Strategy Meets Standards

Turning Accounting Standards into Innovation

Nonprofit Quarterly Webinar
December 9, 2020

Presented by:

Cathy Clarke, CPA
Chief Assurance Officer

Curtis Klotz, CPA
Director of Nonprofit Innovation

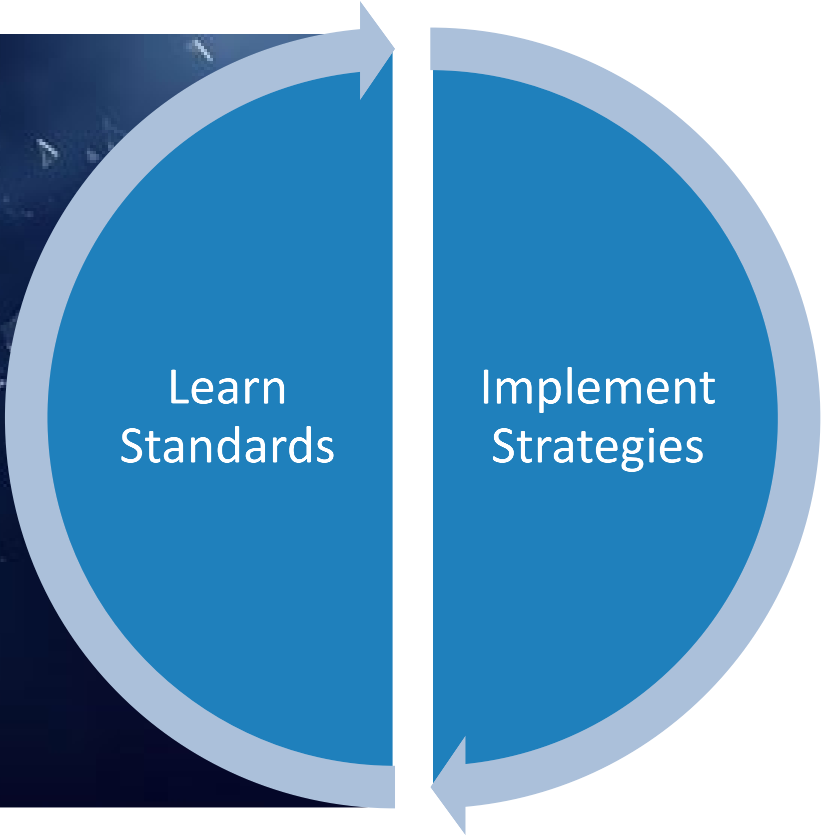
WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

Create Opportunities

Disclaimers

The information contained herein is general in nature and is not intended, and should not be construed, as legal, accounting, or tax advice or opinion provided by CliftonLarsonAllen LLP to the user. The user also is cautioned that this material may not be applicable to, or suitable for, the user’s specific circumstances or needs, and may require consideration of non-tax and other tax factors if any action is to be contemplated. The user should contact his or her CliftonLarsonAllen LLP or other tax professional prior to taking any action based upon this information. CliftonLarsonAllen LLP assumes no obligation to inform the user of any changes in tax laws or other factors that could affect the information contained herein.

Use Accounting Standards to Inspire: A Survey



Strategy Meets Standards

Accounting Beyond Compliance

- Ensure your approach to liquidity management is up-to-date and well-designed.
- Allocate to turn functional expenses by nature into a display of true program costs.
- Smartly use revenue recognition standards to control when revenue hits your books.
- Clarify the accounting treatment and reporting of grants and contributions.
- Understand the new gifts-in-kind guidance to avoid unnecessary complication.

And now, the details…

Liquidity

FASB's Minimum Reporting Requirements
Accounting Standards Update 2016-14

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

Liquidity and Availability of Resources

ASU No. 2016-14 - Issued August 18, 2016

Effective fiscal years after 12/15/2017

The new standards require both the *narrative* and *numbers*.
Nonprofits have an opportunity to share their financial story and showcase strategies.

Nonprofits required to provide:

- **Qualitative** information on how an NFP manages its liquid available resources and its liquidity risk (in the notes)
- **Quantitative** information that communicates what assets are available for general expenditure within one year of the balance sheet date (on the face and/or in the notes)

Liquidity Basics – Availability, Restrictions, and Limitations

958-210-50-1

A not-for-profit entity (NFP) shall disclose in notes to financial statements relevant information about the liquidity or maturity of assets and liabilities, including restrictions and self-imposed limits on the use of particular items, in addition to information provided on the face of the statement of financial position […].

Identify limitations on availability of assets for general expenditure in next 12 months

958-210-50-1A

[…] Availability of a financial asset may be affected by:

1. Its nature
2. External limits imposed by donors, laws, and contracts with others
3. Internal limits imposed by governing board decisions.

Excerpts from FASB ASU 2016-14, page 88

Implementation – Deciding on Format

958-205-45-2 The usefulness of information provided by financial statements of NFPs can be vastly improved if certain basic information is classified in comparable ways.

- Determine whether presenting a *classified* statement of financial position (SOFP) could enhance or simplify the quantitative disclosure requirements
- Determine the format of the required quantitative disclosure
  - Display gross amounts of financial assets,
    then adjustments to arrive at available for expenditure amounts, OR
  - Display only the net amounts available for expenditure

The Beauty of a Classified Statement of Financial Position

Classified by restriction

Classified by availability in "homogenous groups." In this case, maturity.

