



NFP Accounting Basics: Introduction to Financial Statements, Contributions, Net Assets, Agency Transactions

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Application of accounting and auditing principles is the responsibility of an organization's management and their independent public accountant.

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Learning Objectives

1. Identify the basic financial statements of nonprofit organizations
2. Describe the accounting for contributions
3. Recognize net asset classifications for nonprofit organizations
4. Analyze a transaction to determine if it's a contribution of exchange transaction



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Agenda

Basic Financial Statements

Contributions

Pledges & Gifts

Non-Cash Contributions

Net Assets

Agency Transactions



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Basic Financial Statements



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Basic Financial Statements

Statement of
Financial Position

Statement of
Activities

Statement of
Functional Expenses *

Statement of
Cash Flows

* Can also be Note Disclosure

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Contributions



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Definition

Contribution

- An unconditional transfer of cash or other assets, as well as unconditional promises to give, to an entity or a reduction, settlement, or cancellation of its liabilities in a voluntary nonreciprocal transfer by another entity acting other than as an owner

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Definition Cont'd

- Those characteristics distinguish contributions from:
 - Exchange transactions, which are reciprocal transfers where each party receives and sacrifices approximately commensurate value
 - Investments by owners and distributions to owners, which are nonreciprocal transfers between an entity and its owners
 - Other nonreciprocal transfers, such as impositions of taxes or legal judgments, fines, and thefts, which are not voluntary transfers

What is a Contribution?

Unconditional
transfer of assets

Settlement or
cancellation of
liabilities

Voluntary

Non-reciprocal

What is NOT a Contribution?

An exchange transaction

Investment by an owner

Distribution to an owner

Involuntary non-reciprocal transfers

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Contributions can be:

