

Navigating Grants and Revenue Recognition in the Nonprofit Sector

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Introductions



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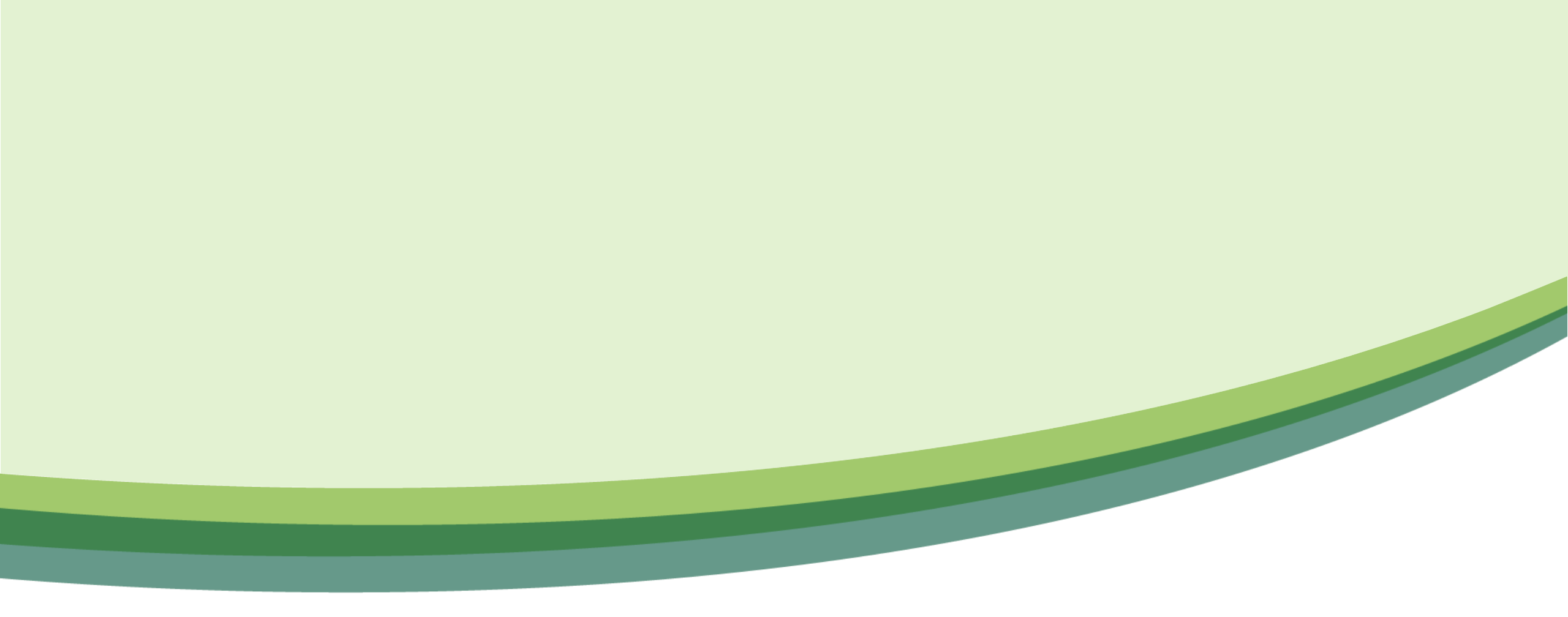
Raleigh, NC



Agenda

- ▶ Refresher on contributions
 - When should they be recognized?
 - What do you need to be audit ready?
- ▶ Revenue vs. Support
- ▶ Agency Transactions
- ▶ Contributions
- ▶ Pledges
- ▶ Other Revenue





Transaction Types



Revenue and Support

Contributions

**In-kind
Contributions**

Grants

**Exchange
Transactions**

**Net investment
income**

**Special
Events**



Exchange and Non-Exchange Transactions

▶ Exchange Transaction

- Each party gives and receives commensurate value.
- Typically for the benefit of the party requesting the services/goods.

▶ Non-Exchange Transaction

- NFP receives contribution but gives nothing in return to the donor.
- Typically for the benefit of the general population served or fulfilling the mission of the NFP.

A transaction could have both exchange and non-exchange components.



Revenue vs. Support



Revenue

- ▶ Exchange transaction
- ▶ Services performed for a fee
- ▶ Revenue recognized when performance obligation is satisfied



