

COMMON NOT-FOR-PROFIT REPORTING ERRORS

PRESENTED BY: BKD, LLP



AGENDA

About the AICPA report

Identification of contributions

Classification of net assets

Presentation of cash and investments

Other common errors

Questions



ABOUT THE AICPA REPORT



- Common Financial Statement Errors for Not-for-Profit Entities
 - AICPA Not-for-Profit Section Advisory Council
 - Published in 2015
 - Common errors for small and medium NFPs
 - Not comprehensive but representative
 - Not all items will apply or be material
 - Available to NFP Section members





- ➤ Failure to properly classify transactions as contributions or exchange transactions
 - Contribution unconditional, voluntary and nonreciprocal
 - Exchange transactions reciprocal and equal value
 - Why is it important to properly classify transactions?
 - Contributions can be restricted
 - Exchange transactions cannot be restricted
 - Tip: refer to ASC 958-605-55 "Indicators Useful in Distinguishing Contributions from Exchange Transactions"





- Grant: Contribution or Exchange Transaction?
 - No formal definition of "grant"
 - Term is used interchangeably with both terms "contribution" and "exchange transaction"
 - It is important to determine classification as that will determine accounting treatment of grant
 - Tip: classification determines the timing of when the revenue is recognized and the treatment of any restrictions on the funds
 - Tip: look at substance of agreement rather than term





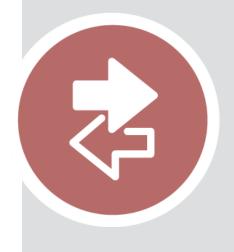
- ➤ Failure to properly classify conditional vs. unconditional promises to give/pledges
 - Pledge must be unconditional to recognize contribution revenue
 - Conditional pledge donor promises to contribute only if certain conditions are met
 - Tip: consider the following factors if a promise to give is conditional:
 - Promise has explicit matching requirement
 - Promise states that specific outcomes must be achieved
 - Promise requires that amounts not be expended by a certain date be returned to the donor
 - II Promise includes words "if", "subject to", "when", etc.





- Failure to recognize contribution of services that meet the recognition criteria or recognizing contributed services that do not meet the criteria of p. 16-17 of ASC 958-605-25
 - In-kind contributions (property, food, supplies, etc.)
 - Record the estimated fair value of in-kind contributions as an expense in the financial statements and similarly increase contribution revenue by like amount
 - Contributed services are recognized as revenue at their estimated fair value only when the services received:
 - п Create or enhance nonfinancial assets; or
 - Require specialized skills possessed by the individuals providing the service and typically would need to be purchased if not donated





- Failure to recognize contribution of services that meet the recognition criteria or recognizing contributed services that do not meet the criteria of p. 16-17 of ASC 958-605-25 (Continued)
 - Tip: consider the quality and quantity of the assets received
 - Tip: be alert of any pro-bono services provided (example: legal services)
 - Tip: educate staff across the Organization for when items (other than cash) are donated

CLASSIFICATION OF NET ASSETS



- Improperly recording board designated net assets as temporarily restricted or permanently restricted net assets
 - Net assets without donor restrictions subject to selfimposed limits by action of the governing board
 - Board-designated net assets may be earmarked for future programs, investment, contingencies, purchase or construction of fixed assets, or other uses
 - Board-designated net assets are classified as unrestricted net assets on the face of the statement of financial position
 - Tip: remember that only donors can restrict



CLASSIFICATION OF NET ASSETS



- Failure to properly record contribution revenue related to pledges due in future periods as temporarily restricted net assets
 - Generally, there is an implied time restriction unless circumstances indicate the donor intended to support activities of the current period
 - ASC 958-605-45-5 provides guidance for receipts of unconditional promises to give in future years generally increase temporarily restricted net assets
 - Tip: consider if the donor restricted the funds for use in a certain time period
 - Tip: if pledges receivable is due in more than 1 year look for it to be in temporarily restricted net assets



CLASSIFICATION OF NET ASSETS



- Failure to identify and properly record net assets released from restrictions
 - Net assets released from restrictions results when a temporarily restriction (purpose or time) has been satisfied
 - Generally, this results in a reduction in temporarily restricted net assets and an increase in unrestricted net assets
 - Net assets released from restrictions on the face of the statement of activities should net to zero between unrestricted and temporarily restricted net assets
 - Tip: keep track of what your restrictions are
 - Tip: use disclosures of restrictions and releases



PRESENTATION OF CASH AND INVESTMENTS



- Failure to separate restricted cash
 - No formal definition of restricted cash
 - Cash held temporarily in investment account
 - Cash included in an endowment fund
 - Cash restricted for a long-term purpose
 - Tip: identify accounts with restricted cash
- Netting purchases and sales on cash flow
 - Required to be gross unless certain criteria met
 - Tip: look for use of word "net" on cash flow



PRESENTATION OF CASH AND INVESTMENTS



- Inconsistent valuation of "other" investments
 - ASC 958-325-15 gives scope
 - Generally investments that are not equity securities with readily determinable fair values or debt securities
 - NFP may elect cost or fair value but must be used for <u>all</u> types of "other" investments
 - Tip: review portfolio to identify "other" investments, review investment policy disclosure for inconsistencies
 - Tip: consider electing fair value option for certain "other" investments



PRESENTATION OF CASH AND INVESTMENTS



Fair value disclosures

- Not including all fair value measurements (remember derivatives, beneficial interests in perpetual trusts, anything else measured at FV)
- Including cash and traditional certificates of deposit (not securities, not carried at fair value)
- Tip: search financials for any use of phrase "fair value" and make sure those items are included
- Endowment disclosures
 - Failing to include them at all
 - Missing board-designated endowments
 - Tip: if permanently restricted net assets, likely should be endowment disclosures



OTHER COMMON ERRORS







Not identifying split-interest agreements





OTHER COMMON ERRORS







Missing various disclosures



Use a disclosure checklist



QUESTIONS?



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THANK YOU!

