Contribution or Exchange Transaction

One of the biggest differences in nonprofit accounting, as compared to for-profit accounting, is how revenue is recorded. Under nonprofit accounting, revenue is either a contribution or an exchange transaction (also known as earned revenue) – or a combination of both. It is important to consider all revenue sources, because misclassifying contributions as exchange transactions can have a large impact on your financial statements. Contributions are recorded in their entirety when the funds are promised; exchange transactions are recorded when the revenue is earned (i.e., the work is accomplished).

Contribution

A contribution is a gift provided to the nonprofit with no expectation of benefits received in return.

Exchange Transaction

An exchange transaction is a transfer of funds for goods or services provided; the funder receives a benefit.

What is the Difference?

These definitions cover all revenue sources, such as individual donations, foundation grants, government grants, membership dues, even the different components of a special event (ticket sales, auction purchases, raise the paddle, donations).

Accounting Standards Codification (ASC) 958-605-55 provides guidance to distinguish contributions from exchange transactions. In general, the accounting and reporting of revenue is determined by the underlying substance of the transaction, not the name assigned to it by the funder. For example, the term “grant” is used broadly and can refer to contributions or exchange transactions. Each revenue source should be carefully reviewed in making this determination, as it may be entirely a contribution, entirely an exchange transaction or a combination of the two.

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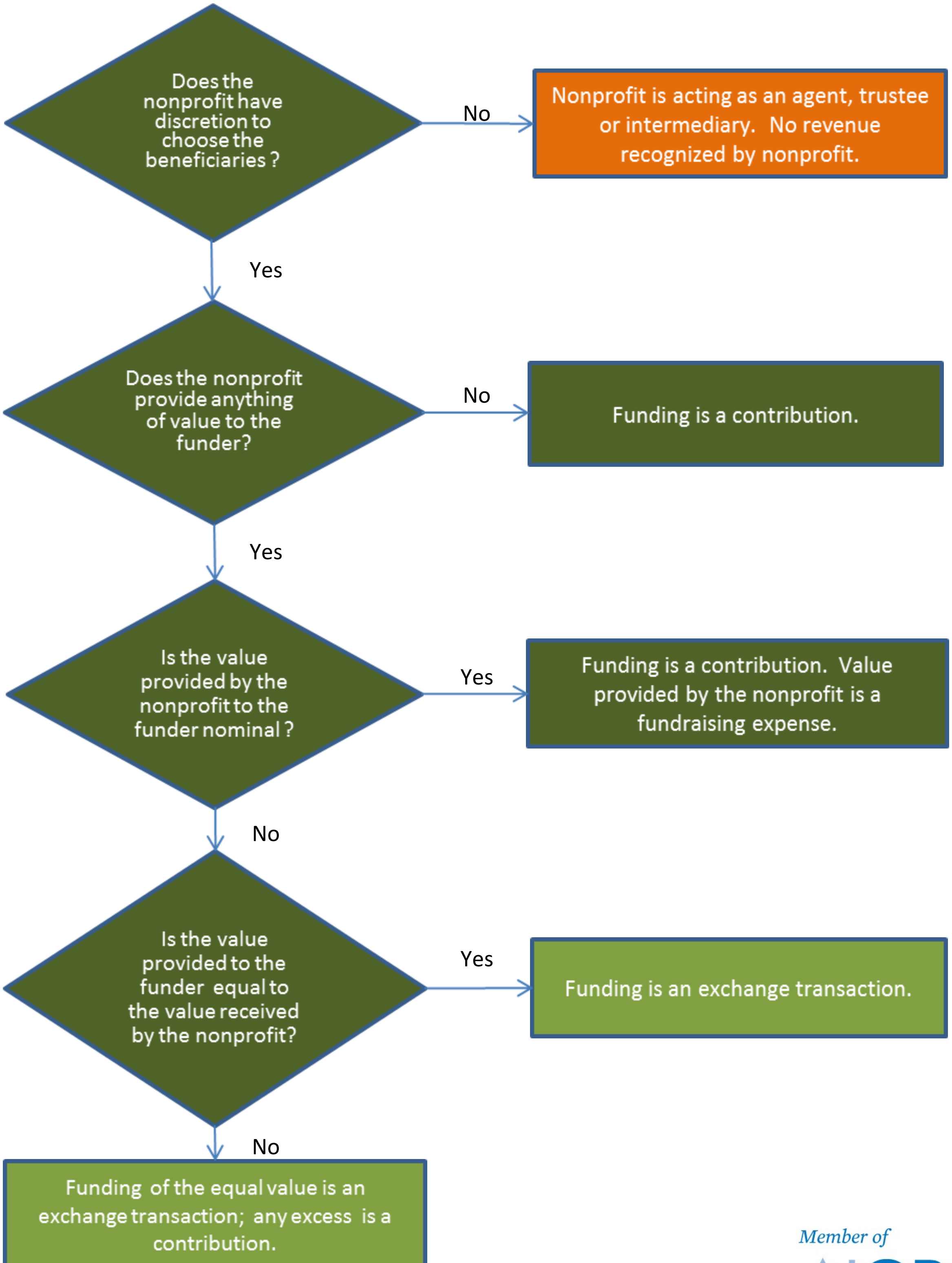
Factors indicating the funding is a contribution, rather than an exchange transaction, include:

- The nonprofit’s original intention is to use the funds as a contribution. This often is documented in the grant proposal or fundraising appeal.
- The funder communicates to the nonprofit that it is making a donation to support the nonprofit’s programs. The funder may refer to the award as a “contribution,” “donation” or “sponsorship” in the grant agreement.
- The funder receives no value in exchange for the funds given, or the value received is incidental to the potential public benefit from using the funds.
- The activity specified by the funder is to be planned and carried out by the nonprofit, which retains the right to the benefits of carrying out the activity. In general, the nonprofit has discretion in determining the time and place of delivery of the activity to its recipients.
- If the nonprofit fails to make timely delivery of the assets, the nonprofit is not penalized for nonperformance. The nonprofit could be liable to return the unspent portion of the grant, but no other economic penalties exist.

Some indicators can be more significant than others, depending on the individual facts and circumstances. In general, most grants received from private foundations and other donors are considered contributions, while government grants are considered exchange transactions.

Is it a Contribution or Exchange Transaction?



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