Contributions

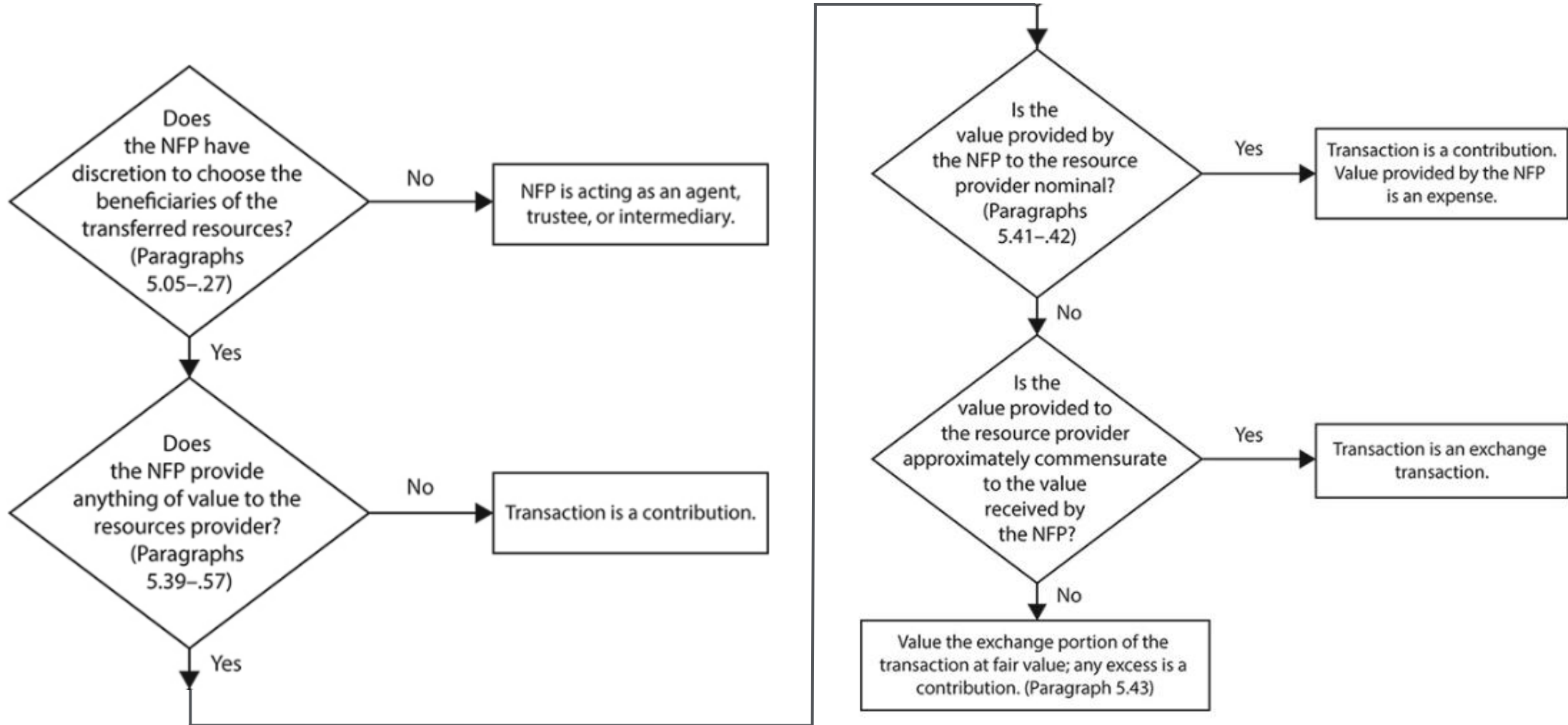
- ▶ Non-exchange transaction (nothing provided to donor in return for funds)
- ▶ Can be conditional or unconditional
- ▶ Can be with or without donor restrictions
- ▶ Can be cash, goods, or services



Grants

- ▶ Non-exchange transaction – donor is not the beneficiary of work performed.
- ▶ Can be conditional or unconditional
- ▶ Can be with or without donor restrictions

