


Deep Dive Into Voluntary Non-Exchange Transactions Under GASB 33





For state and local government entities (organizations), voluntary non-exchange transactions represent a significant source of funding and support for a wide range of public services and community initiatives.

These transactions, which include grants, donations, endowments, and pledges, are characterized by the transfer of resources without a direct exchange of goods or services of equal value. Unlike exchange transactions—such as the sale of goods or provision of services—voluntary non-exchange transactions often come with eligibility requirements, time constraints, and purpose restrictions that must be carefully navigated. Voluntary non-exchange transactions are a critical component of governmental accounting, governed by the standards set forth in the Government Accounting Standards Board (GASB) Statement No. 33 (GASB 33). Understanding the nuances of revenue recognition, eligibility requirements, and restrictions is essential for organizations.

Why Organizations Should Understand the Proper Accounting and Financial Reporting for these Transactions

Organizations must adhere to the accounting standards set by the GASB, particularly GASB 33, for compliance purposes and to avoid audit findings.

Compliance

Accurate recognition and reporting of these transactions promote transparency and accountability to taxpayers, donors, grantors, and oversight bodies.

Transparency

Proper accounting helps organizations manage restricted and unrestricted resources effectively, to make sure funds are used as intended and available for critical programs and services.

Resource Management

Types of Voluntary Non-Exchange Transactions Commonly Encountered by Organizations



Government Grants

Funds received from federal, state, or local agencies to support specific programs, capital projects, or operational needs.



Private Donations and Pledges

Contributions from individuals, corporations, or foundations, often for capital campaigns, endowments, or special projects.



Endowments

Gifts that require the principal to be maintained intact, with only the income used for designated purposes.



Matching Gifts

Contributions contingent upon the recipient raising additional funds or meeting specific criteria.



Reimbursement Grants

Funds provided after the recipient incurs allowable costs, common in education, health, and infrastructure programs.

Given the complexity and variety of these transactions, organizations must stay informed and diligent in applying the appropriate accounting guidance. The following provides a deep dive into the recognition, measurement, and reporting of voluntary non-exchange transactions under GASB 33, illustrated with practical examples relevant to the public sector.

Key Concepts: Time Requirements and Purpose Restrictions

GASB 33 introduces two central concepts for voluntary non-exchange transactions:

Time Requirements

These determine when resources can be used or when their use must begin. Resources may need to be maintained intact until a specific date or event occurs, directly impacting the timing of revenue recognition.



Purpose Restrictions

These specify the allowable uses for the resources provided. While important for compliance, purpose restrictions do not affect the timing of revenue recognition.



Revenue Recognition: When and How?

Revenue and related assets should be recognized when all eligibility requirements are met or when resources are received—whichever comes first. If resources are received before eligibility requirements are satisfied, they should be reported as unearned revenue. For expenditures, recognition occurs when all eligibility requirements are fulfilled.

For example, in contributions to permanent or term endowments, resources are recognized as revenue when received, and expenditures are recognized when paid.



Eligibility Requirements for Voluntary Non-Exchange Transactions: What Must Be Met?

Required Characteristics of Recipients

A federal program may require recipients to be states, with secondary recipients as school districts.



Reimbursements

Resources may be provided on a reimbursement or expenditure-driven basis, requiring recipients to incur allowable costs before receiving funds.



Time Requirements

The provider may specify a period during which resources must be used or when use can begin.



Contingencies

The provider's offer may depend on a specific action by the recipient, such as raising matching funds or dedicating resources for a particular purpose.



PRACTICAL EXAMPLES TO EXPLORE HOW THESE PRINCIPLES APPLY IN REAL-WORLD SCENARIOSTRANSACTIONS: **WHAT MUST BE MET?**



Reimbursements for Educational Programs

A state reimburses school districts for special education costs, up to a set maximum. To receive reimbursement, districts submit quarterly reports. This transaction is voluntary and non-exchange, with three eligibility requirements: 1) the recipient must be a school district; 2) the school year must have begun (time requirement); and 3) allowable costs must be incurred (reimbursement requirement).