Sample Nonprofit
Statement of Financial Position
As of June 30, 20XX

	Without Donor Restrictions	With Donor Restrictions	Total
Assets:			
Current assets			
Cash and cash equivalents	$ 256,300	$ 178,600	$ 434,900
Cash and cash equivalents – board-designated	100,000	-	100,000
Accounts receivable	75,400	-	75,400
Contributions receivable	150,000	225,000	375,000
Short-term investments	36,900	-	36,900
Total current assets	618,600	403,600	1,022,200
Noncurrent assets			
Contributions receivable	-	300,000	300,000
Long-term investments	275,000	-	275,000
Land, buildings, and equipment	456,800	-	456,800
Total noncurrent assets	731,800	300,000	1,031,800
Total Assets	**$ 1,350,400**	**$ 703,600**	**$ 2,054,000**

Note Disclosure Example: Quantitative

Assets Available for General Expenditure

Option 1 - Display *gross amounts* of financial assets, then adjust for availability

Sample Nonprofit's financial assets available within one year of the balance sheet date for general expenditure are as follows:

Total current assets	$1,022,200
Less:	
Cash with donor restrictions	(178,600)
Cash with board designation	(100,000)
Contributions receivable with donor restriction	(225,000)
Total	$518,600

Note Disclosure Example: Quantitative

Assets Available for General Expenditure

Option 2 - Display only the *net amounts* available for expenditure

Sample Nonprofit's financial assets available within one year of the balance sheet date for general expenditure are as follows:

Cash and cash equivalents	$256,300
Accounts receivable	75,400
Contributions receivable	150,000
Short-term investments	36,900
Total	$518,600

Liquidity – Beyond the Basics

Telling Your Story Beyond the Minimum Requirements

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

Strategy Consideration

What May Not be Flexible, May Still be Spendable

- The confusion about defining: “available for general expenditure”
  FASB includes only those assets both current and without donor restriction.
- Easy to misinterpret this as the only funds available for operations.
- Counter the misconception, include estimate of releases from restriction.
- Draft note disclosures to:
  - Describe how the entity manages its liquid assets and liquidity needs
  - Include the timing of releases of restricted funds
  - List conditions under which board-designated net assets may be undesignated
  - Note access to the lines of credit or other financing sources
  - Share any other information useful in understanding the entity’s liquidity

Note Disclosure Example: Qualitative

Estimated Releases from Restriction

The Qualitative Disclosure (narrative):

Sample Nonprofit makes regular use of revenue received from donors that is either restricted for certain purposes or restricted for use in certain time periods. In its budgeting process each year, management estimates the likely amount of such revenue that will be released from restriction in the coming year. These estimates are part of Sample Nonprofit's ongoing liquidity management process. To fully understand the funds available to Sample Nonprofit for its operations in the coming year, an estimate of the amount to be released from restriction is presented in the following table.

Note Disclosure Example: Quantitative

Estimated Releases from Restriction

The Quantitative Disclosure (numbers):

Other Assets estimated to be available within 12 months

Budgeted and Likely Releases from Restriction within 12 months

	Balance as of June 30, 20XX	Estimated Release
Cash with donor restrictions	$ 178,600	$ 168,600
Contributions receivable with donor restrictions	225,000	75,000
Total	**$ 403,600**	**$ 243,600**

This table accompanies, but does not replace either Option 1 or Option 2

Strategy Consideration

Reserve Policies – There is No Easy Answer

- Having a reserve policy is highly recommended
  Demonstrates liquidity management
- There is no uniform answer about how large a reserve should be
- Consider receivables cycle (contributions and/or earned revenue) and expenditures cycle (spending patterns) in context of relevant risks
- FASB's definition of availability uses the conventional 12-month cycle
  Many nonprofit operating cycles do not match this 12-month period
  Tell *your* financial story based on *your* financial reality

Note Disclosure Example: Quantitative

Operating Reserve Policy

Operating Reserve Available		
Cash and cash equivalents	$	256,300
Accounts receivable (likely within 90 days)		70,400
Contributions receivable (likely within 90 days)		125,000
Short-term investments (with maturities less than 90 days)		20,000
Assets with donor restrictions (likely to be released within 90 days)		94,200
Total	$	565,900

Operating Reserve Required per Policy		
Budgeted Annual Operating Expenses FY20XX	$	1,855,600
less noncash expenses (depreciation)		(26,400)
Subtotal (divide by 4)	$	1,829,200
Total	$	457,300

Functional Expenses by Nature

Why are we still doing this?

Accounting Standards Update 2016-14

Why a Statement of Functional Expenses?

From the Basis of Conclusion section of ASU 2016-14

BC62: "Other users that are more regulatory or watchdog-like all generally suggested that expense information by function is useful, at least at a "red flag" level, and that the FASB should continue to require such information for all types of NFPs." (p257)

Why by Nature?

From the Basis of Conclusion section of ASU 2016-14

BC58: "… the Board observed that donors and grantors are especially interested in information that is useful in assessing how an NFP uses its resources and its stewardship for the resources entrusted to it. Information that clearly shows the nature of expenses (for example, internal salaries and benefits, external professional fees, rent or building costs, heat, light, and power) and how they relate to an NFP's programs and supporting activities is most useful for those donors' purposes." (p255)

By Function

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

	Without Donor Restrictions	With Donor Restrictions	Total
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

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

(Excerpt from 958-205-55-14, p49)

By Function and Nature (A FASB Example: Table)

The table below presents expenses by both their nature and their function for fiscal year 20X1.

