NOT-FOR-PROFIT NEWSFLASH

FALL 2016

BARFIELD MURPHY SHANK & SMITH LLC
CERTIFIED PUBLIC ACCOUNTANTS

- FASB ISSUES ASU 2016-14, PRESENTATION OF FINANCIAL STATEMENTS OF NOT-FOR-PROFIT ENTITIES
- LAWSUITS TARGET HIGHER EDUCATION: WHAT RETIREMENT PLAN SPONSORS NEED TO KNOW
- INTERNATIONAL GRANT MAKING ISSUES FOR NONPROFITS
- UNIFORM GUIDANCE PROCUREMENT RULES ARE COMING... IS YOUR ORGANIZATION PREPARED?
- PHILANTHROPIC PLANNING: DONOR ADVISED FUND VS. PRIVATE FOUNDATION?

1121 Riverchase Office Road | Birmingham, AL 35244 | 205.982.5500 | www.BMSS.com

FASB ISSUES ASU 2016-14, PRESENTATION OF FINANCIAL STATEMENTS OF NOT-FOR-PROFIT ENTITIES

By Lee Klumpp, CPA, CGMA and Tammy Ricciardella, CPA

The Financial Accounting Standards Board (FASB) released the Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities on Aug. 18, and you can read the full ASU here.

The standard aims to improve presentation of financial information, ultimately making not-for-profit financial reporting statements more informative, transparent and useful to donors, grantors and other users. This is the first major change to the nonprofit financial statement model in over 20 years.

ASU 2016-14 impacts all not-for-profit entities in the scope of Accounting Standards Codification (ASC) Topic 958. The ASU addresses the following key qualitative and quantitative matters:

- Net asset classes
- Investment return
- Expenses
- Liquidity and availability of resources
- Presentation of operating cash flows

In addition, the ASU includes illustrative financial statements for not-for-profit entities, which reflect changes made by the new standard.

Net asset classes:

The effects of the ASU on net asset classes are as follows:

- The current presentation of three classes of net assets (unrestricted, temporarily restricted and permanently restricted) is replaced with two classes of net assets– net assets with donor restrictions and net assets without donor restrictions. The totals of these two required net asset categories must be reported in the balance sheet and the changes in these two net asset categories must be presented in the statement of activities. However, this is a minimum presentation requirement. An entity may choose to disaggregate within these two net asset categories.

- The current requirement to provide information about the nature and amounts of different types of donor-imposed restrictions is retained and includes the need to highlight how these restrictions affect the use of the resources and their impact on liquidity.

▶ READ MORE

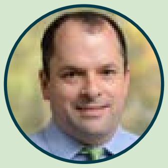
BMSS NOT-FOR-PROFIT PRACTICE GROUP

The most important goal for any not-for-profit organization is to maintain the ability to carry out its mission. To do that, financial stability is a must. As the economy recovers, more and more growth opportunities present themselves to not-for-profit groups.

At Barfield, Murphy, Shank & Smith, our professionals are well-versed in the challenges facing not-for-profit organizations. We are determined to see that not-for-profits in the Greater Birmingham area remain financially sound and operationally efficient. Our engagement team will work closely with your directors and key staff members to focus on areas that are crucial to not-for-profit entities; donor scrutiny, regulatory compliance, funding and investment challenges and strategic planning.

An investment in Barfield, Murphy, Shank & Smith's experience and expertise is a step towards a brighter and more secure future for your organization. Whether you are an advocacy group, professional membership association, private foundation, social service organization or a faith-based group, we will formulate a plan to keep your mission moving forward.

Thought Leaders:



Patrick Bowman, CPA
Member
pbowman@bmss.com
205.982. 5549

Janet Cooke, CPA
Senior Manager
jcooke@bmss.com
205.982. 5560

FASB Issues ASU 2016-14... Continued

- Changes the net asset classification of underwater amounts of donor-restricted endowment funds to net assets with donor restrictions and requires additional disclosures related to these underwater endowment funds.

- Eliminates the over-time approach for the expiration of restrictions on capital gifts and requires the use of the placed-in-service approach in the absence of donor explicit stipulations otherwise.

Investment return:
The ASU requires the following items with regard to investment return (relates to total return investing and not programmatic investing):

- Investment return should be presented in the statement of activities net of all related external and direct internal expenses. The ASU provides definitions and examples of what qualifies for direct internal expenses to assist entities with this presentation.

- The current requirement to disclose the netted investment expenses has been eliminated.

