

Preparing Nonprofit Financial Statements: Avoiding Common Errors

TUESDAY, MARCH 28, 2023, 1:00-2:50 pm Eastern

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Preparing Nonprofit Financial Statements: Avoiding Common Errors

March 28, 2023

Tamara Greear, CPA

Partner

Rodefer Moss & Co.

tgreear@rodefermoss.com

Amy Guerra, CPA

Professional Practice Director - Nonprofit and
Healthcare Industries

BDO USA

aguerra@bdo.com

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PREPARING NONPROFIT FINANCIAL STATEMENTS: AVOIDING COMMON ERRORS

March 28, 2023

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With you today



Amy Guerra, CPA

BDO

Professional Practice Director -
Nonprofit and Healthcare

847-824-7163

aguerra@bdo.com



Tamara Greear, CPA

Rodefer Moss & Co.

Partner

276-679-2780

tgreear@rodefermoss.com

Agenda

- ▶ Overview of Nonprofit Financial Reporting and Accountability
- ▶ Preparing Financial Statements for Nonprofit Organizations
- ▶ FASB Prescribed Formats
- ▶ Footnote Disclosure Considerations
- ▶ Understanding the Use of the Financials



Differences Between Nonprofit and For-profit Accounting



What Are the Differences Between Nonprofit and For-Profit?

- ▶ A for-profit company makes a profit for its owners. A nonprofit has two bottom lines. The first goal fulfills its stated mission. The second one provides the necessary funding to support your mission in the present time and the future.
- ▶ Nonprofit organizations are considered public benefit corporations that receive their revenue from a combination of:
 - Donations or grant income
 - Donated facilities and equipment
 - Donated time



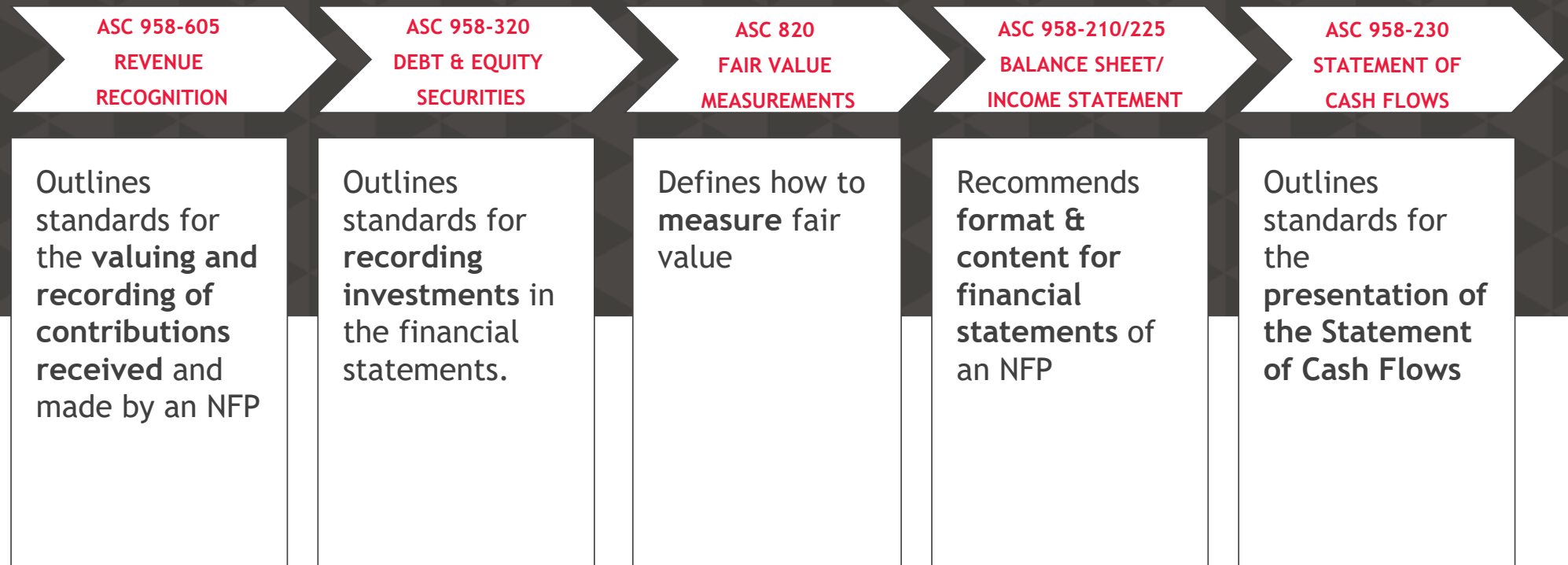


Measurement of Success between Nonprofit and For-Profit

- ▶ Mission
- ▶ Financial Goals
- ▶ Accountability



Accounting Standards Codifications Relevant to Not-for-Profit Organizations



Preparing Financial Statements for Nonprofit Organizations



Learning Objectives

- ▶ Identify the financial statements for not-for-profit organizations.
- ▶ Discuss common financial statement errors
- ▶ Identify some similarities and differences in accounting and reporting practices of not-for-profits versus for-profit entities.



