

Nonprofit Financial Statements & Financial Reporting

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OPENER QUESTION (answer in chat box):

**What are the top 3 revenue-producing charities in the U.S.
(revenue from private support, not government grants)?**

Largest U.S. Charities for 2020

Ranked according to amount of Private Support Received, which is included in total revenue.

Rank	Name	Private Donations	Total Revenue
1	United Way Worldwide	\$3.6 B	\$4.1 B
2	Feeding America	\$2.8 B	\$2.8 B
3	Direct Relief	\$2 B	\$2 B
4	Salvation Army	\$2 B	\$3.3 B
5	St. Jude Children's Research Hospital	\$1.8 B	\$2.2 B
6	Habitat for Humanity International	\$1.4 B	\$2 B
7	YMCA of the USA	\$1.1 B	\$8 B
8	Compassion International	\$993 M	\$1 B
9	Boys & Girls Clubs of America	\$976 M	\$2.2 B
10	Goodwill Industries International	\$974 M	\$6.4 B
11	Americares Foundation	\$972 M	\$976 M
12	Food for the Poor	\$900 M	\$915 M
13	Task Force for Global Health	\$885 M	\$916 M
14	Lutheran Services in America	\$810 M	\$22.6 B
15	American National Red Cross	\$809 M	\$2.9 B
16	World Vision	\$737 M	\$1.1 B
17	Catholic Charities USA	\$714 M	\$4.4 B
18	American Cancer Society	\$710 M	\$830 M
19	Samaritan's Purse	\$686 M	\$754 M
20	Nature Conservancy	\$637 M	\$1.1 B

Source: <https://www.forbes.com/lists/top-charities/#6bf329905f50>

Accounting Guidance for NFP Accounting

OLD: SFAS No. 117

Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements for Not-for-Profit Organizations*, issued by Financial Accounting Standards Board (FASB).

NEW: ASU 2016-14

Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements of Not-for-Profit Entities, issued by Financial Accounting Standards Board (FASB).

Both follow accrual accounting. Fund accounting not acceptable for external reporting.

Financial Statements

FASB requires uniform general purpose external financial statements for all not-for-profit organizations. Must focus on basic information for organization as a whole.

- **Statement of Financial Position** – similar to a corporate **balance sheet** (A, L, Net Assets)
- **Statement of Activities** – similar to a corporate **income statement** (Change in Net Assets)
- **Statement of Cash Flows**
- **Statement of Functional Expenses** – initially required for voluntary health & welfare organizations; ASU 2016-14 now requires information be reported by all NFPs

Statement of Financial Position

The purpose of the statement of financial position is to present information to facilitate the analysis of credit, liquidity, ability to meet obligations, and the need to obtain external financing.

Reported on Statement of Financial Position:

ASSETS

LIABILITIES

NET ASSETS

Net Assets = Assets - Liabilities

1. **Net assets** initially (SFAS 117) segregated into three classes:

- Unrestricted - includes internal board-designated funds
- Temporarily Restricted – donor-imposed stipulations expire with time or by action of organization
- Permanently Restricted

REVISED (ASU 2016-14) Net Asset classification – 2 classes replace 3 classes noted above:

- **Net assets without donor restrictions**
- **Net assets with donor restrictions**

2. Assets and Liabilities presentation:

- Classified according to liquidity (current, noncurrent)
- Assets that are restricted or designated for a noncurrent purpose categorized as noncurrent

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Consolidated Statement of Financial Position
June 30, 2020
(With comparative information as of June 30, 2019)
(In thousands)

