

GASB 33 – Accounting and Financial Reporting for Nonexchange Transactions - Impact on Sponsored Programs

Purpose

The purpose of this document is to provide guidance for determining if a sponsored activity will result in Exchange, Exchange-Like or Nonexchange transactions and how those transactions should be reported on the financial statements. The examples provided are not intended to be all-inclusive or authoritative.

They are not intended to replace professional judgment and should be modified to meet the specific college's or university's policies or circumstances.

Definitions

Eligibility Requirements – conditions established by the provider that are required to be met before a transaction can occur (GASB33 P19).

Exchange Transaction – each party receives and gives up essentially equal values (GASB33 P1).

Exchange-Like Transaction – values exchanged, though related, may not be quite equal or in which the direct benefits may not be exclusively for the parties to the transactions (GASB33 P1-footnote).

Nonexchange Transaction – a party gives value without directly receiving or giving equal value in exchange (GASB33 P1).

Fellowship – a stipend granted to (or for the benefit of) an individual to defray expenses in pursuit of advanced study or research.

Summary

Governments engage in two types of transactions: (a) exchange and exchange-like transactions, in which each party receives and gives up essentially equal value, and (b) nonexchange transactions, in which a government gives (or receives) value without directly receiving (or giving) equal value in return.

Sponsored Program activity may result in either an exchange, exchange-like or non-exchange transactions. The treatment of this activity on the Financial Statements is dependent on several variables. In general, the analysis should include the following steps:

1. Determine if the activity results in an exchange, exchange-like or nonexchange transaction
2. Determine when revenue should be recognized
3. Determine if revenue is operating or non-operating
4. Determine if any resulting net assets are restricted or unrestricted

Each step is discussed in detail below.

Exchange, Exchange-Like and Nonexchange transactions

The timing of revenue recognition for sponsored programs first depends on if the activity results in exchange, exchange-like or non-exchange transactions as defined by GASB 33. Exchange transactions occur when each party gives and receives essentially equal values. An example is when an institution receives funding to develop a computer module. Exchange-like transactions are similar because the parties can give or receive value, but it may not be equal, or the direct benefit of the exchange is not exclusive to the parties. For example, an institution may receive a grant or contract to provide training for nurses. Nonexchange transactions occur when the institution receives value without directly giving equal value in return. Gifts are the most common type of non-exchange transaction.

The table below provides common characteristics of sponsored programs that should be evaluated when determining the type of transaction. In some instances, the transaction may have characteristics of both exchange and nonexchange transactions, and if material, should be accounted for and reported

separately. In general, if **one of the exchange or exchange-like characteristics below is present, then the revenue should be categorized as such.**

Characteristics of Exchange, Exchange-Like and Nonexchange Transactions			
	Exchange	Exchange-Like	Nonexchange
1. What type of reporting is required?	Technical report	Technical report	Progress Report
2. Who receives physical or capital asset ownership (or services provided from use of equipment)?	Sponsor only	Sponsor's designated beneficiary	Institution
3. Who receives intellectual property rights?	Institution and Sponsor	Institution and Sponsor's designated beneficiary	Institution
4. Who receives benefit of specialized service or skill (e.g., medical treatment, education training)?	Sponsor only	Sponsor's designated beneficiary	Institution
5. Who receives benefit of the fellowship?	N/A (Institutions do not receive benefit from an fellowship)	Sponsor	No direct benefit to the sponsor

Eligibility Requirements

Once the type of transaction has been determined, the timing of revenue recognition will depend on the sponsored program's eligibility requirements. Until such requirements are met, the sponsor does not have a liability, the recipient does not have a receivable, and the recognition of expenses or revenues for resources transmitted in advance should be deferred. There are four eligibility requirements that if applicable, must be met before revenue can be recognized:

1. Required Characteristics of recipients – the recipient has the characteristics specified by the sponsor.
2. Time Requirements – The period when the resources are required to be used, sold, disbursed, or consumed, or when use is first permitted as specified by the sponsor.
3. Reimbursements – The sponsor offers resources on a reimbursement basis and the recipient has incurred allowable costs under the applicable program (expenditure-driven).
4. Contingencies – The sponsor's offer is contingent upon a specified action of the institution and that action has occurred.

The table below outlines the impact eligibility requirements have on the timing of revenue recognition for each type of transaction.