Financial Statements

- ▶ Statement of Financial Position (Balance Sheet)
- ▶ Statement of Activities and Changes in Net Assets
- ▶ Statement of Cash Flows
- ▶ Statement of Functional Expenses
- ▶ Footnotes to the Financial Statements



Statement of Financial Position (Balance Sheet)

Objectives

- ▶ Financial snapshot on a specific date
- ▶ Assess soundness of the nonprofit

Three Main Components

1	Assets
2	Liabilities
3	Net Assets



STATEMENT OF FINANCIAL POSITION


Assets

- ▶ Common Elements
 - Cash and cash equivalents
 - Restricted cash
 - Investments
 - Contributions/grants/pledges receivable
- ▶ Presentation
 - Classified vs. Unclassified



AVOIDING ISSUES

Statement of Financial Position - Assets

- 
- ✓ Incorrect display of assets in terms of liquidity
 - ✓ Comingling operational assets with restricted assets
 - ✓ Differentiating cash and investments
 - ✓ Incorrect measurement of pledges receivable



STATEMENT OF FINANCIAL POSITION

Liabilities

Common Errors

- Classification of bonds as short-term or long-term
- Outdated presentation of debt issuance costs
- Incognizant of disclosure implications resulting from the entity issuing debt instruments in a public market

Common elements of liabilities are not so different from liabilities presented on a for-profit balance sheet





STATEMENT OF FINANCIAL POSITION

Net Assets

Nonprofit Vs. For-Profit

- ▶ Distinguishment between with and without donor restrictions
 - Unique to NFPs
 - Entity can not always use the revenue however they want

Common Errors

- ▶ Board designated presentation
- ▶ Endowments
- ▶ Insufficient detail of types of restrictions
.....more to come in our footnote discussion





STATEMENT OF ACTIVITIES

Revenues

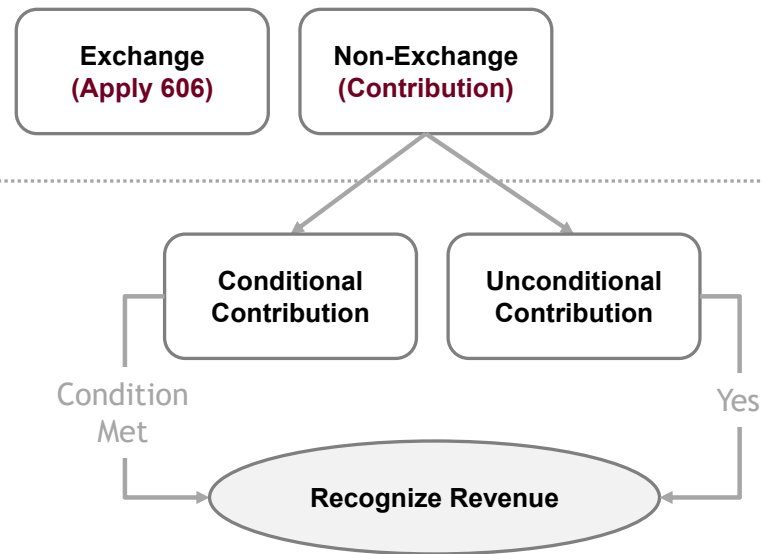
- ▶ Various revenue streams to assess and present
- ▶ Recognition
 - When should the revenue be recognized?
 - Restriction(s) attached to revenue?
- ▶ Policy
 - Is the entity following its release policy?



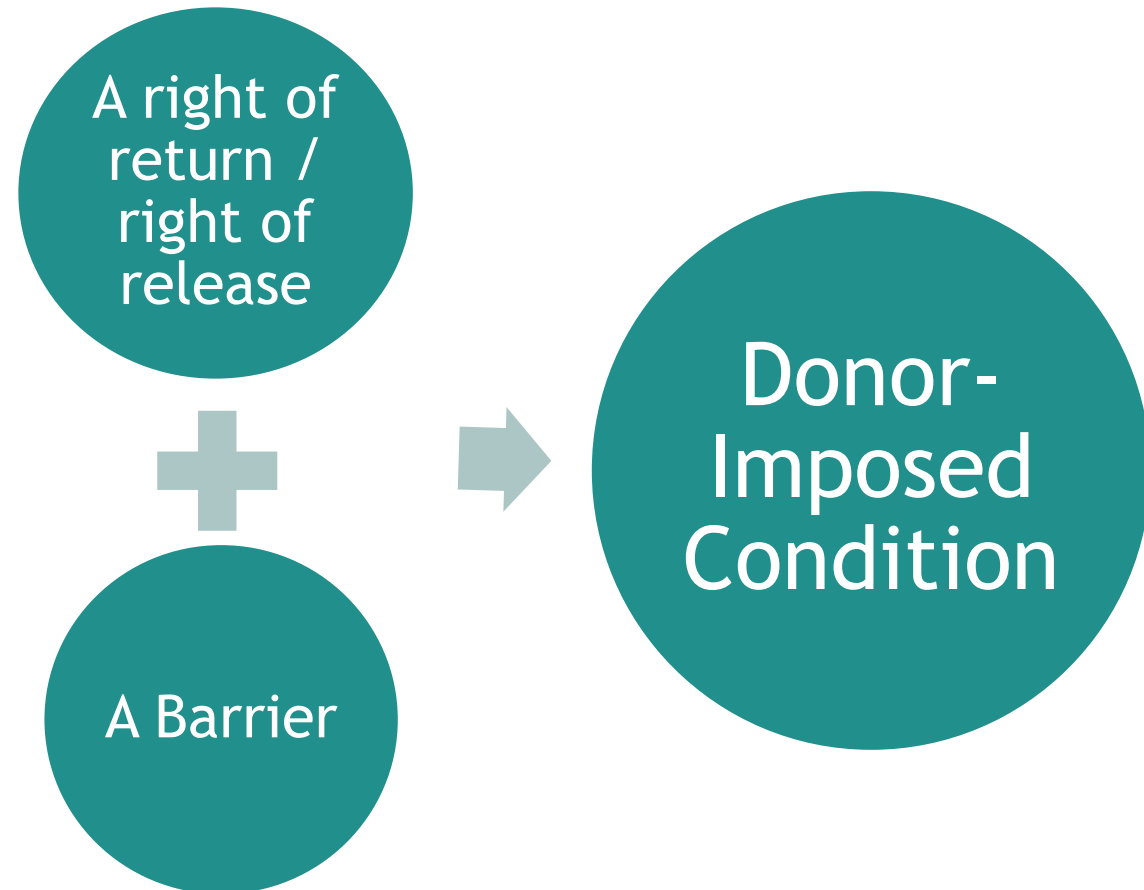
Decisions, Decisions, Decisions...