Assets	2020	2019
Current assets:		
Cash and cash equivalents	\$ 235,415	101,101
Investments (note 4)	348,443	460,187
Trade receivables, including grants, net of allowance for doubtful accounts of \$1,700 in 2020 and \$2,364 in 2019 (note 11)	286,464	196,172
Contributions receivable (note 2)	34,368	31,948
Inventories, net of allowance for obsolescence of \$180 in 2020 and \$178 in 2019	46,998	38,800
Other current assets	50,989	49,516
Total current assets	1,002,677	877,724
Noncurrent assets:		
Investments (note 4)	1,087,477	1,067,866
Contributions receivable (note 2)	14,191	14,689
Right-of-use assets-operating leases (note 6)	114,474	—
Land, buildings, and other property, net (note 3)	755,519	798,466
Assets held for sale, net (note 3)	30,960	35,740
Other assets (note 9)	261,601	255,419
Total noncurrent assets	2,264,222	2,172,180
Total assets	\$ 3,266,899	3,049,904
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 253,123	272,134
Current portion of debt (note 5)	41,265	43,888
Current portion of lease obligation-operating (note 6)	22,689	—
Postretirement benefits (note 10)	3,779	3,824
Other current liabilities (notes 9 and 11)	145,970	133,210
Total current liabilities	466,826	453,056
Noncurrent liabilities:		
Debt (note 5)	596,132	537,413
Long-term lease obligation-operating (note 6)	104,096	—
Pension and postretirement benefits (note 10)	155,924	495,161
Other liabilities (notes 5 and 9)	131,706	122,110
Total noncurrent liabilities	987,858	1,154,684
Total liabilities	1,454,684	1,607,740
Net assets (notes 7 and 8):		
Without donor restrictions net assets (deficit)	390,796	(5,469)
With donor restrictions net assets	1,421,419	1,447,633
Total net assets	1,812,215	1,442,164
Commitments and contingencies (notes 4, 5, 6, 10, 11)		
Total liabilities and net assets	\$ 3,266,899	3,049,904

See accompanying notes to consolidated financial statements.

Statement of Activities

The statement of activities is the operating statement for a NFP. It describes the changes in equity balance through revenues, expenses, gains, and losses.

Reported on Statement of Activities:

OPERATING REVENUES

OPERATING EXPENSES (PROGRAM SERVICES EXP & SUPPORTING SERVICES EXP)

NONOPERATING REV & EXP

Change in Net Assets = Operating Rev – Operating Exp +/- Nonoperating rev & exp

The Statement of Activities initially (SFAS 117) presented:

- Changes in Unrestricted Net Assets
- Changes in Temporarily Restricted Net Assets
- Changes in Permanently Restricted Net Assets

REVISED (ASU 2016-14):

- **Changes in Net Assets Without Donor Restrictions**
- **Changes in Net Assets With Donor Restrictions**

Expense categories:

- Program services
- Support services (fundraising, administrative, management & general, membership dev)
- Combined costs – when combine fundraising with program; must allocate

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Consolidated Statement of Activities

Year ended June 30, 2020

(With summarized information for the year ended June 30, 2019)

(In thousands)

	Without donor restrictions	With donor restrictions	Totals	
			2020	2019
Operating revenues and gains:				
Contributions:				
Corporate, foundation and individual giving	\$ 200,155	364,733	564,888	599,526
United Way and other federated	10	33,511	33,521	41,540
Contracts, including federal government	6,402	121,735	128,137	51,592
Legacies and bequests	80,384	45,318	125,702	98,199
Services and materials	24,339	59,719	84,058	70,043
Products and services:				
Biomedical Services	1,731,504	—	1,731,504	1,741,302
Program materials	108,514	—	108,514	142,379
Investment return, net (note 4)	6,083	38,468	44,551	53,235
Other revenues	86,488	23	86,511	70,975
Net assets released from restrictions	693,377	(693,377)	—	—
Total operating revenues and gains	2,937,256	(29,870)	2,907,386	2,868,791
Operating expenses:				
Program services:				
Services to the Armed Forces	65,317	—	65,317	73,838
Biomedical Services	1,766,661	—	1,766,661	1,740,715
Community Services	24,888	—	24,888	24,672
Domestic Disaster Services	427,587	—	427,587	667,355
Training Services	122,854	—	122,854	144,066
International Relief and Development Services	82,053	—	82,053	61,304
Total program services	2,489,360	—	2,489,360	2,711,950
Supporting services:				
Fundraising	172,690	—	172,690	177,041
Management and general	89,535	—	89,535	103,527
Total supporting services	262,225	—	262,225	280,568
Total operating expenses	2,751,585	—	2,751,585	2,992,518
Change in net assets from operations	185,671	(29,870)	155,801	(123,727)
Nonoperating investment return, net (note 4)	(1,240)	3,656	2,416	20,725
Pension-related changes other than net periodic benefit cost (note 10)	211,834	—	211,834	(36,986)
Change in net assets	396,265	(26,214)	370,051	(139,988)
Net assets, beginning of year	(5,469)	1,447,633	1,442,164	1,582,152
Net assets, end of year	\$ 390,796	1,421,419	1,812,215	1,442,164

See accompanying notes to consolidated financial statements.

Statement of Cash Flows

The statement of cash flows format should be similar to that of corporations.