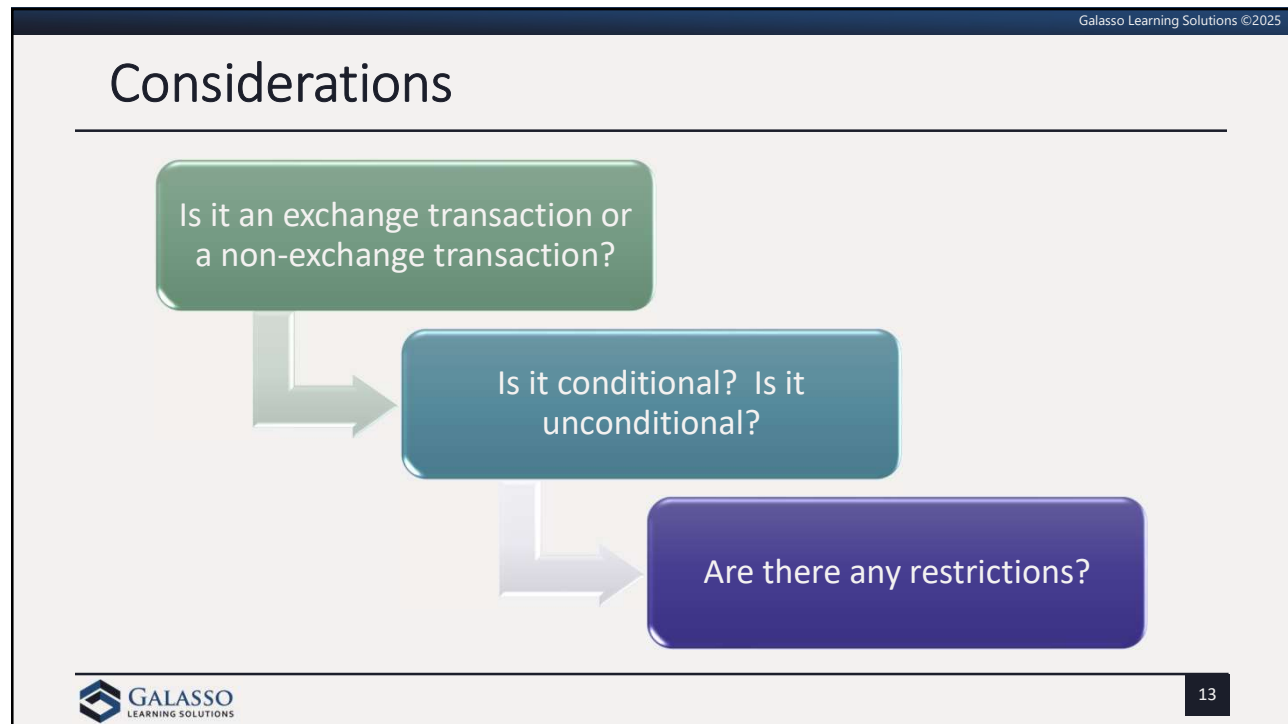
Financial Instruments

- Cash
- Stock
- Pledges or promises to give

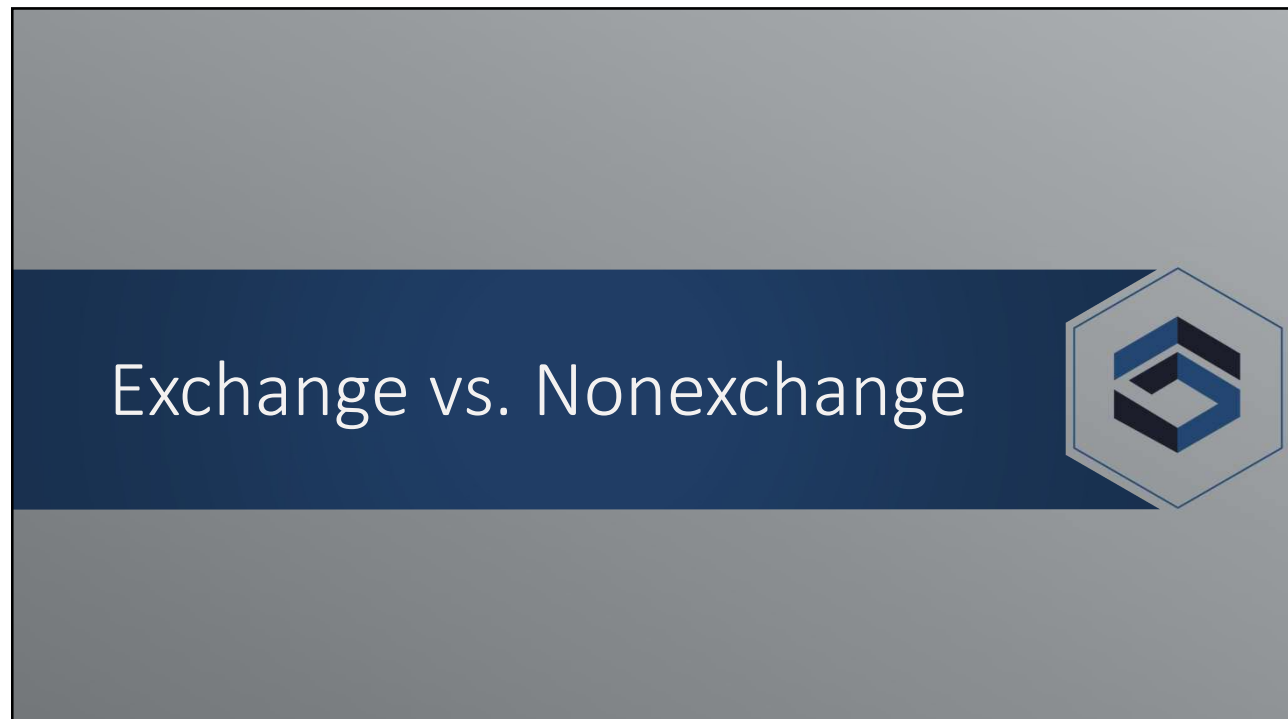
Non-financial (aka Gifts-in-Kind)

- Goods
- Services

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Scope of 958-605

- Does not apply to
 - Exchange transactions
 - Agency transactions
 - Tax exemptions, tax incentives, or tax abatements
 - Transfers of assets from government entities to business entities
 - Third party payer