By Function

	Program Activities				Supporting Services			
	A	B	C	Programs Subtotal	Management and General	Fundraising	Supporting Subtotal	Total Expenses
Salaries and benefits	$ 7,400	$ 3,900	$ 1,725	$ 13,025	$ 1,130	$ 960	$ 2,090	$ 15,115
Grants to other organizations	2,075	750	1,925	4,750	-	-	-	4,750
Supplies and travel	890	1,013	499	2,402	213	540	753	3,155
Services and professional fees	160	1,490	600	2,250	200	390	590	2,840
Office and occupancy	1,160	600	450	2,210	218	100	318	2,528
Depreciation	1,440	800	570	2,810	250	140	390	3,200
Interest	171	96	68	335	27	20	47	382
Total Expenses	$ 13,296	$ 8,649	$ 5,837	$ 27,782	$ 2,038	$ 2,150	$ 4,188	$ 31,970

By Nature

(Excerpt from 958-205-55-21, Note F, p66)

Functional Expenses by Nature and the Overhead Debate

Alternative Presentations – A Showcase for True Program Costs

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

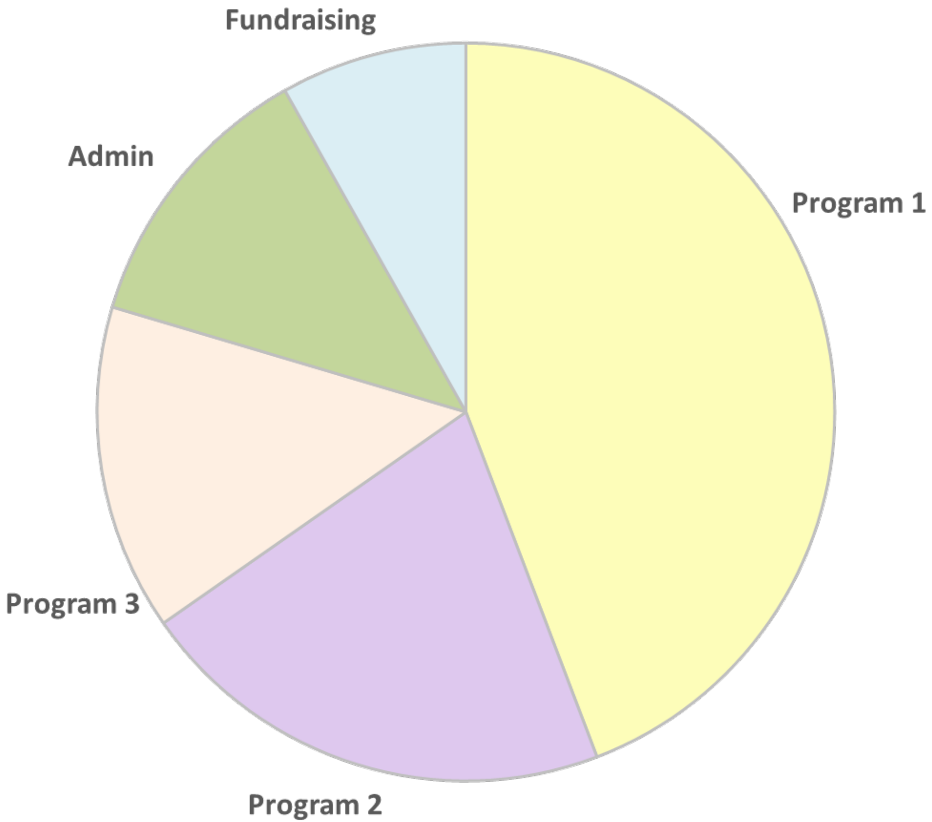
More than One Possible Way to Display

FASB makes clear that its model disclosures and mockups provide guidance, and should *not* be seen as the *only* proper way to display information.

> These illustrations are intended as examples only; they present only a few of the permissible formats. Other formats or levels of detail may be appropriate for certain circumstances. … Not-for-profit entities (NFPs) are encouraged to provide information in ways that are most relevant and understandable to donors, creditors, and other external users of financial statements.
> (ASU 2016-14, 958-202-55-2, page 39)

Use this autonomy to tell a more sophisticated story.

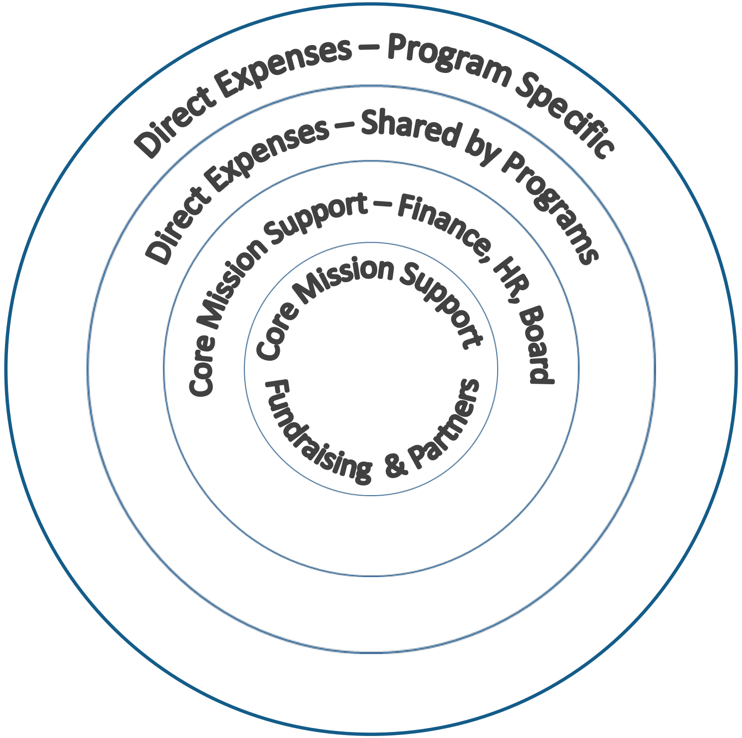
Why It’s Time to Retire this Pie Chart



When nonprofits are viewed this way, no matter how hard we try to think differently, we imagine important infrastructure of our organization as taking a slice out of the pie – as diminishing the “real” work of our mission.

Strategic financial functions, good governance, and the development of key funding partnerships are vital to strong organizations. We need a new way to communicate this truth.