State University Capital Outlays

A state provides \$5,000,000 to a State University for capital outlays, based on student population, with unused funds to be returned after three years. There is a time requirement (the applicable period must begin), but no reimbursement requirement. Purpose restrictions apply (funds must be used for capital outlays), but do not affect timing of recognition.



Term Endowment from an Alumnus

An alumnus pledges \$200,000 to a university, to be invested with income used for faculty research grants. The principal is to be spent after the donor's death. The university recognizes the gift as revenue when received, not when promised, due to the time requirement. The net position remains restricted until the funds are expended for the specified purpose.



Individual Pledge to a Hospital

A donor pledges \$1,000,000 to a hospital, payable in \$100,000 annual installments over ten years, with each installment to be used in the year it is paid. The hospital recognizes a receivable and revenue of \$100,000 each year, provided collection is probable. The use of funds aligns with the hospital's general mission, so no additional purpose restriction applies.



Multi-Year Pledges are Revenue Recognition

Pledges – also known as promises to give – are common in nonprofit and governmental organizations, particularly in the context of capital campaigns or major fundraising initiatives. When a donor commits to a contribution that will be paid over several years, such as a five-year pledge, organizations must carefully consider the timing and manner of revenue recognition under GASB 33.

Key Considerations for Multi-Year Pledges Transactions: What Must Be Met?

Assessing Collectability

Before recognizing revenue, organizations must determine whether the pledge is probable of collection. If there is reasonable assurance that the donor will fulfill the pledge, the organization can recognize a receivable and corresponding revenue.

Time Requirements

If the pledge specifies that each installment is to be used in the year it is paid, this introduces a time requirement. Under GASB 33, revenue is recognized as each installment becomes due and the time requirement is met. For example, if a donor pledges \$500,000 to be paid in \$100,000 increments over five years, and each installment must be used in the year received, the organization should recognize \$100,000 of revenue and a receivable each year as the installment becomes due.

Purpose Restrictions

If the pledge includes restrictions on how the funds may be used, these are classified as purpose restrictions. While these restrictions do not affect the timing of revenue recognition, they do impact how the organization reports net position or fund balance—typically as restricted until the funds are expended for the intended purpose.

Present Value Considerations

For multi-year pledges, organizations should record the receivable at its present value, discounting future payments to reflect the time value of money. The difference between the pledged amount and its present value is recognized as contribution revenue over the life of the pledge as the discount is amortized.

EXAMPLE

Suppose an individual pledges \$500,000 to a State University, payable in \$100,000 annual installments over five years, with the stipulation that each installment is to be used in the year it is paid. The University should:

- ▶ **Year 1:** Recognize a receivable and revenue of \$100,000 when the first installment is due and collectible.
- ▶ **Years 2–5:** Recognize a receivable and revenue of \$100,000 each subsequent year as each installment becomes due, provided collectability remains probable.
- ▶ **Reporting:** Any amounts received but not yet expended for the specified purpose should be reported as restricted until used.

If the pledge does not specify a time requirement for use, and collectability is probable, the organization may recognize the entire pledge as a receivable and revenue in the year the pledge is made, discounted to present value.

Practical Implications

Accurate recognition and reporting of multi-year pledges are essential for transparency and compliance. Organizations should:

- ▶ Review pledge agreements for time and purpose restrictions.
- ▶ Assess the probability of collection.
- ▶ Discount multi-year pledges to present value.
- ▶ Report restricted net position or fund balance as appropriate.

How BDO Can Help

Revenue recognition for voluntary non-exchange transactions require careful attention to eligibility requirements, time requirements, and purpose restrictions. Multi-year pledges, in particular, require organizations to evaluate collectability, timing, and present value considerations. Organizations should make sure they understand these distinctions to maintain compliance and accurate reporting.

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