06/21/2018

13. Amend paragraph 606-10-00-1, by adding the following item to the table, as follows:

606-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
606-10-15-2A	Added	2018-08	06/21/2018

14. Amend paragraph 720-25-00-1, by adding the following items to the table, as follows:

720-25-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Conditional Contribution	Added	2018-08	06/21/2018
Contribution	Amended	2018-08	06/21/2018

Paragraph	Action	Accounting Standards Update	Date
Donor-Imposed Condition	Added	2018-08	06/21/2018
Not-for-Profit Entity	Added	2018-08	06/21/2018
720-25-15-1 through 15-3	Amended	2018-08	06/21/2018
720-25-25-1	Amended	2018-08	06/21/2018
720-25-50-1	Amended	2018-08	06/21/2018
720-25-55-1	Added	2018-08	06/21/2018
720-25-55-2	Added	2018-08	06/21/2018

15. Amend paragraph 954-10-00-1, by adding the following items to the table, as follows:

954-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Conditional Contribution	Added	2018-08	06/21/2018
Contribution	Amended	2018-08	06/21/2018
Donor-Imposed Condition	Added	2018-08	06/21/2018
Promise to Give	Added	2018-08	06/21/2018

16. Amend paragraph 954-205-00-1, by adding the following items to the table, as follows:

954-205-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Conditional Contribution	Added	2018-08	06/21/2018
Contribution	Amended	2018-08	06/21/2018
Donor-Imposed Condition	Added	2018-08	06/21/2018

Paragraph	Action	Accounting Standards Update	Date
Promise to Give	Added	2018-08	06/21/2018

17. Amend paragraph 954-220-00-1, by adding the following items to the table, as follows:

954-220-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Conditional Contribution	Added	2018-08	06/21/2018
Contribution	Amended	2018-08	06/21/2018
Donor-Imposed Condition	Added	2018-08	06/21/2018
Promise to Give	Added	2018-08	06/21/2018

18. Amend paragraph 954-440-00-1, by adding the following items to the table, as follows:

954-440-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Conditional Contribution	Added	2018-08	06/21/2018
Contribution	Amended	2018-08	06/21/2018
Donor-Imposed Condition	Added	2018-08	06/21/2018
Promise to Give	Added	2018-08	06/21/2018

19. Amend paragraph 954-470-00-1, by adding the following items to the table, as follows:

954-470-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Conditional Contribution	Added	2018-08	06/21/2018
Contribution	Amended	2018-08	06/21/2018
Donor-Imposed Condition	Added	2018-08	06/21/2018
Promise to Give	Added	2018-08	06/21/2018

20. Amend paragraph 954-605-00-1, by adding the following items to the table, as follows:

954-605-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Conditional Contribution	Added	2018-08	06/21/2018
Contribution	Amended	2018-08	06/21/2018
Donor-Imposed Condition	Added	2018-08	06/21/2018
Promise to Give	Added	2018-08	06/21/2018

21. Amend paragraph 958-10-00-1, by adding the following items to the table, as follows:

958-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Public Business Entity	Added	2018-08	06/21/2018
958-10-15-1	Amended	2018-08	06/21/2018
958-10-65-2	Added	2018-08	06/21/2018

22. Amend paragraph 958-20-00-1, by adding the following items to the table, as follows:

958-20-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Conditional Contribution	Added	2018-08	06/21/2018
Contribution	Amended	2018-08	06/21/2018
Donor-Imposed Condition	Added	2018-08	06/21/2018

23. Amend paragraph 958-30-00-1, by adding the following items to the table, as follows:

958-30-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Conditional Contribution	Added	2018-08	06/21/2018
Contribution	Amended	2018-08	06/21/2018
Donor-Imposed Condition	Amended	2018-08	06/21/2018
Promise to Give	Added	2018-08	06/21/2018

24. Amend paragraph 958-205-00-1, by adding the following items to the table, as follows:

958-205-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Conditional Contribution	Added	2018-08	06/21/2018
Contribution	Amended	2018-08	06/21/2018
Donor-Imposed Condition	Added	2018-08	06/21/2018