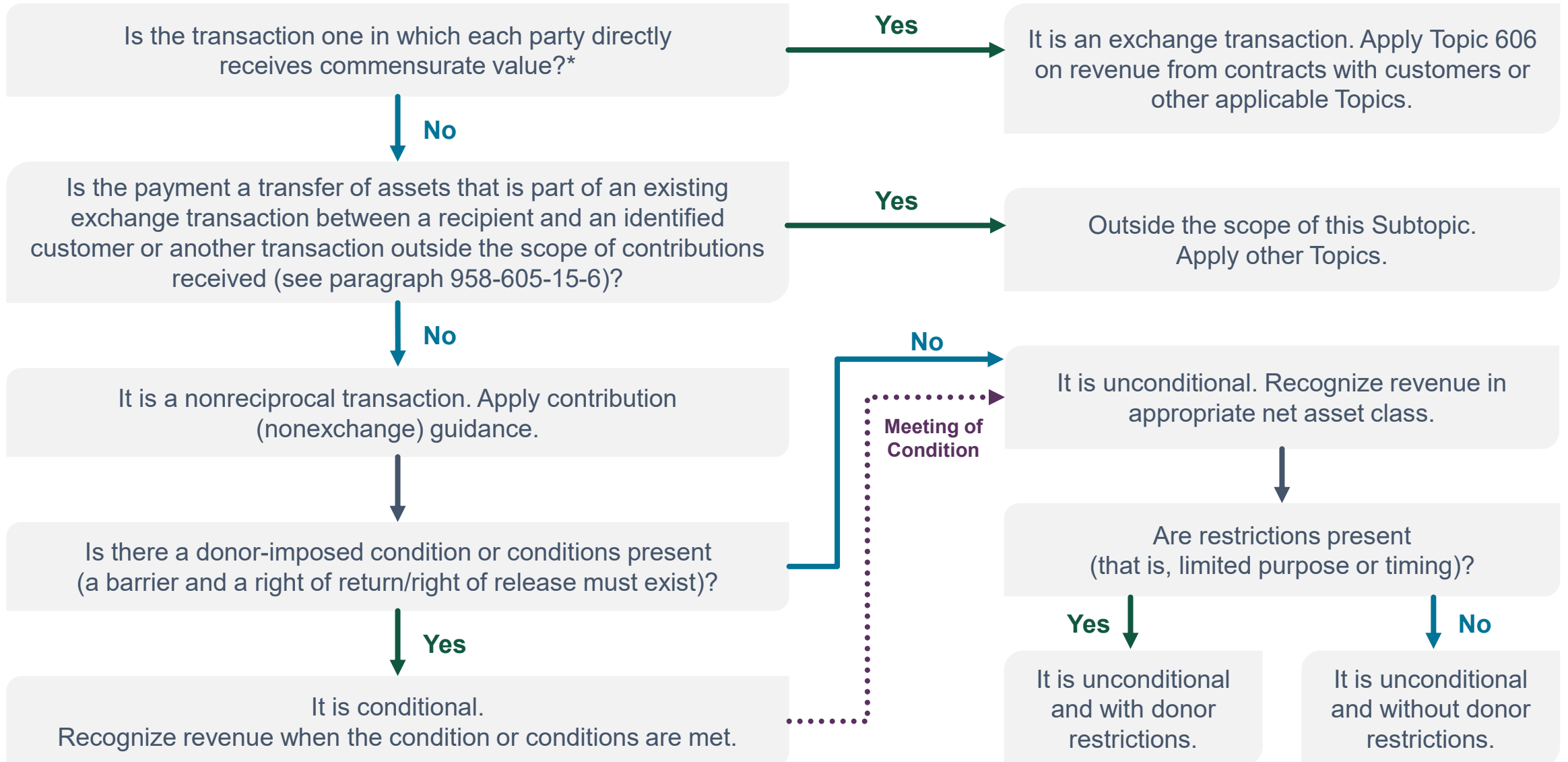
Does a Transfer include a Contribution?

