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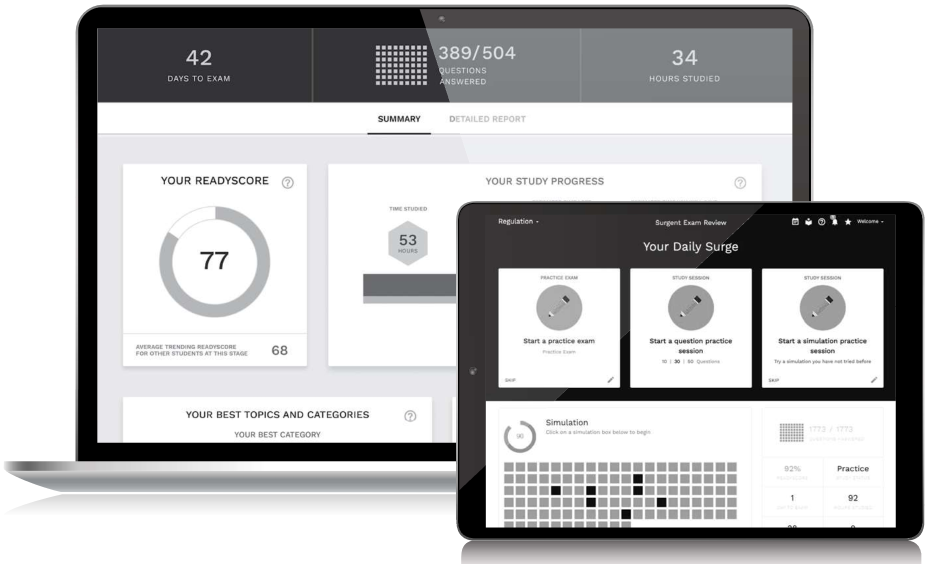

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Revised March 2024

NOTES

ASU No. 2020-07: So How Did That Work Out for You?

ASU No. 2020-07: So How Did That Work Out for You?

Learning objectives

Upon completion of this chapter, you will have an understanding of the changes which occurred in NFP[1] presentation and disclosures as a result of ASU No. 2020-07.

I. ASU No. 2020-07

In September 2020, the FASB issued ASU No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, to address NFP reporting of contributed nonfinancial assets. ASU No. 2020-07 became effective for NFPs for annual periods beginning after June 15, 2021 (i.e., June 30, 2022, and later year-ends). Retrospective application was required (i.e., NFPs applied the standard to all years presented).

A. Background

NFPs receive many types of contributions to fuel their missions. In addition to contributed financial assets, NFPs may also receive contributed nonfinancial assets. The FASB believes that financial statement users need more information related to contributed nonfinancial assets, as: (1) contributed nonfinancial assets are inherently more subjective than other assets in terms of how they are valued; (2) many NFPs [e.g., food banks] rely heavily on such contributions and this may not have been apparent in prior reporting; and (3) a significant reliance on contributed nonfinancial assets and their utilization has ramifications for an NFP's operations. The following chart breaks down the FASB's definition of the term **contributed nonfinancial assets**.

ASU No. 2020-07 applies to *contributed nonfinancial assets*		
Contributed	➡	The FASB ASC defines a **contribution** as "an unconditional transfer of cash or other assets, as well as unconditional promises to give, to an entity or a reduction, settlement, or cancelation of its liabilities in a voluntary nonreciprocal transfer by another entity acting other than as an owner."
Nonfinancial assets	➡	The FASB ASC defines a **nonfinancial asset** as "an asset that is not a **financial asset**." **Nonfinancial assets** include fixed assets (such as land, buildings, and equipment), use of fixed assets or utilities, materials and supplies, intangible assets, and services.

Note. Financial assets are defined in the FASB ASC as cash, evidence of an ownership interest in an entity, or a contract that conveys to one entity a right to either: (a) receive cash or another financial instrument from a second entity; or (b) exchange other financial instruments on potentially favorable terms with the second entity. Financial assets can more simply be described as assets that are convertible to cash on a fairly easy basis (such as cash, receivables, and investments) and excludes assets like prepaid expenses, inventory, and fixed assets.

[1] "NFP" will be used in place of "not-for-profit entity" throughout these course materials.

1. Exercise 1-1

Please answer the following question.

Gifts-in-kind versus nonfinancial assets
When the FASB began the standard-setting project that culminated with the issuance of ASU No. 2020-07, the FASB used the term **gifts-in-kind** instead of **nonfinancial assets**. Why did the FASB decide to use the **nonfinancial assets** wording in the final standard?

2. Exercise 1-2

Please answer the following question.

Why were financial assets excluded from ASU No. 2020-07?
Why did the FASB exclude **financial assets** from the presentation and disclosure requirements of ASU No. 2020-07?

B. Requirements before ASU No. 2020-07

Prior to ASU No. 2020-07, FASB ASC 958 had specific disclosure requirements for contributed services (i.e., one type of contributed nonfinancial asset). However, FASB ASC 958 did not have specific **disclosure** requirements for other types of contributed nonfinancial assets. Also, prior to ASU No. 2020-07, FASB ASC 958 did not have specific **presentation** requirements for contributed nonfinancial assets (including contributed services). The following chart discusses the pre-ASU No. 2020-07 disclosure requirements related to contributed services. **Note.** The previous requirements did not disappear under ASU No. 2020-07; rather, contributed services are now also subject to the new presentation and disclosure requirements in ASU No. 2020-07.

NFPs have several disclosure requirements specific to contributed services in FASB ASC 958-605-50-1, including:
An NFP receiving contributed services will describe the programs or activities for which those services were used, including the nature and extent of contributed services received for the period and the amount recognized as revenues for the period. NFPs are encouraged to disclose the fair value of contributed services received but not recognized as revenues if that is practicable. The nature and extent of contributed services received can be described using nonmonetary information (such as the number and trends of donated hours received or service outputs provided by volunteer efforts) or other monetary information (such as the dollar amount of contributions raised by volunteers). Disclosure of contributed services is required regardless of whether the services received are recognized as revenue in the financial statements.

II. New presentation and disclosure requirements

ASU No. 2020-07 has nothing to do with the **accounting** for contributed nonfinancial assets; rather, it deals with the **presentation and disclosure** of those contributions. Thus, the good news about ASU No. 2020-07 is that it did not change current recognition or measurement requirements for contributed nonfinancial assets. The bad news is that it did change the presentation and disclosure of contributed nonfinancial assets. The following chart discusses the changes to the reporting of contributed nonfinancial assets under ASU No. 2020-07.

NFP reporting of contributed nonfinancial assets under ASU No. 2020-07		
Under ASU No. 2020-07's presentation guidance	➡	NFPs will present contributed nonfinancial assets received in a separate line item on the statement of activities apart from contributions of cash or other financial assets.
Under ASU No. 2020-07's disclosure guidance	➡	NFPs will break down the amount of contributed nonfinancial assets received by category in the notes (**Note.** The standard provides NFPs with a lot of flexibility in deciding the categories used).
Under ASU No. 2020-07's disclosure guidance	➡	For each category of contributed nonfinancial assets received, the NFP will provide: [1] qualitative information about whether the contributed nonfinancial assets were either monetized or utilized during the reporting period (if utilized, a description of the programs or other activities for which those assets were used will be included); [2] its policy (if any) for monetizing rather than utilizing contributed nonfinancial assets; [3] a description of any associated donor restrictions; [4] a description of the valuation techniques and inputs used to arrive at a fair value measure at initial recognition; and [5] the principal market (or most advantageous market) used to arrive at a fair value measurement if it is a market in which the recipient NFP is prohibited by donor restrictions from selling or using the contributed nonfinancial asset.

A. An illustration of ASU No. 2020-07's presentation requirement

In this section, we will review how ASU No. 2020-07 may affect an NFP's financial statements. Let's begin by looking at how an NFP should present contributed nonfinancial assets as a separate line item on the statement of activities (apart from contributions of cash or other financial assets).

How the statement of activities will change under ASU No. 2020-07

Below is an example of a statement of activities prior to applying ASU No. 2020-07.

NFP D
Statement of Activities
Year Ended September 30, 20X1

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support:			
Contributions	$145,368	$56,776	$202,144
Fees	4,546		4,546
Investment return, net	63,181	63,670	126,851
Other	2,026		2,026
Net assets released from restrictions:			
Satisfaction of program restrictions	31,058	(31,058)	
Expiration of time restrictions	15,012	(15,012)	
Total revenues, gains, and other support	261,191	74,376	335,567
Expenses:			
Program Omega	97,068		97,068
Program Iota	83,012		83,012
Management and general	35,013		35,013
Fundraising	27,884		27,884
Total expenses	242,977		242,977
Change in net assets	18,214	74,376	92,590
Net assets at beginning of year	200,417	300,773	501,190
Net assets at end of year	$218,631	$375,149	$593,780

The following chart reflects how the statement of activities may appear after applying ASU No. 2020-07. As you can see, contributions of nonfinancial assets have been separated into another line item.

How the statement of activities will change under ASU No. 2020-07

Below is an example of a statement of activities after applying ASU No. 2020-07.

NFP D
Statement of Activities
Year Ended September 30, 20X1

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support:			
Contributions of cash and other financial assets	$103,211	$38,000	$141,211
Contributions of nonfinancial assets	42,157	18,776	60,933
Fees	4,546		4,546
Investment return, net	63,181	63,670	126,851
Other	2,026		2,026
Net assets released from restrictions:			
Satisfaction of program restrictions	31,058	(31,058)	
Expiration of time restrictions	15,012	(15,012)	
Total revenues, gains, and other support	261,191	74,376	335,567
Expenses:			
Program Omega	97,068		97,068
Program Iota	83,012		83,012
Management and general	35,013		35,013
Fundraising	27,884		27,884
Total expenses	242,977		242,977
Change in net assets	18,214	74,376	92,590
Net assets at beginning of year	200,417	300,773	501,190
Net assets at end of year	$218,631	$375,149	$593,780

1. Exercise 1-3

Please answer the following question.

Could I do this another way?
We have seen that ASU No. 2020-07 requires NFPs to present contributed nonfinancial assets as a separate line item on the statement of activities apart from contributions of cash and other financial assets. **Is there any way that an NFP can present this in the statement of activities differently than the dedicated line item we just saw in the previous illustration?**

2. Exercise 1-4

Please answer the following true or false question.

		True or False
1	NFP X receives only two types of contributed nonfinancial assets (i.e., contributed clothing and contributed food). To provide more information to its resource providers, NFP X would like to present two separate line items on the statement of activities (i.e., one for each type of contributed nonfinancial asset received) and present the required disclosures. This would be okay.	

B. An illustration of ASU No. 2020-07's disclosure requirements

Now, let's look at how an NFP might break down the amount of contributed nonfinancial assets received by category in the notes under ASU No. 2020-07.

Contributed Nonfinancial Assets

For the year that ended September 30, 20X1, contributed nonfinancial assets recognized within the statement of activities included:

	Without Donor Restrictions	With Donor Restrictions
Food	21,707	–
Clothing	10,200	–
Services	10,250	–
Vehicles	–	18,776
	$42,157	$18,776

The final chart below shows how an NFP might present the remaining new required disclosures under ASU No. 2020-07.

NFP D recognized contributed nonfinancial assets within revenue, including contributed food, clothing, services, and vehicles. With the exception of contributed vehicles, contributed nonfinancial assets did not have donor-imposed restrictions. Contributed food was utilized in Program Omega to provide free meals to those in need. Contributed clothing was used in Program Iota to provide free clothing to those in need. In valuing food and clothing, NFP D estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States. Contributed services recognized comprise professional services from attorneys who advised NFP D on various administrative legal matters. Contributed services are valued and reported at the estimated fair value in the financial statements based on current rates for similar legal services. It is NFP D's policy to sell all contributed vehicles immediately upon receipt at auction or for salvage. Donors contributed three vehicles during the period and restricted the proceeds from the sale of the vehicles to Program Omega for use in providing free meals to those in need. All vehicles were sold and valued according to the actual cash proceeds of $18,776 upon their disposition.

1. Exercise 1-5

Please answer the following true or false question.

		True or False
1	**Expenses** of contributed nonfinancial assets must be separately broken down on the statement of functional expenses due to ASU No. 2020-07.	

III. So How Did That Work Out for You?

Most NFPs applied ASU No. 2020-07 in 2022. While we can't say how ASU No. 2020-07 affected the NFP(s) you work for or with, we can tell how ASU No. 2020-07 worked out for some NFPs. The following chart summarizes how ASU No. 2020-07 changed the statement of activities for three NFPs.

How ASU No. 2020-07 Changed the Statement of Activities for Three NFPs

	NFP 1	**NFP 2**	**NFP 3**
Brief description of NFP	Small NFP providing job training and meals	Large regional food bank	Large conservation organization
Fiscal year end selected	6/30/22	6/30/22	6/30/22
Were comparative f/s prepared in the year ASU No. 2020-07 was implemented?	Yes. 2021 comparative year was adjusted	No	Yes. 2021 comparative year was adjusted

How ASU No. 2020-07 Changed the Statement of Activities for Three NFPs			
	NFP 1	**NFP 2**	**NFP 3**
How did ASU No. 2020-07 change the statement of activities?	**In the past,** NFP 1 had a revenue line item *grants and contributions*. **NFP 1 now** has two line items: (1) *grants and contributions*; **and** (2) *in-kind contributions*	**No change** as NFP 2 has historically presented contributions of nonfinancial assets as separate line items before ASU No 2020-07 (i.e., *public support - in-kind* **and** *donated food and commodities*)	**In the past,** NFP 3 had a revenue line item *support and revenues*. **NFP 3 now** has two line items: (1) *cash and other financial support and revenues*; **and** (2) *other nonfinancial support and revenues*

Having observed the impact of ASU No. 2020-07 on the statement of activities, let us now look at selected ASU No. 2020-07 related disclosures from the three NFPs. **Note.** Each of the three NFPs had a somewhat generic disclosure mentioning the adoption of ASU No. 2020-07 which we will not show.

Selected excerpts from NFP 1's ASU No. 2020-07 disclosures

Donated Services and Materials

The Organization received the following in-kind contributions for the year ending June 30:

	2022	2021
Resale items	$ 198,996	$ -
Leasehold improvements	-	100,363
Food donations	-	106,443
Total In-kind Contributions	$ 198,996	$ 206,806

Contributed resale items received by the Organization are recorded as in-kind contribution revenue with a corresponding increase to inventory. It is the Organization's policy to sell these donated items at its Thrift Shop with gross proceeds used to support ongoing program activities. The Organization values the inventory using the current average price located on a publicly available website for similar items if a group of items are donated.

Leasehold improvements were received by the Organization for the construction of their facility and valued at the cost charged by the construction contractor. Food donations are utilized in the Organization's programs. Food donations are valued at the average price per pound of food on a publicly available website.

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific programs. This contribution of services by the volunteers is not recognized in the financial statements unless the services received (a) create or enhance nonfinancial assets or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The donated services by volunteers for the years ended June 30, 2022 and 2021, did not meet the requirements above, therefore, no amounts were recognized in the financial statements for volunteer time.