25. Amend paragraph 958-220-00-1, by adding the following items to the table, as follows:

958-220-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Conditional Contribution	Added	2018-08	06/21/2018
Contribution	Amended	2018-08	06/21/2018
Donor-Imposed Condition	Added	2018-08	06/21/2018
Promise to Give	Added	2018-08	06/21/2018

26. Amend paragraph 958-230-00-1, by adding the following items to the table, as follows:

958-230-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Conditional Contribution	Added	2018-08	06/21/2018
Contribution	Amended	2018-08	06/21/2018
Donor-Imposed Condition	Added	2018-08	06/21/2018
Promise to Give	Added	2018-08	06/21/2018

27. Amend paragraph 958-310-00-1, by adding the following items to the table, as follows:

958-310-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Conditional Contribution	Added	2018-08	06/21/2018
Conditional Promise to Give	Amended	2018-08	06/21/2018
Contribution	Amended	2018-08	06/21/2018
Donor-Imposed Condition	Added	2018-08	06/21/2018

28. Amend paragraph 958-320-00-1, by adding the following items to the table, as follows:

958-320-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Conditional Contribution	Added	2018-08	06/21/2018
Contribution	Amended	2018-08	06/21/2018
Donor-Imposed Condition	Added	2018-08	06/21/2018
Promise to Give	Added	2018-08	06/21/2018

29. Amend paragraph 958-325-00-1, by adding the following items to the table, as follows:

958-325-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Conditional Contribution	Added	2018-08	06/21/2018
Contribution	Amended	2018-08	06/21/2018
Donor-Imposed Condition	Added	2018-08	06/21/2018
Promise to Give	Added	2018-08	06/21/2018

30. Amend paragraph 958-360-00-1, by adding the following items to the table, as follows:

958-360-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Conditional Contribution	Added	2018-08	06/21/2018
Contribution	Amended	2018-08	06/21/2018

Paragraph	Action	Accounting Standards Update	Date
Donor-Imposed Condition	Added	2018-08	06/21/2018
Promise to Give	Added	2018-08	06/21/2018

31. Amend paragraph 958-405-00-1, by adding the following items to the table, as follows:

958-405-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Conditional Contribution	Added	2018-08	06/21/2018
Contribution	Added	2018-08	06/21/2018
Donor-Imposed Condition	Added	2018-08	06/21/2018

32. Amend paragraph 958-450-00-1, by adding the following items to the table, as follows:

958-450-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Conditional Contribution	Added	2018-08	06/21/2018
Contribution	Amended	2018-08	06/21/2018
Donor-Imposed Condition	Added	2018-08	06/21/2018
Promise to Give	Added	2018-08	06/21/2018

33. Amend paragraph 958-605-00-1, by adding the following items to the table, as follows:

958-605-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Conditional Contribution	Added	2018-08	06/21/2018
Conditional Promise to Give	Amended	2018-08	06/21/2018
Contribution	Amended	2018-08	06/21/2018
Donor-Imposed Condition	Amended	2018-08	06/21/2018
958-605-15-2A	Added	2018-08	06/21/2018
958-605-15-4 through 15-6	Amended	2018-08	06/21/2018
958-605-15-5A	Added	2018-08	06/21/2018
958-605-15-7A	Added	2018-08	06/21/2018
958-605-25-1	Amended	2018-08	06/21/2018
958-605-25-2	Amended	2018-08	06/21/2018
958-605-25-2A	Added	2018-08	06/21/2018
958-605-25-5A through 25-5F	Added	2018-08	06/21/2018
958-605-25-11	Amended	2018-08	06/21/2018
958-605-25-12	Superseded	2018-08	06/21/2018
958-605-25-13	Amended	2018-08	06/21/2018
958-605-25-14	Superseded	2018-08	06/21/2018
958-605-45-4	Amended	2018-08	06/21/2018
958-605-45-4A	Added	2018-08	06/21/2018
958-605-45-4B	Added	2018-08	06/21/2018
958-605-55-1A	Added	2018-08	06/21/2018
958-605-55-2A	Amended	2018-08	06/21/2018
958-605-55-3	Superseded	2018-08	06/21/2018
958-605-55-3A	Added	2018-08	06/21/2018
958-605-55-4	Amended	2018-08	06/21/2018
958-605-55-7	Amended	2018-08	06/21/2018
958-605-55-8	Superseded	2018-08	06/21/2018
958-605-55-13A	Added	2018-08	06/21/2018
958-605-55-14	Amended	2018-08	06/21/2018
958-605-55-14A through 14I	Added	2018-08	06/21/2018
958-605-55-15 through 55-17	Amended	2018-08	06/21/2018
958-605-55-17A through 55-17F	Added	2018-08	06/21/2018
958-605-55-21	Amended	2018-08	06/21/2018

