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Nonprofit Revenue Recognition
Why Is This So Difficult?
Nonprofit Revenue Recognition: Why is This So Difficult?

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Transfer of Resources to an Organization

• How the transfer of resources to an Organization is recorded depends on whether the transfer is:
  - A Contribution
  - An Agency transaction, or
  - An Exchange transaction
Contributions

GAAP defines a contribution as follows:

A contribution is an unconditional transfer of cash or other assets to an entity or a settlement or cancellation of its liabilities in a voluntary nonreciprocal transfer by another entity acting other than as an owner. Other assets include securities, land, buildings, use of facilities or utilities, materials and supplies, intangible assets, services, and unconditional promises to give those items in the future.
Contributions

Key terms in this definition:

**Unconditional** – a promise to give that depends only on passage of time or demand for performance.

**Nonreciprocal** – transaction in which an entity incurs a liability or transfers an asset to another entity without directly receiving value in exchange.
Recognizing and Classifying Contributions

To understand the proper principles for recognizing and classifying contributions you must understand two terms:

- Donor-imposed condition
- Donor-imposed restrictions
Recognizing and Classifying Contributions

Donor-imposed conditions

A donor stipulation that specifies a future and uncertain event whose occurrence or failure to occur (1) gives the promisor a right of return of the assets it has transferred or (2) releases the promisor from its obligation to transfer its assets.

Thus, donor-imposed conditions create uncertainty about whether the organization will ultimately receive or be able to keep the contribution. Because of this uncertainty the organization should substantially meet all donor-imposed conditions before recognizing the receipt of the assets as a contribution.
Recognizing and Classifying Contributions

Transfers of assets with donor-imposed conditions should be reported as refundable advances until the conditions have been substantially met.

If the likelihood of not meeting donor-imposed conditions is remote, the contribution should be recorded.
Recognizing and Classifying Contributions

Donor imposed conditions can be met over time. For example, a donor may match contributions raised dollar for dollar up to a maximum amount. As the organization raises funds, the matching contribution should be recognized as revenue as the funds are raised up to the maximum amount.
Recognizing and Classifying Contributions

Donor-imposed restrictions

A donor stipulation that specifies a use for the contributed asset that is more specific than broad limits resulting from the nature of the organization or the environment in which it operates.

A donor imposed restriction does not establish conditions that must be met in order to receive the contribution, rather it is a specific restriction on the use of the assets.
Recognizing and Classifying Contributions

Unconditional contributions received without donor-imposed restrictions should be reported as unrestricted support that increases unrestricted net assets.

Unconditional contributions received with donor-imposed restrictions should be reported as restricted support that increases either permanently restricted or temporarily restricted net assets, depending on the nature of the restriction.
Recognizing and Classifying Contributions

A restriction may also be imposed based on the passage of time. A donor may stipulate that the not-for-profit organization must use the contribution over a certain period of time. This contribution is temporarily restricted until the period of time expires.
Recognizing and Classifying Contributions

- Conditions govern *when* a contribution is recognized.

- Restrictions govern *how* a contribution is recognized.
Agency Transactions

Resources received in transactions in which a not-for-profit organization is acting as an agent, trustee or intermediary for a resource provider should be reported as increases in assets and liabilities. They are not reflected in the statement of activities.

The key factor in determining whether a transfer of resources is an agency transaction and not a contribution is the extent of discretion that the not-for-profit organization has in the use of the assets received.
Agency Transactions

If a recipient organization accepts cash or other financial assets from a donor and agrees to disburse them to a specified beneficiary, the recipient organization should recognize the value of those assets as a liability to the specified beneficiary concurrent with recognizing those assets it received from the donor.

However, if the donor grants the recipient organization variance power or if the recipient organization and the specified beneficiary have a relationship that is characterized by one organization having an ongoing economic interest in the net assets of the other, the recipient organization would be required to recognize the fair value of any assets it receives as a contribution received.
Exchange transactions are reciprocal transfers in which each party receives and sacrifices something of approximately equal value.
## Exchange vs. Contribution

