



PURPOSE. To revise the "*Accounting Manual for Federal Credit Unions*" ("AM-FCU") to address basic accounting for NCUA grants received by small credit unions. The AM-FCU provides regulatory accounting policies ("RAP") for credit unions with less than \$10 million in total assets. Credit unions with \$10 million or more in assets must follow generally accepted accounting principles ("GAAP") in the reports they file with the NCUA Board.

BACKGROUND. The NCUA Office of Small Credit Union Initiatives ("OSCU") receives numerous inquiries from small credit unions regarding the proper way to account for grants and contributions. Many of these small credit unions do not have the resources to seek the advice of independent accountants in the proper application of GAAP to their facts and circumstances. This bulletin provides consistent regulatory guidance regarding the proper way small credit unions should account for grants and contributions.

POLICY. Credit unions should follow the RAP described in this Bulletin in accounting for grants received. *Care must be taken in evaluating each grant because the accounting follows the nature of the arrangement.* The following steps outline how to determine the RAP accounting for grants.

I. Promise to Give

To determine how to account for a grant, the credit union must first identify whether or not the grant is clearly a "promise to give." A promise to give is a written agreement to contribute cash or other assets. To be recognized in the financial statements, there must be sufficient, verifiable documentation that a promise to give was made and received. Occasionally the "promise to give" communication does not clearly indicate whether it is a promise. In these situations, the offer can be considered a promise to give if it conveys an unconditional intention to give that is legally enforceable.¹

II. Conditional versus Unconditional Promise to Give

Once the grant offer is determined to be a promise to give, the credit union must then identify it as a conditional or unconditional promise to give, as these two types of promises have different accounting treatment.

¹ Legal enforceability refers to the availability of legal remedies, not the intent to use them. [CT.116.108]

A. Unconditional Promise to Give. Unconditional promises to give are nonreciprocal, made or received voluntarily, to or from entities acting other than as owners, and dependent for performance only on the passage of time or demand by the credit union. Grants sometimes come with restrictions. A restriction limits how the gift can be used but a restriction alone does not necessarily prevent the promise from being unconditional. Unconditional promises to give are recognized as income on an accrual basis for the fair value of the asset (e.g., cash) offered as a grant at the time the promise is received.

B. Conditional Promise to Give. Sometimes a grantor imposes a condition that limits or directs the use of the assets (e.g., cash) being contributed. Conditions are different from restrictions and prevent income recognition. A condition must be satisfied before the credit union has the right to receive or retain the assets being contributed. That is, the grant isn't earned until these conditions have been met. A common form of conditional promise to give is one in which funds are transferred to the extent the credit union raises matching funds. Another common form of conditional promise to give is one in which the credit union must incur certain qualifying expenses (or costs) post award before the grant is "earned."

Sometimes it is difficult to determine whether or not the promise to give contains conditions. For example, the language of the grant agreement may indicate certain expectations or requirements, but fail to explicitly tie receipt of the funds (assets) to satisfaction of these stipulations. If the donor's grant stipulations do not clearly state whether the right to receive the assets being contributed depends on meeting any such stipulations, or if the stipulations are ambiguous, use the following guidance:

- ✓ Review the facts and circumstances surrounding the "right to receive payment" and communicate with the donor to clarify the stipulations.
- ✓ If the ambiguity cannot be resolved, presume that the promise is a "conditional promise to give."
- ✓ However, if the possibility that the stipulations will not be met is remote, the promise to give can be considered unconditional. For example, a stipulation that an annual report must be provided by the credit union to receive subsequent annual payments on a multi-year promise is not a condition if the possibility of not meeting that administrative requirement is remote.

Conditional promises to give are recorded on the financial statements when (see Appendices I through III for examples):

- (1) The conditions are satisfied even though no actual transfer of the gift has yet been made. Upon satisfaction of the conditions, the credit union records the grant as income and a corresponding receivable is established until receipt of the funds (assets); or
- (2) The donor transfers assets before the specified conditions and requirements are met. The credit union records the receipt of the assets as a refundable advance (i.e., a liability). When the conditions and requirements are met, the refundable advance is then recognized as income.

ILLUSTRATION OF ACCOUNTING BY GRANT TYPE.

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|---|------------------------------|
| 1. NCUA Technical Assistance Grants (TAGs) | APPENDIX I |
| 2. National Federation Of Community Development Credit Unions (NFCDCU) Grants | APPENDIX II |
| 3. National Credit Union Foundation (NCUF) Grants | APPENDIX III |

EFFECTIVE DATE. This Bulletin is effective upon issuance.

EXPIRATION DATE. This Bulletin will expire when superseded or incorporated into the *Accounting Manual for Federal Credit Unions*, whichever occurs first.

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Office Examination and Insurance

Attachments

Distribution:

All FCUs
All FISCUs
All State Supervisory Authorities
NCUA Express

NCUA TECHNICAL ASSISTANCE GRANTS (TAGs)

Evidence of promise made?	Yes, evidence of a promise to give is the formal grant award letter from OSCUI.
Conditions?	<p>Conditions are stated in the award letter.</p> <ol style="list-style-type: none"> 1. Credit union must not commit to, contract for, procure or purchase the goods or services for which they are requesting the grant, prior to receiving written approval from NCUA for the grant. 2. Credit union must request reimbursement for grant fund awards expended within the commitment period designated by NCUA, or request an extension of the commitment period, otherwise the grant award will be forfeited. 3. The grant funds must be used for the purpose stated in OSCUI's grant award letter.
Receipt of promised asset?	Receipt of the promised asset (cash reimbursement) occurs when conditions are met, i.e., grant approval, expenditure, submission of receipts and supporting documentation, etc.