Paragraph	Action	Accounting Standards Update	Date
958-605-55-51	Amended	2018-08	06/21/2018
958-605-55-70A through 70T	Added	2018-08	06/21/2018
958-605-55-82	Superseded	2018-08	06/21/2018

34. Amend paragraph 958-715-00-1, by adding the following items to the table, as follows:

958-715-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Conditional Contribution	Added	2018-08	06/21/2018
Contribution	Amended	2018-08	06/21/2018
Donor-Imposed Condition	Added	2018-08	06/21/2018
Promise to Give	Added	2018-08	06/21/2018

35. Amend paragraph 958-720-00-1, by adding the following items to the table, as follows:

958-720-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Conditional Contribution	Added	2018-08	06/21/2018
Contribution	Amended	2018-08	06/21/2018
Donor-Imposed Condition	Added	2018-08	06/21/2018
Unconditional Promise to Give	Superseded	2018-08	06/21/2018
958-720-25-1	Amended	2018-08	06/21/2018
958-720-25-2	Superseded	2018-08	06/21/2018
958-720-30-1	Amended	2018-08	06/21/2018
958-720-55-1	Superseded	2018-08	06/21/2018

Paragraph	Action	Accounting Standards Update	Date
958-720-55-1A	Added	2018-08	06/21/2018
958-720-55-1B	Added	2018-08	06/21/2018

36. Amend paragraph 958-805-00-1, by adding the following items to the table, as follows:

958-805-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Conditional Contribution	Added	2018-08	06/21/2018
Conditional Promise to Give	Amended	2018-08	06/21/2018
Contribution	Amended	2018-08	06/21/2018
Donor-Imposed Condition	Added	2018-08	06/21/2018
Promise to Give	Added	2018-08	06/21/2018

37. Amend paragraph 958-810-00-1, by adding the following items to the table, as follows:

958-810-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Conditional Contribution	Added	2018-08	06/21/2018
Contribution	Amended	2018-08	06/21/2018
Donor-Imposed Condition	Added	2018-08	06/21/2018
Promise to Give	Added	2018-08	06/21/2018

The amendments in this Update were adopted by the unanimous vote of the seven 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 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, 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. Determining whether a contribution is conditional.

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 questioned 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 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 foundations.

BC5. Stakeholders 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 contributions that are restricted and conditional 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 typically only places limits on a specific activity. 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. 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 Update clarify that the guidance also applies to resource providers.

BC8. On August 3, 2017, the Board issued the proposed Accounting Standards Update, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, for public comment, with comments due on November 1, 2017. The Board received 58 comment letters on the proposed Update. Overall, the majority of comment letter respondents were supportive of the proposed clarifications to improve financial reporting by entities that receive or make grants and similar contracts. The respondents added that the proposed amendments would drive consistency in application, which would result in less diversity in practice. Much of the respondent feedback received included suggestions to improve and further clarify the proposal, including refinements and additions to the implementation guidance. Additional detail about feedback received on specific topics is included below.

Benefits and Costs

BC9. Overall, the Board concluded that the expected benefits of the amendments in this Update justify the expected costs. The amendments 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 amendments is provided throughout the basis for conclusions.

Basis for Conclusions

Scope

Distinguishing Contributions from Exchange Transactions

BC10. 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 notes 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.

