



## Agenda

- Understand New Revenue Recognition Standards
  - Introduction to ASU 2018-08 *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*
- Revenue Recognition Examples
- Major changes to Presentation of Financial Statements of Not-for-Profit Entities

## ASU 2018-08- Effective Dates

Entity Type	For Fiscal Years Starting After...
Resource Recipients	December 15, 2018
Resource providers	December 15, 2019

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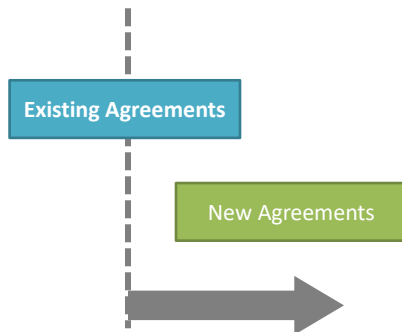
## Effective Date 2018-08

- Resource providers have been given an additional year for implementation, because the ASU for them concerns expense recognition, rather than revenue recognition
- Some NFPs are both grant recipients and grant makers
- Those NFPs will need to determine whether such a staggered implementation for them could lead to nonintuitive/misleading net financial results, especially to the extent that specific grants made are linked to specific grants received
- If so, it may be beneficial to accelerate the implementation of the ASU for their grants made, to coincide with implementation for their grants received.

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## 2018-08 Transition Approach



- Modified prospective
  - Apply to all agreements; existing at the effective date (only apply to the portion of existing agreements not previously recognized)
  - Entered into after the effective date
- No restatement of prior amounts recognized
- Retrospective application permitted

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## Why Is the FASB Issuing This ASU?

To resolve difficulty and diversity in practice among not-for-profits with:

- Characterizing grants and similar contracts with government agencies and others as reciprocal transactions (exchanges) or nonreciprocal transactions (contributions)
- Distinguishing between conditional and unconditional contributions.

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## Implementing the New ASU: NFP Grants and Contracts

- Applies to ALL ENTITIES that receive or make contributions unless otherwise noted
- Excludes transfers of assets from the government to business entities
- Applies to both contributions received by a recipient and contributions made by a resource provider. **The intent is simply that both apply the same guidance, the entities do not need to track each other's accounting to achieve the same reporting results.**

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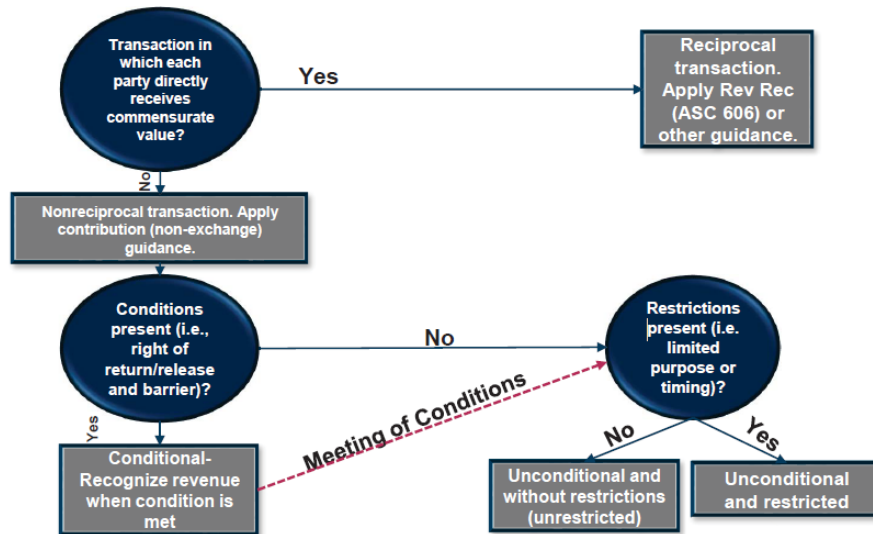
## Implementing the New ASU: NFP Grants and Contracts

- The term used in the presentation of financial statements to label revenue (for example, contribution, grant, donation) 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

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## NFP Revenue Recognition Decision Process



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## 3 Major Questions

Is it an exchange transaction?