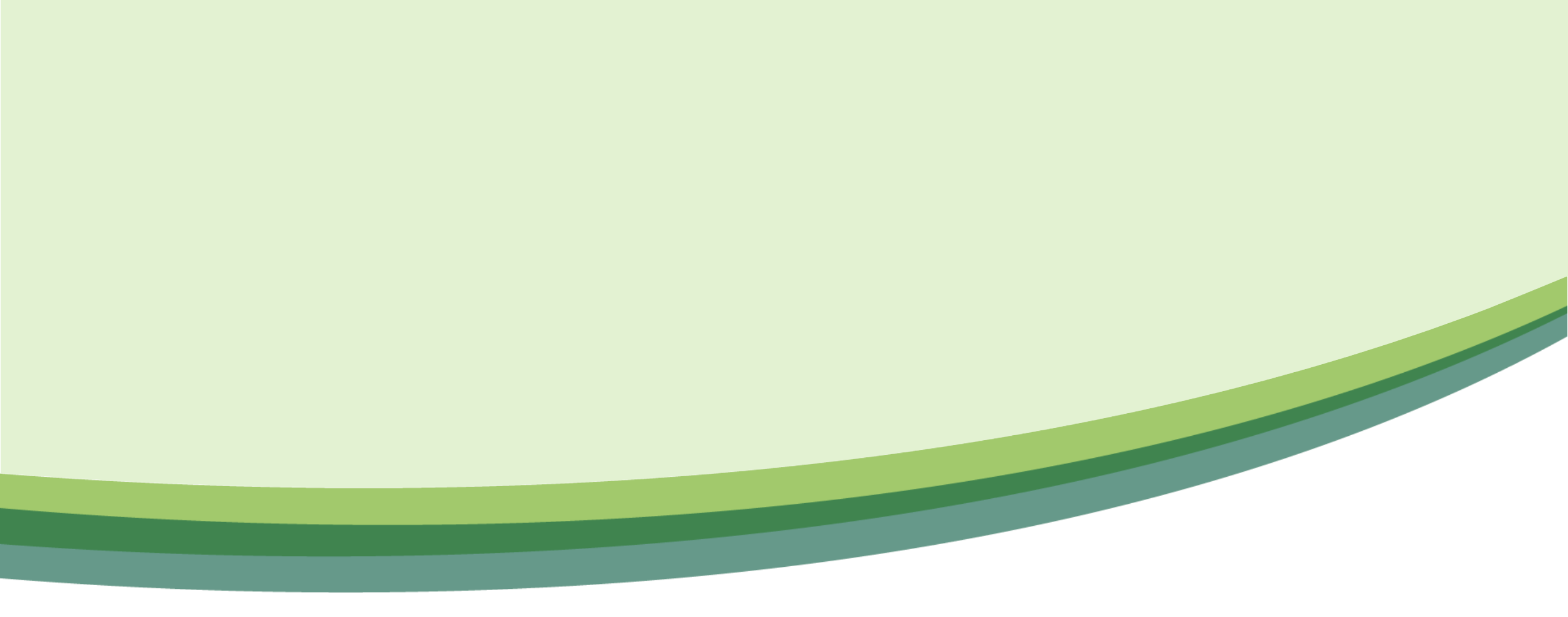


Source: AICPA Accounting & Audit Guide for Not-for-Profits Orgs, Chapter 5 – Contributions Received and Agency Transactions



Revenue Recognition Decision Diagram





Revenue



Exchange Transactions (Revenue)

- ▶ Revenue in exchange for services performed, sale of products, etc.
 - ▶ Follows ASC 606, 5 steps for consideration
 - ▶ Included within the “Without Donor Restrictions” section of the statement of activities
 - ▶ Disclosures around how the revenue is earned, any assets (accounts receivable) or liabilities (deferred revenue)
 - ▶ Consideration and disclosure over allowances
- ▶ Follows the same methods as commercial entities



Recognizing Revenue under ASC 606

1

Identify the Contract with the Customer

- Agreement between two or more parties
- Written, oral, or implied
- Creates enforceable rights and obligations

2

Identify the Performance Obligations

- Criteria in ASC 606 for a good or service being distinct
- Each distinct good or service would be considered a performance obligation

3

Determine the Transaction Price

- Consideration that the NFP expects to obtain in exchange for the goods or services.
- Excludes any amounts collected on behalf of 3rd parties
- Non-cash consideration should be at fair value

4

Allocate the Transaction Price

- Allocate the price from Step 3 to the performance obligations from Step 2
- May require estimation

5

Recognize Revenue

- Recognize revenue when the performance obligations are satisfied
- Separately disclose revenue earned at a point-in-time vs. over time.



How to be Audit Ready



Documentation over how you considered the 5 steps of ASC 606



Support for your transactions – invoices, support for how the revenue was earned, checks for payments received



