

# Nonprofit Accounting: Sources of Common Errors

---

Presented by Jackie Gonzalez



# Agenda

---

- Contributions
- Special Event Revenue
- Exchange Revenue
- Agency Transactions
- Net Assets
- Functional Expenses
- Discussion and Q&A

# Revenue Streams

# Revenue Streams

## Contributions

- ▶ Cash
- ▶ Promise to Give
- ▶ Grants
- ▶ In kind
  - Services
  - Investments
  - Fixed assets
  - Space/rent
  - Other

## Exchange Revenue

- ▶ Dues
- ▶ Tuition
- ▶ Memberships
- ▶ Sales of merchandise
- ▶ Certain contracts

## Special Event Revenue

- ▶ Amounts received in connection with the event
  - Ticket sales
  - Auction proceeds

## Agency Transactions

- ▶ NOT revenue
- ▶ Amounts given to an NFP to hold or distribute on behalf of another entity
- ▶ NFP may retain a small portion that would be revenue

# Contributions

# Contributions

A voluntary transfer of assets or performance of services in exchange for either no asset or for assets of substantially lower value, and unstated rights or privileges of a commensurate value are not involved.

## Promise to Give

An agreement to contribute cash or other assets to an organization at a future date.

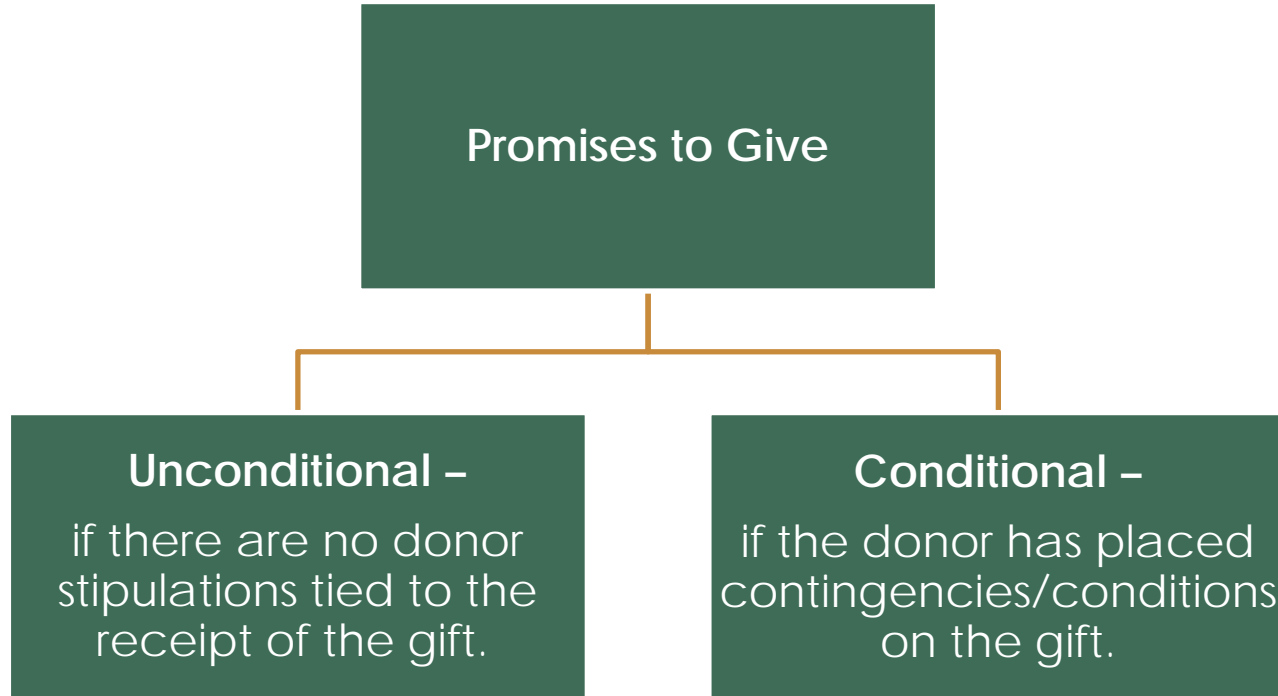
## Grant

Typically provided by governmental entities or foundations so that the organization can provide goods or services to the community.

