

# Restricted Assets: Managing Donor Restrictions, Financial Reporting, and Liquidity Disclosures

TUESDAY, NOVEMBER 5, 2019, 1:00-2:50 pm Eastern

## IMPORTANT INFORMATION FOR THE LIVE PROGRAM

This program is approved for 2 CPE credit hours. To earn credit you must:

- **Participate in the program on your own computer connection (no sharing)** - if you need to register additional people, please call customer service at 1-800-926-7926 ext. 1 (or 404-881-1141 ext. 1). Strafford accepts American Express, Visa, MasterCard, Discover.
- Listen on-line via your computer speakers.
- Respond to five prompts during the program plus a single verification code.
- To earn full credit, you must remain connected for the entire program.

## WHO TO CONTACT DURING THE LIVE PROGRAM

For Additional Registrations:

-Call Strafford Customer Service 1-800-926-7926 x1 (or 404-881-1141 x1)

For Assistance During the Live Program:

-On the web, use the chat box at the bottom left of the screen

If you get disconnected during the program, you can simply log in using your original instructions and PIN.

## *Tips for Optimal Quality*

FOR LIVE PROGRAM ONLY

---

### Sound Quality

When listening via your computer speakers, please note that the quality of your sound will vary depending on the speed and quality of your internet connection.

If the sound quality is not satisfactory, please e-mail [sound@straffordpub.com](mailto:sound@straffordpub.com) immediately so we can address the problem.

# Restricted Assets: Managing Donor Restrictions, Financial Reporting, and Liquidity Disclosures

---

November 5, 2019

---

Mary Kay Lofgren, CPA, Partner  
RubinBrown  
[mary.kay.lofgren@rubinbrown.com](mailto:mary.kay.lofgren@rubinbrown.com)

Chris Tkach, CPA, CGMA, Partner  
RubinBrown  
[chris.tkach@rubinbrown.com](mailto:chris.tkach@rubinbrown.com)

# Notice

---

ANY TAX ADVICE IN THIS COMMUNICATION IS NOT INTENDED OR WRITTEN BY THE SPEAKERS' FIRMS TO BE USED, AND CANNOT BE USED, BY A CLIENT OR ANY OTHER PERSON OR ENTITY FOR THE PURPOSE OF (i) AVOIDING PENALTIES THAT MAY BE IMPOSED ON ANY TAXPAYER OR (ii) PROMOTING, MARKETING OR RECOMMENDING TO ANOTHER PARTY ANY MATTERS ADDRESSED HEREIN.

You (and your employees, representatives, or agents) may disclose to any and all persons, without limitation, the tax treatment or tax structure, or both, of any transaction described in the associated materials we provide to you, including, but not limited to, any tax opinions, memoranda, or other tax analyses contained in those materials.

The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser.