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Transactions Types

Exchange Transaction

- A resource provider (for example, a government agency, a foundation, a corporation, or other entity) receives commensurate value in return for the resources transferred

Typically apply Topic 606, *Revenue from Contracts with Customers*

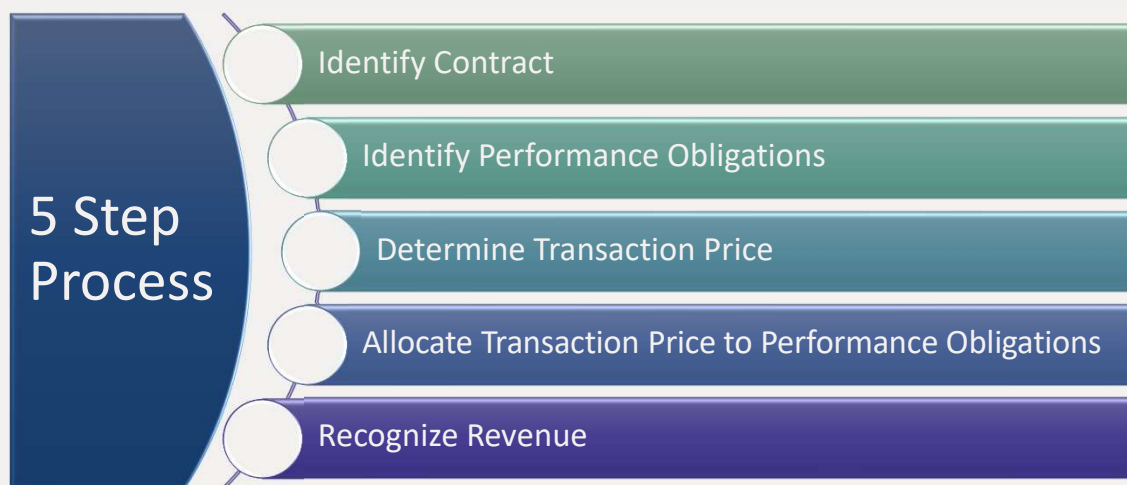
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Clarifications

- The resource provider is not synonymous with the general public
- Execution of the resource provider's mission or the positive sentiment is not commensurate value
- Expressed intent
- If the resource provider has full discretion in determining the amount of the transferred assets, the transaction is indicative of a contribution
- If the penalties assessed on the recipient for failure to comply with the terms of the agreement are limited to the delivery of assets or services already provided and the return of the unspent amount, the transaction is generally indicative of a contribution

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Exchange Transactions



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Conditional vs. Unconditional



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Figure out the Terms....

Conditional

- A donor stipulation that represents a barrier that must be overcome before the recipient is entitled to the assets transferred or promised
- Failure to overcome the barrier gives the contributor a right of return of the assets it has transferred or gives the promisor a right of release from its obligation to transfer its assets

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Indicators of a Barrier

Measurable Performance-Related Barrier or Other Measurable Barrier

Limited Discretion by the Recipient on the Conduct of an Activity

Stipulations That Are Related to the Purpose of the Agreement

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Recognition

- Conditions prevent recognition
 - Must wait until the condition becomes unconditional
 - If cash is received prior to the condition being fulfilled, a liability needs to be established

DR:	Cash	100
CR:	Refundable Advance	100

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Restricted vs. Unrestricted



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Definition

- Donor Imposed Restriction
 - A donor stipulation (donors include other types of contributors, including makers of certain grants) that specifies a use for a contributed asset that is more specific than broad limits resulting from the following:
 - The nature of the not-for-profit entity
 - The environment in which it operates
 - The purposes specified in its articles of bylaws or incorporation or comparable documents for an unincorporated association

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Impact

- Restrictions are placed by the donor
 - Timing Restrictions
 - Purpose Restrictions
- Restrictions allow recognition but require disclosure

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Restriction vs. Designation

- Only donors have the right to restrict not-for-profit resources
 - External and internal parties, other than a donor, can designate, reserve, or allocate resources