Illustrative Entries -- NCUA TAGs

1. When award letter is received, but before incurring qualifying expenses, meeting of additional conditions, or disbursement of funds, there is no entry. Note: Funds are not distributed in advance of conditions being met, so no Refundable Advance entry.
2. When the award letter has been received and qualifying expenses have been incurred but conditions (such as submitting documentation for reimbursement) have not otherwise been met, nor funds disbursed, the following entries apply:

	Debit	Expense	\$5,000	
	Credit	Account Payable or Cash		\$5,000
	Debit	Grant Contribution Receivable	\$5,000	
	Credit	Income from TAGs		\$5,000

Assumptions are: (1) pre-approval was correctly obtained, (2) qualifying expenses were incurred, (3) timeframes were properly adhered to, and (4) the possibility of not submitting claim and related documentation within the required timeframe is remote, i.e., conditions are substantially met.

Note: A common form of conditional promise to give is one in which the promisee must incur certain qualifying expenses (or costs) before the promise becomes unconditional. The promise should be recognized to the extent qualifying expenses are incurred. [C67.809, Q&A.116/117 #8]

APPENDIX I
(continued)

3. When conditions are met (documented claim submitted meeting all terms and conditions), and OSCUI reimburses the credit union, the following entry applies:

Debit	Cash	\$5,000	
Credit	Grant Contribution Receivable		\$5,000

4. If the credit union misapplied this RAP (recognized income pre-maturely) or failed to meet the terms and conditions of the TAGs in any way such that the TAG grant will not be disbursed, i.e., even after expenditures have been made and income recorded, income reversal entry:

Debit	Income from TAGs	\$5,000	
Credit	Grant Contribution Receivable		\$5,000

**NATIONAL FEDERATION OF COMMUNITY DEVELOPMENT CREDIT UNIONS
(NFCDCU) GRANTS**

Evidence of promise made?	Yes, formal agreement signed by both parties.
Conditions?	<p>Specific terms and conditions of NFCDCU grants vary depending on the credit union’s application request and management’s intended use of the funds. Typically, grant awards are divided into two portions.</p> <p>1. The first portion is provided to the credit union at the time the grant application is approved by the NFCDCU’s capitalization committee.</p> <p>2. The remainder of the award would be provided to the credit union after one or two years, depending on whether the credit union achieves the performance standards documented in the grant application and written grant agreement.</p> <p><u>Once it is disbursed it cannot be recalled.</u> Equity grants may only be used to build capital (net worth) and cannot be used to offset operating losses in the period (calendar year) disbursed.</p>
Receipt of promised asset?	Partial disbursement; Other funds held back & conditional.

Illustrative Entries – NFCDCU Equity Grants

1. When the NFCDCU and the credit union sign the agreement and the funds are initially disbursed (e.g., \$10,000 equity award with \$4,000 disbursed):

Debit	Cash	\$4,000	
Credit	Income from Equity Grant		\$4,000

Funds disbursed cannot be recalled per agreement (unconditional transfer), so income is recognized.

2. When the NFCDCU’s Capitalization Committee reviews the credit union’s performance in light of the agreement’s performance goals and agrees to disburse the additional \$6,000 of funds. (Note: Funds are not distributed in advance of conditions being met, so no income recognition or Refundable Advance entry.)

Debit	Grant Contributions Receivable (or Cash)	\$6,000	
Credit	Income from Equity Grant		\$6,000

Disbursement of funds after the initial award is at the Capitalization Committee’s discretion (conditional), so no income recognition until the Committee’s decision is final.

APPENDIX II
(continued)

3. When the NFCDCU disburses the funds:

Debit	Cash	\$6,000	
Credit	Grant Contributions Receivable		\$6,000

If the Capitalization Committee notifies the credit union of its decision in #2 and disburses the funds simultaneously, then entry #2 and #3 would be combined without need of the “Grant Contributions Receivable” step.

NATIONAL CREDIT UNION FOUNDATION (NCUF) GRANTS

Evidence of promise made?	Yes, formal agreement signed by both parties.
Conditions?	<p>The formal Grant Agreement outlines the grant disbursement terms and the specific terms and conditions of the grant.</p> <ol style="list-style-type: none"> 1. The Foundation disburses the grant in three payments, as stipulated in the Grant Agreement. The Foundation will issue the first grant payment to the grantee upon receipt of the signed Grant Agreement. Two additional grant payments will be disbursed after receipt of satisfactory Progress and Final Reports documenting accomplishments towards the project success measures as outlined in the Application and Grant Agreement. 2. All grantees are required to submit a Progress Report during the grant period and a Final Report at the conclusion of the period. The reports must specifically address the success measures for the project that were outlined in the Application and codified in the Grant Agreement. Grant payments will be based on satisfactory progress on the project as described in the reports.
Receipt of promised asset?	Funds in three disbursements; First disbursement at award.

Illustrative Entries – NCUF Equity Grants

1. When the NCUF and the credit union sign the agreement and one third of the funds are initially disbursed (e.g., \$9,000 equity award with \$3,000 disbursed):

Debit	Cash	\$3,000	
Credit	Income from NCUF Grant		\$3,000

2. When the NCUF Grant Reviewer or Review Committee reviews progress reports and goal achievements in light of the grant terms and conditions and decides to release another payment.

Debit	Cash	\$3,000	
Credit	Income from NCUF Grant		\$3,000

Disbursement of funds is at the NCUF’s discretion (conditional), so no income recognition until the final NCUF decision.

3. When the NCUF Grant Reviewer or Review Committee reviews progress reports and goal achievements in light of the grant terms and conditions and decides to release the final payment.

APPENDIX III
(continued)

Debit	Cash	\$3,000	
Credit	Income from NCUF Grant		\$3,000

Disbursement of funds is at the NCUF's discretion (conditional), so no income recognition until the final NCUF decision.