## In Kind

A noncash contribution, including gifts of tangible or intangible assets, or a contributed service.

# Contributions



# Contributions

**Donor-Imposed Restriction** — A donor stipulation that specifies a use for a contributed asset (i.e. cash, equipment, etc.) that is more specific than board limits. Donor-restricted support results in revenue that increases net assets with donor restrictions.

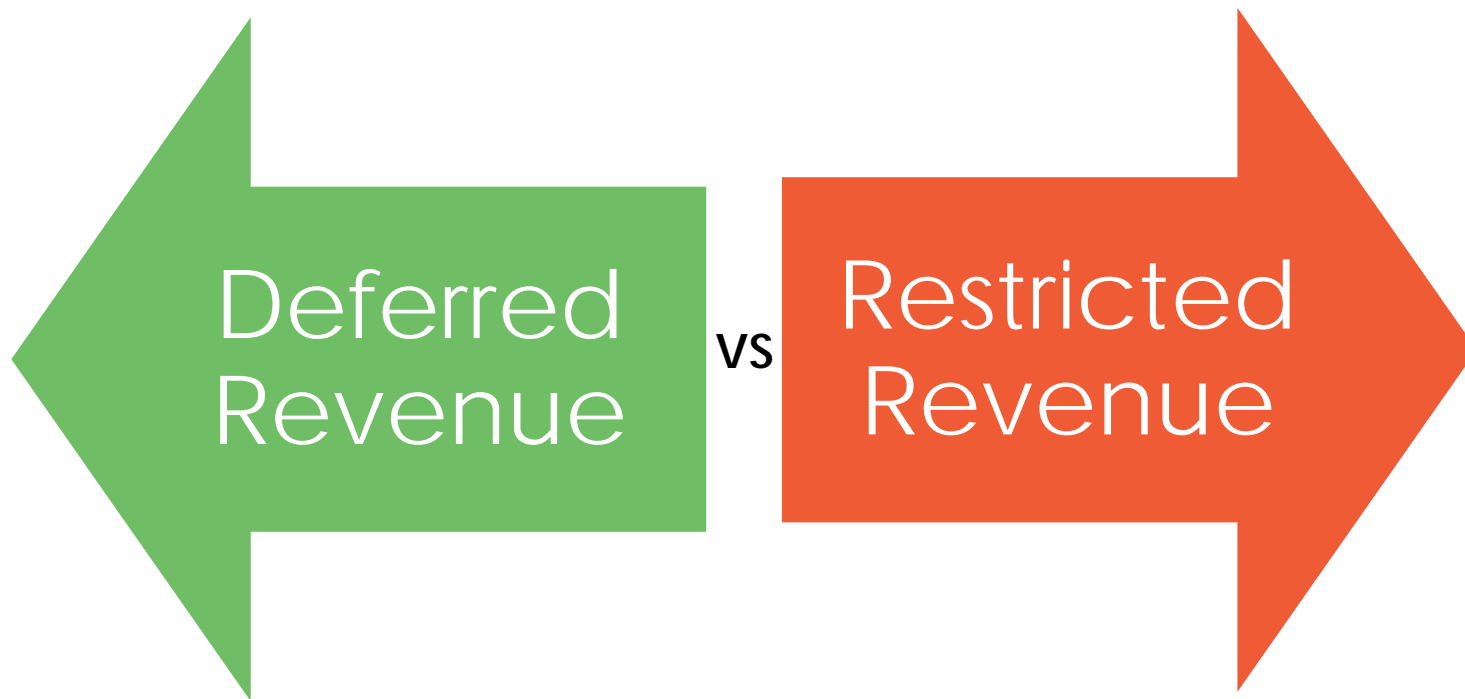
↳ **Temporary** – to be used after a specified date, for particular programs or services, or to acquire buildings or equipment.

↳ **Permanent** – specify that resources are to be invested in perpetuity. The restriction may extend to investment returns.