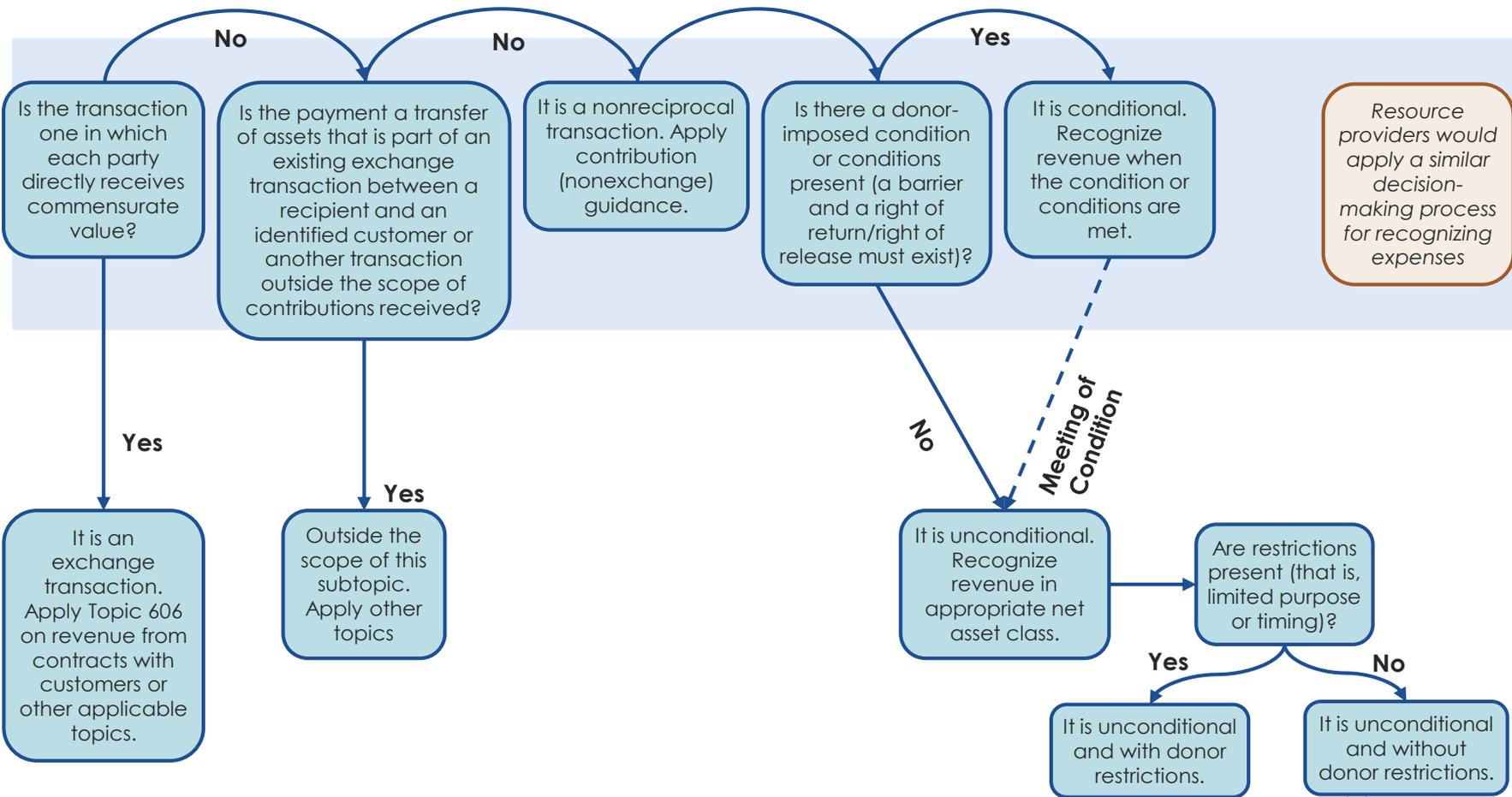
# Restricted Assets: Managing Donor Restrictions, Financial Reporting, and Liquidity Disclosures

CERTIFIED PUBLIC ACCOUNTANTS  
& BUSINESS CONSULTANTS

 **RubinBrown**  
*be your best for others*

# Types of Asset Restrictions

# Decision Tree For Recognizing Contributions



# Contributions

---

- Definition

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

# Contributions

- Accounting for Contributions
  - Accounting for contributions depends on whether the transfer of assets, including promises to give, is received with donor-imposed conditions, donor-restrictions, or both
  - Contribution revenue should be measured at the fair value of the assets or services received or promised or the fair value of the liabilities satisfied

# Promises To Give

---

- Promises to Give (Pledges)
  - Defined as “a written or oral agreement to contribute cash or other assets to another entity”
  - Organization should consider the facts surrounding the communication of the agreement to determine whether or not a promise has been made

# Conditional vs. Unconditional Contributions

---

- There are two types of contributions and promises to give:
  - Unconditional
  - Conditional

# Conditional vs. Unconditional Contributions

---

## Two Key Elements of a Conditional Contribution:

1. A **right of return** or release must exist; **and**
2. The agreement must include a **barrier**

# Conditional vs. Unconditional Contributions

## Right of Return/Release

1. If resource provider provides funds up-front, funds are returned if conditions are not met.

**Example:** University D applied for and was awarded a grant from the federal government. University D must follow the rules and regulations established by the Office of Management and Budget 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.

2. If resource provider makes a promise to give, they are released from their obligation to give if the conditions are not met.

**Example:** Company X agrees to contribute \$1,000,000 to NFP Entity A to fund a building renovation. In order to receive the \$1,000,000, NFP Entity A must first raise \$500,000 of contributions, donor restricted for the building renovation, through a capital campaign. If NFP Entity A does not raise \$500,000 by the end of the agreement term, Company X is released from their obligation.

# Conditional vs. Unconditional Contributions

---

## What is a barrier?

1. Inclusion of a measurable performance-related barrier
2. Limits on the recipient's conduct of an activity
3. Consider: does the barrier relate to the purpose of the agreement?