Some Nonprofits are Using a New Image

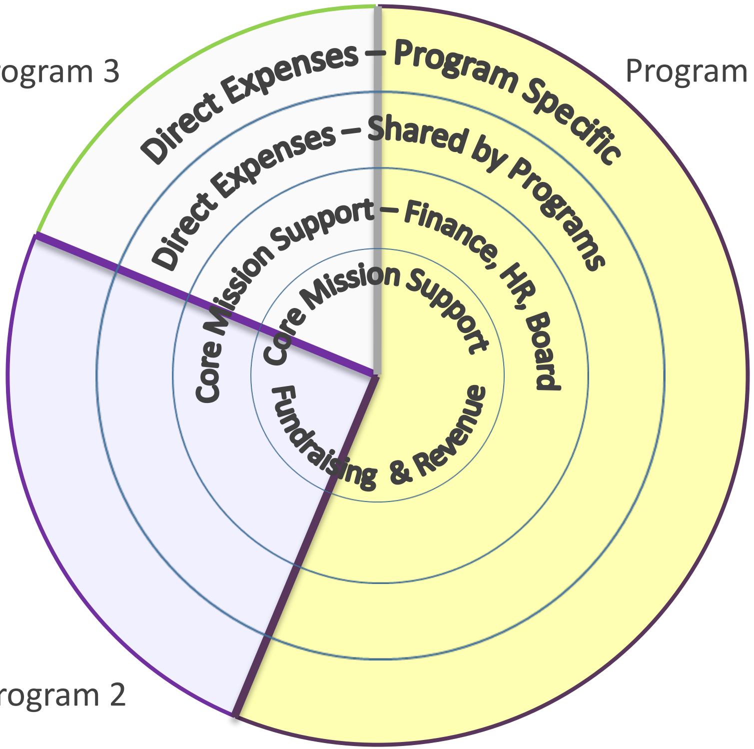


Rather than thinking of investment in key infrastructure as diminishing programs, it should be seen as valuable **Core Mission Support.**

Core Mission Support functions are necessary, vital, and integral.

- Strong, strategic finance and accounting
- Progressive human resources practices
- Capable, responsive board governance
- Talented and engaged development staff

Whole Organizations and True Program Costs



Each program activity is built around, is supported by, and shares responsibility for **Core Mission Support**.

All of the resources needed to accomplish program goals are the **True Program Costs**, which include four types of expenses:

- Direct Expenses: Program-Specific
- Direct Expenses: Shared by Programs
- Core Mission Support: Finance, HR, and Board
- Core Mission Support: Fundraising & Revenue

What Can We Do to Rewrite the Story?
An Alternative Presentation: The Numbers

The table below presents expenses by nature and by function for fiscal year 20X1.

We change this name

	Program Activities				Supporting Services			
	A	B	C	Programs Subtotal	Management and General	Fundraising	Supporting Subtotal	Total Expenses
Salaries and benefits	$ 7,400	$ 3,900	$ 1,725	$ 13,025	$ 1,130	$ 960	$ 2,090	$ 15,115
Grants to other organizations	2,075	750	1,925	4,750	-	-	-	4,750
Supplies and travel	890	1,013	499	2,402	213	540	753	3,155
Services and professional fees	160	1,490	600	2,250	200	390	590	2,840
Office and occupancy	1,160	600	450	2,210	218	100	318	2,528
Depreciation	1,440	800	570	2,810	250	140	390	3,200
Interest	171	96	68	335	27	20	47	382
Total Direct Expenses	13,296	8,649	5,837	27,782	2,038	2,150	4,188	31,970
Allocation of Management & General	1,079	568	251	1,898	(2,038)	140	(1,898)	-
Allocation of Fundraising	1,124	633	533	2,290	-	(2,290)	(2,290)	-
Total Expenses after Allocation	$ 15,499	$ 9,850	$ 6,621	$ 31,970	$ -	$ -	$ -	$ 31,970

We allocate these expenses

An Alternative Presentation: The Narrative

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, interest, and office and occupancy, which are allocated on a square-footage basis, as well as salaries and benefits, which are allocated on the basis of estimates of time and effort.

In order to properly display the true costs for each program area of the organization, the financial statements display a proportionate allocation of supporting services expenses to each program activity. The organization has chosen to allocate Management and General expenses by FTE attributable to each program area. The organization has chosen to allocate Fundraising expenses based on the proportionate share of contributions raised and distributed to each program area.

Time for a Quick Question or Two?

Revenue Recognition
Grants and Contributions

How and When to Recognize Revenue
Conditional vs. Unconditional Contributions
Restrictions vs. Conditions
Accounting Standards Update 2018-08

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

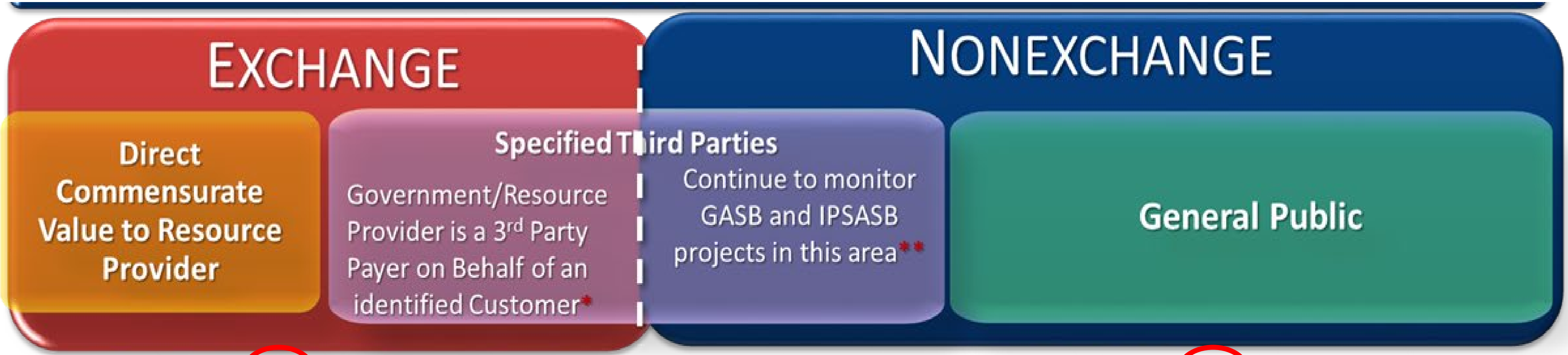
Starting with Revenue Recognition Basics

- There are new FASB standards that clarify *when* **we can report** the revenue we receive and *when* we can use it.