Calculation of any allowances

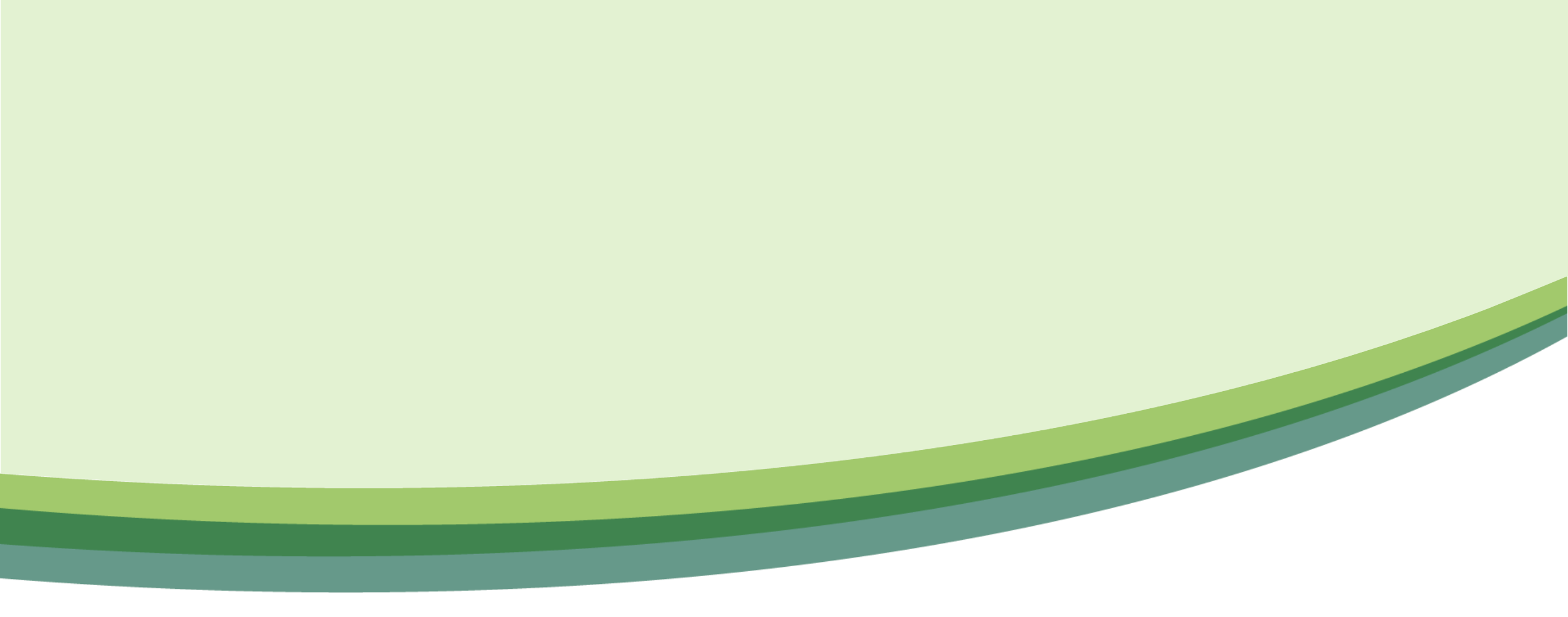


Disclosure information

How revenue is earned

Roll-forward of your allowances (beginning balance, additional provisions, write offs, ending balance)



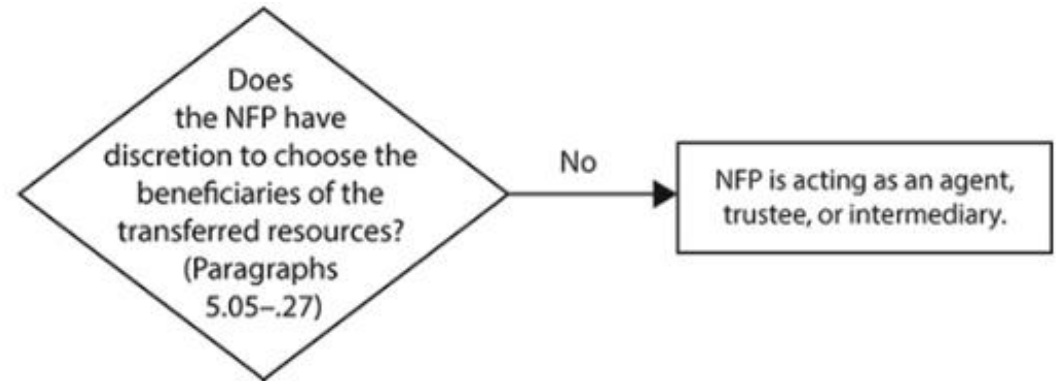


Agency Transactions



Agency Transactions

- ▶ The NFP acts as an agent, trustee, or intermediary for another party
- ▶ Acts as a go-between to pass through the funds or gifts-in-kind
- ▶ NFP acting as an agent does not recognize revenue or expense for passing the funds.
- ▶ Cash/Assets Received – Establish a liability
- ▶ Cash/Assets Paid – Remove the liability



How to be Audit Ready



Agreement, if applicable



Support for the transactions – cash support or documentation of assets received, check/wire support for payments out



Statement of Cash Flows

Operating Activities

Permitted to be presented as gross (receipts and payments separately) or net





Contributions & Support



Contributions & Support

- ▶ Non-exchange (not a reciprocal transaction)
- ▶ Recognition depends on conditions
- ▶ Classification depends on restrictions
- ▶ Can be cash, goods, services, promises to give (pledges)



Conditions vs. Restrictions

CONDITIONS

- ▶ Affect the timing of revenue recognition
- ▶ Conditions are barriers that must be overcome before the NFP is entitled to the funds.

RESTRICTIONS

- ▶ Do not affect timing of revenue recognition
- ▶ Affect the classification of the support
- ▶ Stipulation for use of a contributed asset that's more specific than the broad nature of the NFP
- ▶ Could be temporary or perpetual in nature.
- ▶ Do not affect whether the NFP is entitled to the funds.



Conditional Contributions or Promises to Give

A contribution or promise to give is conditional if it has both of the following:



One or more **Barriers** that must be overcome before the recipient is entitled to the assets transferred or promised



Right of Return to the contributor
OR
Right of Release of the promisor

Indicators of Barriers



**Measurable
Performance
Related Barrier**



**Limited Discretion
by the Recipient
on the Conduct of
an Activity**



**Stipulations That
Are Related to the
Purpose of the
Agreement**

Example

The Foundation grants an NFP \$400,000 for one year. It specifies it will give the NFP \$100,000 each quarter if NFP demonstrates that services have been provided to at least 2,000 disabled veterans during the preceding quarter.



Things to Watch Out for Related to Conditions

- ▶ Grants can sometimes have tranches of contribution revenue based on conditions in the agreements
 - NFP doesn't have to receive the payment in order to recognize revenue
 - However, if payment is received in advance, need to consider unearned revenue
- ▶ Grants with matching requirements
 - Need to monitor contributions and pledges to determine when the condition is met
- ▶ If the grant has conditions that have not been met, and no payment has been received, there is no transaction to record even if there is a signed agreement



With Donor Restriction

- ▶ Stipulation that specifies a use for a contributed asset that is **more specific** than the following:
 - The nature of the NFP,
 - The environment in which it operates, and
 - The purposes specified in its articles of incorporation or bylaws or comparable documents for an unincorporated association.



