Distinguishing Between Contribution Revenue and Exchange Transactions

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Agenda

• Revenue sources

• How to differentiate between contributions and exchange transactions

• Revenue recognition

• Reporting requirements
Revenue Sources

Some Typical Revenue Sources

– Public funds/grants
– Private Contributions
– Fee for Service
– Investment Income
– Membership Dues
Revenue Sources (cont.)

• Contributions:
  – An unconditional transfer of cash or other assets or a settlement or cancellation of liabilities in a voluntary nonreciprocal transfer
    • Unconditional means only a time lapse or a demand from the party to receive the asset must occur for the transfer to happen
    • Other assets include stock, real estate, materials, promises to give, etc.
    • Nonreciprocal transfer means giving or receiving an asset to or incurring or forgiving a liability to or from another entity without directly receiving something of commensurate value in return.
Revenue Sources (cont.)

• Contributions Continued:
  – Excluded Transfers
    • Agency or intermediary transactions
    • Tax exemptions or incentives
    • Governmental transfers to businesses

• Promises to Give
  – A written or oral agreement to contribute assets or forgive debt
  – Must have verifiable evidence that a promise was given and received
  – A key consideration is whether the communication can be legally enforced
Revenue Sources (cont.)

• **Types of promises to give**
  – **Unconditional** – Described previously
  – **Conditional** – Requires a future and uncertain event in order for the donor to be required to comply
  – **Restricted** – Limits the use of the asset to a certain purpose or time period

• **Contributed Services**
  – Create or enhance nonfinancial assets, or
  – Require specialized skills and are performed by persons with those skills and would typically need to be purchased if not donated
Revenue Sources (cont.)

Exchange transactions - reciprocal transfers in which each party receives and sacrifices something of approximately equal value.

- A transaction can have elements of both a contribution and an exchange transaction. An example would be acquiring a building at below fair market value as long as there are not rights or privileges associated
Revenue Sources (cont.)

• Agency Transactions
  
  – Agency Transaction - type of exchange transaction in which the reporting organization acts as an agent, trustee, or intermediary for another party that may be a donor or donee.

  – When NFPs act as agents, trustees, or intermediaries helping donors to make a contribution to another entity or individual, they act as go-betweens, passing the assets from the donor through their organization to the specified entity or individual.
## Indicators Useful in Distinguishing Contributions From Exchange Transactions

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Contribution</th>
<th>Exchange Transaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recipient not-for-profit entity's (NFP's) intent in soliciting the asset</td>
<td>Recipient NFP asserts that it is soliciting the asset as a contribution.</td>
<td>Recipient NFP asserts that it is seeking resources in exchange for specified benefits.</td>
</tr>
<tr>
<td>Resource provider's expressed intent about the purpose of the asset to be provided by recipient NFP</td>
<td>Resource provider asserts that it is making a donation to support the NFP's programs.</td>
<td>Resource provider asserts that it is transferring resources in exchange for specified benefits.</td>
</tr>
<tr>
<td>Method of delivery</td>
<td>The time or place of delivery of the asset/service to be provided by the recipient NFP to third-party recipients is at the discretion of the NFP.</td>
<td>The method of delivery of the asset/service to be provided by the recipient NFP to third-party recipients is specified by the resource provider.</td>
</tr>
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<td>Method of determining amount of payment</td>
<td>The resource provider determines the amount of the payment.</td>
<td>Payment by the resource provider equals the value of the assets to be provided by the recipient NFP, or the assets' cost plus markup; the total payment is based on the quantity of assets to be provided.</td>
</tr>
<tr>
<td>Penalties assessed if NFP fails to make timely delivery of assets</td>
<td>Penalties are limited to the delivery of assets/services already produced and the return of the unspent amount. (The NFP is not penalized for nonperformance.)</td>
<td>Provisions for economic penalties exist beyond the amount of payment. (The NFP is penalized for nonperformance.)</td>
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### Indicators Useful in Distinguishing Contributions From Exchange Transactions