Selected excerpts from NFP 2's ASU No. 2020-07 disclosures

Note 17: Contributed Nonfinancial Assets, Stocks, and Gift Cards

For the year ending June 30, 2022, contributed nonfinancial assets recognized within the statement of activities included:

Donated food and commodities	
Food	$ 156,097,487
Public support - in-kind	
Stock	1,292,356
Gift cards	425,460
Professional services	345,713
Office space	95,198
Event good and services	84,580
Total public support - in-kind	2,243,307
Total contributed nonfinancial assets, stock and gift cards	$ 158,340,794

- **Food and Commodities** – In addition to receiving cash contributions, the Organization receives in-kind contributions of food and other products from various donors. In-kind donations of products, the related inventory and the cost of donated food distributed are valued at an average of the national wholesale prices as determined by Feeding America. The Organization received approximately 93 million pounds valued at $156,097,487 during the year ended June 30, 2022. The average price per pound used was $1.53 at June 30, 2022.

- **Stock** – The Organization received $1,292,356 in donated stock. Donated stock is valued based on the average market price on the date received. Stock is liquidated upon receipt in compliance with the Organizations investment policy. Proceeds from the sale of stock are used for operations, unless restricted by the donor. There were no restricted stock donations in FY2022. Of the stock received, $994,000 was donated to Feeding North Texas Foundation.

- **Gift Cards** – The Organization also received $425,460 in gift cards. These cards were given by donors for the purchase of food and other operational expenses. Approximately $395,000 in gift cards were given by one donor which the Organization is granting to its various partner agencies to assist with food purchases.

- **Professional Services** – Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service, and the service would typically need to be purchased if not donated. For the year ended June 30, 2022, revenue recognized from contributed services totaled $345,713. Services included legal, pest control, advertising, and delivery services.

Continued

Selected excerpts from NFP 2's ASU No. 2020-07 disclosures

- **Warehouse and Office Space –** North Texas Food Bank employees occupied donated office space following the sale of the Organization's Dallas Farmers Market location in FY2021. Management estimates the value of the donated office space to be approximately $95,198 based on fair market value per square foot.

- **Event Goods and Services** – The Organization receives donated goods and services used for fundraising. These include items for auction, as well as services to host donor events. These donated goods and services are valued based on fair market price provided by the donor or another third party used by the Organization to run the auction and assist in organizing the event.

Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated.

Volunteer Time

A substantial number of volunteers donate significant amounts of their time to enable the Organization to meet its mission. For the year ended June 30, 2022, volunteers donated approximately 70,600 hours of their services. Management estimates the value of volunteer services to be approximately $1,059,000 based on the fair market value for such services.

The value of volunteer hours was not recognized as revenues or expenses during the year ended June 30, 2022.

Selected excerpts from NFP 3's ASU No. 2020-07 disclosures

(18) Nonfinancial Support and Revenues:

Nonfinancial support and revenues for the years ended June 30, 2022 and 2021 included:

	2022	2021
Nonfinancial Support and Revenues:		
Donated conservation easements	$ 2,667,250	104,342,054
Donated educational programming	10,717,315	8,917,227
	$ 13,384,565	113,259,281

DU recognized donated conservation easements and donated educational programming as other nonfinancial support and revenues in the accompanying consolidated statements of activities. As described in notes 2(l) and 2(m), support without donor restrictions and expenses are recognized in equal amounts based upon the appraised value of the easement or estimated value of the media content.

IV. Suggested solutions to exercises

This section contains the suggested solutions to the exercises presented in this chapter.

A. Suggested solution to Exercise 1-1

Gifts-in-kind versus nonfinancial assets

When the FASB began the standard-setting project that culminated with the issuance of ASU No. 2020-07, the FASB used the term **gifts-in-kind** instead of **nonfinancial assets**. Why did the FASB decide to use the **nonfinancial assets** wording in the final standard?

Although the term **gifts-in-kind** has been used within the NFP community for many years (and even used in places within FASB ASC 958), it has never been formally defined by the FASB. As a result, the meaning of the term **gifts-in-kind** is a little subjective within the industry (e.g., the AICPA NFP A&A Guide states that the term **gifts-in-kind** is used broadly to refer to all noncash gifts). The FASB opted to use different wording because it believed that using a term defined in the FASB ASC (i.e., **nonfinancial assets**) would add more clarity to the standard. For example, if an NFP receives a gift of stock, some may call that a gift-in-kind because it is not cash. However, because stock is a **financial asset** (under the FASB ASC definition of a financial asset), it is excluded from the enhanced presentation and disclosure requirements of ASU No. 2020-07.

B. Suggested solution to Exercise 1-2

Why were financial assets excluded from ASU No. 2020-07?

Why did the FASB exclude **financial assets** from the presentation and disclosure requirements of ASU No. 2020-07?

The FASB decided to exclude contributed financial assets from the scope of ASU No. 2020-07 because contributed financial assets (other than cash) are typically liquidated (monetized) immediately and used in a similar manner to cash in funding an NFP's programs and other activities. Therefore, enhanced presentation and disclosure of contributed financial assets (other than cash) is unnecessary for purposes of increasing the transparency of contributions.

C. Suggested solution to Exercise 1-3

Could I do this another way?

We have seen that ASU No. 2020-07 requires NFPs to present contributed nonfinancial assets as a separate line item on the statement of activities, apart from contributions of cash and other financial assets. **Is there any way that an NFP can present this in the statement of activities differently than the dedicated line item we just saw in the previous illustration?**

There is a little flexibility regarding the terminology and presentation used for contributed nonfinancial assets. For example, if the only type of contributed nonfinancial asset that an NFP food bank received was contributed food, the NFP might opt to call it **contributed food** instead of **contributed nonfinancial assets** on the statement of activities. Also, while not illustrated in ASU No. 2020-07, FASB staff have illustrated breaking contributed nonfinancial assets into a separate column on the statement of activities in some presentations. However, this presentation approach can add a lot of complexity regarding the presentation of expenses and restrictions.

D. Suggested solution to Exercise 1-4

		True or False
1	NFP X receives only two types of contributed nonfinancial assets (i.e., contributed clothing and contributed food). To provide more information to its resource providers, NFP X would like to present two separate line items on the statement of activities (i.e., one for each type of contributed nonfinancial asset received) and present the required disclosures. This would be okay.	**True.** In this case, NFP X is simply presenting more detail than required on the face of the statement of activities. As long as the added detail does not clutter the statement, this would be fine.

E. Suggested solution to Exercise 1-5

		True or False
1	**Expenses** of contributed nonfinancial assets must be separately broken down on the statement of functional expenses due to ASU No. 2020-07.	**False.** Though some may consider this to be the best practice and it was considered in the development of the standard, this is not a requirement in ASU No. 2020-07. In part, the FASB felt the new disclosures regarding how contributed nonfinancial assets were monetized or utilized provided effective information more efficiently. ASU No. 2020-07 focuses on the revenue side.

Solving Contribution Conundrums

Solving Contribution Conundrums

Learning objectives

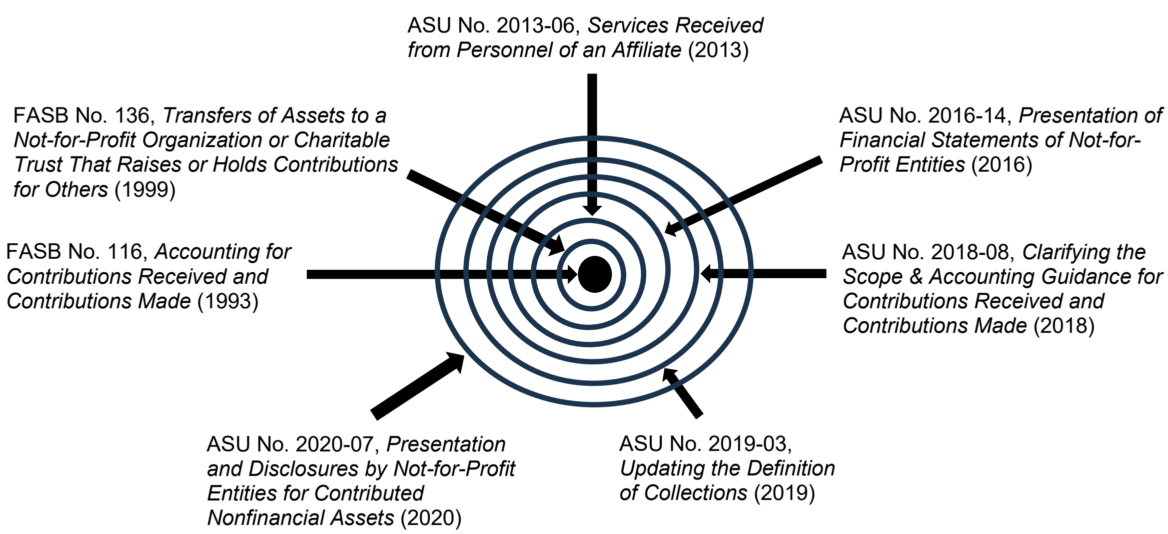
Upon completing this chapter, you will be able to:

- Determine whether an NFP has received a contribution (accounted for under FASB ASC 958-605) or something else (accounted for elsewhere in the FASB literature);
- Solve common contribution conundrums related to conditional contributions, restricted contributions, contributed services, etc.; and
- Apply key guidance related to the accounting for contributions

I. If you're sometimes confused by contributions, it's normal

On the surface the accounting for contributions may appear simple. Someone gives the NFP something and the NFP records it. Perhaps, the accounting for that transaction was simpler 100 years ago, when contributions often took the form of cash being dropped into collection plates, boxes, or even hats. However, many NFPs now receive contributions of cash, other assets (e.g., investments, land, buildings, use of facilities/utilities, material and supplies, promises to give), and services from individuals, businesses, other NFPs, and governments. Since contributions can now come in various shapes and sizes, the accounting has grown more complex. Because business entities do not usually receive contributions, the development of accounting standards for these uniquely NFP transactions was slow in coming. However, since the 1993 issuance of FASB No. 116, *Accounting for Contributions Received and Contributions Made*, the FASB has paid much more attention to NFPs and contributions. **Today's guidance for accounting for contributions is found in FASB ASC 958-605, *Revenue Recognition***. The current contribution guidance in FASB ASC 958-605 did not come from one standard but rather an amalgamation of standards issued and amended over the past 40 years.

Today's FASB ASC 958-605 comes from four decades of standards
(i.e., the tree rings of today's contribution guidance)



II. Where do I begin?

As observed in the prior “tree rings” illustration the contribution guidance in FASB ASC 958-605 comes from multiple standards. Each standard (i.e., ring) has added a level of maturity/complexity to the standards. At times it can feel as though we’ve grown from a young sapling in FASB No. 116 into a mature giant redwood with the current FASB ASC 958-605. For example, an export of today’s FASB ASC 958-605 into Word reveals a robust section of the FASB literature standing over 25,000 words tall! As shown below, the FASB utilizes 175 words just in defining what a contribution is.

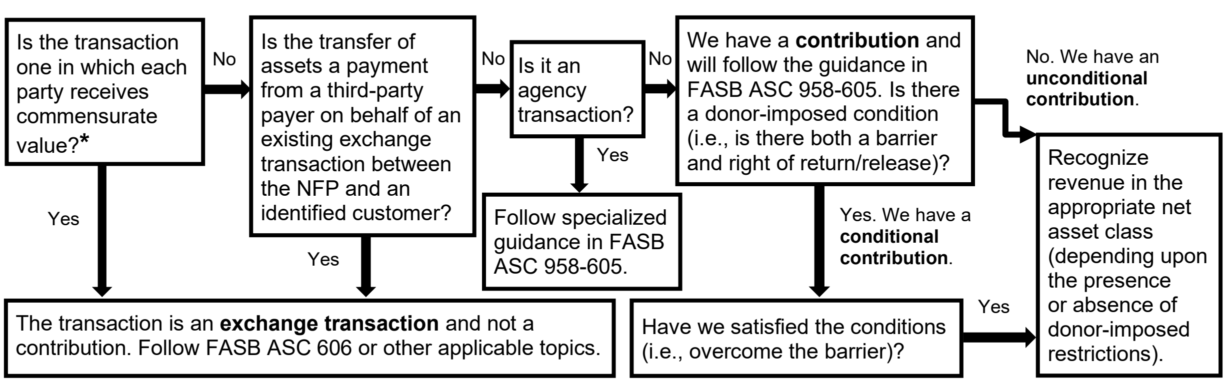
FASB ASC 958-605 defines a *contribution* as…

An **unconditional** transfer of cash or other assets, as well as unconditional promises to give, to an entity or a reduction, 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**: (1) **exchange transactions**, which are reciprocal transfers in which each party receives and sacrifices approximately **commensurate value**; (2) investments by owners and distributions to owners, which are nonreciprocal transfers between an entity and its owners; and (3) other nonreciprocal transfers, such as impositions of taxes or legal judgments, fines, and thefts, which are not voluntary transfers.

In a contribution transaction, the resource provider often receives value indirectly by providing a **societal benefit** although that benefit **is not considered to be of commensurate value**. In an exchange transaction, the potential public benefits are secondary to the potential 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).

When beginning to work through the contribution guidance in FASB ASC 958-605, it is important to first consider whether the NFP has actually received a contribution as defined by the standards. The following chart is a visual way for an NFP recipient to think through this determination that we will utilize and build upon in this course.

Do we have a contribution? If so, what type of contribution do we have?

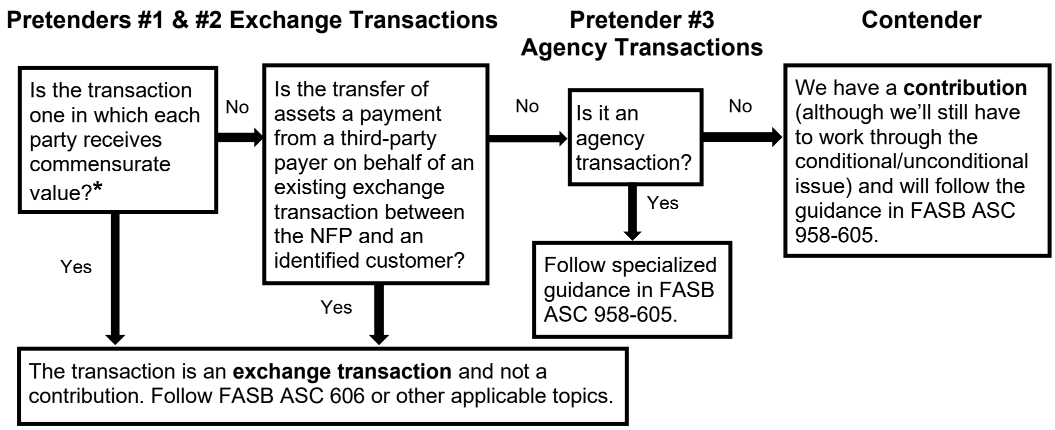


*Some transactions may have both an exchange element and a contribution element. If so, we need to consider bifurcating the transaction between the two elements.

III. Separating the pretenders from the contenders

Accounting for contributions is different from accounting for other kinds of voluntary transfers, such as exchange transactions and agency transactions. At times, distinguishing these different types of transfers is not always easy. However, to ensure that we are following the correct FASB guidance, it is critical to separate the potential “contribution pretenders” (i.e., exchange transactions and agency transactions) from the “contribution contenders” (i.e., conditional and unconditional contributions).