Types of Donor Restrictions

- ▶ Perpetual: donor stipulates that the resources be maintained in perpetuity
 - Common example: the corpus of endowments
- ▶ Temporary: for example, to be used for a specific program or to acquire specific assets
 - Purpose: has to be used for a specific program or for construction of building, etc.
 - Time: the resources cannot be used until the time specified by the donor



Types of Donor Restrictions *(Continued)*

Explicit Restrictions

- ▶ Written or oral restrictions accompanying the contribution/pledge

Implicit Restrictions

- ▶ Result implicitly based on the circumstances of the contributed asset
 - Example: Contributions from capital campaign for a building
 - Example: Unconditional contributions with payments due in future periods (this can include contributions that otherwise do not have a purpose restriction)



Grants

- ▶ Determine the ultimate beneficiary of services to determine exchange vs. non-exchange treatment under GAAP
 - If the Grantor is the ultimate beneficiary, then treated as exchange transaction
 - If the general population for which the NFP serves is the ultimate beneficiary, then treated as non-exchange transaction (contribution)
- ▶ Grantor may require certain reports; however, this does not necessarily make them the ultimate beneficiary



Grant Sources

- ▶ Federal & State – potential Single Audit if not considered a contractor
- ▶ Foundations & other NFP Organizations
- ▶ Companies
- ▶ Presentation in the Statement of Activities will depend on with or without donor restrictions



Reimbursable Grants

- ▶ Funding happens after the NFP incurs the expenses
- ▶ Because the conditions would likely be met (by incurring the required costs) revenue would be recorded when submitted for reimbursement
- ▶ Need to monitor for any other conditions that could apply before recognizing revenue



How to be Audit Ready



Agreements and other support for grants, contributions, or pledges, as applicable



Support for the transactions – cash support or other support for commitments



Roll-forward of net assets to show contributions and releases from restrictions



Consideration of concentrations – are there contributions by donor that are in excess of 10% of total contributions?





Gifts-in-Kind (Non-Cash Contributions)



Gifts-in-Kind & Contributed Services

Gifts-in-Kind

- ▶ Gifts-in-kind that can be used or sold should be recognized at fair-market-value using principles under ASC 820
- ▶ NFP should have discretion in using or further distributing the gifts in kind
- ▶ NFP should have the risks and rewards of ownership over the gifts in kind (typically in physical possession but could also be constructive possession when held or stored by a third party)
- ▶ Could be discounts received as well