Donors Restrict,
Boards Designate

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Examples of Restrictions

- Funds must be used for remodeling the patient care center (specific purpose)
- Funds must be used in fiscal year ending September 30, 2027 (timing restriction)
- Funds must be held for investment until June 30, 2035, earnings may be used in any capacity determined by the NFP (timing restriction)

Releases of Restrictions

- If a restriction is met in same year as resources are received, it may be originally recognized as unrestricted
 - Policy election

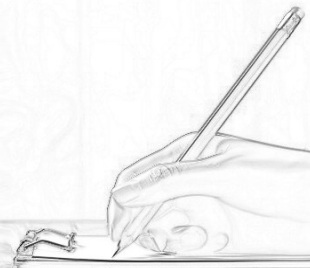
Case Studies



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Case Study

- For each case study, determine if the transaction is:
 - a) **Exchange**
 - b) **Nonexchange, conditional, restricted**
 - c) **Nonexchange, unconditional, restricted**
 - d) **Nonexchange, unconditional, unrestricted**
 - e) **Nonexchange, conditional, unrestricted**



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Example 1: Identify the Type of Transaction

- NFP A is a large research university with a cancer research center. NFP A regularly conducts research to discover more effective methods of treating cancer and often receives contributions to support its efforts.
- NFP A receives resources from a pharmaceutical entity to finance the costs of a clinical trial of an experimental cancer drug the pharmaceutical entity developed.

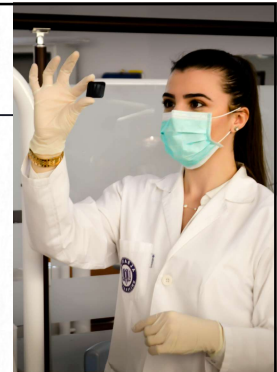


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Example 1 Cont'd: Identify the Type of Transaction

- The pharmaceutical entity specifies the protocol of the testing, including the number of participants to be tested, the dosages to be administered, and the frequency and nature of follow-up examinations.
- The pharmaceutical entity requires a detailed report of the test outcome within two months of the test's conclusion. Additionally, the rights to the results of the study belong to the pharmaceutical entity.

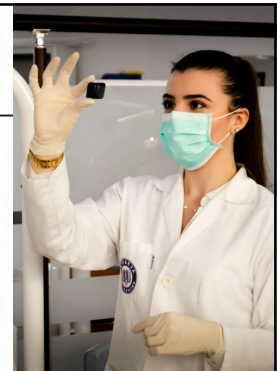


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Example 2: Identify the Type of Transaction

- University D applied for and was awarded a grant from the federal government. University D must follow the rules and regulations established by the OMB of the federal government and the federal awarding agency.
- University D is required to incur qualifying expenses to be entitled to the assets. Any unspent money during the grant period is forfeited, and University D is required to return any advanced funding that does not have related qualifying expenses.
- University D also is required to submit a summary of research findings to the federal government, but University D retains the rights to the findings and has permission to publish the findings if it desires.

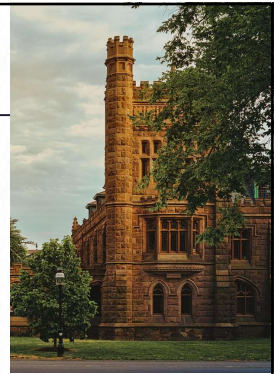


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Example 3: Identify the Type of Transaction

- Foundation A gives NFP D a grant in the amount of \$400,000 to provide specific career training to disabled veterans. The grant requires NFP D to provide training to at least 8,000 disabled veterans during the next fiscal year (2,000 each quarter), with specific minimum targets that must be met each quarter.
- Foundation A specifies a right of release that it will only give NFP D \$100,000 each quarter if NFP D demonstrates that those services have been provided to at least 2,000 disabled veterans during the quarter.
- NFP serves 2,000 disabled veterans per MONTH.