Separating the pretenders from the contenders



*Some transactions may have both an exchange element and a contribution element. If so, we need to consider bifurcating the transaction between the two elements.

A. Pretender #1 exchange transactions

The FASB defines an **exchange transaction** as being a reciprocal transfer between two entities that results in one of the entities acquiring assets or services or satisfying liabilities by surrendering other assets or services or incurring other obligations. As we saw earlier, the FASB definition of a contribution discusses that **exchange transactions** are reciprocal transfers in which each party receives and sacrifices approximately **commensurate value**. Common transactions/issues NFPs encounter in distinguishing contributions from exchange transactions include: (1) grants and contracts; (2) bifurcation; (3) memberships; (4) premiums/rewards; and (5) naming opportunities.

1. Grants and contracts

In the prior paragraph, the author bolded the terminology related to **commensurate value** discussed in the contribution definition because that is the terminology ASU No. 2018-08 added to help distinguish contributions from exchange transactions. NFPs now distinguish exchange transactions from contributions by evaluating whether the resource provider (including foundations, government agencies, or other organizations) is receiving commensurate value in return for the resources transferred. The following table includes a couple of key concepts related to commensurate value.

A couple of concepts related to commensurate value	
	A benefit received by the public as a result of the assets transferred **is not equivalent to commensurate value** received by the resource provider. (**Author's Note**. This is important to keep in mind with regard to government grants and contracts.)
	The 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. (**Author's Note**. This is important to keep in mind with regard to grants and contracts from foundations.)

As illustrated below, NFPs need to review agreements closely and make determinations regarding the presence or absence of commensurate value based on the facts of each agreement. This is especially important when dealing with grants and contracts.

A couple of illustrations (summarized) from FASB ASC 958-605 related to commensurate value	
✓	A 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. **FASB ASC 958-605 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.
✓	University D applied for and was awarded a grant from the federal government. University D must follow the rules and regulations established by the OMB 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 is also 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. **FASB ASC 958-605 concludes that this grant is <u>not</u> a transaction in which there is commensurate value being exchanged.** Thus, this grant should be accounted for under the contribution guidance.

Note. For detailed explanations of the above, see FASB ASC 958-605-55-14F through 958-605-55-14I.

2. Exercise 2-1

Please answer the following exercise.

Concentrating on commensurate value
Connie is new to NFP accounting. She is analyzing several grants and contracts to determine whether they are contributions or exchange transactions. **What are some items that you might suggest she look for in considering the presence or absence of commensurate value?**

3. Bifurcation

We just looked at grants and contracts and the importance of distinguishing contributions from exchange transactions. At the end of the day, an NFP could potentially determine that a grant or contract is a combination of both a contribution and an exchange transaction. This is true for other types of transactions as well. **Some transactions may have both an exchange element and a contribution element. If so, we need to consider bifurcating the transaction between the two elements.** For example, Zoo Z offers an immersive Kangaroo Crazy experience. When guests purchase their $25 tickets on-line or at a kiosk, they are encouraged to also give $15 to improve the enrichment activities for Zoo Z's kangaroos. If a patron responds by submitting $40 the transaction would be bifurcated between a $25 exchange transaction and $15 contribution.

Bifurcation

When a transaction has both contribution and exchange transaction elements that are meaningful, NFPs first determine the fair value of the exchange portion of the transaction, with the residual (i.e., the excess of the resources received over the fair value of the exchange portion of the transaction) reported as contributions.

In the Zoo Z example, it was fairly easy to determine the portion of the transaction that was an exchange transaction (i.e., the $25 admittance into the immersive Kangaroo Crazy experience accounted for under FASB ASC 606) from the contribution (i.e., the $15 donation for kangaroo enrichment). However, in other transactions, the split may not be as apparent. An entity may provide amounts to or perform services for an NFP in exchange for assets of substantially lower value. When this occurs, the transaction has an inherent contribution element to it. The FASB ASC 958-605 defines an **inherent contribution** as a contribution that results if an entity voluntarily transfers assets (or net assets) or performs services for another entity in exchange for either no assets or for assets of substantially lower value and unstated rights or privileges of a commensurate value are not involved.

4. Exercise 2-2

Please answer the following questions.

Does this transaction house a contribution?

Bob Builder has an excess storage facility currently valued at $200,000. Animal Shelter X is seeking a facility for a new shelter location. Moved by Animal Shelter X's mission, Bob sells them the facility for $50,000. **Should Animal Shelter X recognize a contribution of $150,000?**

Thanks, I guess…

During the year, NFP Z paid Anne Attorney $7,000 in legal fees. Anne Attorney told NFP Z that she normally would have charged $10,000 for those services, but she wanted to be charitable. **Should NFP Z recognize $3,000 in contributed services revenue?**

5. Memberships

Some NFPs receive dues from their members. The term “members” is used broadly by some NFPs to refer to their donors **and** by other NFPs to refer to individuals or other entities that pay dues in exchange for a defined set of benefits. These transfers often have elements of both a contribution and an exchange transaction because members receive tangible or intangible benefits from their membership in the NFP. Usually, the determination of whether membership dues are contributions rests on whether the value received by the member is commensurate with the dues paid. For example, if Museum M has annual memberships available for $250 and the only benefits members receive are a monthly newsletter with a fair value of $25 and an annual pass worth $75, $100 of the dues are received in an exchange transaction and recognized as revenue as the earnings process is completed and $150 of the dues are a contribution.

FASB ASC 958-605-55-11 discusses that member benefits generally have value regardless of how often (or whether) the benefits are used. For example, most would agree that a health club membership is an exchange transaction, even if the member stops using the facilities before the completion of the membership period. It may be difficult, however, to measure the benefits members receive and to determine whether the value of those benefits is approximately equal to the dues paid by the members. FASB ASC 958-605-55-12 provides the following indicators that may be helpful in determining whether membership dues 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 Useful for Determining the Contribution and Exchange Portions of Membership Dues

Indicator	Contribution	Exchange Transaction
Recipient NFP’s expressed intent concerning purpose of dues payment	The request describes the dues as being used to provide benefits to the general public or to the NFP’s service beneficiaries	The request describes the dues as providing economic benefits to members or to other entities or individuals designated by or related to the members
Extent of benefits to members	The benefits to members are negligible	The substantive benefits to members (e.g., publications, admissions, educational programs, and special events) may be available to nonmembers for a fee
NFP’s service efforts	The NFP provides service to members and nonmembers	The NFP benefits are provided only to members
Duration of benefits	The duration is not specified	The benefits are provided for a defined period; additional payment of dues is required to extend benefits
Expressed agreement concerning refundability of the payment	The payment is not refundable to the resource provider	The payment is fully or partially refundable if the resource provider withdraws from membership
Qualifications for membership	Membership is available to the general public	Membership is available only to individuals who meet certain criteria (e.g., requirements to pursue a specific career or to live in a certain area)

6. Exercise 2-3

Please answer the following question.

Contributing versus benefiting from In developing this course, the author reviewed the audited financial statements of five state CPA societies. What percentage do you believe these five societies categorized membership dues as being an exchange transaction?				
20%	**40%**	**60%**	**80%**	**100%**

7. Premiums/rewards

Sometimes NFPs give a little to hopefully get more than a little back from potential donors. In NFP lingo, the small inducement given by the NFP is sometimes referred to as a premium. The **cost of premiums** (e.g., postcards, mailing labels, lid grippers, calendars, etc.) **given to potential donors** as part of mass fundraising appeals is considered to be **fundraising expense**, and the classification of the donations received from the appeal as contributions is unaffected by the fact that premiums were given to potential donors. The concept here is that the premiums are not provided to potential donors in exchange for the assets contributed; they can be kept by all those from whom funds are solicited, regardless of whether a contribution is made.

The **cost of premiums** (e.g., mugs, t-shirts, caps, etc.) that are **given to resource providers** to acknowledge receipt of a contribution also should be reported as fundraising expenses **if those costs are nominal** in value compared with the value of the goods or services donated by the resource provider. For example, Breaking Bread Food Bank provides a grilling apron to people contributing $250 or more; the apron costs the food bank $10. Breaking Bread Food Bank would likely recognize contributions for the total amount contributed and fundraising expense of $10 for each apron provided to donors. The **cost of premiums that are greater than nominal in value** should be reported as **cost of sales** (i.e., the transaction should be bifurcated between the exchange and contribution elements). Some NFPs offer increasing levels of benefits/rewards for increasing levels of donation. For example, PBS might give a Rick Steves/Riverdance DVD at one level of donation. A higher level of donor might receive an expanded DVD set and series of books. When the benefits provided by the NFP correspond to varying levels of support the NFP receives, the comparison of fair value returned to fair value received needs to be assessed **at each level**.

8. Naming opportunities

Some NFPs publicly recognize resource providers through what are commonly referred to as naming opportunities. There can be a great deal of variety in terms of the types of naming opportunities provided and the potential commensurate value received in return (if any). For example, the right to have an individual's name on a sidewalk brick outside Private University B's new football stadium in return for a $250 gift would likely be considered to be of nominal value to the donor. As a result, this transaction would likely be deemed to be a $250 contribution. However, the right to have the football stadium named after a corporation for the next 20 years in return for a $20,000,000 gift is a different matter. Here Private University B would need to look at items such as: (1) the number of years the stadium will bear the name; (2) the placement and usage of the stadium's name; and (3) the right to rename the stadium if the corporation's name changes. As this transaction appears to have a meaningful exchange element, in the form of advertising, Private University B would need to determine the commensurate value involved.

The bottom line with regard to naming rights is that NFPs need to consider the specific facts and circumstances of the naming opportunity and accompanying rights and privileges provided in return. The AICPA Audit and Accounting Guide, *Not-for-Profit Entities*, contains the following indicators that may be useful in determining whether naming opportunities are contributions, exchange transactions, or a combination of both (i.e., something that needs to be bifurcated). 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.

Naming Opportunities - Indicators Useful in Distinguishing Contributions from Exchange Transactions

Indicator	Contribution	Exchange Transaction
Value of public recognition	Resource provider receives nominal value related to the public recognition and there are no direct benefits provided to the resource provider	Resource provider receives significant value related to the public recognition or there are direct benefits provided to the resource provider
Length of time that the naming benefit is provided	Naming benefit is provided for a relatively short time, or the NFP has the right to change the name at its discretion	Naming benefit is provided for relatively long time, and the name cannot be changed solely at the NFP's discretion
Control over name and logo use	Party receiving the naming opportunity cannot change the name	Party receiving the naming opportunity can change the name, such as if a corporate donor changes its name and requires a corresponding name change at the NFP
Other rights and privileges	The named party receives no other rights or privileges in connection with the naming opportunity transaction	The named party receives other rights and privileges in connection with the naming opportunity transaction, such as an exclusive right to sell, exclusive recruitment opportunities, and so forth

In bifurcating the exchange (if any) and contribution elements of a naming opportunity, an NFP will begin by determining the fair value of the exchange component first and any remainder would be a contribution. **Note.** If multiple deliverables spanning multiple years are part of the exchange transaction, it is possible that the contribution element would be reflected in current year's revenues but some or all portions of the exchange components could be deferred.

9. Exercise 2-4

Please answer the following exercise.

What would you call this?

Private School T conducts an annual fundraising campaign to assist with scholarships for its K-12 grade students. To acknowledge the generosity of their largest campaign contributors, donors' names appear on the back of t-shirts given to students and a banner hung in the school gym during the academic year. Donors over $5,000 are listed as gold sponsors, donors over $2,500 are silver sponsors, and donors over $500 are bronze sponsors. **Would you consider these naming opportunities to be contributions, exchange transactions, or some combination of both?**

B. Pretender #2 exchange transactions

In our earlier “separating the pretenders from the contenders” chart, we saw that there are two types of exchange transactions which can initially appear to be contributions (i.e., pretenders #1 & #2) but are actually exchange transactions. Having discussed the first type, we are now ready to move to the second and the guidance here was added to FASB ASC 958 by ASU No. 2018-08. Essentially, 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.

Payments in connection with an existing exchange transaction

Under FASB ASC 958-605, even when it has been determined that a resource provider has not received commensurate value for the resources provided, NFPs also need to determine whether a transfer of assets represents a payment from a third-party payer on behalf of **an existing exchange transaction** between the NFP and an identified customer. Such transfers are not contributions and examples of these transactions could 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.

1. Exercise 2-5

Please answer the following exercise.

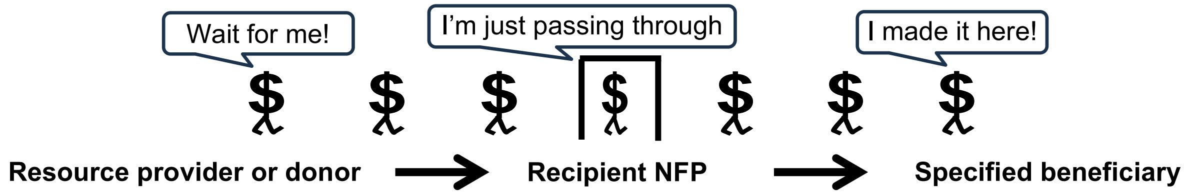
Is this a pretender or a contender?

Lloyd is a student at Private University B. Lloyd’s total tuition charged for the semester is $25,000. However, Lloyd did receive a grant in the amount of $5,000 to use toward the tuition fee, which is paid directly by the grantor to Private University B. **Would Private University B consider the $5,000 to be a contribution?**

C. Pretender #3 agency transactions

Going back to our earlier “separating the pretenders from the contenders” chart, we have now discussed the two types of exchange transactions which can initially appear to be contributions (i.e., pretenders #1 & #2) but are actually exchange transactions. We are now prepared to discuss agency transactions (i.e., our third type of pretender). Some NFPs receive transfers of resources in an agency, trustee, or intermediary role. Federated fundraising organizations (e.g., United Way), community foundations, and institutionally related entities are examples of NFPs that ordinarily serve as agents, trustees, or intermediaries, **but any NFP can function in those roles**. Much of the guidance in this area is housed in FASB ASC 958-605 and dates back to FASB No. 136. FASB ASC 958-605-15-6 states that the guidance in FASB ASC 958-605 **related to contributions received does not apply** to transfers of assets in which the reporting entity acts as an agent, trustee, or intermediary, rather than as a donor or donee. **Instead**, these transactions are addressed in the sections of FASB ASC 958-605 which address transfers of assets to an NFP or charitable trust that raises or holds contributions for others. In properly distinguishing contributions from agency transactions, it is important to understand what agency transactions represent. FASB ASC 958-605 defines an **agency transaction** as a type of exchange transaction in which the reporting entity acts as an agent, trustee, or intermediary for another party that may be a donor or donee.

Just passing through



When NFPs act as agents, trustees, or intermediaries helping donors to make contributions to another entity or individual, **they do not receive a contribution when they receive the assets, nor do they make a contribution when they disburse the assets** to the other entity or individual. Instead, these recipient NFPs act as go-betweens, passing the assets from the donor through their organization to the specified entity or individual.

An agent will recognize its liability to the specified beneficiary concurrent with its recognition of cash or other financial assets received from the donor. **The subsequent distributions** of those assets to the specified third-party beneficiaries **will be reported as decreases in the assets and liabilities**.