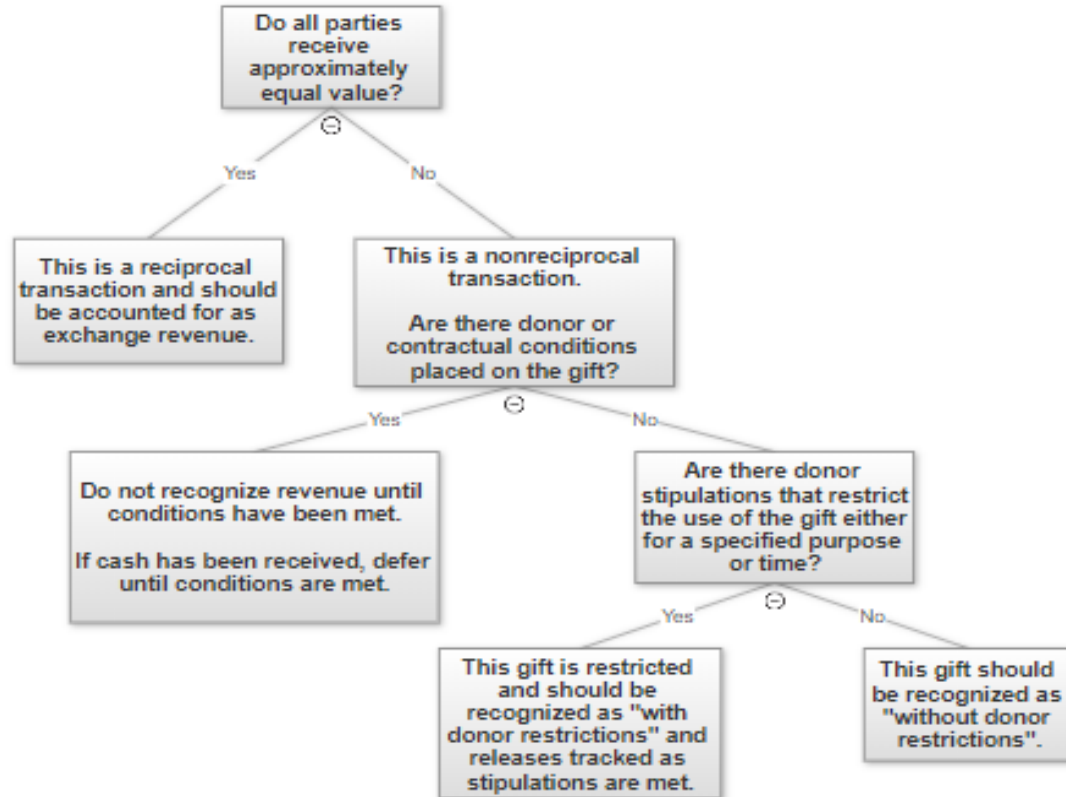
**Reclassification (Release) of Net Assets** — Simultaneous increase of one class of net assets and decrease of another resulting from a donor-imposed restriction being satisfied or otherwise lapsing.



# Contributions



# Type of Contribution



# Conditional Contributions

## Red Flags

- Challenge grant
- Match
- Promise
- Assuming
- Subject to
- Provided that
- Reserves the right
- In our sole discretion
- Contingent upon
- If/then statements



# Common Questions

**Q: Does a promise have to be in writing?**

A: No, it can be given orally or in writing but should be verifiable.

**Q: Is there a difference between an intention and a promise?**

A: Yes, intentions can be rescinded and should not be recorded as revenue, but should be disclosed.

**Q: If there is a donor-imposed condition on the contribution, does the entire condition have to be met before the organization can recognize the revenue?**

A: Conditions should be substantially met before the organization recognizes the revenue.