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Example 4: Identify the Type of Transaction

- NFP B is a hospital that has a research program. NFP B receives a \$300,000 grant from the federal awarding agency to fund thyroid cancer research. The terms of the grant specify that NFP B must incur certain qualifying expenses in compliance with the Uniform Guidance.
- The grant is paid on a cost-reimbursement basis by NFP B initiating drawdowns of the grant assets.
- Any unused assets are forfeited, and any unallowed costs that have been drawn down by NFP B are required to be refunded.

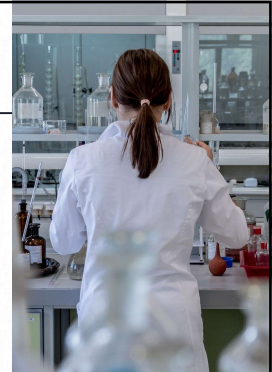


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Example 5: Identify the Type of Transaction

- NFP E is a public charity that performs research on various diseases and allergies, including gluten-related allergies, as part of its overall mission.
- It receives a \$100,000 grant from a foundation to perform research on gluten-related allergies over the next year.
- The grant agreement includes a right of return as part of the foundation's standard wording and a requirement that a report must be filed with the foundation at the end of the grant period that explains how assets were spent.

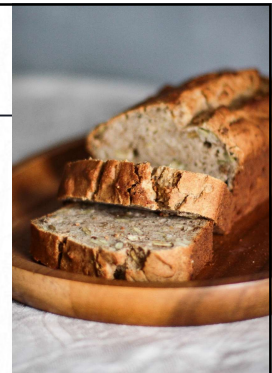


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Pledges & Gifts



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Promises

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A promise to give:

- Written or oral agreement to contribute cash or other assets
- Carries rights and obligations

An unconditional promise to give is a promise to give that depends only on passage of time or demand by the promisee for performance

A conditional promise to give is a promise to give that is subject to a donor-imposed condition

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Unconditional Promises

- Recognized when it is received
- Must have sufficient evidence in the form of verifiable documentation that a promise was made and received

Promises to Give

- Unconditional pledges received in less than a year can be reported at net realizable value
 - Adjust for uncollectible accounts
- Journal Entry:
 - DEBIT: Pledges Receivable
 - CREDIT: Contribution Revenue

Long Term Pledges

- Long-term unconditional pledges are generally recorded at fair value (using PV techniques)
- The difference between the pledge amount and the FV amount is recorded as a discount that is amortized as the pledge is received
- Payments due in future periods are reported as restricted support unless explicit donor stipulations make it clear that the donor intended it to be used to support activities of the current period

Pledges Greater than a Year

- Present value consideration
 - When the receivable is expected to be collected
 - The creditworthiness of the other parties
 - The entity's past collection experience
 - Entity's policies concerning the enforcement of promises to give
 - Expectations about possible variations in the amount or timing of the cash flows (that is, the uncertainty inherent in the cash flows)
 - Other factors concerning the receivable's collectability

Long Term Pledge JE

DR:	Pledges Receivable	1,000	
CR:	Contribution revenue		900
CR:	Discount on pledges receivable		100

Presented as:

Pledges receivable	1,000
Less: discount	<u>(100)</u>
Net receivable	900

Contribution revenue	900
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Conditional Pledges

- The condition must be fulfilled before any pledge can be recorded

NO JE at Promise

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Intentions to Give

- Communications from individuals indicating that the NFP has been included in the individual's will as a beneficiary
 - Not an unconditional promise to give because individuals retain the ability to modify their wills during their lifetimes
- Solicitations for donations that include wording such as "information to be used for budget purposes only" or that clearly and explicitly allow resource providers to rescind their indications that they will give

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Non-Cash Contributions



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Contributed Services

- Services Received from Personnel of an Affiliate
 - ASU 2013-06 requires a not-for-profit entity to recognize all services received from personnel of an affiliate at cost

Contributed Services Cont'd

- Contributed services from other than affiliate
 - Recognized **at fair value** if the services received meet either:
 - They create or enhance a nonfinancial asset
 - They require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation

Contributed Nonfinancial Assets

- Examples
 - Tangible personal property, such as furniture, equipment, clothing, pharmaceuticals, and supplies
 - Free or reduced rent