# Conditional vs. Unconditional Contributions

## 1. Inclusion of a measurable performance-related barrier

**Simplified Example:** *Company X* agrees to contribute \$1,000,000 to *NFP Entity A* to fund a building renovation. In order to receive the \$1,000,000, *NFP Entity A* must first raise \$500,000 of contributions, donor restricted for the building renovation, through a capital campaign.

**Note:** In certain cost-sharing agreements, a cost-sharing provision may or may not be considered a barrier under the Limited Discretion Indicator guidance. See *FASB Staff Q&A Subtopic 958-605, Application of the Limited Discretion Indicator and Accounting for Cost-Sharing Provisions in a Grant Agreement*.

# Conditional vs. Unconditional Contributions

1. Inclusion of a measurable performance-related barrier

## **ASC Example (958-605-55-70C through 70-D):**

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 during each quarter), with specific minimum targets that must be met each quarter. Foundation A specifies a right of release from the obligation in the agreement 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.

*Cont'd on next slide.*

# Conditional vs. Unconditional Contributions

1. Inclusion of a measurable performance-related barrier

## **ASC Example (958-605-55-70C through 70-D, cont'd):**

Foundation A determines that it should account for this grant as conditional. The agreement contains a **right of release from obligation** because the resource provider will only transfer assets if NFP D provides training to at least 8,000 disabled veterans during the year (with a minimum requirement of 2,000 disabled veterans per quarter) as specified in the agreement.

**Foundation A requires NFP D to achieve a specific level of service** that would be considered a measurable performance-related barrier (in the form of milestones by specifying 2,000 disabled veterans per quarter). In this Example, NFP D's entitlement to the transferred assets is contingent upon serving at least 2,000 disabled veterans. **The likelihood of serving at least 2,000 disabled veterans for the quarter is not a consideration** from the perspective of either Foundation A or NFP D when assessing whether the contribution contains a barrier and is deemed conditional.



# Conditional vs. Unconditional Contributions

## 2. Limits on the recipient's conduct of an activity

### **ASC Example (958-605-55-70S through 70T):**

NFP H is a recreational organization that provides various sports programs to children that live in the community. NFP H receives an upfront grant in the amount of \$40,000 from a foundation to be used toward its tennis program. Consistent with NFP H's grant proposal, the agreement includes specific guidelines for which NFP H could use the assets (for example, to hire 10 tennis instructors or to provide a summer camp for 9 weeks) but does not specify that NFP H's entitlement to the \$40,000 is dependent upon NFP H meeting any of the specific indicated guidelines in the agreement. The grant contains a right of return for funds not spent on the tennis program.

*Cont'd on next slide*

# Conditional vs. Unconditional Contributions

## 2. Limits on the recipient's conduct of an activity

### ASC Example (958-605-55-70S through 70T, cont'd):

NFP H determines that this grant is **not conditional because it does not contain a barrier** to overcome to be entitled to the transferred assets. Although the grant agreement contains guidelines for how NFP H *could* spend the \$40,000, the agreement does not specify that entitlement to the transferred assets is dependent upon meeting any of the guidelines. Because the guidelines in the grant agreement were not required to be met to be entitled to the funding, the agreement does not contain a barrier to overcome. NFP H should recognize the revenue upon receipt of the assets as donor restricted because it is required to use the assets for the tennis program, which is narrower than NFP H's overall mission.

# Conditional vs. Unconditional Contributions

## 3. Does the barrier relate to the purpose of the agreement?

In determining whether an agreement contains conditions, the NFP should evaluate each barrier with respect to the purpose of the agreement.

**ASC Example (958-605-55-16)**: A stipulation that an annual report must be provided by the recipient to receive subsequent annual payments on a multiyear promise is not a barrier if the administrative requirement is not related to the purpose of the agreement.

# Valuation - Contributions and Promises to Give

- Valuation of Contributions and Promises to Give
  - Promises to Give due more than one year in the future should be discounted to their present value using a risk-free rate of return
  - Promises to Give should be offset by an appropriate allowance for uncollectible receivables
    - The methodology for calculating the allowance for uncollectible receivables should be based upon the organization's historical collection experience
    - Policy should be reviewed for reasonableness each year and compared to actual make up of promises to give

# Valuation - Contributions and Promises to Give

- Valuation of Contributions and Promises to Give:
  - If the donor is contributing an asset (e.g. investments, land, fixed assets, etc.) instead of cash, the contribution must be valued at the fair value of the contributed asset on the date of donation