1. Discretion over the beneficiaries is key

In determining whether a transfer to an NFP is a contribution **or** an agency transaction, it is necessary to assess the extent of discretion the NFP has over the use of the assets that are received. **If a recipient NFP can choose the beneficiaries of the assets, it does have discretion sufficient to recognize a contribution**. On the other hand, **if a recipient NFP has little or no discretion, the transfer is an agency transaction**. NFPs often have discretion, as donors frequently do not dictate specific beneficiaries (i.e., they simply give to the NFP itself to further its mission or a specific portion of its mission). However, in some cases the donor may dictate a specific beneficiary.

How do we know if a donor is specifying the beneficiary?

FASB ASC 958-605-55-78 discusses that a donor may specify the beneficiary by: [1] **name**; [2] **stating that <u>all</u> entities that meet a set of donor-defined criteria are beneficiaries**; OR [3] **actions surrounding the transfer that make clear the identity of the beneficiary** (e.g., by responding to a request from a recipient NFP that exists to raise assets for the beneficiary).

Even when a donor initially specifies a beneficiary, an NFP may still be able to obtain discretion (and recognize a contribution) through the presence of **variance power**. Under FASB ASC 958-605-25-25, **when a donor explicitly grants** a recipient NFP **variance power** and **names an unaffiliated beneficiary**, the recipient NFP is a donee (i.e., **the recipient of a contribution**) and recognizes contribution revenue.

What is the full definition of *variance power*?

The FASB formally defines **variance power** as being the unilateral power to redirect the use of the transferred assets to another beneficiary. A donor explicitly grants variance power if the recipient entity's unilateral power to redirect the use of the assets **is explicitly referred to in the instrument transferring the assets**. Unilateral power means that the recipient entity can override the donor's instructions **without approval from the donor, specified beneficiary, or any other interested party**.

2. Exercise 2-6

The following chart describes several types of arrangements between a donor and a recipient NFP. Based on the limited facts provided, please indicate whether the NFP should treat the arrangement as a contribution.

	Description of arrangement	Should the NFP treat the arrangement as a **contribution?**
1	NFP 1 develops and maintains a list of dentists that are interested in providing free dental services to veterans. NFP 1 encourages veterans in need of free dental care to contact NFP 1 for referral to dentists in the community that may be willing to serve them. The decision about whether and how to serve a specific veteran resides with the dentist.	
2	NFP 2 provides donors with a list of potential charities that have been prequalified or otherwise identified by NFP 2. The charities are unrelated to NFP 2. Donors then select a beneficiary from among the qualified charities. NFP 2 receives and distributes the assets as directed by the donor.	
3	NFP 3 asks donors to select one or more fields of interest from among a list of community needs prepared by NFP 3 (e.g., youth camps, after school programs, youth sports programs).	
4	A grantor specifies eligibility criteria and states that the grant proceeds must be transferred to all who meet the criteria. The grant specifies that no recipients can be related to NFP 4. NFP 4 is responsible for determining whether individuals or entities meet the grantor-specified eligibility criteria.	

3. Additional concepts related to agency transactions

FASB ASC No. 958 contains additional requirements/guidance for agency transactions beyond the scope of our discussion including: [1] the treatment of agency transactions in the statement of cash flows; [2] disclosure requirements; [3] recognition by the specified (i.e., ultimate) beneficiary; [4] fees charged by recipient entities; [5] special rules for when a recipient entity and a specified beneficiary are financially interrelated (e.g., University Foundation K and University K); [6] transfers that are revocable, repayable, or reciprocal; [7] special options related to nonfinancial assets in agency transactions; and [8] special rules for when a resource provider grants variance power but names itself or its affiliate as beneficiary of the transferred assets. To provide a flavor for this additional guidance, FASB ASC 958-605-25-27 provides that "If a recipient entity and a specified beneficiary are financially interrelated entities and the recipient entity is not a trustee, the recipient entity shall recognize a contribution received when it receives assets (financial or nonfinancial) from the donor that are specified for the beneficiary."

4. Exercise 2-7

Please answer the following questions.

Did we receive this or that?

Save the Sunsets lacks the background and staffing to conduct a fundraising campaign, so it enters into a transaction with Fundraising NFP X. Fundraising NFP X solicits contributions on behalf of Save the Sunsets for a fee of 20% of the contributions raised. Fundraising NFP X raises $500,000 from donors and remits $400,000 to Save the Sunsets after retaining its fee of $100,000. **Should Save the Sunsets report contribution revenue of $500,000 or $400,000?**

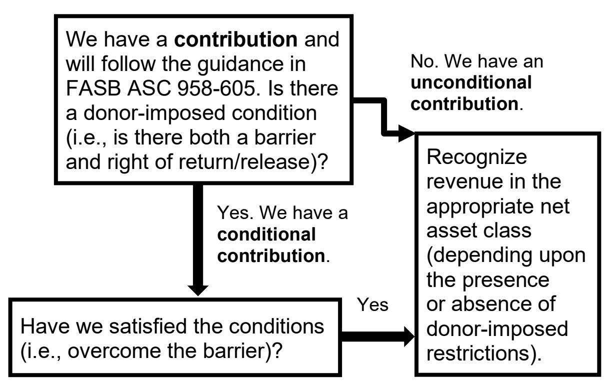
How do we record all of this?

The Cherry Table Furniture company provides Homeless Shelter X with vouchers that cannot be exchanged for cash but can be used for public transportation. The Cherry Table Furniture company specifies that the vouchers must be given to all individuals who spend a week in the shelter but can be awarded for no more than 30 days. **How should Homeless Shelter X record the receipt of the vouchers from The Cherry Table Furniture company?**

IV. We have a contribution! So now what?

The good news is that having determined that a transaction is not one of the three pretenders that we have discussed (i.e., the two types of exchange transactions and agency transactions) we now know that we have a contribution. The bad news is that we do not know whether it is a conditional contribution or an unconditional contribution, and that distinction is **critical from an accounting standpoint** as we will soon explore. Harkening back to our earlier chart, for this section of the course we will work through the following portion of the chart.

Is the contribution conditional or unconditional?



A. Distinguishing conditional from unconditional contributions

The determination of whether a contribution is conditional or unconditional is crucial as it drives the timing of the revenue recognized. **Unconditional 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 donor restrictions or net assets without donor restrictions.

1. Donor-imposed conditions

ASU No. 2018-08 updated the definition of a conditional contribution found in FASB ASC 958-605. A **conditional contribution** is defined as a contribution that contains a **donor-imposed condition**. (**Note.** A **conditional promise to give** is defined as a promise to give that is subject to a **donor-imposed condition**.) Thus, determining whether a donor-imposed condition is present is a critical part of distinguishing conditional contributions from unconditional contributions. ASU No. 2018-08 also updated the definition of a **donor-imposed condition** found in FASB ASC 958-605 as reflected in the following chart.

FASB ASC 958-605 defines a *donor-imposed condition* as…
A donor stipulation (donors include other types of contributors, including makers of certain grants) **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 contributor a **right of return** of the assets it has transferred **or** gives the promisor a **right of release** from its obligation to transfer its assets.

2. Exercise 2-8

Please answer the following question.

We just reviewed the FASB ASC 958-605 definition of a **donor-imposed condition**. Is there an easy way to make the distinction between a **donor-imposed condition** and a **donor-imposed restriction**?

3. A conditional contribution has both a barrier <u>and</u> a right of return/release

In the chart on the prior page containing the definition of a donor-imposed condition, the author bolded the key terminology used in determining whether a donor-imposed condition is present.

	How do we know if we have a conditional contribution? An NFP will 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**. The presence of **both** a barrier **and** a right of return or a right of release indicates that an NFP is not entitled to the transferred assets or a future transfer of assets until it has overcome the barrier(s) in the agreement (i.e., until the barrier is overcome the contribution would be deemed to be conditional in nature).

Based on the prior chart, a grant agreement that is deemed to be a contribution must have **both** a barrier **and** a right of return/release to be a conditional contribution (and revenue would not be recognized until the condition is met). If **either** were absent, the grant would be deemed an unconditional contribution and the revenue would be recognized immediately. A conditional contribution becomes unconditional when the condition has been substantially met. In cases of ambiguous donor stipulations, a contribution containing stipulations that are not clearly unconditional shall be presumed to be a conditional contribution.

4. Assessing whether an agreement contains a barrier

When assessing whether an agreement contains a barrier, NFPs need to review the agreements closely and make a determination based on the facts in each agreement. A barrier often places specific requirements on an NFP about the use of the transferred assets to be entitled to those assets. FASB ASC 958-605 provides several indicators to be used in assessing whether an agreement contains a barrier.

In assessing whether an agreement contains a barrier, NFPs will consider indicators including…	
	The inclusion of a measurable performance-related barrier (e.g., a requirement indicating that an NFP'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) **or other measurable barrier** (e.g., a stipulation that an NFP is entitled to the assets only upon the occurrence of an identified event such as meeting a matching requirement);
	The extent to which a stipulation limits discretion by the NFP on the conduct of an activity more specifically than the general activity being conducted or the time frame in which the contribution must be used (e.g., 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 followed); and
	Whether a stipulation is related to the purpose of the agreement (this indicator generally excludes administrative tasks and trivial stipulations).

Note. Depending on the facts and circumstances, some indicators in the prior chart may be more significant than others, and no single indicator is determinative. We should also note that a probability assessment about whether an NFP is likely to meet the stipulation is not a factor when determining whether an agreement contains a barrier.

5. Exercise 2-9

Please review the following three scenarios involving grants and indicate whether you believe the grant contains a barrier to entitlement.

Scenario 1 – Grant with a cost-sharing provision NFP A is awarded a three-year grant. As part of the grant agreement, NFP A is required to provide from its own resources (i.e., other than the funds received from the grant) an amount towards the program equal to a certain percentage of the grant award in each year (of the three years) in order to be entitled to the grant funds for that year. The grant agreement specifies that if the cost share is not met in a given year, the grantor has the right to have NFP A return the grant funds for that year (or a portion of the grant funds).
Scenario 2 – Grant with a budget and related stipulations NFP B just received a grant from Foundation C. In obtaining the grant, NFP B was required to submit a budget containing line items for how NFP B expects to spend the grant funds to achieve the proposed activity. The grant contains a requirement for NFP B to gain preapproval for a significant deviation in spending (e.g., a line-item deviation of more than 10 percent).
Scenario 3 – Subjective termination provision NFP C just received a grant from Foundation D. In reviewing the grant, NFP C sees no indication of a measurable barrier or limited discretion barrier. Foundation D’s standard grant wording contains the following provision “Foundation D may adjust, suspend, or discontinue any payment of grant funds or terminate this agreement if Foundation D is not reasonably satisfied with your progress on the project. Any grant funds that have not been used for the project upon expiration or termination of this agreement must be returned promptly to Foundation D.”

6. Assessing whether an agreement contains a right of return or a right of release

For a donor-imposed condition to exist, it must be determinable from the agreement (or another document referenced in the agreement) that an NFP 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 an NFP would be entitled to the transfer of assets. **In the absence of any apparent indication that an NFP is only entitled to the transferred assets or a future transfer of assets if it has overcome a barrier, the agreement will not be considered to contain a right of return of assets transferred or a right of release from obligation and will be deemed a contribution without donor-imposed conditions**.

7. Illustrations of barrier and right of return/release determinations

As we have alluded to, the determination of whether a grant or contract is a conditional contribution, or an unconditional contribution will require a healthy dose of: (1) reading through agreements; (2) identifying the significant components of the agreements; and (3) applying professional judgement. FASB ASC 958-605-55 provides a number of illustrative determinations in this area, and it is important to read through those illustrations to become familiar with the standard. The following chart summarizes **a few** of the illustrations in FASB ASC 958-605-55.

<table>
<tr><th colspan="2">A few illustrations (summarized) from FASB ASC 958-605-55 related to the determination of whether a grant is a conditional contribution or an unconditional contribution</th></tr>
<tr><td>✓</td><td>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. NFP J determines that this grant is conditional because it contains both a measurable performance-related barrier 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.</td></tr>
<tr><td>✓</td><td>NFP B is a hospital with a research program. NFP B receives a $300,000 grant from the federal awarding agency to fund 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 OMB 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. NFP B determines that this grant is conditional. The grant limits NFP B’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 OMB rules and regulations). The grant also includes a release from the promisor’s obligation for unused assets. NFP B records revenue during the grant period when the barriers have been overcome as it incurs qualifying expenses.
continued</td></tr>
</table>

A few illustrations (summarized) from FASB ASC 958-605-55 related to the determination of whether a grant is a conditional contribution or an unconditional contribution	
✓	NFP E 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. **NFP E determines that the grant is not a conditional contribution** (as it 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). The purpose of research on gluten-related allergies results in donor-restricted revenue because the purpose of the grant is narrower than the overall mission of the entity.
✓	NFP H 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 (e.g., to hire 10 tennis instructors or to provide a summer camp for nine 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. **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**. 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.

Note. For detailed explanations of the prior chart see FASB ASC 958-605-55.

8. Exercise 2-10

Please answer the following true or false question.

		True or False
1	For conditional contributions, recipients must disclose the following information: (1) the total of the amounts promised; and (2) a description and amount for each group of promises with similar characteristics.	

9. Private foundations

We have focused our discussion on NFPs that **receive** contributions. However, this guidance also applies to NFPs that **make** contributions (e.g., a private foundation). A private foundation will be applying the same guidance we have discussed (i.e., distinguishing contributions from exchange transactions and distinguishing conditional contributions from unconditional contributions). For example, a private foundation would record a grant payable for an unconditional contribution and disclose a commitment for a conditional contribution. For more information see FASB ASC 958-720-55-1A.

10. Exercise 2-11

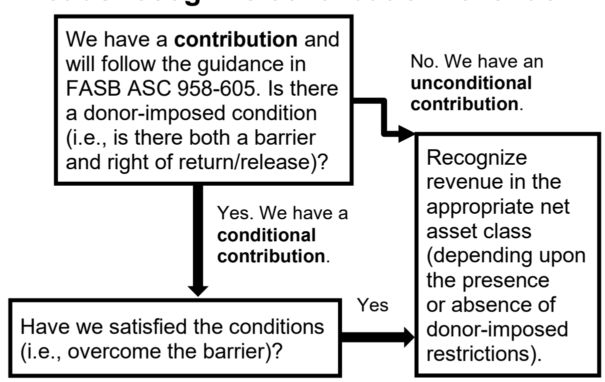
Please answer the following question.

Do we have something here?
Loose Squeals, a shelter for lost and abandoned pigs, is obtaining a loan from a local bank to improve its facilities. Ima Pigg is a local philanthropist. To help Loose Squeals obtain the loan and at a lower rate, Ima guarantees the debt. **For Ima's guarantee to keep Loose Squeals' bacon out of the fire per se, has Loose Squeals received something that should be recognized?**

V. Let us recognize contribution revenue!

The following is an excerpt from our earlier chart. However, we are now focusing on the final box on the right. We are here because it was determined that the transaction was not a contribution pretender **and either**: [1] the contribution was initially determined to be unconditional (in which case we recognize revenue right away) **or** [2] the contribution was initially determined to be conditional and we have subsequently overcome the barriers (i.e., it has become unconditional).