Measured **at fair value**

Contributed Nonfinancial Assets Cont'd

- Present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets

Disclosures

- A disaggregation of the amount of contributed nonfinancial assets recognized within the statement of activities by category that depicts the type of contributed nonfinancial assets
- Disclosures for each category

Disclosures Cont'd

- Qualitative information about whether the contributed nonfinancial assets were either monetized or utilized during the reporting period
 - If utilized, an NFP will disclose a description of the programs or other activities in which those assets were used
- The NFP's policy (if any) about monetizing rather than utilizing contributed nonfinancial assets

Disclosures Cont'd

- A description of any donor-imposed restrictions associated with the contributed nonfinancial assets
- A description of the valuation techniques and inputs used to arrive at a fair value measure, in accordance with the requirements in Topic 820, Fair Value Measurement, at initial recognition
- The principal market (or most advantageous market) used to arrive at a fair value measure if it is a market in which the recipient NFP is prohibited by a donor-imposed restriction from selling or using the contributed nonfinancial assets

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Contributed Nonfinancial Assets		
For the years ended December 31, contributed nonfinancial assets recognized within the statement of activities included:		
	20X9	20X8
Building	\$ 550,000	\$ -
Household goods	95,556	100,486
Food	85,407	86,633
Medical Supplies	90,389	115,173
Pharmaceuticals	111,876	113,982
Clothing	85,765	83,890
Vehicles	127,900	-
Services	73,890	65,392
	<u>\$ 1,220,783</u>	<u>\$ 565,556</u>

NFP K recognized contributed nonfinancial assets within revenue, including a contributed building, vehicles, household goods, food, medical supplies, pharmaceuticals, clothing, and services. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions.

It is NFP K's policy to sell all contributed vehicles immediately upon receipt at auction or for salvage unless the vehicle is restricted for use in a specific program by the donor. No vehicles received during the period were restricted for use. All vehicles were sold and valued according to the actual cash proceeds on their disposition.

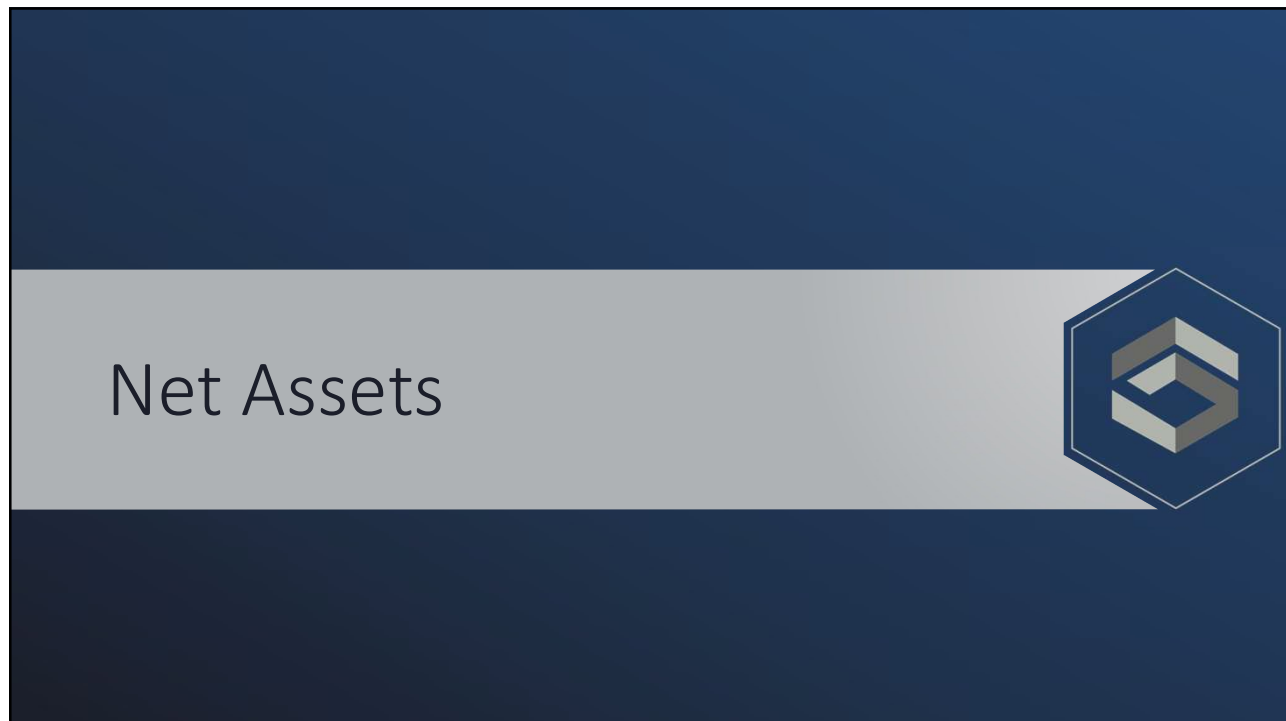
The contributed building will be used for general and administrative activities. In valuing the contributed building, which is located in Metropolitan Area B, NFP K estimated the fair value on the basis of recent comparable sales prices in Metropolitan Area B's real estate market.