BC11. 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 is whether the two parties receive and sacrifice commensurate value. This clarification considers 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.

BC12. The amendments in this Update 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). The accounting model in Topic 606 was not developed to address the contribution nature of such grants and contracts.

Instances in which the general public receives the primary benefit

BC13. The Board concluded that the amendments in this Update 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 is 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

BC14. 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

BC15. The scope of the amendments in this Update 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 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.

Payments in connection with an existing exchange transaction

BC16. The amendments in this Update 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 are considered part of an existing contract with the identified customer and should be accounted for in accordance with other guidance, such as Topic 606 or Topic 842, Leases.

BC17. 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

BC18. To meet the definition of the term *donor-imposed condition* under the amendments in this Update, 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. 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 better reflects the economics of the transaction when compared with other proposed solutions. The existence of a barrier should 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.

BC19. The Board determined that the amendments in this Update generally are consistent 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 amendments no longer require the remote notion because the guidance clarifies 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 prevents entities from assessing the likelihood of a condition being met to decide when to recognize revenue. Such assessments do not align with the Board's original intent in Statement 116.

BC20. 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 that 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

BC21. The amendments in this Update focus on determining whether a contribution is conditional. After a contribution has been deemed not to contain a donor-imposed condition, an entity considers 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

BC22. 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 to transfer assets. 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 to clarify 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 determining whether a contribution is conditional.

BC23. The amendments in this Update 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 clarifies that, in the presence of a right of return of assets transferred or a right of release of the promisor's obligation to transfer assets, 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.

BC24. The Board decided to add to the guidance a table of indicators that assists 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 is determinative. The indicators include:

a. Measurable performance-related barriers or other measurable barriers
b. Limited discretion by the recipient on the conduct of an activity
c. Stipulations that are related to the purpose of the agreement.

BC25. Because of the varying types of arrangements, some indicators may be more significant than others on the basis of the facts and circumstances of an individual agreement. In addition, the Board decided to emphasize the guidance in paragraph 958-605-25-5E, 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

BC26. 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 to transfer assets, 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 to transfer assets, most stipulations that simply state that the assets are for the recipient's broad activities without imposing performance targets or measurable stipulations indicate contributions that do not contain donor-imposed conditions. The concept is that an entity should be able to determine and measure what the condition is that must be satisfied.

BC27. Some examples of measurable performance-related barriers or other measurable barriers could include a specified level of service, a specific outcome, and matching requirements.

BC28. Some respondents to the proposed Update suggested that the final amendments should clarify how an entity would determine whether quantifiable objectives that are included in an agreement would be deemed a measurable performance-related barrier or other measurable barrier—specifically, relating to the example of specific output or outcome. Resource providers often include project objectives in an agreement that support the implementation of certain activities. Some resource providers view these objectives merely as guidelines and not as measurable barriers.

BC29. To address these concerns, the Board made clarifications to the amendments in this Update within the indicator table and the implementation guidance, noting that the focus on the determination of a barrier should be on when a recipient is entitled to a transfer of assets. The Board also included, within the illustrative examples, agreements that include milestones to demonstrate that a milestone can be an example of a performance-related barrier. In addition, new examples in the amendments address resource providers' previous concerns that general requirements in an agreement that are intended to serve merely as guidelines may be viewed as measurable barriers.

Limited discretion by the recipient on the conduct of an activity

BC30. 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. The Board decided that limited discretion by the recipient should be an indicator because it encourages 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 a contribution that does not contain donor-imposed conditions.

BC31. 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.