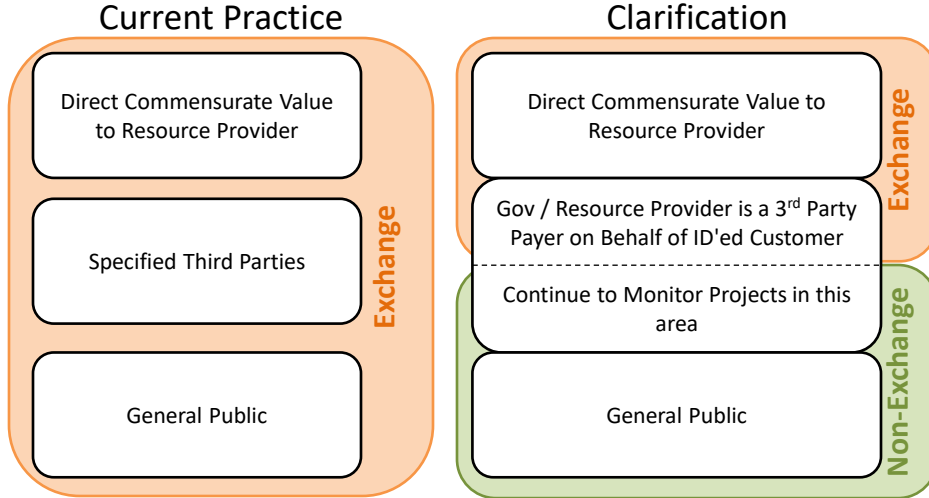
Is there a barrier?

Is there a restriction?

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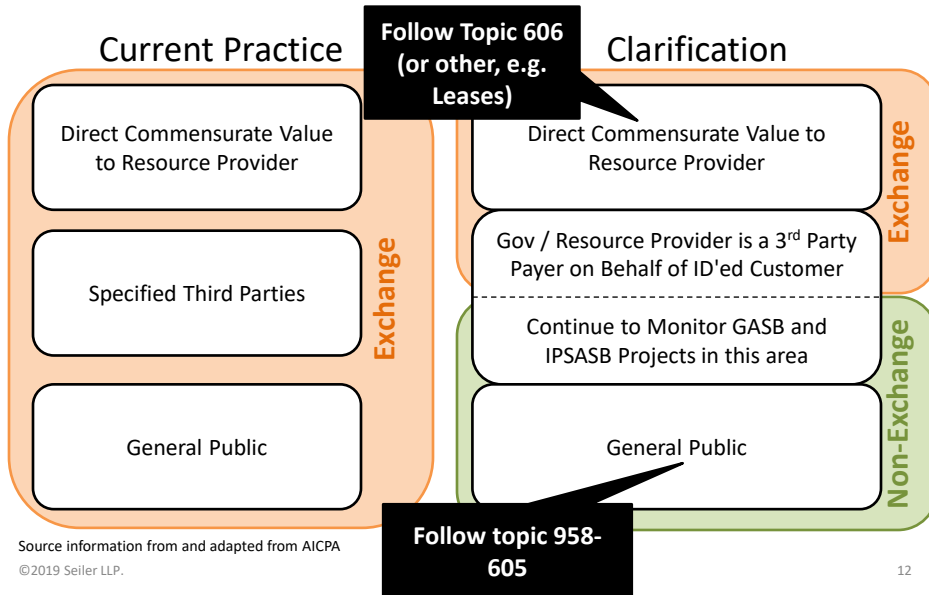
# Reciprocal vs. Nonreciprocal Transactions



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# Reciprocal vs. Nonreciprocal Transactions



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## Scope: “Symmetry”

- Entities do not need to track each other’s accounting to achieve the same reporting results
- Grantors (e.g., foundations, other NFPs) must follow same guidance in determining if grants are
  1. exchange or nonexchange transactions, and
  2. conditional or unconditional
- **NOT** required to mirror judgment/accounting treatment used by the grantee organization
- **NOT** required to obtain information from grantees relating to their overcoming of the barriers but can use judgment

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## Conditional v. Unconditional Contributions

### For a donor-imposed condition to exist...




- |  |   |
|--|---|
| • ASU  | • Alternative Rejected  |
| • A right of return/release must exist* <b>and</b>   | • A right of return/release must exist  |
| • The agreement must include a barrier (ASU includes indicators and examples to help in determination) | • Would have required a probability assessment about whether it is likely a recipient NFP will fulfill the stipulations |

\* The right of return/release must be contained in the agreement or in another document referenced in the agreement

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## Indicators that Barriers May Exist