Let us recognize contribution revenue!



Once an NFP determines that it should recognize contribution revenue, the next step is accounting for the contribution. In this section, we will review several key concepts related to accounting for contributions, including: (1) key terminology; (2) valuing unconditional promises to give when received; (3) unrestricted versus restricted contributions; (4) contributions of certain unique items; (5) contributions of services; and (6) contributions of collection items. We will begin by looking at key terminology as it is critical when it comes to recognition.

A. Key terminology

We saw earlier in this chapter that ASU No. 2018-08 provided updated definitions for **contribution**, **conditional promise to give**, **donor-imposed condition**, and **conditional contribution**. However, there is additional terminology that is important to contribution accounting.

Key contribution terminology	
	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: (1) the nature of the NFP; (2) the environment in which it operates; and (3) 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 (e.g., 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 (e.g., 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.
	Inherent contribution - A contribution that results if an entity voluntarily transfers assets (or net assets) or performs services for another entity in exchange for either no assets or for assets of substantially lower value and unstated rights or privileges of a commensurate value are not involved.
	Promise to give - A written or oral agreement to contribute cash or other assets to another entity. A promise carries rights and obligations - the recipient of a promise to give has a right to expect that the promised assets will be transferred in the future, and the maker has a social and moral obligation, and generally a legal obligation, to make the promised transfer. A promise to give may be either conditional or unconditional.
	Stipulation - A statement by a donor that creates a condition or restriction on the use of transferred resources.
	Unconditional promise to give - A promise to give that depends only on passage of time or demand by the promisee for performance.

The table above included the definition of a **promise to give**. While we are looking at this definition, we also wanted to mention the concepts illustrated in the following chart.

	Additional key concepts related to promises to give
	Promises to give must be supported by sufficient evidence in the form of verifiable documentation that a promise to give was made and received. This requirement does not prevent recognition of verifiable oral promises such as those documented by recordings, written registers, or other means that permit subsequent verification. The AICPA Audit & Accounting Guide, *Not-for-Profit Entities*, discusses that other forms of sufficient verifiable evidence could include: (a) written agreements; (b) pledge cards; (c) oral promises documented by contemporaneous written logs; and (d) oral promises documented by follow-up written confirmations.

B. Valuing unconditional promises to give when received

After an NFP has determined that it has received a communication from a donor that is both unconditional and a promise to give, its attention turns to recording the transaction. Unconditional promises to give are recorded at fair value when received. As shown in the following, a critical factor in determining fair value for unconditional promises to give depends on the expected collection date of the promise.

Determining the fair value of unconditional promises to give cash	
✓	***Unconditional promises to give cash expected to be collected in less than one year*** are recorded at fair value. Unconditional promises to give that are expected to be collected in less than one year may be measured at net realizable value because that amount results in a reasonable estimate of fair value. In most cases, the net realizable value is the face value of the promise net of any estimated uncollectible amount. **Author's Note:** Different NFPs have differing methodologies for estimating the uncollectible amount of unconditional promises to give. Some NFPs set a certain dollar threshold and for promises over that threshold the promises are evaluated individually (i.e., an allowance is determined based on the individual donor and his/her ability to pay) and for the portfolio of promises below the threshold, a uniform percentage is used based on the history and experience of the NFP.
✓	***Unconditional promises to give cash expected to be collected in more than one year*** are recorded at fair value. The present value of the future cash flows is one valuation technique for measuring the fair value of contributions arising from unconditional promises to give cash; other valuation techniques are also available (see FASB ASC 820, *Fair Value Measurement*). FASB ASC 958-605-55-22 provides the following illustration of the use of present value techniques for initial recognition and measurement of unconditional promises to give cash that are expected to be collected one year or more after the financial statement date. **Facts:** NFP A receives a promise (or promises from a group of homogeneous donors) to give $100 in five years, that the anticipated future cash flows from the promise(s) are $70, and that the present value of the future cash flows is $50. **Solution:** dr. Contributions receivable $70 cr. Contribution revenue – donor-restricted support $50 cr. Discount on contributions receivable $20 (**Note:** Some NFPs maintain a subsidiary ledger to retain information concerning the $100 face amount of contributions promised in order to monitor collections of contributions promised.) **Author's Note:** Different NFPs have differing methodologies for selecting the discount rate for unconditional promises to give in more than one year. The discount rate is supposed to be based upon the risks involved. Some NFPs begin by estimating the allowance for the uncollectible amounts and spreading that allowance to the receivables (i.e., to arrive at an estimated stream of cash flows) and then applying the discount using a risk-free rate with a minor adjustment to get to a risk-adjusted discount rate.

FASB ASC 820 describes factors to be taken into account in determining an appropriate risk-adjusted discount rate if present value techniques are used for measuring fair value. The discount rate utilized in the fair value measurement of a promise to give will be determined at the time the unconditional promise to give is initially recognized and not subsequently revised unless the NFP has elected the fair value option (FASB ASC 825-10, *Financial Instruments*) to measure the promise to give.

Determining the fair value of unconditional promises to give noncash assets	
✓	***Unconditional promises to give noncash assets expected to be collected in less than one year*** are recorded at fair value. Unconditional promises to give that are expected to be collected in less than one year may be measured at net realizable value as an estimate of their fair value.
✓	***Unconditional promises to give noncash assets expected to be collected in more than one year*** are recorded at fair value. FASB ASC 820 provides that present value techniques are one method of measuring fair value and that other methods are possible. When present value techniques are used, the fair value of an unconditional promise to give noncash assets could be based on the present value of the projected fair values of the noncash assets at the date and in the quantities that those assets are to be received. The fair value of the noncash assets today might not necessarily represent the projected fair values of those assets at the date they are expected to be received. The fair value of the noncash assets at the date the promise is received could be used to measure the fair value of the contribution if it is hard to determine the projected fair value of the underlying assets. A discount would not be recorded in that situation.

Between the time that an unconditional promise to give is initially recorded and the time it is actually collected, the fair value of the promise can change. Thus, until unconditional promises to give are collected, they are reevaluated in each subsequent period.

	Reevaluations
△	Recorded unconditional promises to give cash or noncash assets may require periodic adjustment for: (a) accrual of the interest element for a promise to give measured using present value techniques; (b) changes in the quantity or nature of assets expected to be received; (c) changes in the projected fair value of the underlying noncash assets at the date that those assets are expected to be received; (d) changes in the timing of assets expected to be received; (e) changes in the time value of money; and (f) changes in fair value that are required to be recognized if the NFP has elected the fair value option.

As shown in the chart on the following page, NFPs have disclosure requirements related to the valuation of unconditional promises to give (e.g., NFPs present a schedule of unconditional promises to give showing: the total amount of unconditional promises separated into amounts receivable in less than one year, in one to five years, and in more than five years; the amount of the allowance for uncollectible promises receivable; and the unamortized discount).

Note disclosures related to the valuation of unconditional promises to give

Recipients of unconditional promises to give are required to disclose all of the following:

- The amounts of promises receivable in less than one year, in one to five years, and in more than five years.
- The amount of the allowance for uncollectible promises receivable.
- The discount that arises if measuring a promise to give at present value if that discount is not separately disclosed by reporting it as a deduction from contributions receivable on the face of a statement of financial position pursuant to FASB ASC 958-310-45-1.

Note. If unconditional promises to give are subsequently measured at fair value, several disclosure requirements exist (see discussion at FASB ASC 958-310-50).

1. Exercise 2-12

Please review and complete the following exercise. (**Note.** NFPs may take different approaches to recording the below entry in their ledger, and in this exercise, we are trying to simplify things.)

Book it

Last year NFP Z received an unconditional promise to give from Tom Morrow for $500,000. The promise contained no purpose restrictions and stated that the amount would be paid over a five-year period at $100,000 per year. NFP Z determined that the present value of the promise was $450,000. The $50,000 discount was broken down into the following elements: year 1 = $15,000; year 2 = $12,500; year 3 = $10,000; year 4 = $7,500; and year 5 = $5,000. When NFP Z recorded the contribution, it made the following journal entry:

dr. Contributions receivable:	$500,000	
cr. Contribution revenue – donor-restricted support:		$450,000
cr. Discount on contributions receivable:		$50,000

It is now one year after the promise was made and Tom Morrow has just made the first payment. Nate is the controller for NFP Z and is trying to record the entry for the receipt of the first payment. Nate is confident of the below amounts but is unsure what the remaining credit for $15,000 should be called. Please fill in the blank below:

dr. Cash:	$100,000	
dr. Discount on contributions receivable:	$15,000	
cr. Contributions receivable:		$100,000
cr. ___________________________		$15,000

C. Unrestricted versus restricted contributions

Donors may place restrictions on contributions to NFPs. Such donor-imposed restrictions limit the use of the contribution, but they do not change the transaction's fundamental nature from that of a contribution (i.e., contributions with donor-imposed restrictions are recognized as revenues or gains in the period received). The following chart contains important facts about donor-imposed restrictions.

Important facts about donor-imposed restrictions	
	Donor-imposed restrictions that are temporary in nature may relate to: (1) **time** [e.g., “I promise to give $25,000 next June” or “Here is a contribution of $25,000, but it cannot be spent until next year”]; (2) **purpose** [e.g., “I promise to give $25,000 to University X, but it can only be used towards the building of a new school of business]; or (3) **both time and purpose**.
	Donor-imposed restrictions may: (1) be stipulated explicitly by the donor in a written or oral communication accompanying the contribution; or (2) result implicitly from the circumstances surrounding receipt of the contributed asset [e.g., receiving contributions in response to a capital campaign or a campaign for a particular program].
	Donor-imposed restrictions that are perpetual in nature commonly relate to items such as: (1) the establishment of an endowment; (2) the donation of land restricted for the NFP’s perpetual use; or (3) the donation of collection items that are perpetually restricted.
	Donors can potentially impose restrictions on net assets without donor restrictions (e.g., a donor may make a restricted contribution that is conditioned on the NFP restricting a stated amount of its net assets without donor restrictions).
	Contributions without donor-imposed restrictions are reported as support that increases net assets without donor restrictions. Contributions with donor-imposed restrictions are reported as donor-restricted support, which increases net assets with donor restrictions.
	Within the statement of activities amounts are reclassified from net assets with donor restrictions to net assets without donor restrictions when donor-imposed purpose restrictions are satisfied, or time restrictions have passed. For example, if an NFP received $50,000 to support Program X, it would report $50,000 as contribution revenue, increasing net assets with donor restrictions. When Program X expenses occur, the statement of activities would report a reduction in net assets with donor restrictions and an increase in net assets without donor restrictions.
	NFPs can elect to report donor-restricted contributions whose restrictions are met in the same reporting period as support within net assets without donor restrictions. FASB ASC 958-605 provides guidance on this option. There are also disclosure requirements related to this option.
	Contributions of unconditional promises to give with payments due in future periods are reported as donor-restricted support unless explicit donor stipulations or circumstances surrounding the receipt of a promise make clear that the donor intended it to be used to support activities of the current period (e.g., Board Member X wants to help NFP B avoid a current-year deficit. Board Member X promises to give NFP B $25,000 each year for the next three years specifically stating that the gift is so NFP B can avoid a current-year deficit.).

1. Exercise 2-13

Please answer the following question.

It's a Hoot owl refuge embarks on a three-year capital campaign to build a new facility. To help the project take flight, Ed Wig unconditionally promises $50,000 restricted for the new facility. Ed Wig said the promise will be payable in Year 3 when the building is expected to be completed. It's a Hoot is able to complete construction and open the facility by end of Year 2. **Are the restrictions met when the assets are placed in service or when the receivable is due?**

D. Contributions of certain unique items

Contributions can come in a variety of forms. Contributions of certain unique items carry distinctive accounting treatments with them as discussed in the following chart.

	Look out for contributions of certain unique items that carry distinctive accounting treatments with them including…
	NFPs may receive contributions of items such as inventory, equipment, and property which are commonly referred to as *gifts in kind*. Gifts in kind that can be used or sold are measured at fair value. In determining fair value, NFPs consider the quality and quantity of the gifts, including applicable discounts. Gifts in kind that cannot be sold or used internally have no value and are not recognized.
	Inputs for measuring fair value of contributed inventory items can be obtained from published catalogs, vendors, independent appraisals, and other sources. When methods such as estimates, averages, or computational approximations, such as average value per pound or subsequent sales, can reduce the cost of measuring fair value, use of those methods is allowed provided the methods are consistently applied and are not reasonably expected to be materially different from a detailed fair value measurement.
	Sometimes entities other than an NFP use for the NFP's benefit (or provide at no charge to the NFP) certain nonfinancial assets that encourage the public to contribute to the NFP or assist the NFP in communicating its message or mission. Examples of these include fundraising material, informational material, or advertising, including media time or space for public service announcements or other purposes. When such nonfinancial assets are used for the NFP's benefit (or provided to the NFP at no charge) and they encourage the public to contribute to an NFP or help the NFP communicate its message or mission, NFPs should consider whether they have received a contribution. If they have received a contribution, it will be measured at fair value.
	An NFP may receive unconditional contributions of the use of electric, telephone, and other utilities and of long-lived assets (e.g., a building or the use of facilities) in which the donor retains legal title to the long-lived asset. An NFP will recognize the fair value of the use of utilities or property as contribution revenue in the period the contribution is received. If the transaction is an unconditional promise to give for a specified number of periods, the promise is reported as contributions receivable and as donor-restricted support that increases net assets with donor restrictions.
	Contributions received by NFPs under irrevocable split-interest agreements are recorded when received at fair value. The date when an NFP is considered to have received an irrevocable split-interest agreement often depends on whether the NFP or a third party is the trustee for the agreement. If an NFP is the trustee or fiscal agent of the assets, the gift is considered received when the donor executes the agreement. If an unrelated third party (e.g., a trust company, bank, foundation, or private individual) is the trustee or fiscal agent of the assets, the split-interest agreement is recorded when the NFP is notified of the gift's existence. *continued*

Look out for contributions of certain unique items with distinctive accounting treatments, including…	
◉ ◉	NFPs may receive contributions of items that are to be used during fundraising events (e.g., tickets, gift certificates, works of art, and merchandise). Such items can be linked to asset transfers from the original gift in kind donor to the ultimate resource providers (e.g., a purchaser at a fundraising event) because they are, in substance, part of the same transaction. So, gifts in kind that are to be used for fundraising purposes are reported as contributions at fair value when originally received by an NFP. The difference between the amount received for those items from the ultimate resource providers and the fair value of the gifts in kind when originally contributed to the NFP are recognized as adjustments to the original contributions when the items are transferred to the ultimate resource providers.

1. Exercise 2-14

Please answer the following related to items donated for use in fundraising.

All I have to give	
NFP Z is holding its annual 1990s-themed fundraiser. As part of the fundraiser, NFP Z requests and receives donated items which it auctions off to the highest bidder. This year, NFP Z received a ticket to a future concert that former pop icons Backstreet Ice are holding in the area. The fair value of the ticket is believed to be $100. Thus, when NFP Z received the ticket, it recorded a $100 contribution and an asset for $100. **Please answer the following questions related to the results of the auction under two different scenarios.**	
The auction goes well	**The auction does not go well**
Many attendees at the auction are Backstreet Ice fans and a bidding war erupts. The ticket is auctioned off for $150. **What entry would NFP Z record?**	Few attendees at the auction are Backstreet Ice fans (or they are afraid to publicly admit it by bidding on the ticket). The ticket is auctioned off for $50 to the cleaning crew which wants to turn off the lights and go home. **What entry would NFP Z record?**

2. Exercise 2-15

Please answer the following question related to donated facilities.