Expenses:

- All nonprofit organizations currently must present expenses by function. The ASU introduces a requirement to present expenses by nature and function, as well as an analysis of these expenses in one location by both nature and function. The intent is to provide additional information to the users of the financial statements regarding how the nonprofit uses its resources. This analysis can be presented in the face of the statement of activities, as a separate statement (not a supplemental statement) or in the notes to the financial statements.

- This analysis should be supplemented with enhanced disclosures about the allocation methods used to allocate costs among the functions.

Liquidity and availability of resources:
To improve the ability of financial statement users to assess a nonprofit entity's available financial resources and the methods by which it manages liquidity and liquidity risk, the ASU contains specific disclosures including:

- Qualitative information that communicates how a nonprofit entity manages its liquid available resources to meet cash needs for general expenditures within one year of the balance sheet date.

- Quantitative information that communicates the availability of a nonprofit's financial assets to meet cash needs for general expenditures within one year of the balance sheet date. Items that should be taken into consideration in this analysis are whether the availability of a financial asset is affected by its nature, external limits imposed by grantors, donors, laws and contracts with others, and internal limits imposed by governing board decisions.

Presentation of Operating Cash Flows:
The ASU maintains the option for nonprofit organizations to present their statement of cash flows on either the direct or indirect method of reporting. If an organization chooses to use the direct method, the reconciliation of changes in net assets to cash provided by (used in) operating activities is no longer required.

Effective Date of ASU:
The amendments in ASU 2016-14 are effective for annual financial statements issued for fiscal years beginning after Dec. 15, 2017 (2018 for calendar year ends and 2019 for fiscal year ends), and for interim periods within fiscal years beginning after Dec. 15, 2018. Application to interim financial statements is permitted but not required in the initial year of application. The amendments in this ASU can be adopted early. Entities presenting comparative financial statements must apply the amendments retrospectively; however, the following optional practical expedients are available for periods presented prior to adoption. For prior periods presented organizations can opt not to include:

- The analysis of expenses by nature and function and/or,

- Disclosures related to liquidity and availability of resources.

Actions to Take Now:

- Read through the ASU and watch for further alerts from BDO with more details related to the implementation of this ASU.

- Discuss the new ASU with your audit committee, board members and external auditors to prepare for the changes introduced.

- Refer to BDO's Nonprofit Standard Blog and Nonprofit Financial Reporting Resource Center for further information.

ON THE HORIZON

This ASU completes the first phase of the FASB's project to improve the financial reporting of not-for-profit entities. As we have discussed in earlier newsletters, the FASB determined that a second phase would consider other potential changes that are likely to require more time to resolve, including potentially reconsidering intermediate operating measures and certain other enhancements. For more information see BDO's Nonprofit Financial Reporting Resource Center.

▶ READ MORE

LAWSUITS TARGET HIGHER EDUCATION: WHAT RETIREMENT PLAN SPONSORS NEED TO KNOW

By Beth Garner, CPA

Retirement plan excessive fee litigation surrounding 403(b) plans was a hot topic in the employee benefit plan world this past week. Several universities that sponsor 403(b) plans were added to excessive fee litigation filed by the law firm of Schlichter, Bogard & Denton, bringing the total to eight universities having to defend their decisions for their retirement plans. These suits are the first of their kind in the 403(b) plan industry, while these lawsuits have been occurring for the past decade for 401(k) plans.

Some of the shortcomings of the plan sponsor's duties based on the litigation include:

1. Improper investment selections,
2. Too many service providers,
3. Too many investment choices, and
4. Plan sponsors not using their plan size as a bargaining chip to reduce costs.

The recent uptick in litigation makes it clear that retirement plans in higher education will be under increased, unprecedented scrutiny. What can you do as the plan sponsor of a benefit plan, whether that plan is a 403(b) or a 401(k)?

Those charged with governance for an employee benefit plan have a fiduciary responsibility to act solely in the interest of participants and beneficiaries of the plan. Although there is no rule on the proper number of investment options that should be available for a plan, the plan sponsor is responsible for selecting and monitoring the investment alternatives that are made available under the plan. This responsibility also includes ensuring that the plan pays only reasonable administrative fees, which may be made up of fees relating to investments within the plan. Additionally, those charged with governance should understand how fees are paid and monitor those fees and expenses.

Is your head hurting yet? If you are considered one of the professionals charged with governance, how do you go about making sure your plan is making the best decisions?