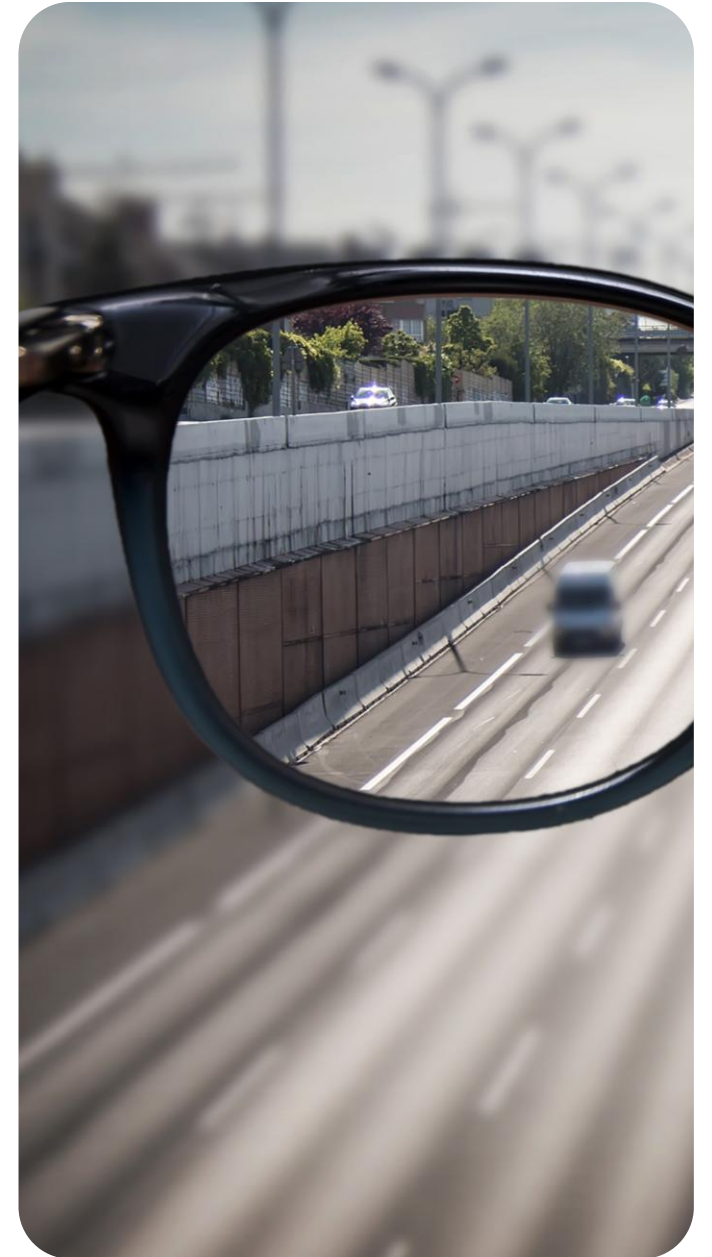
Contributed Services

- ▶ Only recognized if either criteria is met:
 - a) The services create or enhance a nonfinancial asset OR
 - b) The services require specialized skills (e.g., accountants, architects, carpenters, doctors, electricians, lawyers, nurses, plumbers, teachers, etc.)
- ▶ Recognized at fair market value



Contributed Nonfinancial Assets

- ▶ Must present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets.
- ▶ Must also present additional disclosure on contributed non-financial assets by category that depicts the type of contributed nonfinancial asset



Gifts for Events

- ▶ Items like tickets, goods, etc. for fundraising events
- ▶ The receipt of the goods should be reported as a contribution valued at their fair value
- ▶ If the sale at the event results in a higher amount than the original fair value, an adjustment should be booked to the contributions



Services Received from an Affiliate

NFPs recognize all services received from personnel of an affiliate that directly benefit the recipient NFP (similar to personnel directly engaged by the NFP). NFP may elect to recognize at:



The **cost** recognized by the affiliate for the personnel providing that service



The **fair value** of that service

Other Possible Gifts-in-Kind

Could be fully contributed items (full FMV) or discounted services (gift would be difference in amount paid and FMV).



Contributed Advertising



Contributed utilities and use of long-lived assets



Guarantees



Below-market interest rates on borrowing



Must Disclose for Each Category

Qualitative information on if assets were monetized or utilized during the reporting period

NFP Policy (if any) about monetizing rather than utilizing contributed nonfinancial assets

A description of any donor-imposed restrictions

Valuation techniques and inputs used to arrive at fair value

The principal market used to arrive at fair value if NFP is prohibited by donor from selling or using



How to be Audit Ready



Support on the valuation of the in-kind donations from the donor



Support for the transactions – will vary based on the in-kind donation received



Schedule summarizing types of in-kind contributions, how they were used (converted to cash, used for programs, etc.), and how they were valued





Pledges





Unconditional Promises to Give

Key considerations specific to unconditional promises to give:

- ▶ To be recognized there must be sufficient evidence in the form of verifiable documentation that a promise was made and received (written agreements, pledges, oral promises documented with logs, recordings, or other means of verification)
- ▶ Subject to allowance for uncollectible accounts
- ▶ Unconditional promises to give in the future should be recorded as donor-restricted (time restriction) and are subject to present value discounts

Pledges (aka Receivables)

**Innate time
restriction on
pledges without
donor restrictions**

**Typically recorded
as support at the
time it is pledged**

**Discounts on
pledges**

Innate Time Restrictions

- ▶ Contributions of unconditional promises to give with **payments due in future periods** should be reported **as donor-restricted** support
 - Unless it is clear the donor intended the assets to be used to support activities of **the current period**.
- ▶ This means that contributions could be absent purpose restrictions but still considered to be time-restricted.
- ▶ Release of the restriction when the payment is due within one year or when payment is received.



What about intentions to give?

- ▶ NFPs can be notified of “intentions to give” rather than promises to give.
- ▶ Not considered to be unconditional (i.e. able to be recognized) because the donor can still rescind their intention
- ▶ Example: NFP being included in someone’s will as a beneficiary. The person is still living and can change their will, so this is only an intention, not a promise to give.



Discounts on Pledges

- ▶ Those expected to be collected in more than one year: present value of the future cash flows is one valuation technique for measuring fair value
- ▶ When a present value technique is used to measure an unconditional promise to give cash due one year or more in the future cash flows determined must be discounted to reflect the timing and uncertainty of the cash flows.
- ▶ The discount should be amortized from the date the contribution was initially recognized to the date the contribution is received



How to be Audit Ready



Schedule of Pledges Receivable, showing expected payments by year, restrictions, including consideration of both donor restrictions explicitly stated and innate time restrictions



Calculation of discount on pledges receivable for those due in excess of one year