<table>
<thead>
<tr>
<th>Exchange Transaction</th>
<th>Contribution Transaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>The grantor’s intent is to pay for goods/services provided by the organization.</td>
<td>The grantor’s intent is to make a gift to support the organization.</td>
</tr>
<tr>
<td>The organization’s intent is to provide goods/services to the grantor.</td>
<td>The organization’s intent is to use the grant for support of the organization’s programs.</td>
</tr>
<tr>
<td>The time and place of delivery of the goods/services are specified by the grantor.</td>
<td>The time and place of delivery of the goods/services are at the discretion of the organization.</td>
</tr>
<tr>
<td>The grant payment represents the cost of the goods/services to be received by the grantor or cost plus some markup or “profit margin”.</td>
<td>The grant proceeds are stated as a flat amount with the intent of subsidizing the organization’s cost of providing the goods/services.</td>
</tr>
<tr>
<td>The grant payment is based on the actual quantity of goods/services delivered by the organization.</td>
<td>The grant payment is based on an amount which disregards the actual delivery of the goods/services.</td>
</tr>
<tr>
<td>The grantor determines the “how to’s” (such as method of delivery) or the goods/services to be provided.</td>
<td>The grantor expresses the goal of the activity rather than the “how to’s”.</td>
</tr>
<tr>
<td>The goods/services provided by the grant are made available only to individuals, entities, etc. designated by the grantor.</td>
<td>The goods/services provided by the grant are made available to those served by the organization’s programs or the general public.</td>
</tr>
</tbody>
</table>
What
Does the NFP have discretion to choose the beneficiaries of the transferred resources?

Yes → NFP is acting as an agent, trustee or intermediary

No → Does the NFP provide anything of value to the resource provider?

Yes → Transaction is a contribution

No → Is the value provided by the NFP to the resource provider nominal?

Yes → Transaction is a contribution

No → Is the value provided to the resource provider approximately equal to the value received by the NFP?

Yes → Transaction is an exchange transaction

No → Value the exchange portion of the transaction at fair value, any excess is a contribution.
Examples to Test Your Knowledge

A donor makes a contribution to an organization and includes a condition that an annual financial report has to be filed.

Should this be recorded as contribution revenue?
Examples to Test Your Knowledge

A prospective donor promises to contribute $1 for every $1 of contributions received by your NFP, up to $100,000, over the next 6 months.

Should this be recorded as contribution revenue?
A prospective donor promises to donate $100,000, that must be used for Program B, if the NFP raises $100,000.

Should this be recorded as contribution revenue?
Examples to Test Your Knowledge

A donor makes a contribution to a not-for-profit organization whose mission is to help the homeless. The donor states that the funds must be used to help the homeless.

Is this contribution unrestricted or temporarily restricted?
Examples to Test Your Knowledge

A donor makes a contribution to a not-for-profit organization whose mission is to help the homeless. The donor stipulates that the contribution is to be used to purchase playground equipment for a day camp for homeless children.

Is this contribution unrestricted or temporarily restricted?
A not-for-profit organization may have a contract with a local government to provide preschool services for a certain number of children for a fixed number of hours per day for a fixed period of time. Assuming that the rate paid per hour per child is reasonable…

Is this transaction a contribution or an exchange transaction?
A preschool receives a grant from a private foundation to study the effect of children attending preschool on the children’s future performance in school. The results of the study may be published by the preschool.

Is this transaction a contribution or an exchange transaction?
Examples to Test Your Knowledge

A not-for-profit organization has a gift shop that sells items related to the organizations mission.

Is this transaction a contribution or an exchange transaction?
Examples to Test Your Knowledge

ABC Company gives $50,000 cash to an opera company for the support of a show. In addition to an acknowledgment in the opera brochure, the opera company provides ABC with 1,000 tickets to the opera (with a fair value of $10,000) and hosts a dinner for the officers and directors of ABC (with a fair value of $8,000).

Is this a contribution or an exchange transaction?
ABC Company is headquartered near a large university and would like to have a new building at the university named after the Company. ABC agrees to pay the university $3 million to have its name posted on all 4 sides of the building with its font and logo for a minimum of 5 years. No other company name can be displayed on the building.

Is this a contribution or an exchange transaction?
New Revenue Recognition Guidance

- ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606)
- ASU No. 2015-14, Deferral of the Effective Date
  - Public entities – years beginning after December 15, 2017
  - Nonpublic entities – years beginning after December 15, 2018
  - (NFPs are nonpublic unless they issue publicly-traded debt)
- Applied retroactively to all periods presented
- Early application permitted, but no earlier than years beginning after December 15, 2016
Contributions and collaborative arrangements, i.e., the parties to the contract share costs, risks and benefits are not in the scope.

Will impact NFPs with contracts with customers, e.g., health care entities, colleges and schools

Probably no change in method of revenue recognition for these types of entities
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