Decision #1: Is this an exchange transaction?

Decision #2: Is this contribution conditional or unconditional?



Conditional vs. Unconditional

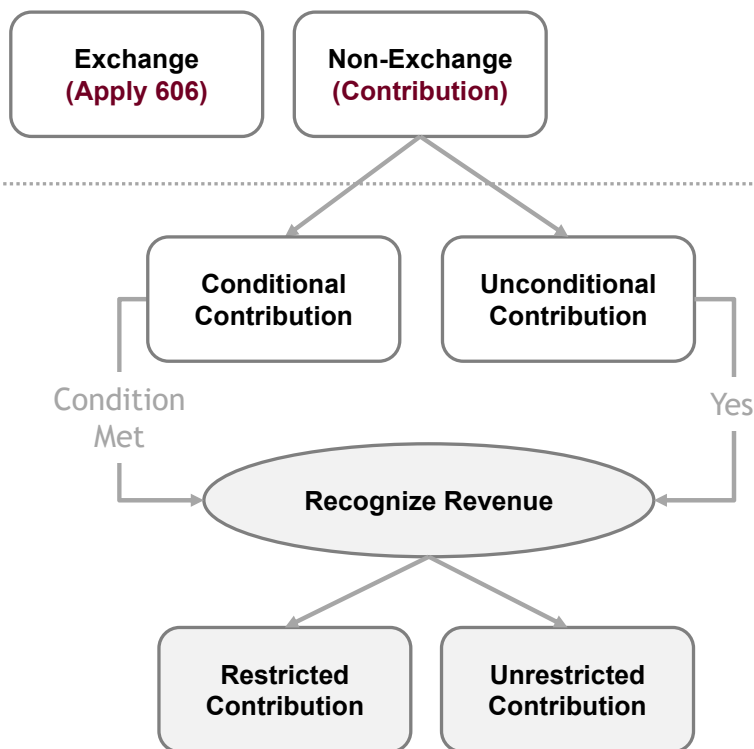


Decisions, Decisions, Decisions...

Decision #1: Is this an exchange transaction?

Decision #2: Is this contribution conditional or unconditional?

Decision #3: Is the contribution revenue restricted or unrestricted?



How Do I Tell the Difference Between a Condition and a Restriction?

Restriction

- ▶ Limitation on the activity to be performed; the specified activity is narrower in scope than mission of the NFP
- ▶ May have to return unspent funds (implied or explicit)

Condition

- ▶ Limitation on how the activity is **conducted**, or
- ▶ **Measurable barrier** contingent on future performance or event
- ▶ Related to the purpose of the agreement
- ▶ *Entitlement to the funding must be tied to the barrier.*

Disclosure Reminders - Contributions

Policy Election Reminder

Simultaneous Releases

- Election can be made for all restricted contributions that were initially classified as conditional WITHOUT having to elect it for all other restricted contributions and investment returns.



STATEMENT OF ACTIVITIES

Expenses

Common Errors

- ▶ Breakdown of programs differs from programs on Statement of Functional Expenses
- ▶ Presentation and Classification
 - Inadequate natural expense classification
 - Expenses not in correct function
 -this will be the focus of Statement of Functional Expense discussion



Expense Reporting

- ▶ Presentation and allocation is unique to nonprofits
- ▶ Report expenses, either on the face of financial statements or in the notes, by:
 - Function
 - Natural classification
 - Analysis (disaggregate function by nature)
 - Cannot be presented as supplemental information, but can be footnote
- ▶ NFPs are required to provide qualitative disclosures about methods used to allocate costs among program activities and supporting services
- ▶ Accounting guidance in ASC 958 provides enhanced guidance on allocations from management and general (M&G) expenses
 - **Key concept:** direct conduct or direct supervision



Statement of Functional Expenses - Reminders on Management and General Expenses

Revisit Allocation Methodology

Has the client disclosed their cost allocation methodology between program and supporting services?

Have we tested whether the qualitative disclosures related to the allocation methods match the current policy and practices for allocation?

(i.e., - Did the client change their allocation methodology and forget to tell us / update their footnote disclosures?)



