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# NONPROFIT PERSPECTIVES

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## Revenue Recognition of Grants and Contracts by Nonprofits - Is It Time For a Change?

At its April 20, 2016 meeting, the Financial Accounting Standards Board (FASB) voted to add a project to its agenda to improve and clarify existing guidance on revenue recognition of grants and contracts by nonprofits. The FASB directed its staff to perform additional research on the identified issues to best address stakeholder concerns and to develop an approach for clarifying and improving the existing guidance. The FASB began its initial deliberations at its board meeting on June 1, 2016.

The issues that have been raised by stakeholders (including the Not-for-Profit Advisory Committee [NAC], the American Institute of Certified Public Accountants [AICPA] Expert Panels, the AICPA NFP Revenue Recognition Task Force and others) indicate that there are difficulties and diverse practices among nonprofits related to the following issues:

- Issue 1: Characterizing grants and similar contracts with government agencies and others as (i) reciprocal transactions (exchanges) or (ii) nonreciprocal transactions (contributions).
- Issue 2: Distinguishing between conditions and restrictions for nonreciprocal transactions.

Stakeholders have conveyed to the FASB that despite the existing guidance, there is significant diversity in practice among nonprofits related to these issues for many grants and contracts. In some instances, similar grants and contracts are accounted for as nonreciprocal transactions (generally conditional) by some nonprofits and as reciprocal transactions (exchanges) by other nonprofits. The diversity in practice related to this issue can lead to two different nonprofits recording the same transaction with totally different revenue recognition and measurements that result in differing presentations on each of their financial statements.

These two issues have been an implementation problem for many nonprofits for some time. However, with the issuance of the FASB Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606), they have been brought to the forefront and have received new focus due to the elimination of limited exchange transaction guidance in Accounting Standards Codification (ASC) Subtopic 958-605. The additional disclosure requirements that will be required under Topic 606 going forward have some stakeholders expressing that they do not think these disclosures are relevant for these transactions.

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In various meetings with the FASB, stakeholders have expressed that there has historically been difficulty related to these transactions that have been identified as contributions. These grants and contracts often carry specific terms, and issues arise in distinguishing whether these terms are a condition or a restriction. This is particularly the case when funds are provided to a nonprofit with the stipulation that certain outcomes must be met, but the contract has no return of funds language specified.

Additionally, there is also diversity in practice in determining whether the likelihood of failing to meet a condition is remote, which can impact the determination of when a contribution is recognized. While these issues occur for grants and contracts from various types of funders (federal and state governments, private foundations, international non-governmental organizations, other nonprofits and individuals), government grants and contracts cause the most concern among stakeholders. Overall, the conclusions reached by the nonprofit on these issues can affect the timing and net asset classification of the revenue recognized in such transactions, as well as the presentation of this revenue in its financial statements. Consensus in the industry is critical so that these transactions are treated uniformly by all nonprofits.

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