Contributed food was utilized in the following programs: natural disaster services, domestic community development, and services to community shelters. Contributed household goods were used in domestic community development and services to community shelters. Contributed clothing was used in specific community shelters. Contributed medical supplies were utilized in natural disaster

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Contributed Nonfinancial Assets				
	Revenue Recognized	Utilization in Programs/Activities	Donor Restrictions	Valuation Techniques and Inputs
Building	\$550,000	General and Administrative	No associated donor restrictions	In valuing the contributed building, which is located in Metropolitan Area B, NFP K estimated the fair value on the basis of recent comparable sales prices in Metropolitan Area B's real estate market.
Household goods	\$95,556	Domestic Community Development; Community Shelters	No associated donor restrictions	NFP K estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.
Food	\$85,407	Natural Disaster Services; Domestic Community Development; Community Shelters	No associated donor restrictions	NFP K estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.
Medical supplies	\$90,389	Natural Disaster Services	No associated donor restrictions	NFP K estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.
Pharmaceuticals	\$111,876	International Health Services; Natural Disaster Services	Restricted to use outside the United States	In valuing contributed pharmaceuticals otherwise legally permissible for sale in the United States, NFP K used the Federal Upper Limit based on the weighted average of the most recently reported monthly Average Manufacturer Price (AMP) that approximate wholesale prices in the United States (that is, the principal market). In valuing pharmaceuticals not legally permissible for sale in the United States (and primarily consumed in developing markets), NFP K used third-party sources representing wholesale exit prices in the developing markets in which the products are approved for sale.
Clothing	\$85,765	Natural Disaster Services; Domestic Community Development; Community Shelters	No associated donor restrictions	In valuing clothing, NFP K estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.
Vehicles	\$127,900	It is NFP K's policy to sell all contributed vehicles immediately upon receipt unless the vehicle is restricted for use in a specific program by the donor. All vehicles received were sold.	No associated donor restrictions	Proceeds from vehicles sold are valued according to the actual cash proceeds on their disposition.
Services	\$73,890	Various Administrative Legal Matters	No associated donor restrictions	Contributed services from attorneys are valued at the estimated fair value based on current rates for similar legal services.

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What are Net Assets?

- FASB Master Glossary defines net assets as:

“The excess or deficiency of assets over liabilities of a not-for-profit entity, which is divided into two mutually exclusive classes according to the existence or absence of donor-imposed restrictions”

Net Assets With Donor Restrictions

- The part of net assets of a not-for-profit entity that is subject to donor-imposed restrictions (donors include other types of contributors, including makers of certain grants)

Net Assets Without Donor Restrictions

- The part of net assets of a not-for-profit entity that is not subject to donor-imposed restrictions (donors include other types of contributors, including makers of certain grants)

Quasi Endowments

- Funds that are treated like an endowment for investment and spending purposes but is established by management (including the board) rather than by a donor
 - Net assets WITHOUT donor restrictions