Statement of Functional Expenses - Reminders on Management and General Expenses

Management and General Activities include the following:

Oversight

Making announcements concerning governing appointments

Financing

Producing and disseminating the annual report

Fundraising

Soliciting funds other than contributions and membership dues

General recordkeeping
and payroll

Employee benefits management and oversight (human resources)

Disseminating information to inform the public of the NFP's stewardship of contributed funds

Administering government, foundation, and similar customer-sponsored contracts, including billing and collecting fees and grant and contract financial reporting



Statement of Functional Expenses - Reminders on Management and General Expenses

“The costs of oversight and management usually include the salaries and expenses of the governing board, the chief executive officer of the NFP, and the supporting staff. If such staff spend a portion of their time directly **conducting or** supervising program services or categories of other supporting services, however, their salaries and expenses shall be allocated among those functions.” (958-720-45-8)



Statement of Functional Expenses - Reminders on Direct Conduct or Direct Supervision

“Activities that represent direct conduct or direct supervision of program or other supporting activities require allocation from management and general activities. Additionally, certain costs benefit more than one function and, therefore, shall be allocated. For example, information technology generally can be identified as benefiting various functions, such as management and general (for example, accounting and financial reporting and human resources), fundraising, and program delivery. Therefore, information technology costs generally would be allocated among the functions receiving direct benefit.” (958-720-45-2A)



Statement of Functional Expenses - Reminders on Direct Conduct or Direct Supervision

Case A: Chief Executive Officer Allocation

958-720-55-172: The broad responsibilities of a chief executive officer generally include administrative and programmatic oversight. At Not-for-Profit Entity A (NFP A), the chief executive officer spends a portion of time directly overseeing the research program. Additionally, a portion of time is spent with current and potential donors on fundraising cultivation activities. A portion of the chief executive officer's compensation and benefits and other expenses would be allocated to the research program and to the fundraising function representing the portion of time spent on those activities because they reflect direct conduct or direct supervision. If the remainder of the chief executive officer's time is spent indirectly supervising the other areas of NFP A, including the administrative areas, those activities would not constitute direct conduct or direct supervision, and the ratable portion of compensation and benefit amounts would remain in management and general activities.



Functional Expenses - Reminders on Direct Conduct or Direct Supervision

Case C: Human Resources Department Allocation

958-720-55-174: The human resources department at Not-for-Profit Entity C (NFP C) generally is involved in the benefits administration for all personnel of NFP C. The human resources department's related costs would not be allocated to any specific program. Rather, those costs would remain a component of management and general activities because benefits administration is a supporting activity for the entire entity.