# Valuation - Contributions and Promises to Give

- Valuation of Contributions and Promises to Give (continued)
  - Some examples:
    - Shares of stock: Obtain the average of high/low price per share for the stock on the day of its donation
    - Land or buildings: Obtain an appraisal for the property, prices for similar properties in the area, or the appraised value per the most recent county tax assessment

# Contributions – Donor-Imposed Restrictions

- Donor-Imposed Restrictions
  - Contributions should be recorded as **with donor restrictions** if the donor restricts the use of the funds for a specific period of time, purpose, or on a permanent/endowment basis

# Contributions – Donor-Imposed Restrictions

- Donor-Imposed Restrictions (continued)
  - Restrictions may limit the organization's use of the assets to:
    - Later periods or after specific dates (time restrictions);
    - Specific purposes (purpose restrictions); or
    - Both time and purpose restrictions

# Contributions – Donor-Imposed Restrictions

- Donor-Imposed Restrictions (continued)
  - Restrictions may:
    - Be stipulated explicitly by the donor in a written or oral communication accompanying the contribution, or
    - Result implicitly from the circumstances surrounding receipt of the contributed asset (example: gift to a capital campaign or endowment)

# Contributions – Donor-Imposed Restrictions

- Examples of restrictions
  - Purpose: Restricted for:
    - Tax credit program
    - Capital campaign
    - Specific scholarship program
    - Portion (but not entire) mission

# Contributions – Donor-Imposed Restrictions

- Examples of restrictions
  - Time: Restricted for:
    - General operations in the next fiscal year
    - Payment terms
  - Perpetual in nature
    - Endowment

# Contributions – Donor-Imposed Restrictions

- Donor-Imposed Restrictions (continued)
  - Contributions of unconditional promises to give with payments due in future periods should be reported as contributions with donor restrictions unless the donor expressly stipulates, or circumstances surrounding the receipt of the promise make clear, that the donor intended it to be used to support activities of the current period

# Underwater Endowments

---

- Endowments that have a current fair value less than the original gift amount (or amount required to be retained by donor or by law),
- Underwater endowments are presented within the “with donor restrictions” net assets class

# Underwater Endowments - Disclosure

---

- Aggregate amount by which the funds are underwater
- The original gift amount (or amount required to be maintained by the donor or law)
- Any governing board policy or decisions to spend, or not spend, from such funds



# Internal Designations

# Restrictions Vs. Designations

---

- Restrictions
  - Placed by donors
  - Time or purpose

# Restrictions Vs. Designations

---

## ■ Designations

- Internal
- Designations of net assets are self-imposed limits by action of the organization's governing board
- Earmarked for:
  - Future programs
  - Endowment
  - Investment
  - Contingencies
  - Purchase or construction of fixed assets

# Designations of Net Assets

---

- Account For and Record Changes and Uses of Designated Amounts
- Report Periodic Balances

# Board Designated Endowment Funds

---

- Board Designated Endowment
  - Required to disclose
    - Amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions as of the end of the period.

# Board Designated Endowment Funds

---

- Board Designated Endowment
  - Designations can be removed
    - Action by the governing body

# Designated Assets

---

- Held For Long-Term Purposes
  - Classified statement of financial position should report these assets outside of the current assets section
  - Do not include designated assets to be held for a long term with current assets available for current use

# Board Designations of Net Assets

- Financial Statement Disclosures
  - Amounts and purpose of board designations should be provided
    - In the notes to the financial statements or
    - On the face of the financial statements
  - Endowment fund description
  - Include in the endowment reconciliation in the notes to the financial statements
    - In the Without Donor Restrictions net asset class

# Financial Reporting

# Contributions and Net Assets

---

- Without Donor Restrictions
- With Donor Restrictions

# Without Donor Restrictions

---

- Board Designated Amounts
- Annual Appeal
- General Fundraising Events
- Program Service Fees

# With Donor Restrictions

---

- Donor Restricted Gifts
- Promises to Give
- Endowment Gifts

# Financial Statement Example

## Liabilities And Net Assets

### Liabilities

Note payable - bank	\$ 300,000
Accounts payable - construction	200,000
Accounts payable - other	30,000
Accrued expenses	20,000
<b>Total Liabilities</b>	<u>550,000</u>

### Net Assets

Without donor restrictions	4,596,000
With donor restrictions	4,170,000
<b>Total Net Assets</b>	<u>8,766,000</u>