# Common questions

**Q: Can a contribution with donor restrictions be recorded as unrestricted if the restriction was satisfied in the same year it was received?**

**A: Yes, IF your policy is to do so.**

**Q: If management's understanding of the restriction or condition (or lack thereof) is different from an executed document, can the revenue be recognized in accordance with management's understanding?**

**A: No. If there is a misunderstanding, confirm intent with the donor.**

**Q: If a donor stipulation is closely tied to the overall purpose/mission of the organization, is it restricted?**

**A: No. A restriction is only recognized when the donor stipulation is for a specific purpose or time.**

## In-Kind Services

Only recognize the fair value of the service (as revenue and expense) if the service:

1. Creates or enhances assets that are not financial in nature (i.e. buildings, materials, supplies)
2. Requires specialized skills (i.e., a certification) that are provided by individuals with those skills and would typically need to be purchased if the services had not been donated

Common services include:

- Teachers
- Architects
- Lawyers
- Accountants
- Doctors

## In-Kind Contributions

- Non-cash assets that can be used internally or sold by entity
- Should be recognized as revenue and either expense or an asset at fair value at the date of donation
- Common in-kind contributions include:
  - Donated goods, such as supplies
  - Donated items that will be sold at charity auction
  - Donated space/rent or utilities
  - Land or other long-lived assets given to NFP wherein ownership transfers to organization
  - Investments transferred to the organization



# Special Events Revenue



# Special Events Revenue

- Common special events: Dinners, galas, golf tournaments
- Revenue is earned from ticket sales, auction proceeds, etc.
- For reporting and analysis – separate costs of direct benefit to donors. Such costs include:
  - Facility rental costs
  - Entertainment
  - Decorations
  - Raffle prizes
- Certain costs must be reported as fundraising including:
  - Expenses for printing tickets or posters
  - Fundraising consultants
  - Public relations expenses
  - Promotional activities
  - Personnel