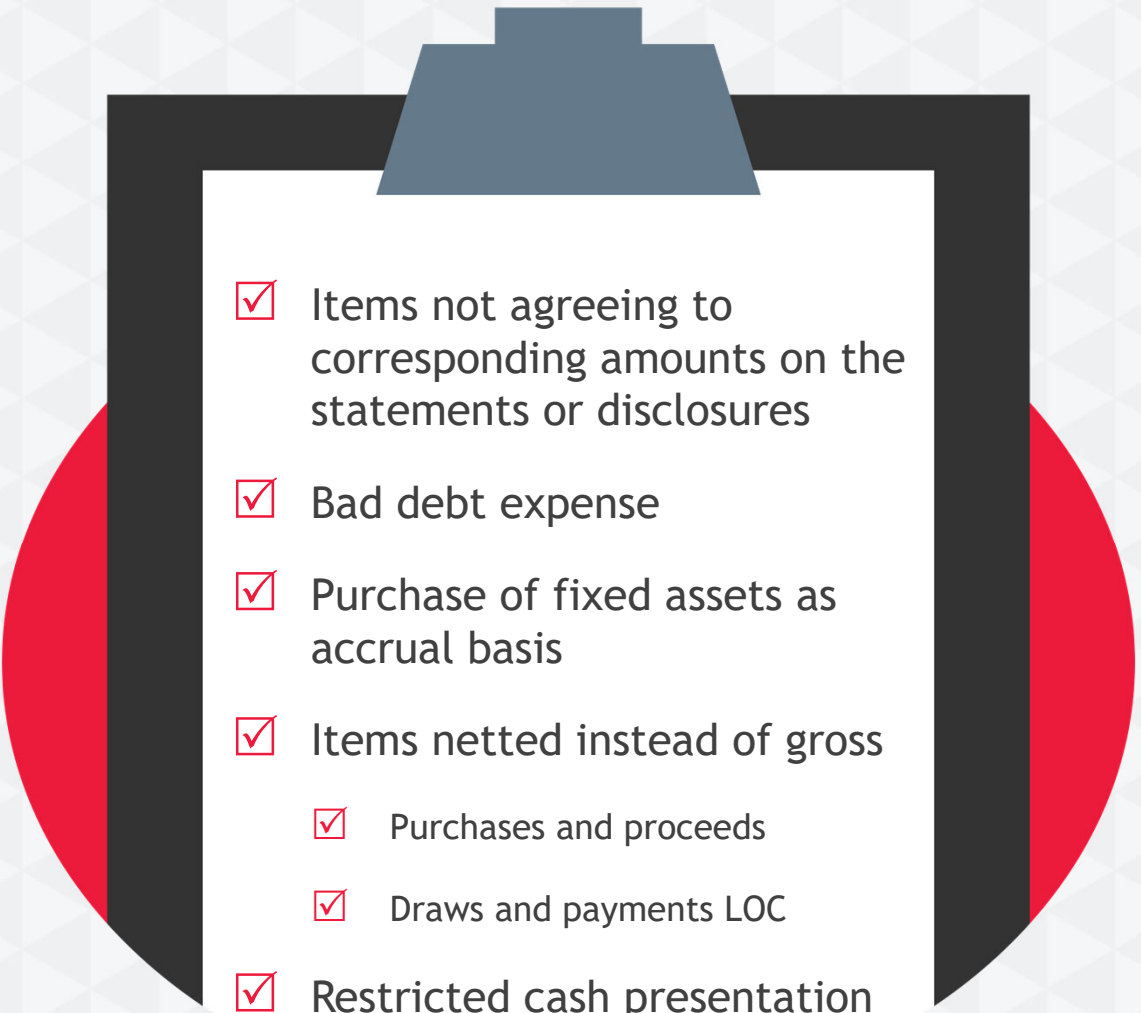
Functional Expenses - Sample

Statement of Functional Expenses									
<i>For the year ended August 31, 2021</i>									
	Program Services				Supporting Activities				
	Early Childhood	Educational Services	Adult and Senior Care Services	Head Start	Management and General	Fundraising	Total Supporting Services	Total	
Salaries and benefits:									
Salaries and wages	\$ 815,508	\$ 2,019,880	\$ 1,721,912	\$ 3,052,737	\$ 400,587	\$ 195,057	\$ 595,644	\$ 8,205,681	
Payroll taxes and employee benefits	153,386	318,802	369,730	601,742	(17,693)	34,569	16,876	1,460,536	
Total salaries and benefits	968,894	2,338,682	2,091,642	3,654,479	382,894	229,626	612,520	9,666,217	
Other expenses:									
Contracted services	194,447	83,122	48,837	172,239	20,426	-	20,426	519,071	
Professional fees	24,648	42,118	73,981	94,901	133,415	7,515	140,930	376,578	
Program supplies and expenses	82,449	226,320	555,894	512,591	1,881	3,513	5,394	1,382,648	
Occupancy	108,546	232,789	279,067	150,882	23,592	7,394	30,986	802,270	
Travel and transportation	6,818	18,849	20,306	-	7,602	7	7,609	53,582	
Insurance	46,716	39,463	64,533	88,230	29,265	6,287	35,552	274,494	
Staff training and development	30,733	822	10,190	15,961	89,468	466	89,934	147,640	
Office supplies	19,370	10,223	34,072	49,903	62,908	23,599	86,507	200,075	
Depreciation and amortization	96,164	78,824	112,217	-	21,447	4,505	25,952	313,157	
Interest, penalties, assessments, and other	1,914	1,870	3,809	-	35,647	9,525	45,172	52,765	
Marketing and promotion	275	17,450	569	3,277	6,850	22,005	28,855	50,426	
Total other expenses	612,080	751,850	1,203,475	1,087,984	432,501	84,816	517,317	4,172,706	
Total expenses	\$ 1,580,974	\$ 3,090,532	\$ 3,295,117	\$ 4,742,463	\$ 815,395	\$ 314,442	\$ 1,129,837	\$ 13,838,923	

The accompanying notes are an integral part of these financial statements.

AVOIDING ISSUES

Statement of Cash Flows

- 
- ✓ Items not agreeing to corresponding amounts on the statements or disclosures
 - ✓ Bad debt expense
 - ✓ Purchase of fixed assets as accrual basis
 - ✓ Items netted instead of gross
 - ✓ Purchases and proceeds
 - ✓ Draws and payments LOC
 - ✓ Restricted cash presentation



PREPARING NONPROFIT FINANCIAL STATEMENTS:

AVOIDING COMMON ERRORS

(Part 2, March 28, 2023)



Financial Accounting Standards Board(FASB) Prescribed Formats

FASB ASC 958-210-45-8 requires use of one or more of the following methods for presenting information about liquidity and financial flexibility:

Statement of Financial Position

- Sequenced Statements
- Classified Statements

Statement of Activities

- Single Column
- Columnar (Multicolumn)
- Two statements
 - Part 1 – Summary revenues, expenses and other change in assets without donor restrictions
 - Part 2 – Statement of changes in nets assets

SEQUENCED FINANCIAL FORMAT

Statement of Financial Position 958-205-55 Implementation Guidance:

- Sequences assets and liabilities
 - Assets based on nearness to conversion to cash
 - Liabilities according to the nearness of their maturity and resulting use of cash
- Cash and cash equivalents of donor-restricted endowment funds held temporarily until suitable long-term investment opportunities are identified are included as long-term investments
- Cash and contributions receivable restricted by donors to investment in land, buildings, and equipment are not included with cash and cash equivalents but rather as “assets restricted” to investment and are sequenced closer to capital assets.

Not-for-Profit Entity A
Statements of Financial Position
June 30, 20X1 and 20X0
(in thousands)

Assets:	20X1	20X0
Cash and cash equivalents	\$4,575	\$4,960
Accounts and interest receivable	2,130	1,670
Inventories and prepaid expenses	610	1,000
Contributions receivable	3,025	2,700
Short-term investments	1,400	1,000
Assets restricted to investment in land, buildings, and equipment	5,210	4,560
Land, buildings, and equipment	61,700	63,590
Long-term investments	218,070	203,500
Total assets	\$296,720	\$282,980
Liabilities and net assets:		
Liabilities:		
Accounts payable	\$ 2,570	\$ 1,050
Refundable advance		650
Grants payable	875	1,300
Notes payable		1,140
Annuity trust obligations	1,685	1,700
Long-term debt	5,500	6,500
Total liabilities	10,630	12,340
Net assets:		
Without donor restrictions (Note DD)	92,600	84,570
With donor restrictions (Note B)	193,490	186,070
Total net assets	286,090	270,640
Total liabilities and net assets	\$296,720	\$282,980

Note: See paragraph 958-205-55-21 for the notes to financial statements.