\$ 9,316,000

# Statement of Activities

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenues And Support</b>			
Program fees	\$ 1,548,000	\$ —	\$ 1,548,000
Grants and contributions	110,000	390,000	500,000
Capital campaign contributions	—	450,000	450,000
Special events	50,000	—	50,000
Memberships	60,000	—	60,000
Investment income	8,000	1,000	9,000
Realized gains on sale of investments	100,000	—	100,000
Unrealized gain on investments	50,000	150,000	200,000
Net assets released from restrictions	630,000	(630,000)	—
<b>Total Revenues And Support</b>	<b>2,556,000</b>	<b>290,000</b>	<b>2,917,000</b>

# Statement of Activities

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Expenses</b>			
Programs:			
No. 1	841,500	—	841,500
No. 2	420,750	—	420,750
No. 3	420,750	—	420,750
<b>Total Programs</b>	<b>1,683,000</b>	<b>—</b>	<b>1,683,000</b>
Management and general	177,000	—	177,000
Fundraising	180,000	—	180,000
<b>Total Expenses</b>	<b>2,040,000</b>	<b>—</b>	<b>2,040,000</b>
<b>Increase In Net Assets</b>	<b>516,000</b>	<b>361,000</b>	<b>877,000</b>
<b>Net Assets - Beginning Of Year</b>	<b>4,080,000</b>	<b>3,809,000</b>	<b>7,889,000</b>
<b>Net Assets - End Of Year</b>	<b>\$ 4,596,000</b>	<b>\$ 4,170,000</b>	<b>\$ 8,766,000</b>

# Notes to the Financial Statements

---

- With Donor Restrictions
  - Nature and amount of different types of restrictions
- Restrictions That Have Been Met
  - Expiration of time restrictions
  - Satisfaction of purpose restrictions

# Notes to the Financial Statements

## ■ Endowment Funds

- Description of the governing board's interpretation of law
- Description of the organization's spending policy
- Description of the organization's investment policy
- Endowment by net asset class
- Reconciliation of endowment's beginning and ending balance by net asset class
  - Investment return (net)
  - Contributions
  - Amounts appropriated for expenditure
  - Other changes

# Liquidity and Availability of Assets

# Liquidity and Availability of Resources

---

- Required:
  - Qualitative information to be disclosed in the footnotes on how the organization manages its available resources
  - Quantitative information on either the statement of financial position or in the footnotes regarding the availability of financial assets for general expenditures in the next 12-months.

# Liquidity and Availability of Resources

---

- Step 1: Identify financial assets available for general expenditure in the next 12 months
- Step 2: Determine how this information will be presented. There is flexibility in how your organization presents this information.
  - Display gross amounts and then remove amounts to arrive at available for expenditure amounts, or
  - Display amounts net

# Liquidity and Availability of Resources

---

- Availability is affected by:
  - Nature of the asset
  - External limitations imposed by donors
  - Contractual agreements
  - Board designations

# Liquidity and Availability of Resources

## Liquidity And Availability Of Financial Assets

NFP's assets available within one year of the statement of financial position date for general expenditures are as follows:

	2018	2017
Cash and cash equivalents	\$ 10,226,773	\$ 7,127,255
Campaign pledge receivables, net	21,522,687	24,285,491
Other receivables	765,614	845,375
Certificates of deposit	—	2,754,000
Investments	36,080,334	35,230,984
<b>Total financial assets</b>	<b>68,595,408</b>	<b>70,243,105</b>
Less amounts not available to be used within one year:		
Amounts designated by the Board for specific purposes	2,009,175	3,553,064
Amounts with donor purpose restrictions	3,993,865	3,818,136
Amounts with donor time-restrictions for future period	8,846,518	8,486,676
<b>Total financial assets not available to be used within one year</b>	<b>14,849,558</b>	<b>15,857,876</b>
<b>Financial assets available to meet cash needs for general expenditures within one year</b>	<b>\$ 53,745,850</b>	<b>\$ 54,385,229</b>

NFP is substantially supported by contributions with donor restrictions. Because a donor's restriction requires resources to be used in a manner or in a future period, NFP must maintain sufficient resources to meet those responsibilities to the donors. Thus, financial assets may not be available for general expenditures within one year. As part of NFP's liquidity management, the policy is to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

NFP has unappropriated endowment earnings of approximately \$4.2 million. Although NFP does not intend to spend from these earnings, other than amounts appropriated for general expenditures as part of the endowment spend formulas, these unappropriated endowment earnings could be made available for current operations, if necessary.