# Special Events Revenue

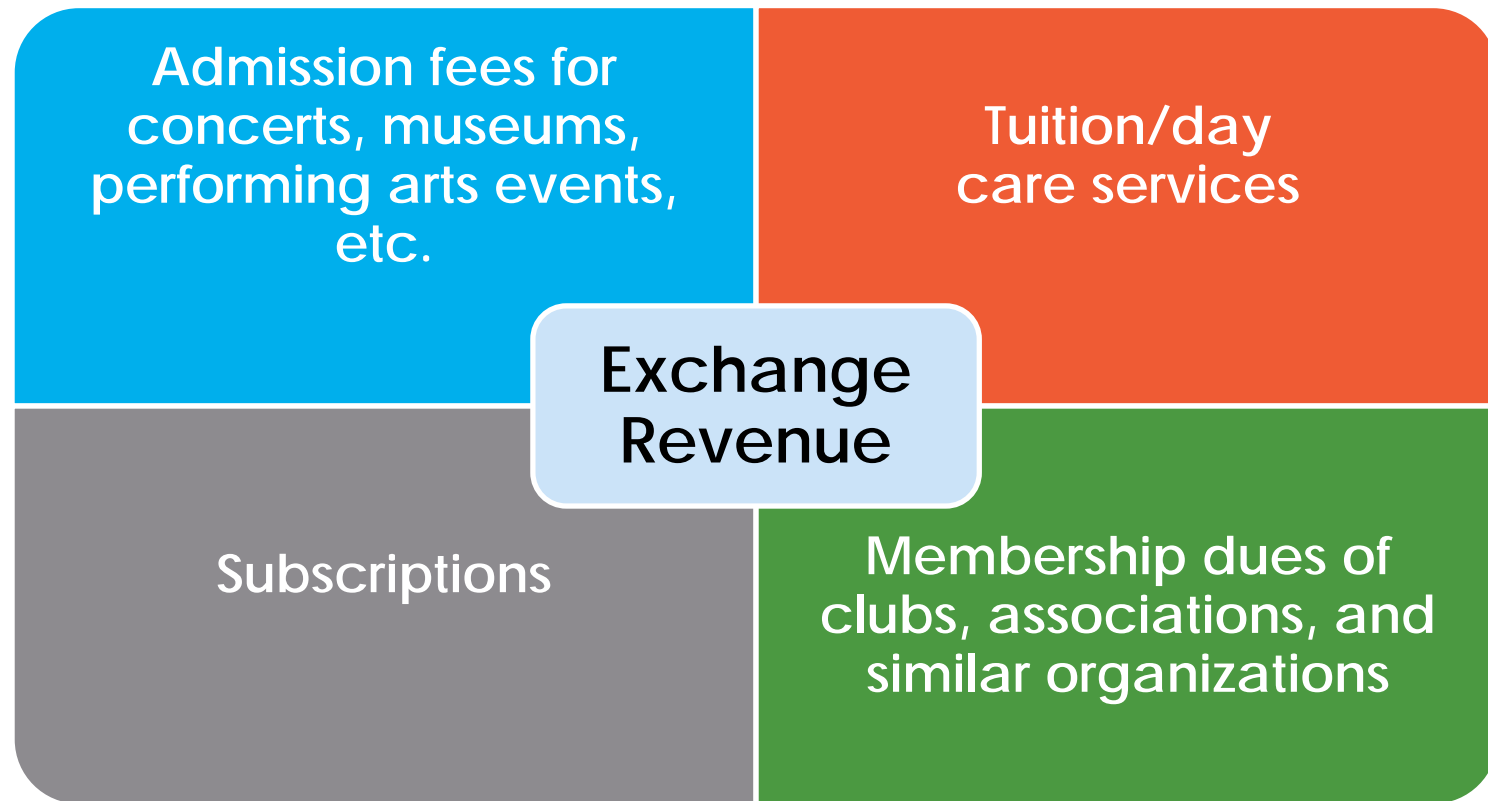


The AICPA gives three options for reporting these benefits:

- ▶ **Option 1** - Present the Costs of Direct Benefits to Donors as a line item deducted from special event gross revenues on the Statement of Activities.
- ▶ **Option 2** - Present Special Event Gross Revenues in the revenue section of the Statement of Activities and Costs of Direct Benefits to Donors in the Statement of Functional Expenses with other programs and supporting services.
- ▶ **Option 3** - Present the contribution portion as contribution revenue and the exchange portion (fair value received by donor) as special events revenue. The Costs of Direct Benefits to Donors are deducted from the exchange portion of the gross revenue.

# Exchange Revenue and Agency Transactions

# Exchange Revenue



# Agency Transactions

- When an organization acts as an agent, trustee, or intermediary for a resource provider, funds should be reported as increases in assets and liabilities, NOT reported as revenue in the statement of activities.
- The key factor in determining whether the transfer of resources is an agency transaction and not a contribution is the extent of discretion that the not-for-profit organization has in the use of the assets received.
- When auditing, inquire, but more importantly be alert for circumstances where organizations that raise funds for others are improperly recording as revenue/expense instead of assets/liabilities. You will likely uncover agency transactions in tests of contributions.

# Functional Expenses

# Functional Expenses

Expenses are classified (and presented) into two categories:

Program  
Services

Supporting  
Services

# Functional Expenses

## Program Services

- Activities that result in goods or services being distributed to beneficiaries or members that fulfill the mission of the organization
- Costs (direct or indirect) related to providing programs or services in accordance with organization's mission
- May have one or more classifications of program services for financial reporting purposes



# Functional Expenses

## Supporting Services

- All costs/activities other than program services
- Two categories:
  1. Management and general
  2. Fundraising activities

# Functional Expenses

- Do the classifications reported accurately tell the organization's story?
- How many "functions" are being reported? Too many? Too few? Are those reported meaningful?
- More complex organizations will likely report program service classifications
- Does the organization have special events but no fundraising expense?

# Functional Expenses

- Allocation methodology should be:
  - Documented through organizational policies and processes
  - Easy to understand and calculate
  - Consistent
  - Reviewed frequently (monthly, quarterly)
  - Disclosed



## Let's Connect



@weavercpas

[facebook.com/weavercpas](https://facebook.com/weavercpas)

[linkedin.com/company/weavercpas](https://linkedin.com/company/weavercpas)

[youtube.com/weavercpas](https://youtube.com/weavercpas)

Insights blog – [weaver.com](https://weaver.com)



# Questions?

**Jackie Gonzalez, CPA**

Partner, Government and Nonprofit Services

[Jackie.Gonzalez@weaver.com](mailto:Jackie.Gonzalez@weaver.com)

817.882.7758