- Today we'll talk about how it affects
  - **Contracts** and things like contracts
  - **Contributions** and things like contributions

Accounting Standards Update No. 2018-08 (June 2018)

Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made



Follow Topic 606 (or other, such as Leases)

Follow Topic 958-605

*The revenue recognized would actually be the underlying contract's patient service revenue, tuition revenue, etc.

**A focus on whether or not there is a "performance obligation" could even ultimately include some contracts where the general public is the primary beneficiary.

Conditional vs. Unconditional Contributions
For a Donor-Imposed *Condition* to Exist:

Final ASU

A right of return or release must exist
AND
The agreement must include a barrier

Remember: Conditions are different from Restrictions

Indicators that a barrier may exist

✓

There is a measurable performance-related barrier

- Specified Level of Service
- Specific output or outcome
- Matching
- Milestone

✓

There is a stipulation that limits discretion on the conduct of an activity

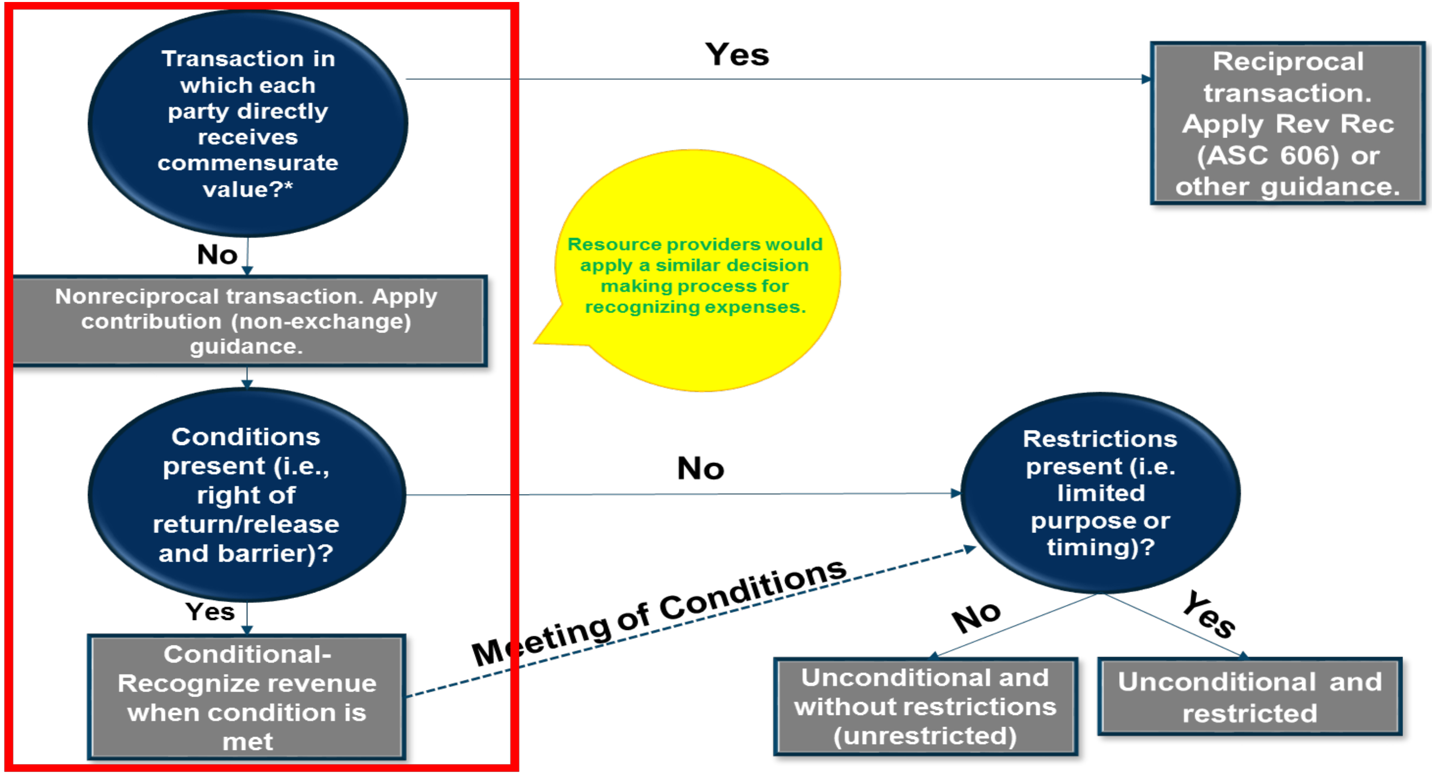
- Allows only qualifying expenses
- Required to hire specific individuals
- Requires a specified protocol

✓

The extent to which a stipulation is related to the purpose of the agreement

- YES: Convey research findings
- NO: General report on activities
- NO: Requirement for annual audit

NFP Revenue Recognition Decision Process



*Includes third-party payments on behalf of identified customers. These do not create new revenue.