Note:

1. The **Change in Net Assets** replaces **Net Income** in the NFP version of Stmt of Cash Flow.
2. Operating Activities
 - a. Applicable agency transactions
 - b. Receipts of unrestricted resources
 - c. Board-designated/earmarked unrestricted revenue
3. Investing Activities
 - a. Proceeds from sale of works of art or purchases of works of art
 - b. Investment in equipment
 - c. Proceeds from sale of assets received in prior periods and whose sale proceeds were restricted to investment in equipment
4. Financing Activities
 - a. Proceeds from restricted contributions, limiting use to long-term purposes (disbursements of these restricted contributions are investing activities)
 - b. Receipts and disbursements associated with borrowing, dividends

Update from ASU 2016-14:

1. **Direct method or Indirect Method allowed for SCF.**
2. **ASU 2016-14 drops the initial (SFAS 117) requirement for the indirect method reconciliation – to encourage more reporting of the direct method.**

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Consolidated Statement of Cash Flows

Year ended June 30, 2020

(With comparative information for the year ended June 30, 2019)

(In thousands)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ 370,051	(139,988)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	85,240	72,370
Amortization of right-of-use assets-operating leases	32,760	—
Provision for doubtful accounts receivable	(1,725)	2,095
Provision for obsolete inventories	2	37
Net gains on sales of property	(10,831)	(12,655)
Net investment returns and derivatives gains	(8,260)	(39,275)
Pension and postretirement-related changes other than net periodic benefit costs	(211,834)	36,986
Donor-restricted contributions	(24,588)	(19,975)
Changes in operating assets and liabilities:		
Receivables	(90,489)	9,047
Inventories	(8,200)	(11)
Other assets	(7,655)	5,022
Accounts payable and accrued expenses	(11,697)	(14,520)
Decrease in operating lease liability obligations	(32,781)	—
Other liabilities	28,556	(6,239)
Pension and postretirement benefits	(127,449)	(34,615)
Net cash used in operating activities	<u>(18,900)</u>	<u>(141,721)</u>
Cash flows from investing activities:		
Purchases of property	(49,599)	(70,745)
Proceeds from sales of property	5,272	11,700
Proceeds from properties held for sale	17,685	18,876
Purchases of investments	(35,283)	(609,128)
Proceeds from sales of investments	134,495	786,293
Net cash provided by investing activities	<u>72,570</u>	<u>136,996</u>
Cash flows from financing activities:		
Donor-restricted contributions	24,588	19,975
Proceeds from borrowings	100,000	—
Repayment of debt	(43,944)	(43,637)
Net cash provided by (used in) in financing activities	<u>80,644</u>	<u>(23,662)</u>
Net increase (decrease) in cash and cash equivalents	134,314	(28,387)
Cash and cash equivalents, beginning of year	101,101	129,488
Cash and cash equivalents, end of year	<u>\$ 235,415</u>	<u>101,101</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 29,093	30,365

See accompanying notes to consolidated financial statements.

Statement of Functional Expenses

The statement of functional expenses initially (SFAS 117) was mandatory only for voluntary health and welfare organizations and was optional (but encouraged) for all others. The statement breaks the functional expenses (program & support services) into their natural expense categories (i.e. salaries, rent, utilities).

Two most common groups of functional expense classifications:

1. Program Services Expenses
2. Supporting Services Expenses
 - Fundraising Expenses
 - Management and General Costs

Update from ASU 2016-14:

1. **Requires all NFPs to report expenses by both functional AND natural classifications.**
2. **NFP can provide this information in a statement of activities, a separate statement of functional expenses, or within footnote disclosure.**

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Consolidated Statement of Functional Expenses

Year ended June 30, 2020

(With summarized information for the year ended June 30, 2019)

(In thousands)