 <b>Measurable Barrier</b>	 <b>Limited Discretion</b>	 <b>Related to Purpose of the Agreement</b>
<ul style="list-style-type: none"> <li>• Specified level of service</li> <li>• Specified outcome</li> <li>• Matching</li> <li>• Outside event or occurrence</li> <li>• May be achieved in milestone (step-wise) fashion</li> </ul>	<ul style="list-style-type: none"> <li>• More specific than the general activity being conducted and/or restricted time-frame</li> <li>• Requirement to incur only qualifying expenses based on specific criteria</li> <li>• Requirement to hire specific individuals</li> <li>• Requirement to adhere to specific protocol(s)</li> </ul>	<ul style="list-style-type: none"> <li>• Stipulations that relate directly to the mission purpose of the agreement</li> <li>• Report on research study findings</li> <li>• LEED certification for new building</li> <li>• Excludes trivial or administrative stipulations and requirements</li> <li>• Report on grant expenditures</li> <li>• Annual audit</li> </ul>

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## The Trouble with Ambiguous Donor Stipulations

Determining whether a contribution is conditional or unconditional can be difficult if the donor's stipulations do not clearly indicate whether:

- One or more barriers exist
- OR
- The donor has a right of return or release should the NFP fail to overcome the barrier(s)

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## The Trouble with Ambiguous Donor Stipulations

- It may be difficult to determine whether stipulations are conditions vs. restrictions
- An agreement containing stipulations that are not clearly unconditional shall be presumed to be conditional

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Example A

### Federal Award and Wind Power

**University of Scholastica is awarded a research grant from the Dept. of Energy to study wind power as an alternative energy source**

The agreement requires University to:

- Follow the rules and regulations established by the Office of Management and Budget (OMB)
- Incur certain expenses (or costs) in compliance with rules and regulations established by the OMB and the federal awarding agency
- Obtain an annual audit in accordance with OMB guidelines
- Submit a summary of research findings to the federal government
- Any unused assets are forfeited, and any unallowed costs that have been drawn down by University are required to be refunded
- University retains the rights to the findings

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## Example B

## Grant from Private Foundation for Vets

- We Heart Our Veterans (WHOV) receives a grant from a private foundation for funding in the amount of \$400,000 to provide specific career training to disabled veterans over the next four years, with payments being made on an annual basis
- The grant requires WHOV to provide training to at least 8,000 disabled veterans during the each fiscal year, with specific minimum targets that must be met each year
- There is a right of release from the obligation in the agreement in the event WHOV fails to meet the targets in any given year

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## Example C

## Corporate Foundation Grant for Gluten Study

**Foodies For Health studies gluten-related health concerns as a small part of its overall mission; it applies for and receives a \$100,000 grant from Oat Farmers of America to perform research on gluten-related food intolerances over the next year**

The grant agreement includes:

- A right of return of any unspent funds
- A statement that prior approval must be obtained from the corporate foundation for any significant deviations in spending from the budget submitted as an exhibit to the grant application
- A requirement that at the end of the grant period a budget-to-actual report must be filed with the corporate foundation that explains how the assets were spent, including explanations for specific line items overspent by more than 15% of the budgeted amounts

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## Example D

## Capital Campaign Contribution

- GPA Prep School receives a multi-year pledge from a grateful alumnus to build a LEED certified, green, sustainable, zero-emissions, zero-carbon-footprint building on campus; the pledge amount is \$20 million payable over 3 years
  - \$7 million is payable up front on July 1, 20X0 with no associated conditions
  - A second payment of \$6 million is entitled and payable on July 1, 20X1 upon evidence that the land has been cleared, an architectural design has been received, and proper building permits have been obtained
  - A third payment of \$7 million is entitled and payable upon receipt of the LEED certification and the certificate of occupancy for the building

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## Example D2

## Capital Campaign Contribution – Ex2

- GPA Prep School conducts a separate capital campaign to build a new building to house its student center and cafeteria, and receives an upfront grant in the amount of \$10,000 from Acme Food Services.
- The agreement contains a right of return requiring that any portion of the \$10,000 grant not used for the purposes outlined in the capital campaign solicitation materials be refunded to Acme
- Acme did not include any specifications in the agreement about how the building should be designed, constructed, or equipped
- Acme hopes to bid on the cafeteria food and supplies contract once the building is completed

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## Example E

## Sponsorship for SPCA

- SPCA receives \$50,000 from Stella's Foods to be the lead sponsor for the doggie dinner fundraising event to be held next spring
- Stella's Foods receives no direct value in return for the sponsorship
- The sponsorship agreement is silent as to what happens if SPCA cancels the event, or if unforeseen circumstances prevent the dinner from occurring as planned