An employee benefit plan should have an investment policy statement (IPS). The IPS should outline the process in which plan investments are selected, monitored and terminated. Monitoring of plan investments would include benchmarking the fees associated with the investments and assessing the reasonableness of those fees. Once again, there is no rule on the benchmarking of fees; however, it is best practice to assess and review plan fees annually or at least every two years.

The Department of Labor (DOL) has noted that even a small increase in plan fees paid from plan assets can, over time, significantly eat away at the ultimate account balance. When assessing whether the fees are "reasonable," consider that you're ultimately answering to the DOL and the participants. One of the best ways to demonstrate that you're a prudent fiduciary is to document. Having meeting minutes, copies of documents analyzed and other documentation can demonstrate how you've complied with these regulations and carried out your fiduciary duties. The DOL realizes the amount of complexity involved with being a plan fiduciary and has formulated well-documented responsibilities on its website as a resource.

Many plan sponsors have decided to hire an investment advisor to help those charged with governance. Dealing with investment selections, fee analysis, share class and continued monitoring has proven to be too much for some plan sponsors. Investment advisors can help those charged with governance.

▶ READ MORE

INTERNATIONAL GRANT MAKING ISSUES FOR NONPROFITS

By Jeffrey Schragg, J.D., CPA

International risks for nonprofits took center stage in recent headlines, and as organizations increasingly expand beyond domestic borders, it's clear the conduct of foreign employees can have a real impact on an organization's ability to carry out its mission and maintain its reputation.

Does your organization face international compliance issues? The answer may surprise you, as there are many activities common to the nonprofit sector that are subject to international taxes and regulations—even some that are conducted from within the United States.

Does your organization:

- Invest abroad by awarding international grants?
- Employ foreign nationals in their home countries or in the United States?
- Conduct operations in a foreign country?

If so, it is important to consider a variety of tax issues that may impact your organization's bottom line.

While organizations of all types face international risk, certain organizational structures may encounter specific sets of challenges with regard to international grant making:

PRIVATE FOUNDATIONS

Foundations are required to evaluate grant recipients and determine whether they qualify as the equivalent of a U.S. public charity. Equivalency determination is the most common process used to perform this initial due diligence. Revenue Procedure 92-94 outlines the information that foundations must collect about the grantee's operations and finances. The grant maker should have a process to collect the information necessary to determine equivalency and can use a qualified tax practitioner to perform the determination.

In some cases, foundations may choose to perform expenditure responsibility instead, which ensures that grant funds are used for charitable purposes regardless of whether the grantee qualifies as a public charity. Although expenditure responsibility may be a cheaper option, it entails more long-term data collection.

As a best practice, foundations should have a checklist of information needed prior to making a payment to a foreign entity and another for post-grant compliance. Private foundations that are deemed noncompliant are subject to an excise tax and could experience negative publicity if funds they send overseas are misused.

PUBLIC CHARITIES

While public charities are not subject to the same Treasury regulations on foreign grant making, they are wise to follow the same guidelines issued for private foundations. The most pressing concerns for public charities are reputational concerns, which can tarnish their brand or negatively impact donor relations. Performing adequate due diligence on potential grant recipients can help mitigate these risks.

DONOR ADVISED FUNDS

Under the Pension Protection Act, donor-advised funds (DAFs) are subject to a series of potential restrictions on international activity. In particular, DAFs are prohibited from issuing grants to individuals. In addition, when making grants to foreign charities, DAFs must take reasonable efforts to ensure that monies are spent for their intended purposes by exercising expenditure responsibility.

Regardless of structure, there are certain international considerations that all nonprofits should remain aware of when operating or funding across borders.

As a result of recent legislation, U.S.-based charities making grants to international organizations are required to comply with various anti-terrorism measures. To ensure they do not issue funds that assist, sponsor or support terrorist activities, organizations are required to check the names of foreign grant recipients against terrorist lists maintained by the U.S. and the United Nations. Additionally, organizations must obtain an agreement that the grant is not U.S. source income and that no withholding will be made. Organizations should implement policies to educate staff and the board on anti-terrorism programs, and put in place a compliance checklist outlining the necessary steps before issuing payments.

▶ READ MORE

International Grant... Continued

Nonprofits operating abroad are also subject to legislation specific to each foreign nation where they are based. In April, the Chinese government passed a law mandating that all foreign organizations (including Nongovernmental Organizations (NGO)) register with the police and obtain a Chinese sponsor in order to continue their work within China. This is not the first piece of legislation limiting international activity in the nonprofit sector; the Chinese ruling is reminiscent of legislation passed in Russia throughout the past decade that imposed further governmental controls on NGOs operating in Russia.