BC32. Respondents, including some recipients of contributions, resource providers of contributions, associations, and accounting firms, expressed some concerns about the limited discretion indicator as proposed. Some respondents were confused and requested clarification about when it would be indicative of a barrier to entitlement versus a restriction on resources to which the recipient is already entitled. Some of these respondents requested additional guidance about the description of a qualifying expense; they also indicated that it is not clear how qualifying expenses relate to the limited-discretion indicator. To address those comments, the Board decided to narrow the indicator to limited discretion by a recipient on the conduct of an activity. This change will further clarify (a) the difference between a barrier and a restriction when considering the limited-discretion indicator and (b) how that indicator should be used in connection with the examination of all the indicators as a whole. Specifically, focusing on limitations concerning specific requirements about how an activity must be conducted (for example, by incurring qualifying expenses) emphasizes the contrast of such barriers to entitlement with a restriction, which typically places limits only on a specific activity. Such an indicator also complements the measurable performance-related barrier indicator, which focuses on barriers to entitlement involving the outputs, outcomes, or levels of service needed to be achieved by the activity being conducted.

BC33. To address comments about qualifying expenses, the Board clarified that one example of limited discretion by a recipient on the conduct of an activity is a requirement to incur qualifying expenses. 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 allowable and reasonable qualifying expenses that are based on specific requirements of an agreement about the conduct of an activity. 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 may result in the recipient having limited discretion on how to spend the assets in conducting the activity.

Stipulations related to the purpose of the agreement

BC34. 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. 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 places less emphasis on determining whether something is remote and allows only barriers to delay revenue recognition.

Additional actions

BC35. The amendments in the proposed Update would have required an indicator that would have been 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 would have been 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.

BC36. Respondents had concerns about the proposed additional actions indicator. Some respondents stated that the indicator should be removed because it would result in unnecessary confusion for stakeholders because those stakeholders were unclear about the Board's intent and how to apply the indicator. Also, some noted that many, if not all, additional actions would most likely fall into one of the other indicators for a barrier. The Board concluded that although the additional actions indicator may be useful in some instances, the indicator is not strong enough to be included in the guidance. It may be helpful in rare circumstances; however, it is not an essential indicator because if additional activity is required by the recipient, the agreement is typically coupled with a measurable performance-related barrier.

Right of return or a right of release of the promisor's obligation to transfer assets

BC37. 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 to transfer assets 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.

BC38. 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 does 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.

BC39. 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 Update and diversity in practice because of the varying differences in laws among jurisdictions.

Simultaneous release of a condition and a restriction

BC40. Under current GAAP, NFPs have the option to elect what is referred to as the simultaneous release accounting policy option in which donor-restricted contributions whose restrictions are met in the same period in which the corresponding revenue is recognized may be reported as support without donor restrictions as long as the same policy election is elected for donor-restricted investment return. This is an all-or-none policy election so that all donor-restricted contributions are subject to the simultaneous release policy if it is elected. The Board received feedback from respondents who were concerned that recognizing many grants as conditional contributions would significantly increase the amount reported in the release from the restrictions line on the statement of activities. Respondents proposed that the Board remove the requirement that all restricted contributions be treated the same under a simultaneous release policy election. This would allow NFPs to elect the simultaneous release policy for donor-restricted contributions that were initially conditional contributions without also having to elect it for other donor-restricted contributions.

BC41. The Board decided to amend the current requirements under GAAP to allow NFPs to elect the simultaneous release policy for donor-restricted contributions that were initially conditional contributions independent of any election for other donor-restricted contributions. The Board noted that, in many instances, the condition could be met and the restriction satisfied at precisely the same time; thus, there essentially would be no separate restriction that needs to be tracked by the NFP for resources to which it is already entitled. This is especially true with many governmental grants for which the recipient must incur qualifying expenses. The decision to change the simultaneous release accounting option for donor-restricted contributions that were initially conditional contributions gives entities additional flexibility in avoiding what some may perceive as nonintuitive and potentially complicated reporting of such transactions that may be difficult for users to understand.

Accounting from the Resource Provider's Perspective

BC42. 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 assets transferred 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 for determining whether a contribution is conditional. Therefore, the Board decided that a deviation would be beyond the scope of this project. Any amendments that 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 current definition of the term *donor-imposed condition.*

BC43. The Board made further clarifications in the amendments in this Update to the description of a barrier and related indicators to address resource provider concerns that were raised about the proposed amendments that general requirements in an agreement that are intended to serve merely as guidelines may be viewed as measurable barriers. Specifically, the changes made to measurable performance-related barriers and other measurable barriers help to address the concerns raised that all metrics included in an agreement may be deemed to be barriers. The amendments clarify that the determination about whether a stipulation results in a barrier should be based on when a recipient is entitled to the transferred assets or promised assets in an agreement. The amendments also clarify that best-effort metrics are not considered measurable barriers.