Donated facilities
Benefactor Z owns a retail shopping space that presently is unoccupied. Benefactor Z promises to give NFP A free use of the space for as long as it is available. NFP A needs the space and accepts the offer. Benefactor Z says she expects to give NFP A 30-days' advance notice before they need to vacate although Benefactor Z may discontinue providing space at any time. **Should the promise to give be recognized in the financial statements?**

E. Contributions of services

Many NFPs receive contributions of services from volunteers. However, as described below, only some of these services are recognized in the financial statements.

Checklist for recognizing contributed services

Contributions of services are recognized in the financial statements if the services received meet one or more of the following criteria:

- ☐ They create or enhance nonfinancial assets.
- ☐ They require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Services requiring specialized skills are provided by accountants, architects, carpenters, doctors, electricians, lawyers, nurses, plumbers, teachers, and other professionals and craftsmen.
- ☐ The services are provided by personnel of an affiliate that directly benefits the recipient NFP and the affiliate does not charge the recipient NFP. (**Note.** This is from ASU No. 2013-06.)

Contributed services that meet the recognition criteria are measured at fair value. Contributed services that create or enhance nonfinancial assets may be measured by referring to either the fair value of the services received or the fair value of the asset or of the asset enhancement resulting from the services. Generally, services recognized under the third criterion in the above chart from ASU No. 2013-06 will be measured at the cost recognized by the affiliate for the personnel providing those services.

NFPs have several disclosure requirements related to contributed services, including:

An NFP receiving contributed services will describe the programs or activities for which those services were used, including the nature and extent of contributed services received for the period and the amount recognized as revenues for the period. NFPs are encouraged to disclose the fair value of contributed services received, but not recognized as revenues if that is practicable. The nature and extent of contributed services received can be described by nonmonetary information, such as the number and trends of donated hours received or service outputs provided by volunteer efforts, or other monetary information, such as the dollar amount of contributions raised by volunteers. Disclosure of contributed services is required regardless of whether the services received are recognized as revenue in the financial statements.

1. Exercise 2-16

Please review and complete the following exercise.

Is this a specialized skill?

As part of its mission, NFP R provides services to help adults learn to read. Many of NFP R's volunteer instructors do not have the specialized skills that a reading teacher possesses. For those volunteers, NFP R provides some training on how to help adults learn to read. **In the financial statements for NFP R, would you recognize the contributed services of the volunteers without a teaching background that NFP R provides training for on how to help adults learn to read?**

F. Contributions of collection items

Some NFPs maintain collections and receive contributions of works of art, historical treasures, and similar items for the collection. When discussing contributions of collection items, it is important to understand the definition of a collection. The following contains the FASB ASC definition of a collection.

What is a collection?

Collections are works of art, historical treasures, or similar assets that meet all of the following criteria: (1) they are held for public exhibition, education, or research in furtherance of public service rather than financial gain; (2) they are protected, kept unencumbered, cared for, and preserved; and (3) they are subject to an organizational policy that requires the use of proceeds from items that are sold to be for the acquisitions of new collection items, the direct care of existing collections, or both.

Collections generally are held by museums, botanical gardens, libraries, aquariums, arboretums, historic sites, planetariums, zoos, art galleries, nature, science, and technology centers, and similar educational, research, and public service organizations that have those divisions; however, the definition is neither limited to those entities nor does it apply to all items held by those entities.

The recognition and measurement principles for contributions of collection items depend on the collections-capitalization policy adopted by the NFP. Contributions of works of art, historical treasures, and similar items that are not part of a collection are recognized as assets and as revenue or gains. An NFP need not recognize contributions of works of art, historical treasures, and similar assets if the donated items are added to collections that meet all three of the criteria in the definition of a collection. Contributed collection items are recognized as revenues or gains if collections are capitalized and are not recognized as revenues or gains if collections are not capitalized. An NFP that does not recognize and capitalize its collections or that capitalizes collections prospectively does have additional disclosure requirements.

1. Exercise 2-17

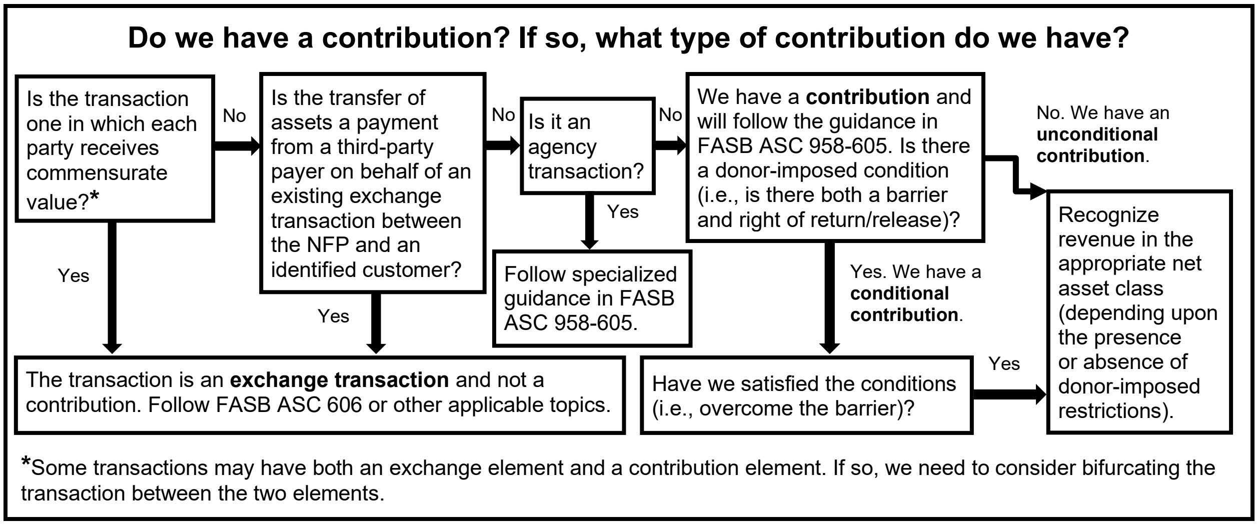
Please review and complete the following exercise.

Thanks?

The Historical Technology Society receives two gifts from Ma Bell. The **first** gift is Ma's collection of operating manuals from cassette players, VCRs, and DVD players that Ma's children have no interest in. Society staff have evaluated the manuals and believe they should be accepted solely because of their potential historical and educational use to future researchers or historians (i.e., the manuals are not suitable for display and no alternative use exists). The **second** gift is a vast series of gently used Nokia cell phones from the early 2000s (as Ma's children have bought her a new flip phone). Society staff have evaluated the phones and believe that while they are not appropriate for the Society's collection, that the phones should be accepted with the donor's understanding that they will be sold on-line. The Society staff believe that the fair value of the phones is $100 (based on an independent appraisal). **Should either gift be recognized?**

VI. Putting it all together

As we discussed at the start of this chapter, on the surface the accounting for contributions may appear simple. However, sorting contributions from the three types of pretender transactions, determining whether they are conditional or unconditional, and other unique requirements (e.g. contributed services) can require a great deal of professional judgment. As a means of closing our discussion, below is the chart we have referenced several times as a tool to walk oneself through the process.



A. Exercise 2-18

Please answer the following question.

Should I say anything?
Two Big Food Bank is supported by contributions from the public. In the current year, two contributors provided 35 percent of Two Big's combined revenues. **Should Two Big consider any additional disclosures related to this?**

VII. Suggested solutions to exercises

This section contains the suggested solutions to the exercises presented in this chapter.

A. Suggested solution to Exercise 2-1

Concentrating on commensurate value

Connie is new to NFP accounting. She is analyzing several grants and contracts to determine whether they are contributions or exchange transactions. **What are some items that you might suggest she look for in considering the presence or absence of commensurate value?**

Probably first and foremost, Connie should keep in mind that: [1] a benefit received by the public as a result of the assets transferred is **not equivalent to commensurate value** received by the resource provider; and [2] the 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. Beyond those two items, Connie would likely look at issues such as: [3] is the activity specified by the grant planned and carried out by the NFP and the NFP retains the right to the benefits of carrying out the activity (likely a contribution); [4] is the grant made by a resource provider providing something to be tested in the activity and the resource provider retains the right to any patents or other results of the activity (likely an exchange transaction); and [5] whether both parties are involved in agreeing on the amount of assets transferred (indicative of an exchange transaction) or just the resource provider (indicative of a contribution).

B. Suggested solution to Exercise 2-2

Does this transaction house a contribution?

Bob Builder has an excess storage facility currently valued at $200,000. Animal Shelter X is seeking a facility for a new shelter location. Moved by Animal Shelter X's mission, Bob sells them the facility for $50,000. **Should Animal Shelter X recognize a contribution of $150,000?**

Yes, a contribution of $150,000 is inherent in the transaction and an exchange transaction of $50,000 is also present.

Thanks, I guess…

During the year, NFP Z paid Anne Attorney $7,000 in legal fees. Anne Attorney told NFP Z that she normally would have charged $10,000 for those services, but she wanted to be charitable. **Should NFP Z recognize $3,000 in contributed services revenue?**

It's a judgment call, but the author would not. In the author's mind, this should be treated as a 30 percent discount rather than a $3,000 contribution (i.e., negotiating a good deal over receiving a true gift). However, if Anne had charged a much lower amount (say, $1,000), NFP Z would certainly have to consider recognizing an inherent contribution.

Note. We will look at the recognition of contributed services later. In the case of NFP Z, the author is not recognizing them based on a reasonableness perspective rather than the technical criteria for recognizing contributed services under FASB ASC 958-605.

C. Suggested solution to Exercise 2-3

Contributing versus benefiting from In developing this course, the author reviewed the audited financial statements of five state CPA societies. What percentage do you believe these five societies categorized membership dues as being an exchange transaction?
All five societies categorized their membership dues as being 100% exchange transaction

D. Suggested solution to Exercise 2-4

What would you call this?

Private School T conducts an annual fundraising campaign to assist with scholarships for its K-12 grade students. To acknowledge the generosity of their largest campaign contributors, donors' names appear on the back of t-shirts given to students and a banner hung in the school gym during the academic year. Donors over $5,000 are listed as gold sponsors, donors over $2,500 are silver sponsors, and donors over $500 are bronze sponsors. **Would you consider these naming opportunities to be contributions, exchange transactions, or some combination of both?**

The author would consider the amounts provided to be all contributions. The public recognition on the shirts and banner would appear to be of only nominal value to the resource providers.

E. Suggested solution to Exercise 2-5

Is this a pretender or a contender?

Lloyd is a student at Private University B. Lloyd's total tuition charged for the semester is $25,000. However, Lloyd did receive a grant in the amount of $5,000 to use toward the tuition fee, which is paid directly by the grantor to Private University B. **Would Private University B consider the $5,000 to be a contribution?**

No. The grant was awarded to Lloyd, not to Private University B. University B entered into an exchange transaction with Lloyd and accounts for the $25,000 of revenue as an exchange transaction. The $5,000 grant does not create additional revenue but, rather, serves as a partial payment against the $25,000 due to University B. Lloyd is an identified customer of University B who is receiving the benefit from the grant transaction.

F. Suggested solution to Exercise 2-6

	Description of arrangement	Should the NFP treat the arrangement as a **contribution?**
1	NFP 1 develops and maintains a list of dentists that are interested in providing free dental services to veterans. NFP 1 encourages veterans in need of free dental care to contact NFP 1 for referral to dentists in the community that may be willing to serve them. The decision about whether and how to serve a specific veteran resides with the dentist.	**No**. NFP 1 is simply acting as an intermediary in bringing together a willing donor and beneficiary.
2	NFP 2 provides donors with a list of potential charities that have been prequalified or otherwise identified by NFP 2. The charities are unrelated to NFP 2. Donors then select a beneficiary from among the qualified charities. NFP 2 receives and distributes the assets as directed by the donor.	**No**. NFP 2 is acting as an agent and there is no indication of variance power.
3	NFP 3 asks donors to select one or more fields of interest from among a list of community needs prepared by NFP 3 (e.g., youth camps, after school programs, youth sports programs).	**Yes**. Donors are using broad generalizations to describe the types of beneficiaries. NFP 3 has received a contribution because the choice of the specific beneficiary is within its control.
4	A grantor specifies eligibility criteria and states that the grant proceeds must be transferred to all who meet the criteria. The grant specifies that no recipients can be related to NFP 4. NFP 4 is responsible for determining whether individuals or entities meet the grantor-specified eligibility criteria.	**No**. The grantor has specified the beneficiary by stating that **all** who meet the grantor-defined criteria are beneficiaries. NFP 4 is acting as an agent as there is no indication of variance power.

Note. FASB ASC 958-605-55-74 has a challenging, but helpful, flowchart to assist in the determination of whether certain transactions are agency transactions or contributions (and the subsequent accounting).

G. Suggested solution to Exercise 2-7

Did we receive this or that?
Save the Sunsets lacks the background and staffing to conduct a fundraising campaign, so it enters into a transaction with Fundraising NFP X. Fundraising NFP X solicits contributions on behalf of Save the Sunsets for a fee of 20% of the contributions raised. Fundraising NFP X raises $500,000 from donors and remits $400,000 to Save the Sunsets after retaining its fee of $100,000. **Should Save the Sunsets report contribution revenue of $500,000 or $400,000?** Save the Sunsets should report $500,000 of contribution revenue and $100,000 of fundraising expense. In this transaction, Fundraising NFP X is the recipient entity (agent) and Save the Sunsets is the specified beneficiary. This is basically a gross versus net reporting concept and generally we should go gross unless GAAP allows us to go net. **Note.** This question is a little outside our discussion for this course as it is looking at the treatment from the specified beneficiary angle rather than the agent angle. However, it illustrates some of the additional guidance contained in FASB ASC 958-605. More thoughts related to this specific example can be found in the AICPA Technical Questions and Answers 6140.21 and 6140.22.
How do we record all of this?
The Cherry Table Furniture company provides Homeless Shelter X with vouchers that cannot be exchanged for cash but can be used for public transportation. The Cherry Table Furniture company specifies that the vouchers must be given to all individuals who spend a week in the shelter but can be awarded for no more than 30 days. **How should Homeless Shelter X record the receipt of the vouchers from The Cherry Table Furniture company?** In this example, Homeless Shelter X is acting as a recipient entity (agent). The Cherry Table Furniture company has specified the eligibility criteria. Homeless Shelter X appears to have no authority (i.e., variance power) to modify the criteria. Since Homeless Shelter X is an agent, they would record an asset and liability for the receipt of the vouchers if they were cash or deemed to be a financial asset. However, since they are not convertible to cash, the vouchers are nonfinancial assets. Thus, Homeless Shelter X is permitted, but not required, to record an asset and liability. **Note**. This answer is based on some of the special FASB ASC 958-605 options related to nonfinancial assets in agency transactions mentioned, but not covered, earlier. More thoughts related to this specific example can be found in the AICPA Technical Questions and Answer 6140.12.