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<td>Delivery of assets to be provided by the recipient NFP</td>
<td>Assets/Services are to be delivered to individuals or organizations other than the resource provider.</td>
<td>Assets/Services are to be delivered to the resource provider or to individuals or organizations closely connected to the resource provider.</td>
</tr>
</tbody>
</table>
Does the NFP have discretion to choose the beneficiaries of the transferred resources? (Paragraphs 5.07-.25)

Yes

Does the NFP provide anything of value to the resource provider? (Paragraphs 5.38-.56)

No

Transaction is a contribution.

Yes

Is the value provided by the NFP to the resource provider nominal? (Paragraphs 5.40-.41)

Yes

Transaction is a contribution. Value provided by the NFP is an expense.

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.
Recognition of Revenue Sources

• **Exchange Transactions**: recognized in the financial statements in the period they are earned.

• **Contributions**: recognized in the financial statements in the period they are received and are reported at their fair value.

• **Unconditional Promises to Give** – recognized when it is received.
Recognition of Revenue Sources

• **Conditional Promise to Give:**
  - Requires a future and uncertain event in order for the donor to be required to comply
  - Conditional pledges are recognized only when substantially all conditions have been met
  - If possibility of future event not occurring are remote, pledge is unconditional
  - If assets have been received with a conditional promise to contribute them, they are treated as an refundable advance (liability)

• **Ambiguous donor stipulations**

• **Restricted** – Limits the use of the asset to a certain purpose or time period
Recognition of Revenue Sources (cont.)

• **Valuing a Contribution Received or Made**
  – Fair value is most evident if quoted market prices are available
  – Market prices for similar assets, independent appraisals, or using discounted cash flows can be used if no quoted market price is available
  – Amortization of discount of a long term pledge receivable should be recognized as contribution income
Recognition of Revenue Sources (cont.)

• **Valuing Non-Cash Contribution Received or Made**
  
  – Inventory Items
    
    • Market prices for similar assets obtained from published catalogs, vendors, independent appraisals, and other sources

  – Contributed Services
    
    • Fair value of the services received or the fair value of the assets enhancement resulting from the services
Recognition of Revenue Sources (cont.)

• Valuing Non-Cash Contribution Received or Made
  – Gifts in Kind
    • Gifts that can be used or sold, measured at fair value
  – Items Given for Fundraising Use
  – Works of Art, Historical Treasures and Similar Assets
Reporting Requirements

- Contributions must be classified as unrestricted, temporarily restricted, or permanently restricted
- A restriction can only be made by the donor, not the receiving entity
- A long term pledge can result in unrestricted and temporarily restricted support
- Expiration of restrictions are recognized in the accounting period the expiration expires or is fulfilled
- Restrictions met in the same accounting period can be classified as unrestricted
Classification of Net Assets as Donor Restricted or Unrestricted

• **Unrestricted** – Not restricted for use by donors

• **Temporarily Restricted** – Asset with donor imposed restriction satisfied by the passage of time or actions of the receiving organization

• **Permanently Restricted** – Asset with donor imposed restriction that must be maintained permanently but the income derived can be used by the organization
Reporting Requirements (cont.)

• **Revenue Recognition Policy Disclosures**

• **Contributed Services** – Program/activity the services were used in

• **Long Lived Assets** – Disclose policy to impose a time restriction over the useful life of the asset if it exists and the gift does not include a stipulation

• **Promises to Give** – Amounts due in less than one year, one to five years, and over five years along with any related discount and any allowance; disclose if a conditional promise exists and what the conditions are
Reporting Requirements (cont.)

- **Works of Art or Collections** – Many requirements surrounding a contribution of these items

- **Restrictions** – Nature and amount of restrictions including specific purpose and endowment

- **Release of Restrictions**

- **Designations** – Included as unrestricted but disclosed on the face of the statement or in the notes