Whether or not other foreign nations will introduce similar legislation remains to be seen. However, many organizations may consider establishing in-country legal entities as a precautionary measure, in order to efficiently and successfully comply with unexpected legislation changes.

UNIFORM GUIDANCE PROCUREMENT RULES ARE COMING… IS YOUR ORGANIZATION PREPARED?

By Andrea Wilson

Time is running out! For organizations that receive federal funding subject to Uniform Guidance (UG), 2 CFR 200, the time to update procurement standards is rapidly approaching. The UG provided a two-year grace period, which expires two full fiscal years following Dec. 26, 2014. This means organizations with a Dec. 31 fiscal year-end must have the new standards in place by Jan. 1, 2017.

The UG procurement standards remove much of the ambiguity and relative freedom organizations had under the previous A-110 standards in favor of more stringent and prescriptive requirements. Specifically, the new standards require quotes and/or price analysis for procurements in excess of $3,500 and open competition for those in excess of $150,000, and significantly limit the permissible justifications for sole source procurements. The standards also introduce new concepts of cost and price analysis to the government grants world, and require profit to be negotiated separately in certain circumstances.

While some organizations chose to proactively implement these changes ahead of the mandated timing, the new procurement standards represent a major shift in the way nonprofits approach procurement, and are tough to implement for even the most diligent of organizations. Many early adopters are still struggling with these changes, finding themselves unprepared to handle the stringent new compliance requirements, policy overhauls, training needed at all levels and—most importantly—the cultural shift the standards introduce. While organizations grapple with these significant changes, they are simultaneously finding themselves under increased audit scrutiny from external and governmental auditors.

SO WHAT HAVE BEEN THE MOST SIGNIFICANT LESSONS LEARNED?

- The cultural shift resulting from new procurement standards should not be underestimated. Most organizations choose vendors and contractors based on past performance and existing relationships, and have done so for many years. These factors will no longer be a permissible basis of selection for direct federally funded procurements, so organizations need to be ready to make major changes in their procedures.

- The need for documentation has expanded significantly. Organizations must now keep all of the quotes received, rationale for selection, cost/price analysis and negotiation memorandum.

- Purchase orders and contract templates must be updated to include new required flow-down clauses.

In advance of the deadline, organizations that haven't already adopted new procurement policies should take steps to get compliant now and should consider these best practices in their efforts:

- Conduct a gap assessment by reviewing current policies and procedures and comparing them to the new requirements under Uniform Guidance.

- Based on the flags raised during the assessment, revise your procurement policy. Be sure to include written standards of conduct covering conflicts of interest in your procurement policy.

- Think about your culture: How do you buy goods and services? Who are the buyers within your organization? How will this new policy affect them? What practices can be used to be sure that your programs and mission are not negatively impacted?

- Understand when cost and/or price analysis is necessary, and how it can be documented. For example, how does your organization document sole source cost analysis during an emergency procurement?

- Ensure everyone involved in the procurement process understands the new requirements and policy. Provide multiple rounds of training at every level of your organization.

▶ READ MORE

Uniform Guidance... Continued

- Once your policy changes have been effective for a reasonable amount of time, use your internal audit function to ensure your new procedures and controls are operating effectively.

- Many nonprofit organizations have limited resources to identify compliance issues and craft policy updates and solutions. Seeking outside help often proves to be an efficient way to be honest about your compliance, identify any flaws and get compliant quickly.

Compliance with these new standards is tough, but not impossible. Be thoughtful when drafting your new policy—a policy that is not grounded in your organization's mission and culture will prove almost impossible to implement. It's critical that organizations begin this process well in advance of the deadline, so they have time to strategically execute changes. Start now and ensure you have time to train staff and test the effectiveness of your new policies and controls.

PHILANTHROPIC PLANNING: DONOR ADVISED FUND VS. PRIVATE FOUNDATION?

By Rebekuh Eley, CPA, MST

Donor advised funds (DAF), which are often alternatives to establishing a private foundation, have received much attention in recent years. Their rise in prominence has prompted financial institutions and other public charities to offer DAF arrangements. There are several considerations in choosing a DAF or a private foundation to fulfill a donor's philanthropic needs. Some of the considerations include:

ADMINISTRATION

Both cost and time should be considered when determining whether to establish a private foundation or a DAF, along with the amount of the gift or assets within the private foundation or DAF. Private foundations are separate legal entities and carry the administrative costs of formation, operation and annual reporting. A private foundation with a larger asset base can better manage the administrative costs, costs of annual legal and tax compliance, and the mandatory annual five percent distributions.