CLASSIFIED FINANCIAL FORMAT

Statement of Financial Position

- Classifies assets and liabilities
 - Current and Noncurrent

Not-for-Profit Entity A Statements of Financial Position June 30, 20X1 and 20X0 (in thousands)		
	20X1	20X0
Assets:		
Current assets		
Cash and cash equivalents	\$ 4,575	\$ 4,960
Accounts and interest receivable	2,130	1,670
Inventories and prepaid expenses	610	1,000
Contributions receivable	1,825	1,200
Short-term investments	1,400	1,000
Long-term investments appropriated for current use	10,804	10,075
Total current assets	<u>21,344</u>	<u>19,905</u>
Noncurrent assets		
Contributions receivable	1,200	1,500
Assets restricted to investment in land, buildings, and equipment	5,210	4,560
Land, buildings, and equipment	61,700	63,590
Long-term investments, net of amounts appropriated	207,266	193,425
Total noncurrent assets	<u>275,376</u>	<u>263,075</u>
Total assets	<u>\$ 296,720</u>	<u>\$ 282,980</u>
Liabilities and net assets:		
Current liabilities		
Accounts payable	\$ 2,570	\$ 1,050
Refundable advance		550
Grants payable	550	600
Notes payable		140
Annuity trust obligations	985	1,050
Total current liabilities	<u>4,105</u>	<u>3,390</u>
Noncurrent liabilities		
Refundable advance		100
Grants payable	325	700
Notes payable		1,000
Annuity obligations	700	650
Long-term debt	5,500	6,500
Total noncurrent liabilities	<u>6,525</u>	<u>8,950</u>
Total liabilities	<u>10,630</u>	<u>12,340</u>
Net assets:		
Without donor restrictions	92,677	73,619
With donor restrictions	193,413	197,021
Total net assets	<u>286,090</u>	<u>270,640</u>
Total liabilities and net assets	<u>\$ 296,720</u>	<u>\$ 282,980</u>

Single Column Presentation

Statement of Activities

- Single column format accommodates presentation of multiyear comparative more easily than other formats

Not-for-Profit Entity A
Statement of Activities
Year Ended June 30, 20X1
(in thousands)

Changes in net assets without donor restrictions:

Revenues and gains:

Contributions	\$ 8,640
Fees	5,200
Investment return, net	6,650
Gain on sale of equipment	200
Other	150
Total revenues and gains without donor restrictions	<u>20,840</u>

Net assets released from restrictions (Note D):

Satisfaction of program restrictions	8,990
Satisfaction of equipment acquisition restrictions	1,500
Expiration of time restrictions	1,250
Appropriation from donor endowment and subsequent satisfaction of any related donor restrictions	7,500
Total net assets released from restrictions	<u>19,240</u>

Total revenues, gains, and other support without donor restrictions

40,080

Expenses and losses:

Salaries and benefits	15,115
Grants to other organizations	4,750
Supplies and travel	3,155
Services and professional fees	2,840
Office and occupancy	2,528
Depreciation	3,200
Interest	382
Total expenses (Note F)	<u>31,970</u>
Fire loss on building	80
Total expenses and losses	<u>32,050</u>
Increase in net assets without donor restrictions	<u>8,030</u>

Changes in net assets with donor restrictions:

Contributions	8,390
Investment return, net	18,300
Actuarial loss on annuity trust obligations	(30)
Net assets released from restrictions (Note D)	<u>(19,240)</u>
Increase in net assets with donor restrictions	<u>7,420</u>
Increase in total net assets	<u>15,450</u>

Net assets at beginning of year

270,640

Net assets at end of year

\$ 286,090

Note: See paragraph 958-205-55-21 for the notes to financial statements.

Columnar (Multicolumn) Presentation

Statement of Activities

- Column for each class of net assets
- Use of total column is optional as long as change in total net assets is presented in accordance with paragraph 958-210-45-1
- Clearly presents effects of expirations of donor restrictions
- **CAUTION:** Be careful of labels and headings to ensure clearly communicate all columns and subtotals

Not-for-Profit Entity A
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	<u>19,240</u>	<u>(19,240)</u>	<u>-</u>
Total revenues, gains, and other support	<u>40,080</u>	<u>7,450</u>	<u>47,530</u>
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)	<u>31,970</u>		<u>31,970</u>
Fire loss on building	80		80
Actuarial loss on annuity trust obligations		30	30
Total expenses and losses	<u>32,050</u>	<u>30</u>	<u>32,080</u>
Change in net assets	<u>8,030</u>	<u>7,420</u>	<u>15,450</u>
Net assets at beginning of year	<u>84,570</u>	<u>186,070</u>	<u>270,640</u>
Net assets at end of year	<u>\$ 92,600</u>	<u>\$ 193,490</u>	<u>\$ 286,090</u>

Note: See paragraph 958-205-55-21 for the notes to financial statements.