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## Example E2

## Sponsorship for SPCA – Ex2

- SPCA receives \$10,000 for a table at the doggie dinner fundraising event to be held next spring
- 8 diners will receive a lovely "chicken" dinner at the event - valued at \$800 total
- The table agreement is silent as to what happens if SPCA cancels the event, or if unforeseen circumstances prevent the dinner from occurring as planned

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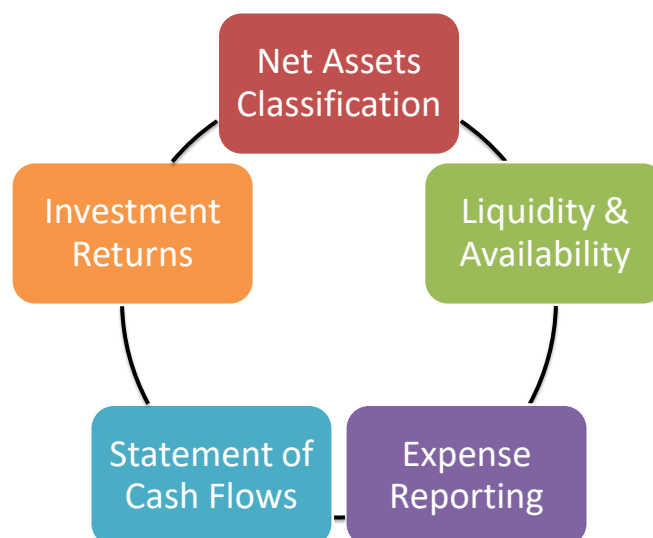
## Implementation Steps for Development and Planned Giving Officers

- Discuss the plan with Finance
- Identify areas that will be affected
- Evaluate whether any changes will be necessary to:
  - Solicitation materials and grant proposals
  - Pledge agreements
  - Accounting and reporting systems in order to easily capture information for recording and disclosure
- Decide on the best approach for your organization and confirm with Finance
- Implement changes

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## ASU 2016-14 Key Changes



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# ASU 2016-14

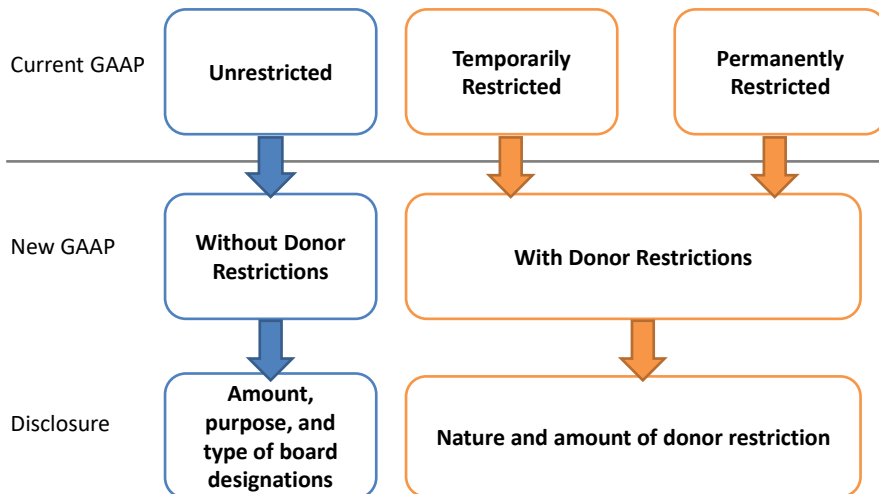
- Issued August 18, 2016
- Effective for annual financial statements issued for fiscal years beginning after December 15, 2017



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## Net Assets Classification



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## New Disclosure Requirements

- **Qualitative information** that communicates how the organization manages its liquid resources available to meet cash needs for general expenditures within one year of the balance sheet date.
- **Quantitative information**, either on the face of the balance sheet or in the notes, and additional qualitative information in the notes as necessary, that communicates the availability of an organization's financial assets at the balance sheet date to meet cash needs for general expenditures within one year of the balance sheet date.
  - Availability of a financial asset may be affected by:**
    1. its nature
    2. external limits imposed by donors, grantors, laws, and contracts with others
    3. internal limits imposed by governing board decisions

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## Thank you! Questions?



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