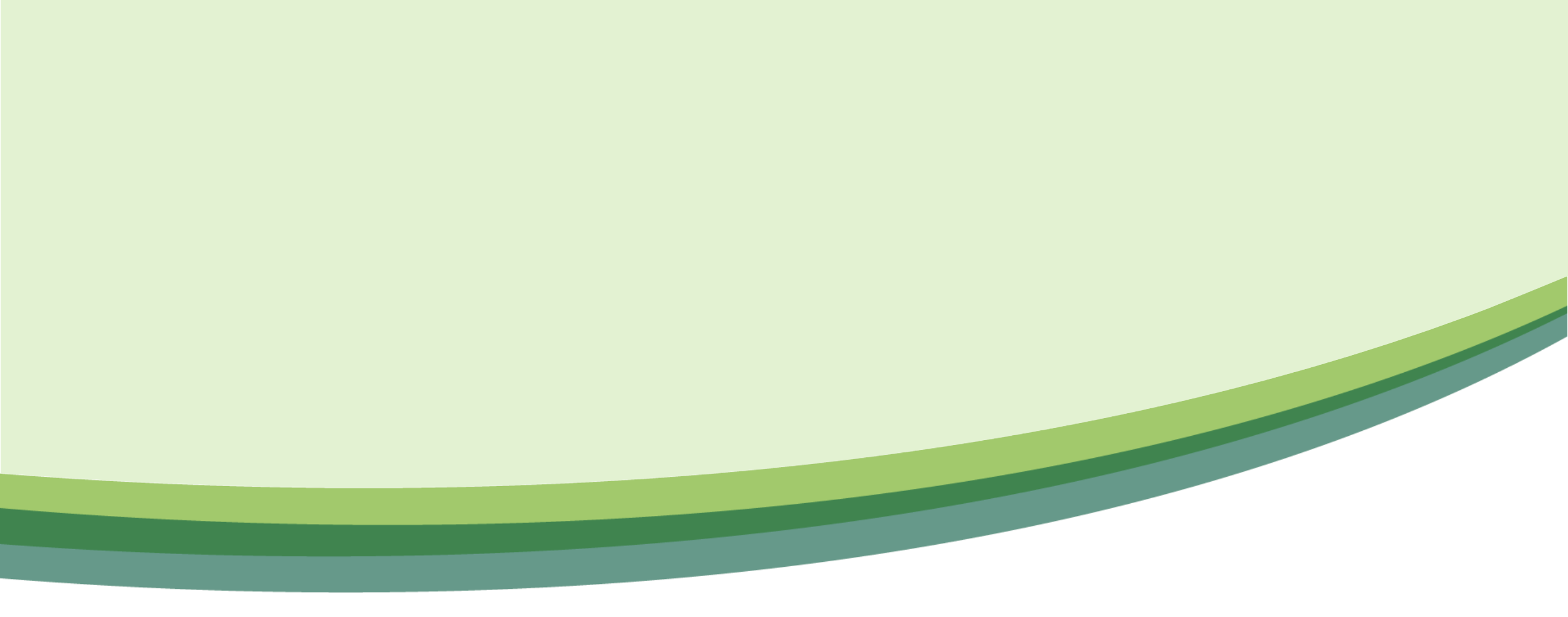


Calculation of allowance for uncollectible pledges



Consideration of concentrations – are there pledges by donor that are in excess of 10% of the total balance?





Other Revenue



Revenue and Support

Contributions

In-kind
Contributions

Grants

Exchange
Transactions

Net investment
return

Special
Events



Net Investment Return

- ▶ Includes:
 - Dividends
 - Interest
 - Unrealized and realized gains/losses
 - Investment fees & expenses
- ▶ Income and gains are presented net of losses and expenses on the Statement of Activities



Investment Returns with Donor Restrictions

- ▶ Donor-restricted endowment investment returns can be:
 - Time-restricted until appropriated for expenditure
 - Purpose-restricted
- ▶ Example: Donor-restricted endowments for a scholarship fund could be both time and purpose restricted
 - Time restriction: annual scholarship available, satisfied when appropriated from endowment
 - Purpose restriction: for scholars, satisfied when funding is paid to scholar
 - Could be satisfied at the same or different times



How to be Audit Ready



Provide an investment statement for the entire year (not just final month) so full return can be summarized



Have your investment return broken out by those categories (realized and unrealized gains/losses, investment fees, dividends/interest) but ensure they are netted for FS presentation



Special Events

- ▶ Presentation of income on Statement of Activities:
 - Gross if part of major or central activities of the NFP
 - Can be gross or net of expenses if peripheral or incidental to the NFP's activities
- ▶ A major or central activity is one that is normally carried out as part of an NFP's strategy or for which the gross revenues or expenses are significant compared with the annual budget.
- ▶ A peripheral or incidental activity is one that is not considered an integral part of the NFP's activities or for which the gross revenues or expenses are not significant compared with the annual budget.
- ▶ Make sure you disclose in the accounting policies if this applies.



Special Events *(Continued)*

- ▶ Contribution portion (i.e. amounts above fair value) or the ticket sale is presumed to be conditional on the event taking place
 - Exception: NFP states the ticket sale is non-refundable
- ▶ Should be accounted for as refundable advance until event takes place if exception does not apply



How to be Audit Ready



Summary of the event held and how you determined to present it (gross vs. net)



Provide support for how you determined to record pre-payments, if applicable



Support for transactions (like ticket sales)



Questions?

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