H. Suggested solution to Exercise 2-8

We just reviewed the FASB ASC 958-605 definition of a **donor-imposed condition**. Is there an easy way to make the distinction between a **donor-imposed condition** and a **donor-imposed restriction**?

While it may not be easy, as sometimes a great deal of professional judgment is required, perhaps the key to distinguishing **donor-imposed conditions** from **donor-imposed restrictions** is to focus on when **entitlement** occurs. We saw in the definition of a **donor-imposed condition** that a barrier must be overcome **before** the recipient NFP is **entitled** to the assets transferred or promised. While **donor-imposed restrictions** limit the use of a contribution (e.g., for a specific purpose or period of time) the recipient NFP is already considered to be entitled to the funds.

Indications of **donor-imposed condition**

- A donor stipulation limits **how** the activity is conducted;
- A donor stipulation creates a measurable barrier contingent on future performance or event;
- A stipulation relates to the purpose of the agreement; and
- Entitlement to funding is tied to the barrier.

Indications of **donor-imposed restriction**

- A donor stipulation specifies a purpose/time limitation for the use of a contributed asset (more specific than the NFP's mission) but does not get into the **how;** and
- Note that a donor-imposed restriction may contain a provision requiring unspent funds to be returned to provider.

Keep in mind that:

- FASB ASC 958-605-25-5E 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

I. Suggested solution to Exercise 2-9

Scenario 1 – Grant with a cost-sharing provision
NFP A is awarded a three-year grant. As part of the grant agreement, NFP A is required to provide from its own resources (i.e., other than the funds received from the grant) an amount towards the program equal to a certain percentage of the grant award in each year (of the three years) in order to be entitled to the grant funds for that year. The grant agreement specifies that if the cost share is not met in a given year, the grantor has the right to have NFP A return the grant funds for that year (or a portion of the grant funds). NFP A would likely consider the annual cost-sharing provision to be comparable to a matching provision. Thus, there would be a barrier to NFP A's entitlement to the grant funding each year. Grant fund revenue would be deferred until the cost-sharing provision is met each year as entitlement to annual grant funds is contingent on meeting the annual cost share. NFP A should examine the grant agreement carefully to determine the amount of grant funding that would be at risk, which is the amount subject to the right of return or right of release from the resource provider's obligation in the event of any unmet cost share.
Scenario 2 – Grant with a budget and related stipulations
NFP B just received a grant from Foundation C. In obtaining the grant, NFP B was required to submit a budget containing line items for how NFP B expects to spend the grant funds to achieve the proposed activity. The grant contains a requirement for NFP B to gain preapproval for a significant deviation in spending (e.g., a line-item deviation of more than 10 percent). Unless additional indicators were also present, NFP B would likely not consider the budget requirement to gain preapproval for a significant deviation in spending to be a barrier. Budgets often are prepared by an NFP and submitted to a funding source as part of an overall grant proposal. The line items in the budget are the NFP's plans for how it expects to spend the funds provided to achieve the proposed activity and normally are not barriers to entitlement imposed on the NFP by the funding source. This differs from the litany of cost principles and other requirements, often driven by public policy and other considerations that underpin the concept of "incurring qualifying expenses." A funder's requirement that a budget be followed within a deviation limit normally would be viewed by the funder as a guardrail (or guidepost) for the NFP to do, within reason, what it said it would do and not as indication of a barrier to entitlement. Thus, stipulations other than adherence to a budget (e.g., the need to incur qualifying expenses) would typically need to be present for a barrier to entitlement to exist.
Scenario 3 – Subjective termination provision
NFP C just received a grant from Foundation D. In reviewing the grant, NFP C sees no indication of a measurable barrier or limited discretion barrier. Foundation D's standard grant wording contains the following provision "Foundation D may adjust, suspend, or discontinue any payment of grant funds or terminate this agreement if Foundation D is not reasonably satisfied with your progress on the project. Any grant funds that have not been used for the project upon expiration or termination of this agreement must be returned promptly to Foundation D." It is not unusual for grant agreements to have this type of general provision. Absent the presence of a specific measurable barrier or limited discretion barrier, NFP C would likely conclude that this wording in and of itself is not a barrier.

J. Suggested solution to Exercise 2-10

		True or False
1	For conditional contributions, recipients must disclose the following information: (1) the total of the amounts promised; and (2) a description and amount for each group of promises with similar characteristics.	**True.**

K. Suggested solution to Exercise 2-11

Do we have something here?

Loose Squeals, a shelter for lost and abandoned pigs, is obtaining a loan from a local bank to improve its facilities. Ima Pigg is a local philanthropist. To help Loose Squeals obtain the loan and at a lower rate, Ima guarantees the debt. **For Ima's guarantee to keep Loose Squeals' bacon out of the fire per se, has Loose Squeals received something that should be recognized?**

This scenario is tough as the guarantee is part conditional (i.e., the promise to make payments in future periods upon default) and part unconditional (i.e. the gift of Ima's credit support, which enables Loose Squeals to obtain a lower interest rate on its borrowing). The AICPA Audit & Accounting Guide, *Not-for-Profit Entities*, discusses this type of scenario and concludes that the NFP has received a contribution that should be initially measured at fair value (e.g., the present value of the interest savings). That sounds nice, but the valuation of that fair value is the tricky part. If the NFP defaults, additional contributions would be recognized for the amounts paid by the guarantor (unless it is required to repay the guarantor in which case it would recognize a liability). For NFPs involved in this type of transaction, see Chapter 5 of the AICPA Guide. **Note**. Chapter 5 of the AICPA Guide also provides somewhat similar guidance (in terms of recognizing a contribution) for below-market interest rate loans.

L. Suggested solution to Exercise 2-12

Book it

Last year NFP Z received an unconditional promise to give from Tom Morrow for $500,000. The promise contained no purpose restrictions and stated that the amount would be paid over a five-year period at $100,000 per year. NFP Z determined that the present value of the promise was $450,000. The $50,000 discount was broken down into the following elements: year 1 = $15,000; year 2 = $12,500; year 3 = $10,000; year 4 = $7,500; and year 5 = $5,000. When NFP Z recorded the contribution it made the following journal entry:

dr. Contributions receivable:	$500,000	
cr. Contribution revenue – donor-restricted support:		$450,000
cr. Discount on contributions receivable:		$50,000

It is now one year after the promise was made and Tom Morrow has just made the first payment. Nate is the controller for NFP Z and is trying to record the entry for the receipt of the first payment. Nate is confident of the below amounts but is unsure what the remaining credit for $15,000 should be called. Please fill in the blank below:

dr. Cash:	$100,000	
dr. Discount on contributions receivable:	$15,000	
cr. Contributions receivable:		$100,000
cr. **Contribution revenue – without donor restrictions:**		$15,000

Author's Note. Under FASB ASC 958-310-35-6 if a present value technique is used to measure the fair value of unconditional promises to give cash, subsequent accruals of the interest element are accounted for as contribution revenue. NFP Z would also reclassify $85,000 from net assets with donor restrictions to net assets without donor restrictions.

M. Suggested solution to Exercise 2-13

It's a Hoot owl refuge embarks on a three-year capital campaign to build a new facility. To help the project take flight, Ed Wig unconditionally promises $50,000 restricted for the new facility. Ed Wig said the promise will be payable in Year 3 when the building is expected to be completed. It's a Hoot is able to complete construction and open the facility by end of Year 2. **Are the restrictions met when the assets are placed in service or when the receivable is due?**

In general, when two or more restrictions exist, the effect of the expiration of those restrictions is recognized in the period in which the last remaining restriction has expired. **However**, FASB ASC 958-205-45-10A states that in determining when the last of two or more donor-imposed restrictions that are temporary in nature has expired, explicit donor stipulations generally carry more weight than implied restrictions. Here we have a purpose restriction (to build a new facility) and an implied time restriction (since the promise is payable in Year 3). Absent an explicit stipulation to the contrary, it would be reasonable to conclude It's a Hoot fulfilled the donor restriction on the promised gift. The restriction for the construction of the new facility expires when the building is placed in service (FASB ASC 958-205-45-12). A reclassification of net assets would be reported to reflect the decrease in net assets with donor restrictions and the increase in net assets without donor restrictions in Year 2.

N. Suggested solution to Exercise 2-14

<table>
<tr><th colspan="2">All I have to give</th></tr>
<tr><td colspan="2">NFP Z is holding its annual 1990s-themed fundraiser. As part of the fundraiser, NFP Z requests and receives donated items which it auctions off to the highest bidder. This year, NFP Z received a ticket to a future concert that former pop icons Backstreet Ice are holding in the area. The fair value of the ticket is believed to be $100. Thus, when NFP Z received the ticket it recorded a $100 contribution and an asset for $100. Please answer the following questions related to the results of the auction under two different scenarios.</td></tr>
<tr><th>The auction goes well</th><th>The auction does not go well</th></tr>
<tr><td>Many attendees at the auction are Backstreet Ice fans and a bidding war erupts. The ticket is auctioned off for $150. What entry would NFP Z record?

NFP Z would credit an additional $50 in contributions, credit the ticket asset for $100, and debit cash for $150.</td><td>Few attendees at the auction are Backstreet Ice fans (or they are afraid to publicly admit it by bidding on the ticket). The ticket is auctioned off for $50 to the cleaning crew which wants to turn off the lights and go home. What entry would NFP Z record?

NFP Z would debit (i.e., reduce) contributions by $50, credit the ticket asset for $100, and debit cash for $50.</td></tr>
</table>

O. Suggested solution to Exercise 2-15

Donated facilities
Benefactor Z owns a retail shopping space that presently is unoccupied. Benefactor Z promises to give NFP A free use of the space for as long as it is available. NFP A needs the space and accepts the offer. Benefactor Z says she expects to give NFP A 30-days' advance notice before they need to vacate although Benefactor Z may discontinue providing space at any time. **Should the promise to give be recognized in the financial statements?**
NFP A would recognize the fair value of the contributed use of facilities as both revenue and expense in the period it is *received and used*. If Benefactor Z explicitly and unconditionally promises the use of the facility for a specified period of time, the promise would be an unconditional promise to give.

P. Suggested solution to Exercise 2-16

Is this a specialized skill?

As part of its mission, NFP R provides services to help adults learn to read. Many of NFP R's volunteer instructors do not have the specialized skills that a reading teacher possesses. For those volunteers, NFP R provides some training on how to help adults learn to read. **In the financial statements for NFP R, would you recognize the contributed services of the volunteers without a teaching background that NFP R provides training for on how to help adults learn to read?**

No. FASB ASC 958-605-55-28 discusses that an individual who receives some training does not necessarily possess a specialized skill. If a volunteer receives some training from an NFP to learn how to help other people learn to read, that volunteer does not possess the specialized skills that a reading teacher possesses.

Q. Suggested solution to Exercise 2-17

Thanks?

The Historical Technology Society receives two gifts from Ma Bell. The **first** gift is Ma's collection of operating manuals from cassette players, VCRs, and DVD players that Ma's children have no interest in. Society staff have evaluated the manuals and believe they should be accepted solely because of their potential historical and educational use to future researchers or historians (i.e., the manuals are not suitable for display and no alternative use exists). The **second** gift is a vast series of gently used Nokia cell phones from the early 2000s (as Ma's children have bought her a new flip phone). Society staff have evaluated the phones and believe that while they are not appropriate for the Society's collection, that the phones should be accepted with the donor's understanding that they will be sold on-line. The Society staff believe that the fair value of the phones is $100 (based on an independent appraisal). **Should either gift be recognized?**

The **first** gift would not be recognized due to the major uncertainty about the existence of value and no alternative use exists. The **second** gift would be recognized as a contribution and an asset at its $100 fair value (regardless of whether The Historical Technology Society capitalizes collections as it is not being added to a collection).

R. Suggested solution to Exercise 2-18

Should I say anything?

Two Big Food Bank is supported by contributions from the public. In the current year, two contributors provided 35 percent of Two Big's combined revenues. **Should Two Big consider any additional disclosures related to this?**

Yes. Because the two contributors provided a significant portion of Two Big's revenues and it is always considered reasonably possible that a customer, grantor, or contributor will be lost in the near term a disclosure is needed due to FASB ASC 275-10-50-16 (see also FASB ASC 958-605-55-70). For example:

Approximately 35 percent of Two Big Food Bank's combined revenues were provided by 2 contributors.

FASB ASC 842: Glancing Back and Looking Forward

FASB ASC 842:
Glancing Back and Looking Forward

Learning objectives

In this chapter, we will review aspects of how FASB ASC 842 impacted reporting at two NFP lessees and also examine issues to watch out for in year two of implementation.

I. Glancing back

For many NFPs, 2023 was the year of the lease. However, for calendar year-end NFPs, 2022 was. The implementation of FASB ASC 842 ushered in a new reporting model for lease accounting based on the foundational principle that even operating leases result in the recognition of lease assets and liabilities. This new reporting model came at a cost to NFP lessees in terms of the time spent on: [1] locating and analyzing leasing arrangements; [2] calculating lease terms; [3] distinguishing operating leases from finance leases; [4] determining the lease payments to be included in lease liabilities; [5] developing incremental borrowing rates or risk-free rates; [6] calculating lease liabilities/lease assets and related lease expense or interest expense/amortization expense; [7] considering the existence of lessor lease receivables (i.e., from perhaps being a lessor in a sales-type or direct financing lease); and [8] developing disclosures.

A. A tale of two NFPs

To look at how FASB ASC 842 changed financial reporting, we reviewed two NFPs' audited financial statements and aspects of how FASB ASC 842 impacted their reporting. The following table contains information about the two NFPs we selected.

A Tale of Two NFPs

	NFP 1	**NFP 2**
A little background on the NFP	Small NFP providing Head Start/Pre-K and assistance to violent crime victims	Large NFP professional association with approximately 275,000 members
Fiscal year end selected	12/31/2022	12/31/2022
Were comparative f/s prepared in the year FASB ASC 842 was implemented?	No	NFP 2 first applied the standard for its 2018 f/s and did not adjust the 2017 comparative period
Total **lease liabilities** at 12/31/22	$1,076,796	$65,300,000
% of lease liability to total liabilites on 12/31/22 f/s	45.2%	21.2%
Total **lease assets** at 12/31/22	$1,076,796	$39,100,000
% of lease assets to total assets on 12/31/22 f/s	22.2%	3.3%

A Tale of Two NFPs

	NFP 1	NFP 2
Types of assets leased as lessee	Operating leases for office and classroom space	Operating leases for office space, copiers, and printers
Interest rate methodology used	Risk-free rate	Incremental borrowing rate
Weighted-average discount rate	1.28%	5%
Weighted-average remaining lease term at 12/31/22	5 years	6.3 years
Was the NFP also a lessor?	No	No

1. FASB ASC 842 and lessee disclosures

FASB ASC 842-20-50 contains disclosure requirements for lessees. The disclosures tend to emphasize the amount, timing, and uncertainty of cash flows related to leasing activities.