Timing or Revenue Recognition for Exchange, Exchange-Like and Nonexchange Transactions		
	Exchange/Exchange-Like	Nonexchange
Eligibility requirements exist:		
1. Required characteristics of recipients.	No impact on timing	No impact on timing
2. Time Requirements	Defer until met	Defer until met
3. Reimbursements up to the authorized amount of the award (expenditure-driven)	Recognize when expense is incurred	Recognize when expense is incurred
4. Contingencies	Defer until met	Defer until met
Eligibility Requirements do not exist:	Recognize as institution achieves progress toward delivering good	Recognized as received

	or service (as earned)	
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Operating/Non-Operating Revenue

Once the revenue can be recognized, the next step is to determine if it is operating or non-operating revenue. Nonexchange transactions are always considered non-operating. Exchange and exchange-like transactions can also be non-operating if the activity is not related to the mission of the institution. This situation is very rare for sponsored activity.

Operating or Non-Operating Revenue		
	Exchange/Exchange-Like	Nonexchange
Mission Related	Operating	Non-Operating
Non-Mission Related	Non-Operating	Non-Operating

Restricted/Unrestricted Net Assets

Net Assets may result from the above transactions. Restricted Net Assets should be recorded in those instances where purpose restrictions exist. Otherwise, net assets will be unrestricted.

Restricted/Unrestricted Net Assets Resulting from Exchange, Exchange-Like and Nonexchange Transactions		
	Exchange/Exchange-Like	Nonexchange
Eligibility requirements exist:		
1. Required characteristics of recipients.	Unrestricted	Restricted for Sponsored Programs (otherwise Unrestricted)
2. Time Requirements	N/A – No resulting Net Asset	N/A – No resulting Net Asset
3. Reimbursements up to the authorized amount of the award (expenditure-driven)	N/A – No resulting Net Asset	N/A – No resulting Net Asset
4. Contingencies	N/A – No resulting Net Asset	N/A – No resulting Net Asset
Eligibility Requirements do not exist:		
1. Purpose restrictions exist	N/A – No resulting Net Asset	Restricted
2. Purpose restriction do not exist	N/A – No resulting Net Asset	Unrestricted

Financial Statement Presentation Summary Tables

Financial Statement Presentation for Exchange/Exchange-Like Transactions			
Exchange/ Exchange-Like	Timing of Revenue Recognition	Operating/ Non-Operating Revenue	Unrestricted/ Restricted Net Assets
Eligibility requirements exist:			
1. Required characteristics of recipients.	No impact on timing	Mission Related: Operating	Unrestricted
		Non-Missions Related: Non-Operating	
2. Time Requirements	Defer until met	N/A - No revenue until met	N/A - No Resulting Net Assets
3. Reimbursements up to the authorized amount of the award (expenditure-driven)	Recognize when expense is incurred	Mission Related: Operating	N/A - No Resulting Net Assets
		Non-Missions Related: Non-Operating	
4. Contingencies	Defer until met	N/A – No revenue until met	N/A – No resulting Net Asset
Eligibility Requirements do not exist:			
1. Purpose restrictions exist	Recognize as institution achieves progress toward delivering good or service (as earned)	Mission Related: Operating	N/A – No resulting Net Asset
		Non-Missions Related: Non-Operating	
2. Purpose restrictions do not exist	Recognize as institution achieves progress toward delivering good or service (as earned)	Mission Related: Operating	N/A – No resulting Net Asset
		Non-Missions Related: Non-Operating	

Financial Statement Presentation for Nonexchange Transactions			
Nonexchange	Timing of Revenue Recognition	Operating/ Non-Operating Revenue	Unrestricted/ Restricted Net Assets
Eligibility requirements exist:			
1. Required characteristics of recipients.	No impact on timing	Non-Operating	Restricted for Sponsored Programs (otherwise Unrestricted)
2. Time Requirements	Defer until met	N/A - No revenue until met	N/A - No Resulting Net Assets
3. Reimbursements up to the authorized amount of the award (expenditure-driven)	Recognize when expense is incurred	Non-Operating	N/A - No Resulting Net Assets
4. Contingencies	Defer until met	N/A – No revenue until met	N/A – No resulting Net Asset
Eligibility Requirements do not exist or have been met:			
1. Purpose restrictions exist	Recognize as Received	Non-Operating	Restricted
2. Purpose restrictions do not exist	Recognize as Received	Non-Operating	Unrestricted