Manage the Timing of Recognition & Release

How to Control the Timing of Recognition
How to Craft Proposals to Mitigate Restrictions

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

Sometimes Our Restrictions are of Our Own Making

- Donor intent creates restrictions and conditions
- Donor intent is often based on how we ask
  - Grant proposals
  - Campaign letters
  - Website appeals
- Grant award notices refer to our proposal narratives
- Our narratives & budgets determine our restrictions

Be Artful of What You Ask For

Example:
Mitigating the Consequences of Large, Multi-Year Grants

It's All About Timing

- The entire amount of unconditional grants must be booked at the time the grant is *awarded*
- Actual cash may not be received until one or more years later
- Releasing years two and later of a multi-year grant may cause a negative change in total net assets
- Difficult to educate statement users that change in net assets without donor restrictions is a better measure of operations

Year 1

Revenue	Without Donor Restriction	With Donor Restriction	Total
Large Multi-Year Grant		750,000	750,000
Revenue Released from Multi-Year Grant	250,000	(250,000)	-
All Other Revenue	600,000		600,000
Total Revenue	**850,000**	**500,000**	**1,350,000**

Expenses			
Program Expenses of Multi-Year Grant	250,000		250,000
All Other Expenses	550,000		550,000
Total Expenses	**800,000**	**-**	**800,000**
Change in Net Assets	**50,000**	**500,000**	**550,000**

Year 2

Revenue	Without Donor Restriction	With Donor Restriction	Total
Large Multi-Year Grant		-	-
Revenue Released from Multi-Year Grant	250,000	(250,000)	-
All Other Revenue	675,000		675,000
Total Revenue	**925,000**	**(250,000)**	**675,000**

Expenses			
Program Expenses of Multi-Year Grant	250,000		250,000
All Other Expenses	600,000		600,000
Total Expenses	**850,000**	**-**	**850,000**
Change in Net Assets	**75,000**	**(250,000)**	**(175,000)**

Year 3

Revenue	Without Donor Restriction	With Donor Restriction	Total
Large Multi-Year Grant		-	-
Revenue Released from Multi-Year Grant	250,000	(250,000)	-
All Other Revenue	725,000		725,000
Total Revenue	**975,000**	**(250,000)**	**725,000**
Expenses			
Program Expenses of Multi-Year Grant	250,000		250,000
All Other Expenses	625,000		625,000
Total Expenses	**875,000**	**-**	**875,000**
Change in Net Assets	**100,000**	**(250,000)**	**(150,000)**

Strategies to Manage When Grant Revenue is Booked

- A conditional gift is not recognized – does not show up on financial statements – until the "conditions" stipulated by the donor are met
- We have the option to write a condition into our proposal
- Consider a condition that syncs with our natural flow of work:
  - A matching funds requirements
  - A requirement that a certain certification or government approval be secured
  - A measurable performance threshold that must be met within a certain time
- Ask the grant administrator to attach a condition to the agreement

Year 1 - With Condition and Condition Met

Revenue	**Without Donor Restriction**	**With Donor Restriction**	**Total**
Large Multi-Year Grant		250,000	250,000
Revenue Released from Multi-Year Grant	250,000	(250,000)	-
All Other Revenue	600,000		600,000
Total Revenue	**850,000**	**-**	**850,000**
Expenses			
Program Expenses of Multi-Year Grant	250,000		250,000
All Other Expenses	550,000		550,000
Total Expenses	**800,000**	**-**	**800,000**
Change in Net Assets	**50,000**	**-**	**50,000**

Year 2 - With Condition and Condition Met

Revenue	Without Donor Restriction	With Donor Restriction	Total
Large Multi-Year Grant		250,000	250,000
Revenue Released from Multi-Year Grant	250,000	(250,000)	-
All Other Revenue	675,000		675,000
Total Revenue	**925,000**	**-**	**925,000**

Expenses			
Program Expenses of Multi-Year Grant	250,000		250,000
All Other Expenses	600,000		600,000
Total Expenses	**850,000**	**-**	**850,000**
Change in Net Assets	**75,000**	**-**	**75,000**

Year 3 - With Condition and Condition Met

Revenue	Without Donor Restriction	With Donor Restriction	Total
Large Multi-Year Grant		250,000	250,000
Revenue Released from Multi-Year Grant	250,000	(250,000)	-
All Other Revenue	725,000		725,000
Total Revenue	**975,000**	**-**	**975,000**
Expenses			
Program Expenses of Multi-Year Grant	250,000		250,000
All Other Expenses	625,000		625,000
Total Expenses	**875,000**	**-**	**875,000**
Change in Net Assets	**100,000**	**-**	**100,000**

Getting Creative with the Accounting

One way to manage restrictions and conditions

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

Going Beyond the Standards

Adapting Concepts from Topic 606 to Create Restrictions or Conditions

Topic 606 by the Book:

1. Identify contract(s) with the customer
2. Identify performance obligations
3. Determine transaction price
4. Allocate transaction price to obligations
5. Recognize revenue when (or as) a performance obligation is satisfied

Topic 606 principles adapted to grants:

1. Identify grant agreement with donor
2. Identify grant deliverables
3. Determine grant amount
4. Allocate grant amount to deliverables
5. Release revenue when (or as) a deliverables are completed

Example: Deliverable-Based Proposal Budget

- Sample Nonprofit has civic engagement as its mission
- Proposes to offer 10 educational workshops about city government
- Offers two tours of city council meetings to engage citizens with elected officials
- Budget asks for $100,000
- Budget is designed to fully fund the work and support the entire organization

