Nonprofit Navigator

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Is my grant a contribution or exchange transaction?
By Colette Kamps, CPA

This has always been a difficult question to answer. Grant agreements (or even contracts) can include language that sounds like a contribution, but also include other language that sounds like an exchange transaction. Current nonprofit accounting standards provide us with various considerations to assist in making this determination; but they're not always crystal clear, even after applying the considerations. In fact, one accountant may determine the grant is a restricted contribution, while another decides it's an exchange transaction, and it's possible that neither is wrong!

Thankfully, the FASB has issued an exposure draft of a new Accounting Standards Update that will clarify how to make this determination. The key is that contributions are nonreciprocal while exchange transactions mean that something of value is received/transferred. In addition, this new guidance also addresses the difficulty in determining whether a contribution is conditional, which is sometimes confused with restricted. These topics have become even more important lately, with the issuance of the new revenue recognition standard (ASU No. 2014-09) because contributions are out of the scope of that guidance. So if you are able to conclude that your grant is a contribution, it may save you a lot of effort in applying ASU 2014-09. Also, making these determinations can have an effect on the timing of when the revenue is recognized.

Contribution or exchange?

To come to the conclusion that the grant or contract is an exchange transaction, you would need to ensure that the grantor is receiving commensurate value in return for the funds provided. In the past, it has often been determined that a government grant would be classified as an exchange transaction by establishing that the "value" received is the indirect benefit received by the general public, or a subset of the general public. This new standard clarifies that "indirect benefit received by the public" is not equivalent to the value in an exchange transaction. This means that many government grants that had previously been classified as exchange transactions may now be classified as contributions.

Conditional or unconditional?

The new guidance specifies that you need to decide whether an agreement for a contribution includes a barrier that must be overcome and also includes either a right of return of funds or a right of release of an obligation. The rights of either return or release must be determinable from the agreement. If you have both the barrier (such as an event taking place) AND a right of return/release, you have a conditional contribution which should not be recognized until the barrier is overcome. The exposure draft includes a list of indicators that a barrier exists.

In addition to clarifying existing guidance in making these two types of determinations, this new guidance also should result in less diversity in practice. It can be accessed at **http://fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176169227919&acceptedDisclaimer=true**.

If you have any questions, Colette can be reached at (480) 839-4900 or ColetteK@hhcpa.com.

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- Nonprofit CPAs volunteer on boards and committees for local charities
- Your team provides complimentary CPE and customized presentations for nonprofit boards and staff

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Separation of duties
By Paul Biggs, CPA

Maintaining separation of duties is one of the most important control activities of an organization's internal controls structure. At a basic level, separation of duties ensures that one individual does not have the ability to complete all of the duties involved in a transaction. These duties can be summarized as:

- Authorization (approving transactions)
- Recordkeeping (recording information into the general ledger)
- Custody of assets (cash, checks and physical assets)
- Reconciliation (verifying that transactions are recorded correctly)

Limiting the ability to perform more that one of these functions minimizes the opportunity for one individual to record an inappropriate transaction or to conceal fraud. With separation of duties in place, fraud would require collusion between employees, which is much more prohibitive than one individual acting alone. Consider the cash disbursements process: the individual responsible for creating checks will have access to blank checks (custody of assets). In the ideal internal control environment, this individual:

- Should not be able to sign invoice approvals or checks (authorization),
- Should not have access to enter invoices in the general ledger (recordkeeping), and
- Should not be responsible for reconciling the bank account to the general ledger (reconciliation).

Similarly, in the payroll process, the ability to change employee salaries and pay rates should be separated from the responsibility to process payroll. To formally separate these duties, each of the major transaction cycles should be considered (cash receipts, cash disbursements, payroll, billing, etc.). Roles and responsibilities should then be documented in the accounting policies and procedures.

It is important to remember that duplication of duties is not an internal control. An organization may attempt to involve several employees in the same process in order to minimize disruption if an employee leaves the organization or takes an extended vacation. While cross-training is important, a key feature of the separation of duties is access. Multiple employees should not routinely have access to perform the same duties. This protects both the organization and the employees.

Separation of duties does not require complicated processes or systems, and can be achieved even in small organizations. If one or two individuals are responsible for the entirety of the accounting processes, the CEO or a board member can be involved. They can sign checks, review and approve expenses, bank reconciliations, final payroll registers and credit card statements on a routine basis. They can also perform "spot audits" of a random selection of disbursements each quarter.

Separation of duties and accounting policies and procedures should be routinely evaluated to keep up with changes such as new program activities, changes in staffing structure and technology used.

If you have any questions, Paul can be reached at (480) 839-4900 or PaulB@hhcpa.com.

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Henry+Horne has performed several audits of our annual financial statements, and each year they have submitted the reports on or before deadline. All members of the engagement team are very knowledgeable, extremely responsive and professional.