Two Statement Alternative

Statement of Activities – Part 1

Not-for-Profit Entity A Statement of Revenues, Expenses, and Other Changes in Net Assets without Donor Restrictions Year Ended June 30, 20X1 (in thousands)	
Revenues and gains without donor restrictions:	
Contributions	\$ 8,640
Fees	5,200
Investment return, net	6,650
Gain on sale of equipment	200
Other	150
Total revenues and gains without donor restrictions	20,840
Net assets released from restrictions (Note D):	
Satisfaction of program restrictions	8,990
Satisfaction of equipment acquisition restrictions	1,500
Expiration of time restrictions	1,250
Appropriation from donor endowment and subsequent satisfaction of any related donor restrictions	7,500
Total net assets released from restrictions	19,240
Total revenues, gains, and other support without donor restrictions	40,080
Expenses and losses:	
Program A	13,296
Program B	8,649
Program C	5,837
Management and general	2,038
Fundraising	2,150
Total expenses (Note F)	31,970
Fire loss on building	80
Total expenses and losses without donor restrictions	32,050
Increase in net assets without donor restrictions	\$ 8,030

Note: See paragraph 958-205-55-21 for the notes to financial statements.

Statement of Activities – Part 2

Not-for-Profit Entity A Statement of Changes in Net Assets Year Ended June 30, 20X1 (in thousands)	
Net assets without donor restrictions:	
Total revenues and gains	\$ 20,840
Net assets released from restrictions (Note D)	19,240
Total expenses and losses	(32,050)
Increase in net assets without donor restrictions	8,030
Net assets with donor restrictions:	
Contributions	8,390
Investment return, net	18,300
Actuarial loss on annuity trust obligations	(30)
Net assets released from restrictions (Note D)	(19,240)
Increase in net assets with donor restrictions	7,420
Increase in net assets	15,450
Net assets at beginning of year	270,640
Net assets at end of year	\$ 286,090

Note: See paragraph 958-205-55-21 for the notes to financial statements.

FOOTNOTE DISCLOSURE CONSIDERATIONS

Specific
Disclosures for
Nonprofit
Organizations



Nonprofits are REQUIRED to have ADEQUATE Disclosures

BASIC GAAP

Same as
other
business
enterprises
Examples:

Significant
Accounting
policies

Cash and
cash
equivalents

Property
and
Equipment

Debt

NFP Specific

Restriction
of Net
assets

Endowment
Fund

Promises to
Give

Cost
allocation
methodology

NFP Specific

Liquidity &
Availability
of assets

(958-205-55
and 958-
210-45)

Federal
Financial
Assistance-
Program
Specific

Recent

In-Kind
ASU
2020-07

Leases

Tip: Notes to the financials should disclose any information that is relevant for the organization's liquidity, maturity of assets, and restrictions on the use of particular assets.

LIQUIDITY AND AVAILABILITY

Readers (Users) of the financial statements need to be able to assess the Nonprofits liquidity to determine availability of resources (with or without restrictions) to fund general expenditures.

What is liquidity and availability in relation to nonprofit disclosures:

- Maturity of assets or liabilities
- Restrictions – donor or self-imposed on use of particular items
- Available to meet cash needs for general expenditures within one year of the date of the statement of financial position

LIQUIDITY AND AVAILABILITY (Cont'd)

Disclosure should provide both qualitative and quantitative information.

Qualitative examples:

- Organization's responsibility to maintain resources to meet donor restrictions
- Goals for maintaining financial assets
- Policies for investing excess cash
- Policies for spending board designated endowment funds
- Contractual agreements that make certain financial assets unavailable for general expenses i.e. trusts under split-interest gifts, or investments that cannot be sold

LIQUIDITY AND AVAILABILITY (Cont'd)

Quantitative examples:

- Provide reconciliation from total of its financial assets to the amount available to meet cash needs for general expenditure in one year from the date of the financial statements

		2022	
Financial Assets at year end		\$ 592,148	
Less those unavailable for general expenditures within one year, due to:			
Charitable lead trust payments due within one year		181,800	
Donor-restricted to payment of long-term debt		53,071	
Donor-restricted to purchase of equipment		30,000	
Donor-restricted to purchase of new shelter		45,893	
Donor-restricted to maintain as an endowment		<u>6,869</u>	
Financial assets available to meet cash needs for general expenditure within one year		\$ <u>274,515</u>	

ENDOWMENT FUNDS

Nonprofits with endowment funds – both board-designated and donor-restricted should disclose the following:

- Basics of the endowment funds establishment
 - Restriction of contributions
 - Original principal held and invested indefinitely
 - Other
- Description of policies on NFP's spending from underwater endowment funds
 - Fair value of the underwater endowment funds
 - Original gift amount or level requirement to be maintained by donor restriction or by law
 - Amount of the deficiencies of the underwater endowment

ASU 2020-07: DISCLOSURES FOR CONTRIBUTED NONFINANCIAL ASSETS (In-Kind Contributions)

- Effective for fiscal years ending on June 30, 2022 (periods beginning after June 15, 2021, and interim periods within annual reporting periods beginning after June 15, 2022)
- In-kind contributions are presented as a separate line item in the Statement of Activities
 - Can no longer be combined on same line item with contributions of cash and other financial assets
- Requires in-kind contributions to also be disaggregated based on nature/type of contribution
 - Flexibility – Types of categories will be based on the specific activities of the NFP and professional judgement is applied in assessing financial statement user needs
- May be done on the face of the Statement of Activities or in the notes to the financial statements

ASU 2020-07: DISCLOSURES FOR CONTRIBUTED NONFINANCIAL ASSETS (In-Kind Contributions) (Cont'd)

Additional disclosures are required for in-kind contributions by category and include the following:

- Qualitative information about whether the in-kind contributions were monetized or utilized during the reporting period
 - Description of whether the In-kind contributions were sold immediately for financial assets or retained and used in programs during the reporting period
 - If retained and used additional information regarding which programs or other activities in which they were used
- Organization's policy (if have one) about monetizing rather than utilizing in-kind contributions
- Description of donor-imposed restrictions
 - For a particular program
 - For a particular period of time
- Description of the valuation techniques and inputs used to arrive at a fair value measure

ASU 2020-07: DISCLOSURES FOR CONTRIBUTED NONFINANCIAL ASSETS (In-Kind Contributions) (Cont'd)

Non-financial contributions category	Type of contributions for beneficiaries	Valuation	2021	2020
Media	Digital, broadcast, and public service announcements	Third-party estimates using billing rates in like circumstances	\$ 29,037	54,431
Food and non-food items	Food, books, hygiene products, and household goods	U.S. wholesale prices of identical or similar products	27,289	21,095
In-kind services	Professional services such as human resources consulting and legal pro bono services	Standard industry pricing for similar services	1,088	635
Pharmaceuticals	Pharmaceuticals and medical supplies	Based on where distributed, the International Drug Price Indicator is used for wholesale prices where the GIK are distributed	—	130
Cryptocurrency	Digital currency	Converted to cash by third party processor	5,403	361
Total			\$ 62,817	76,652

ASU 2020-07: DISCLOSURES FOR CONTRIBUTED NONFINANCIAL ASSETS (In-Kind Contributions) (Cont'd)

Gifts-in-Kind, Donated Services, and Commodities

The Organization receives various forms of gift-in-kind (GIK) including media, food and non-food items such as books and household goods, in-kind services, pharmaceuticals and medical supplies, and cryptocurrency. GIK are reported as contributions at their estimated fair value on the date of receipt and reported as expense when utilized. GIK are valued based upon estimates of fair market or wholesale values that would be received for selling the goods in their principal market considering their condition and utility for use at the time the goods are contributed by the donor. Donated GIK are not sold and goods are only distributed for program use. Cryptocurrency is held only until sold by a third party crypto donation platform.

ASU 2020-07: DISCLOSURES FOR CONTRIBUTED NONFINANCIAL ASSETS (In-Kind Contributions) (Cont'd)

Donated goods and services: Feeding America reports the fair value of donated food over which it has control (i.e., variance power) as public support, without donor restrictions, and immediately thereafter, as expense when donated to the network. Other donated goods and services meeting recognition criteria under U.S. GAAP are also recorded as public support and as expense, based on estimated fair values. Feeding America did not monetize any contributed nonfinancial assets and unless otherwise noted, contributed nonfinancial assets did not have donor restrictions.

	2021		Total
	Without Donor Restrictions	With Donor Restrictions	
Operating activities:			
Public support and revenue:			
Public support:			
Individual contributions	\$ 293,503	\$ 33,912	\$ 327,415
Corporate contributions	112,662	43,939	156,601
Foundations	18,025	8,653	26,678
Corporate promotions	76,928	38,800	115,728
Total fundraising	501,118	125,304	626,422
Donated goods and services	3,520,792	-	3,520,792
Total public support	4,021,910	125,304	4,147,214



UNDERSTANDING THE USE OF FINANCIALS

- BOARD ROLES AND RESPONSIBILITIES
- AUDITORS' REPORTS AND RESPONSIBILITIES

BOARD ROLE: RISKS AND RESPONSIBILITIES

The board of directors of a nonprofit is responsible and accountable for the management and direction of the organization.

- Responsible directly to the organization
- Responsible indirectly to the public/community the organization works with and serves
 - When donors stop trusting, they stop giving
- Success or failure of organization depends, at least in part, on the dedication of the board

BOARD'S ROLE:

– FINANCIAL REPORTING

Approve Budget

- Are expenses appropriate for mission and plan
- Review budget vs. actual throughout year
- Specifically, monitor actual in relation to grant funding budgets when applicable

Be aware- Financial Indicators

- What are the reserves and are they adequate
- What does monthly, quarterly cash flows look like
- Need to borrow, i.e. utilize line of credit or other for operations.

Internal Controls

- Accounting policies and procedures
- Segregation of duties
- Review job descriptions for clarity

Oversee Audit/Tax

- Select auditor
- Auditor reports and communications to Finance, Executive or audit Committees
- Review 990 before filing



AUDITORS' REPORTS AND RESPONSIBILITIES

AUDITORS' REPORTS AND RESPONSIBILITIES

FINANCIAL STATEMENT AUDIT

■ Management's Responsibilities

- Financial statements are the responsibility of management
- Specific paragraph in auditors' report that reiterates
 - Preparation and fair presentation
 - Design, implementation, and maintenance of internal control

■ Auditors' Responsibilities

- Obtain reasonable assurance financials are free from material misstatement
- Communicate with governance (management/board)
- Provide opinion based on evidence

AUDITORS' REPORTS AND RESPONSIBILITIES (Cont'd)

Auditors' Opinion

- Unmodified

- Modified
 - Qualified
 - Adverse
 - Disclaimer

AUDITORS' REPORTS AND RESPONSIBILITIES (Cont'd)

Internal Control and Management Letter Communications

- Control deficiencies
- Significant deficiencies
- Material weaknesses

Common findings

- Lack of segregation of duties
- Insufficient or ineffective control
 - Purchase approvals
 - Bank statement reconciliations and reviews
 - Credit cards
- Management override of controls



CONCLUSION AND QUESTIONS