Sample Full-Cost Proposal Budget

To make sure we cover all expenses, we start with a full-cost line-item budget

Expense	Amount	Description
Personnel	$ 55,000	Salaries and benefits
Contracted Services	8,000	Consultants, facilitators, trainers
Occupancy	4,500	Rent, utilities, maintenance, leasehold improvement
Equipment and IT	2,300	Managed IT services, equipment purchase, depreciation
Travel	2,100	Staff and participant mileage, van rental for trips to city council
Meeting Space, Meals, and Hosting	3,500	Space rental, catering, beverage service for participant events
Marketing and Communications	700	Communications to publicize workshops, engage elected officials
Operating Expenses	1,500	Supplies, photocopying, insurance, telecommunications
Program-specific materials	3,000	Printed workbooks for participants
Core Admin Allocation	12,000	Program share of core administrative support from organization
Core Fundraising Allocation	6,000	Program share of core fundraising support from organization
Total Expenses	**$ 98,600**	
Provision for Operating Reserve	700	Board-designated fund - operating reserve of 6-months cash on hand
Provision for Opportunity Reserve	700	Board-designated fund - opportunity reserve for future expansion
Total	**$ 100,000**	

Sample Deliverable-Based Proposal Budget

Next we reformat that budget to capture all the deliverables we are promising

	Amount	Description
Workshop - budget per event	$ 9,000	Each event will be three hours, attract 20 participants, be led by two staff, provide a catered light meal, and include a printed workbook
X number of events	10	
	$ 90,000	
Guided Tour of City Council Meeting	$ 5,000	Each event will be three hours, attract 20 participants, be led by three staff, include van transportation, snacks, and beverage
X number of events	2	
	$ 10,000	
Total Budget	**$ 100,000**	

Developing a Deliverable-Based Proposal Budget

The beauty of a deliverable-based budget design

- Ease of tracking and releasing the restrictions on the award
- Properly plan and calculate to cover full costs of program
- Incremental release will cover
  - direct program expenses
  - necessary core infrastructure costs
  - reserves for future initiatives
- Depending on how they are written into our proposals, deliverables may help us time when revenue is recognized

Shaping Your Ask

- We may have been restricting ourselves
- Be sure we understand the accounting
- Craft narratives and budgets purposefully
  - deliverable-based budgets
  - purposefully including conditions
- We can control restrictions and conditions

Contributed Nonfinancial Assets

Gifts-in-Kind

Accounting Standards Update 2020-07

Accounting Standards Update 2020-07
Why this Standard and Why Now?

Gifts-in-Kind are Prevalent in the Nonprofit Sector

Nonfinancial assets are a broad category:

- Fixed Assets (such as land, buildings, and equipment)
- Use of fixed assets or utilities
- Materials and supplies
- Intangible assets
- Services
- Unconditional promises of those assets”

The Basic Requirements of ASU 2020-07

List nonfinancial assets recognized as revenue discretely *on the face of the financial statements*.

958-205-55-13 Format A (a single-column format) is as follows.

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~~
Contributions of cash and other financial assets	$	6,790
Contributions of nonfinancial assets		1,850

Excerpt from ASU 2020-07 – Illustrative Financial Statements

The Basic Requirements of ASU 2020-07

Stated simply, list nonfinancial contributions (i.e. gifts-in-kind, noncash donations, etc.) as a *separate, identifiable line item*.

958-205-55-14 Format B (a multicolumn format) is as follows.

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~~
Contributions of cash and other financial assets	$ 6,790	$ 7,430	$ 14,220
Contributions of nonfinancial assets	1,850	960	2,810

Excerpt from ASU 2020-07 – Illustrative Financial Statements

The Not-So-Basic Requirements of ASU 2020-07

New to 958-605-50-1A (ASU 2020-07, p 13):

For each category of contributed nonfinancial assets, an NFP also shall disclose the following:

a. Qualitative information about whether contributed nonfinancial assets were either monetized or utilized during the reporting period. If utilized, a description of the programs or other activities in which those assets were used shall be disclosed.

b. The NFP's policy (if any) about monetizing rather than utilizing contributed nonfinancial assets.

c. A description of any donor-imposed restrictions associated with the contributed nonfinancial assets

(continued on next slide)

The Not-So-Basic Requirements of ASU 2020-07

(continued from previous slide)

For each category of contributed nonfinancial assets, an NFP also shall disclose the following:

d. A description of the valuation techniques and inputs used to arrive at a fair value measure in accordance with paragraph 820-10-50-2(bbb)(1), at initial recognition.

e. 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."

Example:
Numbers first
Narrative second

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

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

(adapted from Example 22, ASU 2020-07, p 15)

Combining the Quantitative and Qualitative

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.

Why Call Out In-Kind Contributions?

If in-kind contributions are significant, we pay attention because:

- They affect our business model
- They behave differently than financial assets
- They require different organizational capacity to raise
- They require different organizational capacity to manage
- They require different strategies to deploy

If Your In-Kind Contributions Are Not Large Amounts

For smaller entities, or for nonprofits of any size that receive nonfinancial assets that are insignificant to their scale, the following example could satisfy the requirements:

Contributed Nonfinancial Assets

For the year ended December 31, 20XX, contributed nonfinancial assets recognized within the statement of activities:

Nonfinancial Asset	Revenue Recognized	How Utilized	Donor Restrictions	Valuation Technique
Clothing	$3,500	Community shelter	No associated restrictions	Thrift store price guides
Children's books	$2,200	Afterschool program	No associated restrictions	Used bookstore pricing

Keep It Simple When You Can

Time for a Quick Question or Two?