Recurring Disclosures

BC44. 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 Update. Stakeholders also agreed that no additional disclosures should be required.

BC45. 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

BC46. The Board decided that the amendments in this Update should be applied on a modified prospective basis. Retrospective application is permitted. Under a modified prospective basis, in the first set of financial statements following the effective date the amendments should be applied to agreements that are either:

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

BC47. The amendments in this Update 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 amendments 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 should be restated, and there should be no cumulative-effect adjustment to opening net assets or retained earnings at the beginning of the year of adoption.

BC48. The Board concluded that the expected cost of full retrospective application outweighs the expected benefits and that the modified prospective transition method provides 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.

BC49. The Board discussed whether full prospective application would be more cost beneficial than modified prospective application. In the Board's view, full prospective application could potentially result in less comparable information over several annual or interim periods. It also could 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 current 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 modified prospective transition application provides greater short-term comparability while reducing cost and complexity.

BC50. 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 Update and those under current guidance. Qualitative disclosure about the effects of the amendments on the prior period could provide cost-beneficial information to users.

Effective Date and Early Adoption

BC51. The amendments in this Update could affect whether agreements are accounted for under Topic 606 or other applicable Topics. Consequently, the Board initially decided to align the effective date of the amendments with Topic 606 for resource recipients. The Board also initially decided that 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 should apply the amendments to annual periods beginning after December 15, 2017, including interim periods within those annual periods. The Board initially decided that all other entities should apply the amendments to annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019.

BC52. However, some respondents raised concerns about the effective date for certain entities (public business entities and NFPs that have issued, or are conduit bond obligors for, securities that are traded, listed, or quoted on an exchange or over-the-counter market) that have transactions in which the entity is a resource recipient. Given that first quarter 2018 interim financial statements would have already been released by the time the amendments in this Update were issued, it was unclear how entities that had previously adopted the amendments in Update 2014-09 would apply the amendments in this Update for interim periods beginning after December 15, 2017. To address this concern, the Board decided that for transactions in which such an entity (a public business entity or 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) is a resource recipient the entity should apply the amendments to annual periods beginning after June 15, 2018, including interim periods within those annual periods. All other entities should apply the amendments for transactions in which the entity serves as the resource recipient to annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019.

BC53. The Board decided that the effective dates should be extended by one year for transactions in which the entity serves as a resource provider because such expense recognition is not affected by Topic 606. The Board decided that given the concerns raised by some resource providers about potential adjustments to internal systems and resource constraints and that the volume of conditional grants could be significant for some resource providers, an additional year would allow adequate time to apply the amendments in this Update. For transactions in which the entity is either a public business entity or 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 and serves as a resource provider, the entity should apply the amendments to annual periods beginning after December 15, 2018, including interim periods within those annual periods. All other entities should apply the amendments for transactions in which the entity serves as a resource provider to annual periods beginning after December 15, 2019, and interim periods within annual periods beginning after December 15, 2020.

BC54. Early adoption of the amendments in this Update is permitted for resource recipients and resource providers irrespective of early adoption of Topic 606. The Board decided to allow early adoption so that preparers have an opportunity to apply the clarified guidance in the amendments, which reduces diversity in practice and yields more decision-useful information for users. Allowing early adoption could be particularly helpful for entities with calendar year-ends that are required to adopt Topic 606 during the first quarter of 2018 because the first quarter of 2018 will have ended before the issuance of the amendments in this Update.

Amendments to the XBRL Taxonomy

The amendments to the *FASB Accounting Standards Codification*® in this Accounting Standards Update require improvements to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). Those improvements, which will be incorporated into the proposed 2019 Taxonomy, are available through Taxonomy Improvements provided at www.fasb.org, and finalized as part of the annual release process.