The time involved to maintain annual compliance for a separate entity may create a burden for the founders of the private foundation. Additionally, the establishment of a private foundation can take a year or longer to complete which may not be within the donor's timeframe for distributing the initial contribution. A DAF is typically a segregated fund within an existing public charity. There are little to no start-up costs because the gift is made to an existing Section 501(c)(3) public charity. Since a DAF is housed in an existing entity, this allows an immediate contribution or grant to be made once approved by the DAF.

LEGACY

Family legacy and continuity of the fund is another factor in determining the proper vehicle for philanthropic giving. A private foundation can be maintained in perpetuity, and be an institution that carries on a family name. A private foundation provides opportunities for board selection and succession planning, as well. However, depending on the arrangement with the sponsoring Section 501(c)(3) organization, DAFs may have time limits for the funds. And although it may carry the family name on the fund, a DAF is not legally a separate organization from the sponsoring organization.

GRANT MAKING AND CONTROL OF ASSETS

Assets contributed to a DAF are no longer legally under the control of the donor. The donor may advise on the use of those assets in the community, but there is no legal obligation for the DAF to abide by that request, although most do. Some DAF's may have geographical or other restrictions on where the funds may be granted. The administrative cost to identify community needs to make a greater impact and evaluate qualified organizations is housed within the sponsoring organization of the DAF.

▶ READ MORE

Philanthropic Planning... Continued

A private foundation would need to make this assessment internally and bear that cost.

Private foundations must distribute five percent of the fair market value of their investment assets every year. DAFs do not currently have a mandated distribution requirement by law; although a plan to distribute assets should be implemented to facilitate funding into the community.

DAFs are limited in their ability to make grants, and generally, grants must go to a public charity. A DAF is prohibited from distributing to a natural person. Grants to organizations that are not public charities must be for a charitable purpose, and the DAF must exercise expenditure responsibility to avoid an excise tax. Private foundations are subject to similar rules requiring expenditure responsibility for grants to organizations that are not public charities.

There are rules for both DAFs and private foundations regarding scholarships. A DAF is prohibited from making a contribution to an individual, which prevents DAFs from making grants for travel, study, or similar purposes. However, a sponsoring organization may maintain a fund for this purpose and the donor may be an advisor for this fund. A DAF may grant funds to the sponsoring organization's scholarship fund. A private foundation is permitted to grant scholarships to individuals, provided the private foundation receives approval from the Internal Revenue Service before distributing scholarship funds. With these differences in mind, a donor wishing to provide scholarships will need to determine how much control they would like over a scholarship fund when choosing between a DAF and a private foundation.

Both DAFs and private foundations have prohibitions against certain transactions with the donor or persons related to the donor. The prohibitions are enforced in the form of an excise tax to the donor or the advisor/manager over the DAF or private foundation. DAFs are prohibited from making any distribution that has a direct or substantially indirect benefit to the donor or related persons. Private foundations are prohibited from entering into any transaction, regardless of the dollar amount, with the founder of the private foundation and related persons. There are certain exceptions to this rule for private foundations, but the prohibitions are stricter within a private foundation than a DAF. We've discussed some of the most common risky transactions for private foundations on our Nonprofit Standard blog. When weighing a private foundation or DAF, the intended transactions with a donor or persons related to the donor should be considered to determine if the transaction is prohibited from all entities or may be permissible in either a DAF or private foundation.

Certain DAFs may also mandate certain investment options, particularly when a DAF is associated with a financial institution. Private foundations may have more flexibility in their investment options provided they are investing as a prudent investor, and not in excessive business holdings.

TAX CONSIDERATIONS

A donation to either a private foundation or a DAF is tax deductible. A donation to a DAF is limited to 30-50 percent of a donor's gross income, whereas a private foundation which has a 20-30 percent limitation. The value of a cash or publicly traded stock gift is fair market value for both a DAF and a private foundation. The value of a gift of closely held stock or real estate is fair market value for a DAF and limited to a donor's cost basis for most private foundations. A donation to a DAF may present a greater immediate tax deduction. Private foundations are also subject to a 1-2 percent excise tax on all investment income. This tax is not applicable to DAFs.