Statement of Financial Position

Not-for-Profit Entity A Statements of Financial Position June 30, 20X1 (in thousands)	
	20X1
Assets:	
Cash	\$ 75,000
Contributions receivable	20,000
Prepaid expenses	5,000
Short-term investments	300,000
Total assets	\$ 400,000
Liabilities:	
Accounts payable	\$ 80,000
Total liabilities	80,000
Net assets:	
Without donor restrictions	300,000
With donor restrictions	20,000
Total net assets	320,000
Total liabilities and net assets	\$ 400,000

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Statement of Activities Year Ended June 30, 20X1 (in thousands)			
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support:			
Contributions	\$ 8,640	\$ 8,390	\$ 17,030
Fees	5,200		5,200
Investment return, net	6,650	18,300	24,950
Gain on sale of equipment	200		200
Other	150		150
Net assets released from restrictions (Note D):			
Satisfaction of program restrictions	8,990	(8,990)	
Satisfaction of equipment acquisition restrictions	1,500	(1,500)	
Expiration of time restrictions	1,250	(1,250)	
Appropriation from donor endowment and subsequent satisfaction of any related donor restrictions	7,500	(7,500)	
Total net assets released from restrictions	19,240	(19,240)	-
Total revenues, gains, and other support	40,080	7,450	47,530
Expenses and losses:			
Program A	13,296		13,296
Program B	8,649		8,649
Program C	5,837		5,837
Management and general	2,038		2,038
Fundraising	2,150		2,150
Total expenses (Note F)	31,970		31,970
Fire loss on building	80		80
Actuarial loss on annuity trust obligations		30	30
Total expenses and losses	32,050	30	32,080
Change in net assets	8,030	7,420	15,450
Net assets at beginning of year	84,570	186,070	270,640
Net assets at end of year	\$ 92,600	\$ 193,490	\$ 286,090

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Agency Transactions



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Introduction to Agency Transactions

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Agency Transactions


- An agency transaction is a type of exchange transaction in which the organization acts as an agent, trustee, or intermediary for another party who may be either a donor or donee

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Terms

- Donor**
 - Makes the contribution
- Recipient Entity**
 - Accepts the assets from the donor
- Beneficiary**
 - Unaffiliated entity specified by the donor

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Agency vs. Contributions

- How to distinguish agency transactions from contributions:
 - Generally based on the discretion of the recipient organization in determining the transfer of assets
 - Ability to choose the beneficiary

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Specified Beneficiary?

- Stating the beneficiary by name
- By stating that all entities that meet a set of donor-defined criteria are beneficiaries
- By actions surrounding the transfer that make clear the identity of the beneficiary

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Agency

- If a donor selects a beneficiary from among a list of potential beneficiaries that have been prequalified or otherwise identified by the recipient entity
- If a grantor specifies eligibility criteria and states that the grant proceeds must be transferred to all who meet those criteria

Contribution

- An NFP asks the donor to select one or more fields of interest from among a list of community needs prepared by the NFP
- A donor uses broad generalizations to describe the beneficiaries, such as homeless individuals

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Two Exceptions

- An organization operates as an agent when it acts for on behalf of another, unless:
 - The donor grants it variance power
 - The recipient and beneficiary are financially interrelated

Variance Power

- The unilateral power to redirect the use of the transferred assets to another beneficiary
 - Must be explicit
- Unilateral power means that the recipient entity can override the donor's instructions without approval from the donor, specified beneficiary, or any other interested party

Financially Interrelated Organizations

- When the recipient organization and the beneficiary organization are financially interrelated, generally the recipient records revenue when it receives assets from the donor specified for the beneficiary
- NFP are financially interrelated if both of the following are met:
 - One organization has the ability to influence the other's operating or financial decisions
 - One organization has an ongoing economic interest in the other organization's net assets

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3, 2, 1 Method of Applying New Knowledge

3 things I learned

2 actions to apply what I learned

1 way I will share my learning

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Let's Keep in Touch



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What Questions Do You Have?



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