Program services							
	Service to Armed Forces	Biomedical Services	Community Services	Domestic Disaster Services	Training Services	International Relief and Development Services	Total program services
Salaries and wages	\$ 30,847	750,430	11,492	119,066	49,411	11,689	972,935
Employee benefits	7,088	172,432	2,641	27,359	11,354	2,684	223,558
Subtotal	37,935	922,862	14,133	146,425	60,765	14,373	1,196,493
Travel and maintenance	1,941	24,472	180	14,554	4,430	2,056	47,633
Equipment maintenance and rental	645	44,763	765	8,338	857	499	55,867
Supplies and materials	1,406	227,883	889	3,766	9,682	344	243,970
Contractual services	7,476	485,096	4,229	52,793	42,455	2,287	594,336
Financial and material assistance	14,189	2,352	3,531	190,164	300	62,342	272,878
Depreciation and amortization	1,725	59,233	1,161	11,547	4,365	152	78,183
Total expenses	\$ 65,317	1,766,661	24,888	427,587	122,854	82,053	2,489,360
Supporting services							
	Fundraising	Management and general	Total supporting services	Total expenses			
				2020	2019		
Salaries and wages	\$ 87,518	45,047	132,565	1,105,500	1,101,520		
Employee benefits	20,110	10,350	30,460	254,018	260,203		
Subtotal	107,628	55,397	163,025	1,359,518	1,361,723		
Travel and maintenance	3,653	1,394	5,047	52,680	84,147		
Equipment maintenance and rental	2,348	3,727	6,075	61,942	66,388		
Supplies and materials	1,823	446	2,269	246,239	247,236		
Contractual services	51,007	27,052	78,059	672,395	703,886		
Financial and material assistance	287	406	693	273,571	456,768		
Depreciation and amortization	5,944	1,113	7,057	85,240	72,370		
Total expenses	\$ 172,690	89,535	262,225	2,751,585	2,992,518		

See accompanying notes to the consolidated financial statements.

Breakout Sessions

Each group will have:

1. Assigned leader who will share NFP financial statements for XYZ Co.
2. List of financial statement analysis questions
3. Approximately 15-20 minutes to answer all questions

DONATIONS

Conditions vs. Restrictions

DONATIONS:

- **CONTRIBUTIONS** - Unconditional transfer of cash or other resource to an entity in a voluntary, nonreciprocal transaction. Record as revenue.
- **PLEDGES** - An offer to contribute. Promise to give.

Types of Pledges

- **Unconditional Pledge:** is a contribution and recorded as revenue at fair value when promise is made. Unconditional pledges may be recognized as “without restriction” or “with restriction.” NFP may estimate uncollectible pledges.
- **Conditional Pledge** (conditional promise): depends upon a future and uncertain event; requires future action; recognize when condition substantially met and promise becomes unconditional

Note: conditions are not the same as restrictions.
Passage of time is not considered a condition.

UNCONDITIONAL PLEDGE

Example

During a telethon \$10,000 of donations are applied to donor credit cards. An additional \$6,000 is pledged; however, only \$5,000 is expected to be collectible. The donated funds may be used for any purpose.

CONDITIONAL PLEDGE

Example

January 1 – \$1,000 pledge is made on the condition that organization’s building will be painted.

January 15 – the building is painted and the organization is billed for \$800

February 9 – the contribution is made and the bill paid.

DONATIONS, cont.

Conditions vs. Restrictions

Restriction – Donor-imposed restriction. Restrictions involve either (1) passage of time, or (2) limitation of use.

Restrictions differ from conditions:

- **Conditions** are necessary characteristics that must exist **before** a contribution takes place.
[Reminder, passage of time is not a condition.]
“You cannot have this money unless ...”
- **Restrictions** concern the use of the asset **after** contribution.
“You can have this money if you use it for ...” (or “use it after ...”)

Rule: Designations by the board of directors or management are **not** restrictions.

Note: ASU 2016-14 requires entities disclose information about board-designated net assets. Prior to ASU 2016-14, disclosure of board-designated net assets was optional. Disclosure is now required of the amounts and purposes of internal governing board designations and similar actions that create limits on operating resources.

Restriction or Condition?

Donor will give \$10,000:	Restriction or Condition?
to be used for any purpose, but the money cannot be used until the next fiscal year.	
if the organization receives a government grant it has applied for.	
if it is used for research purposes only.	
if the organization can produce receipts indicating that research equipment was purchased.	

LEVELS OF RESTRICTION

According to ASU 2017-14, financial statements show two levels of restriction:

1. **Without Restrictions** - no specifications concerning use
2. **With Donor Restrictions** - consumption depends on **use** or **passage of time**; or assets whose principal will not be consumed

Restriction Release: when restrictions are met, the Statement of Activities reports the switch from *With Restriction* as outflow and *Without Restriction* as inflow.

ASU 2016-14 requirements for timing of reclassification when entities acquire capital assets with money restricted by the donor:

- Historically, most NFPs used the placed-in service method, which reports the entire reclassification at the time of the appropriate purchase.
- However, NFP entities could also record the reclassification gradually over the useful life of the capital asset.
- ASU 2016-14 now requires that entities apply the placed-in service method unless explicit donor stipulations apply.

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