PRIVACY

The annual compliance filing for a private foundation, Form 990-PF, includes the listing of contributors and the amount that was given for the year. Since the Form 990-PF is a public document, donors should consider this requirement if privacy is important to them. DAFs are not required to provide the donor listing to the general public, which allows donors to make anonymous gifts.

IN CONCLUSION

There are many considerations in determining the proper vehicle for continuous philanthropic planning. Assessing the purpose, along with operating and tax considerations, will help guide donors in the right direction.

This article originally appeared in BDO USA, LLP's "Nonprofit Standard" newsletter (Fall 2016). *www.bdo.com*

OTHER ITEMS TO NOTE

OMB Issues 2016 Compliance Supplement

The Office of Management and Budget (OMB) released the final 2016 Compliance Supplement at the end of July. The Compliance Supplement is now an appendix to 2 CFR Part 200 and is entitled the 2016 2 CFR 200, Appendix XI, Compliance Supplement (the Supplement). This edition of the Supplement will be used to perform single audits

▶ READ MORE

Other Items to Note... Continued

under OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards at 2 CFR 200 (Uniform Guidance). The 2016 Supplement may be accessed directly on the OMB Grants Management Circular page. The Supplement is effective for audits of fiscal years beginning after June 30, 2015, and it supersedes the 2015 Supplement.

The audit requirements of the Uniform Guidance (contained in Subpart F, "Audit Requirements") are effective for audits of fiscal years beginning on or after Dec. 26, 2014. The 2016 Supplement is a critical tool for performing audits under the Uniform Guidance audit requirements. Part 3, Compliance Requirements, is a key part of the Supplement. It is broken into two parts to facilitate an outline of the compliance testing requirements of older and newer awards. Part 3.1 is applicable to federal awards made prior to Dec. 26, 2014, and Part 3.2 is applicable to federal awards subject to the Uniform Guidance (i.e., new awards made on or after Dec. 26, 2014, or funding increments made on or after that date). Keep in mind that auditors may need to use both sections to understand the compliance testing requirements for awards expended for certain major programs.

To learn more about the types of changes made and the specific programmatic changes by Catalog of Federal Domestic Assistance (CFDA) number, review Appendix V, *List of Changes for the 2016 Compliance Supplement*. To understand the latest OMB announcements that may be relevant to 2016 single audits, carefully review Appendix VII, *Other Audit Advisories*.

Changes to the Uniform Guidance Data Collection Form

On July 15, 2016, the Federal Audit Clearinghouse (FAC) issued the updated Data Collection Form (DCF) and related instructions. The new Form will be used for audits of fiscal periods beginning on or after Dec. 26, 2014, and can be accessed on the FAC website.

The vast majority of the changes made to the DCF are to address new requirements in OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards at 2 CFR 200 (Uniform Guidance). Keep in mind that the new DCF is only to be used for audits of fiscal periods beginning on or after Dec. 26, 2014 (generally Dec. 31, 2015, and later year-end single audits).

Under 2 CFR 200.512, auditees are required to authorize the FAC to make reporting packages publicly available (note that there is an exception to this requirement for Indian Tribes and Tribal Organizations, further described in 2 CFR 200.512). Auditees should carefully review all documents that will be made publicly available before finalizing to ensure they do not include any protected personally identifiable information.

Revenue Recognition of Grants and Contracts by Not-For-Profit Entities

The FASB added the project "Revenue Recognition of Grants and Contracts by Not-for-Profit Entities." This project was added to address the difficulty and diversity in practice for recognizing revenue from grants and contracts for not-for-profit (NFP) entities that stem from the following two issues:

- Issue 1: How NFPs characterize 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.

At the Aug. 31 meeting of the Financial Accounting Standards Board (FASB), members discussed various ways to improve the existing guidance for distinguishing between conditions and restrictions for nonreciprocal transactions (contributions). The Board did not make any technical decisions at this meeting. However, the Board did direct FASB staff to explore further an approach based on the existence of a right of return. The FASB staff was asked to explore the following aspects of the existence of a right of return approach:

- How determinative a right of return should be in indicating the existence of a donor-imposed condition (and the implications of trivial right-of-return stipulations), and

- Whether a right of return must be explicit in the agreement.

The Board also asked the staff to conduct additional outreach and research with preparers and users of NFP financial statements related to the proposed approach and to see if it might be operational in practice.

BARFIELD MURPHY SHANK & SMITH LLC
CERTIFIED PUBLIC ACCOUNTANTS

1121 Riverchase Office Road
Birmingham, AL 35244
205.982.5500 | www.BMSS.com