Additional Resources

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

Additional Resources

Article: FASB ASU 2018-08 Clarifies Revenue Accounting for Nonprofit Grants and Contracts
https://www.claconnect.com/resources/articles/2018/fasb-clarifies-revenue-accounting-for-nonprofit-grants-and-contracts

Article: Shaping Your Ask: How Nonprofits Can Learn to Love Restricted Revenue
https://www.claconnect.com/resources/articles/2019/shaping-your-ask-how-nonprofits-can-learn-to-love-restricted-revenue

Short Video: It's Time for Associations to Take Action on Revenue Recognition
https://www.claconnect.com/resources/videos/2018/cla-talks-video-revenue-recognition

Webinar: Impact of Revenue Recognition Standards
https://www.claconnect.com/events/2016/impact-of-proposed-revenue-recognition-standards-12-08-2016

Tool: Center for Audit Quality Implementation Tool:
https://www.thecaq.org/preparing-new-revenue-recognition-standard-tool-audit-committees

Related Articles

Nonprofit Liquidity: Better Financial Storytelling under ASU 2016-14
https://www.cpajournal.com/2020/05/29/nonprofit-liquidity/

Liquidity, Strategy, FASB, and Inspiration: Not Just A Nonprofit Word Game
https://www.claconnect.com/resources/articles/2019/liquidity-strategy-fasb-and-inspiration-not-just-a-nonprofit-word-game

New Liquidity Disclosures for Not-for Profits: Are You Ready?
https://blog.aicpa.org/2017/06/new-liquidity-disclosures-for-nonprofits-are-you-ready.html#sthash.POytUokE.dpbs

Functional Expenses by Nature and the Overhead Debate
https://www.cpajournal.com/2019/05/17/functional-expenses-by-nature-and-the-overhead-debate/

Download FASB ASU 2016-14 Nonprofit Financial Reporting Checklist
https://www.claconnect.com/resources/articles/download-fasb-asu-201614-nonprofit-financial-reporting-checklist

Innovation in Nonprofit Finance blog
https://blogs.claconnect.com/nonprofitinnovation/

Stay Connected With CLA!

Follow us on **Twitter**: CLA_Nonprofit

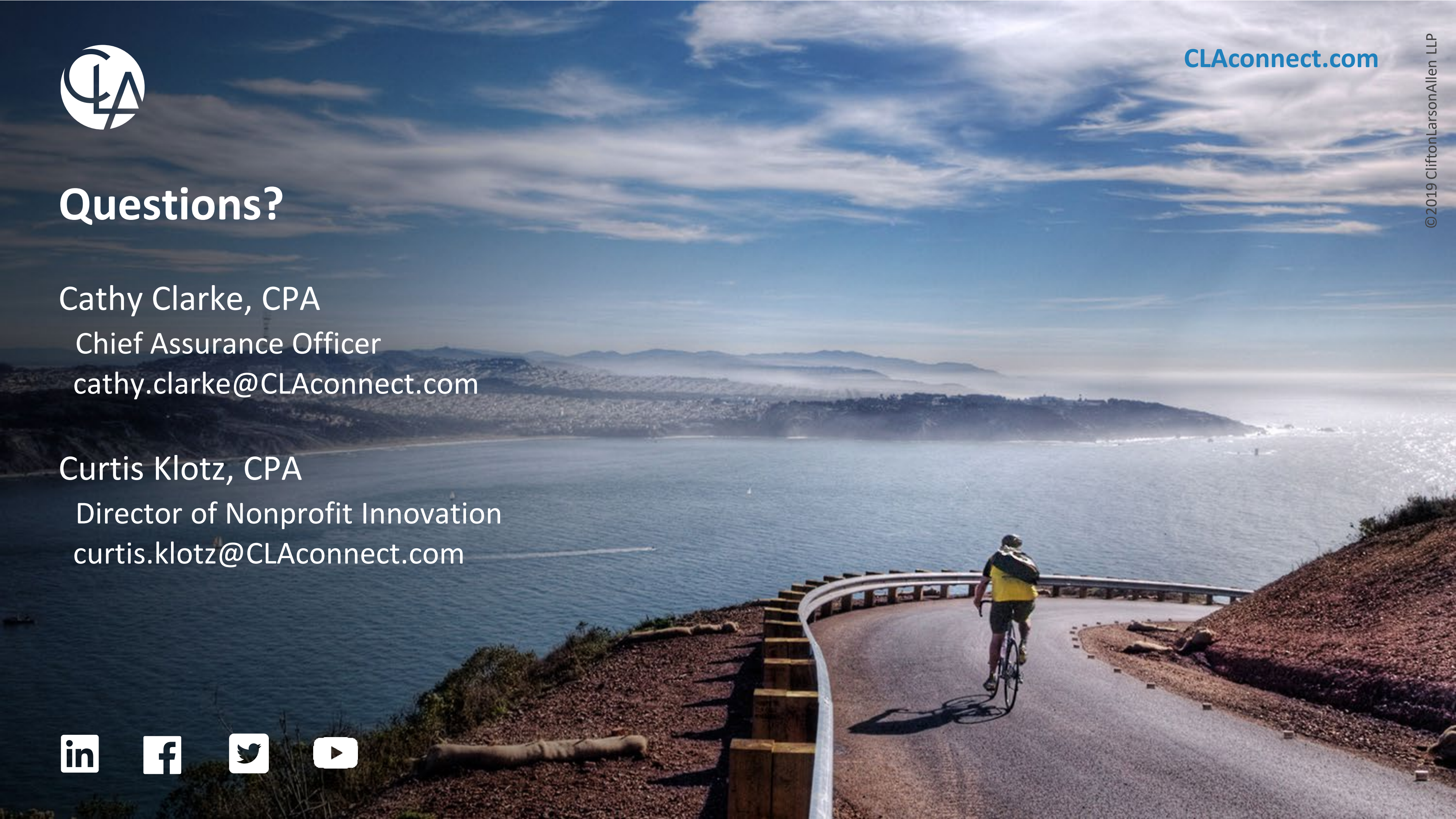
Follow us on **LinkedIn**: CLA (CliftonLarsonAllen)

Like us on **Facebook**: CLA (CliftonLarsonAllen)

Subscribe to our Nonprofit Blog!

Read about innovation in nonprofit finance!

CLAconnect.com/NPblog



CLAconnect.com

Questions?

Cathy Clarke, CPA

Chief Assurance Officer

cathy.clarke@CLAconnect.com

Curtis Klotz, CPA

Director of Nonprofit Innovation

curtis.klotz@CLAconnect.com