	Under FASB ASC 842, a lessee is required to disclose…
	Information about the nature of its leases, including: [1] a general description of those leases; [2] the basis and terms and conditions on which variable lease payments are determined; [3] the existence and terms and conditions of options to extend or terminate the lease (including narrative information about the options that are/are not recognized as part of its right-of-use assets and lease liabilities); [4] the existence and terms and conditions of residual value guarantees provided by the lessee; and [5] the restrictions or covenants imposed by leases.
	Information about leases that have not yet commenced but that create significant rights and obligations for the lessee (including the nature of any involvement with the construction or design of the underlying asset).
	Information about significant assumptions and judgments made in applying FASB ASC 842 (e.g., the determination of whether a contract contains a lease, the allocation of the consideration in a contract between lease/nonlease components, and the determination of the discount rate).
	For each period presented, a lessee will disclose the following amounts relating to a lessee's total lease cost and the cash flows arising from lease transactions: [1] finance lease cost (segregated between the amortization of the right-of-use assets and interest on the lease liabilities); [2] operating lease cost; [3] short-term lease cost (excluding expenses relating to leases with a lease term of one month or less); [4] variable lease cost; [5] amounts segregated between those for finance and operating leases for: (a) cash paid for amounts included in the measurement of lease liabilities, segregated between operating and financing cash flows; (b) supplemental noncash information on lease liabilities arising from obtaining right-of-use assets; (c) weighted-average remaining lease term; and (d) weighted-average discount rate.
	A maturity analysis of the lessee's finance lease liabilities and its operating lease liabilities separately, showing the undiscounted cash flows on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years. A lessee will disclose a reconciliation of the undiscounted cash flows to the finance lease liabilities and operating lease liabilities recognized in the statement of financial position.

Under FASB ASC 842, a lessee is required to disclose…	
	A lessee that elects to not recognize right-of-use assets and lease liabilities for short-term leases will disclose that fact. If the short-term lease expense for the period does not reasonably reflect the lessee's short-term lease commitments, the lessee will disclose that fact and the amount of its short-term lease commitments.
	A lessee that elects the practical expedient to not separate lease components from nonlease components will disclose its accounting policy election and which class or classes of underlying assets it has elected to apply the practical expedient.

We should also note that, if applicable, a lessee also will provide relevant disclosures for: (1) sublease transactions; (2) sale-leaseback transactions; and (3) lease transactions between related parties. With this background, let us review selected excerpts from our two NFP implementers related to their **lessee disclosures**.

Selected excerpts from NFP 1's lessee disclosures

Note 1 - Summary of Significant Accounting Policies (continued)

Leases

The Agency determines if an arrangement is or contains a lease at inception. Leases are included in right-of-use (ROU) assets and lease liabilities in the statement of financial position. ROU assets and lease liabilities reflect the present value of the future minimum lease payments over the lease term. Operating lease expense is recognized on a straight-line basis over the lease term. The Agency does not report ROU assets and lease liabilities for its short-term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the lease term.

Recent Accounting Guidance (continued)

The Agency adopted Accounting Standards Update (ASU) No. 2016-02, *Leases*, which requires lessees to recognize leases on the statement of financial position and disclose key information about leasing arrangements. The Agency elected not to reassess at adoption (i) expired or existing contracts to determine whether they are or contain a lease, (ii) the lease classification of any existing leases, or (iii) initial direct costs for existing leases. As a result of implementing ASU No. 2016-02, the Agency recognized ROU assets of $1,286,815 and lease liabilities totaling $1,286,815 in its statement of financial position as of January 1, 2022. The adoption did not result in a significant effect on amounts reported in the statement of activities for the year ended December 31, 2022.

Note 7 – Leases

The Agency evaluated current contracts to determine which met the criteria of a lease. The ROU assets represent the Agency's right to use underlying assets for the lease term, and the lease liabilities represent the Agency's obligation to make lease payments arising from these leases. The ROU assets and lease liabilities, all of which arise from operating leases, were calculated based on the present value of future lease payments over the lease terms. The Agency has made an accounting policy election to use a risk-free rate in lieu of its incremental borrowing rate to discount future lease payments. The weighted average discount rate applied to calculate lease liabilities as of December 31, 2022, was 1.28%.

The Agency's operating leases consist of real estate leases for office and classroom space. For the year ended December 31, 2022, total operating lease cost was $374,329, and total short-term lease cost was approximately $148,849. As of December 31, 2022, the weighted-average remaining lease term for the Agency's operating leases was approximately 5 years.

Selected excerpts from NFP 1's lessee disclosures

Note 7 – Leases (continued)
Cash paid for operating leases for the year ended December 31, 2022 was $225,480. There were no noncash investing and financing transactions related to leasing.

Future maturities of lease liabilities are presented in the following table, for the fiscal years ended December 31:

2023	$	225,480
2024		225,480
2025		220,680
2026		165,576
2027		94,968
Thereafter		189,936
Total lease payments		1,122,120
Less present value discount		(45,324)
Total lease obligations	$	1,076,796

The next excerpts are from NFP 2. Keep in mind that NFP 2 implemented several years ago. Also note that NFP 2 had a lease remeasurement.

Selected excerpts from NFP 2's lessee disclosures

10. Leases

AMA leases office space at a number of locations and the initial terms of the office leases range from five years to 15 years. Most leases have options to renew at then prevailing market rates, or, in one circumstance, early terminate with appropriate notice and termination payments. As any extension, renewal, or termination is at the sole discretion of AMA, and at this date is not certain, renewal and termination options are not included in the right-of-use (ROU) asset or lease liability.

AMA leases do not provide an implicit interest rate and as such, AMA calculates the lease liability at lease commencement or remeasurement date as the present value of unpaid lease payments using an estimated incremental borrowing rate. The incremental borrowing rate represents the rate of interest that AMA estimates it would have to pay to borrow an amount equal to the lease payments on a collateralized basis over a similar term, based on information available at the time of commencement or remeasurement.

AMA exercised a contraction option during 2022 reducing the square footage at the main headquarters by approximately 10%, with a contraction penalty. The ROU asset and lease liability were remeasured as of the lease modification date and the impact of the contraction is reflected in the ROU asset and lease liability as of December 31, 2022. ROU assets decreased $1.3 million, lease liabilities decreased $2.3 million, with the resulting net gain of $1 million included as a reduction to other operating expense. AMA also leases copiers and printers in several locations. The lease agreements do not contain variable lease payments, residual value guarantees or material restrictive covenants. All office and equipment leases are classified as operating leases.

Operating lease costs totaled $9.7 million in 2022 and $10.1 million in 2021. Cash paid for amounts included in the measurement of lease liabilities totaled $13.2 million in 2022 and $13.1 million in 2021.

Selected excerpts from NFP 2's lessee disclosures	
The remaining weighted-average lease term is 6.3 years and 7.1 years as of December 31, 2022 and 2021, respectively. The weighted-average discount rate used for operating leases is 5% for both 2022 and 2021.	**Notes to Consolidated Financial Statements** **For the Years Ended December 31, 2022 and 2021** **(Columnar amounts in millions)** The maturity of lease liabilities as of December 31, 2022: 2023 \$ 15.3 2024 11.4 2025 11.4 2026 11.6 2027 11.8 2028 and beyond 14.5 Total lease payments 76.0 Less imputed interest (10.7) Present value of lease obligations \$ 65.3

2. Plan for additional time and work related to the note disclosures

The note disclosures in FASB ASC 842 are extensive and will take some additional time and effort. For example, the new requirement to disclose the **weighted-average remaining lease term** and **weighted-average discount rate** (calculated separately for operating and financing leases) for each period presented will take some time and calculation. The **weighted-average remaining lease term** is calculated based on the lease liability balance and the remaining lease term for each lease as of the reporting date. As illustrated in the following charts, the operating and financing lease terms are calculated separately. The following reflects NFP Z's operating lease balances at year-end.

Weighted-Average Remaining Lease Term Calculation – Operating Leases				
	Lease liability at 12/31/X1	**(A): % of total lease liability**	**(B): Months remaining on the lease**	**(A) x (B): Weighted average**
Operating lease 1	71,987	13%	23	2.99
Operating lease 2	161,963	29%	37	10.73
Operating lease 3	50,780	9%	15	1.35
Operating lease 4	278,912	49%	60	29.40
Total:	563,642	100%		44.47

The following reflects NFP Z's finance lease balances at year-end.

Weighted-Average Remaining Lease Term Calculation – Finance Leases				
	Lease liability at 12/31/X1	**(A): % of total lease liability**	**(B): Months remaining on the lease**	**(A) x (B): Weighted average**
Finance lease 1	305,221	34%	28	9.52
Finance lease 2	78,914	9%	14	1.26
Finance lease 3	512,903	57%	41	23.37
Total:	897,038	100%		34.15

Note. NFP Z would not need to include the above calculations in the notes; rather, it would simply need to disclose that the **weighted-average remaining lease term for operating leases was 3.7 years (or 44.47 months)** and the **weighted-average remaining lease term for finance leases was 2.9 years (or 34.15 months)**.

The **weighted-average discount rate** is calculated based on the remaining balance of the lease payments and the discount rate that was used to calculate the lease liability for each lease as of the reporting date. As illustrated in the following charts, the operating and financing lease rates are calculated separately.

The following reflects NFP X's operating leases at year-end (20X2).

Weighted-Average Discount Rate Calculation – Operating Leases				
	Lease A (remaining payments)	**Lease B (remaining payments)**	**Lease C (remaining payments)**	**Total**
20X3	15,000	110,000	42,220	167,220
20X4	15,500	110,000	42,220	167,720
20X5	16,000	110,000	42,220	168,220
20X6	16,500	115,000	42,220	173,720
20X7		115,000	21,110	136,110
20X8		115,000		115,000
Total:	63,000	675,000	189,990	927,990
% of lease's remaining payments to total remaining payments (A)	7%	73%	20%	100%
Discount rate at commencement (B)	3.75%	4.15%	4.05%	
Weighted-average discount rate (A) x (B)	.26%	3.03%	.81%	4.1%

The following reflects NFP X's finance leases at year-end (20X2).

Weighted-Average Discount Rate Calculation – Finance Leases				
	Lease D (remaining payments)	**Lease E (remaining payments)**	**Lease F (remaining payments)**	**Total**
20X3	25,000	140,300	172,030	337,330
20X4	25,000	140,300	174,151	339,451
20X5		140,300	177,860	318,160
20X6		140,300	181,111	321,411
Total:	50,000	561,200	705,152	1,316,352
% of lease's remaining payments to total remaining payments (A)	4%	43%	53%	100%
Discount rate at commencement (B)	4.7%	4.4%	3.99%	
Weighted-average discount rate (A) x (B)	.19%	1.89%	2.12%	4.2%

Note. NFP X would not need to include the above calculations in the notes; rather, it would simply need to disclose that the **weighted-average discount rate for operating leases was 4.1 percent** and the **weighted-average discount rate for finance leases was 4.2 percent**.

II. Looking forward (although perhaps not forward to it!)

There are some accounting standards which are difficult to apply in the first year but are really not much of an issue in subsequent years. FASB ASC 842 does not exactly fit into that category. Due to FASB ASC 842, each year NFPs will have to watch out for things like: (1) new leasing agreements being entered into; (2) the disclosure of short-term and variable lease costs; (3) the annual updating of the lease asset and liability schedules; (4) lease options being exercised/not exercised contrary to initial expectations that require remeasurements; and (5) leases being modified or terminated.

A. Remeasurements

As we learned during the implementation of FASB ASC 842, multiple assumptions/assessments were made in calculating the lease amounts reported. We also know that we are not always going to be perfect in all of our assumptions/assessments.

FASB ASC 842 specifies several conditions under which the lease payment amounts likely have changed because of changes to the estimates used in determining the liability. Thus, at each reporting period, an NFP lessee will need to look for significant changes to things like the lease term, purchase options, and residual value guarantees. If the criteria in FASB ASC 842-10-35-4 are met, the NFP lessee essentially remeasures the lease liability at the reassessment date and adjusts the lease asset by the change in the lease liability.

When do lessees have to remeasure? Under FASB ASC 842-10-35-4, a **lessee** remeasures the lease payments if any of the following occur:	
	There is a change in the lease term. FASB ASC 842-10-35-1 provides qualifying events in this area (e.g., the lessee elects to exercise an option even though the entity had previously determined that it was not reasonably certain to do so or vice versa);
	There is a change in the assessment of whether the lessee is reasonably certain to exercise/not exercise an option to purchase the underlying asset (FASB ASC 842-10-35-1 provides qualifying events);
	There is a change in the amounts probable of being owed by the lessee under residual value guarantees;
	The lease is modified, and that modification is not accounted for as a separate contract in accordance with FASB ASC 842-10-25-8 (see related discussion in next section of course);
	A contingency upon which some or all of the variable lease payments that will be paid over the remainder of the lease term are based is resolved such that those payments now meet the definition of lease payments (see FASB ASC 842-10-35-4)

We should also note that FASB ASC 842-10-35-6 discusses that a **lessor** does not remeasure the lease payments unless the lease is modified and that modification is not accounted for as a separate contract as discussed in the fourth box in the above chart.

B. Lease modifications and terminations

We just discussed certain conditions that may trigger the need to remeasure a lease under FASB ASC 842 (e.g., a lessee elects to exercise an existing option contrary to the initial determination of the lease term). Another complication in lease accounting occurs when a **lease contract is actually modified (i.e., the terms and conditions of the contract are changed) or terminated** during the lease term. Examples of modifications or terminations include: (1) the parties agree to extend or reduce a lease when there is no option to extend or reduce; (2) payment amounts are revised; (3) another underlying asset is added or an asset is removed; or (4) the parties simply agree to terminate a lease prior to its scheduled end date when such a provision was not included in the contract. When a contract is modified, an NFP lessee needs to first reassess whether the modified contract still contains a lease. If so, the NFP needs to consult FASB ASC 842-10-25-8 and 25-9 to assess whether the modified contract should be accounted for as a separate contract (i.e., separate from the original contract) or if both contracts should be accounted for together. If the modified contract does not contain a lease, the NFP will look to the lease termination guidance in FASB ASC 842-20-40-1. We should also note that lessors generally work through somewhat similar reassessment issues.

1. Exercise 3-1

Please complete the following exercise.

When it's over
NFP Alpha has a ten-year noncancellable lease for office space with lessor Beta. In year five, Alpha asks Beta if the lease can be terminated as it no longer needs the space. Beta is happy to terminate the lease as rent has gone up in the area and it can readily find a new lessee. Thus, Alpha and Beta mutually agree to terminate the existing lease immediately. **How do you believe that NFP Alpha should account for the termination?**

III. Suggested solution to exercise

This section contains the suggested solution to the exercise presented in the chapter.

A. Suggested solution to Exercise 3-1

When it's over

NFP Alpha has a ten-year noncancellable lease for office space with lessor Beta. In year five, Alpha asks Beta if the lease can be terminated as it no longer needs the space. Beta is happy to terminate the lease as rent has gone up in the area and it can readily find a new lessee. Thus, Alpha and Beta mutually agree to terminate the existing lease immediately. **How do you believe that NFP Alpha should account for the termination?**

FASB ASC 842-20-40-1 provides that a termination of a lease before the expiration of the lease term shall be accounted for by the lessee by removing the right-of-use asset and the lease liability, with profit or loss recognized for the difference.

Latest Developments

This chapter is reserved for additional materials to be added throughout the year as appropriate. As this course went to press there were no latest developments to include.

