

**HAWKINS** | **ASH**  
CPAs



# **Nonprofit Financial Management Fundamentals**

**Presented by Hawkins Ash CPAs**

# By the Numbers

**10** OFFICES

**27** PARTNERS

**\$33M** NET  
REVENUE

**63+** CPAs

FOUNDED **1956**

**195+** EMPLOYEES

**10,000+** CLIENTS

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# Locations



## Wisconsin

- Green Bay
- La Crosse
- Manitowoc
- Marshfield
- Medford
- Mequon
- Neenah



## Minnesota

- Rochester
- St. Charles
- Winona

Est.  1956

## What we will cover today

- Capital Campaigns and unconditional promises to give
- Revenue recognition for grants and contributions
- Endowments



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# Capital Campaigns and Unconditional Promises to Give



## Presenter



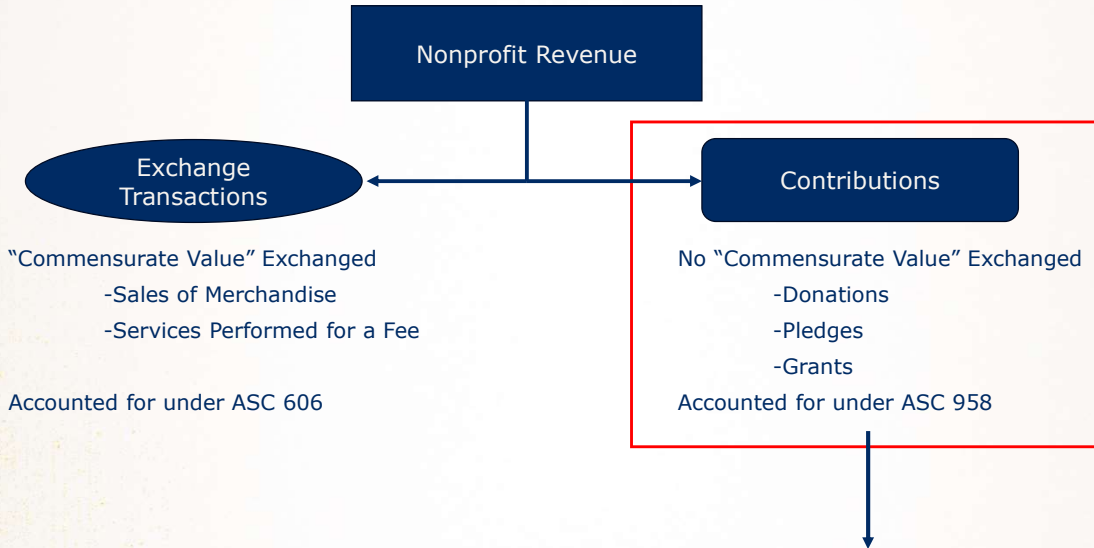
**Brad  
Knowles**

CPA  
Senior Auditor



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# Review: Types of Revenue



# Types of Contributions

**Donations**



The immediate transfer of money or goods from a donor to your organization

**Pledges**



A promise a supporter makes to donate a certain amount at a specified time or after certain criteria have been met



# What is a Condition?

## Conditional Promises to give

A donor-imposed condition must have both:

- a. One or more barriers that must be overcome before a recipient is entitled to the assets transferred or promised
- b. A right of return to the contributor for assets transferred; or a right of release of the promisor from its obligation to transfer assets.

## Unconditional Promises to Give

- Intention to give is not a promise to give
- Revenue is recorded at the time of the pledge
- Corresponding receivable is also recorded
- Allowance for uncollectable pledges and discount calculated

## Are Pledges Legally Enforceable?



"I've raised millions for good causes. I've just never given them any of it."

- Most courts view charitable pledges as legally enforceable commitments.
- The directors of a nonprofit corporation or the trustees of a charitable trust may have a fiduciary duty to pursue the collection of legally enforceable pledges.
- Laws vary by state

## Why Collect Pledges?

### Pros:

- Affordability for the Donor
- Increased Donor Engagement
- Can be used as collateral to obtain financing for your project

### Cons:

- Administration and accounting challenges
- Cost



# What is a Capital Campaign?



A capital campaign is an intense, targeted fundraising effort designed to raise a specific amount of money that takes place over a defined period of time.

- Usually for a specific purpose
- Gifts are over and above normal operational contributions
- Raise a lot of money quickly
- All hands on deck
- Require planning
- Done in phases

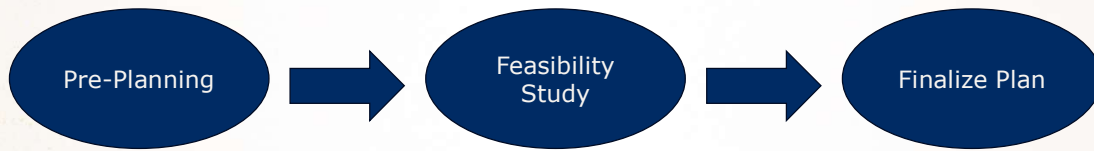
# The Phases of a Capital Campaign

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# Planning Phase

Elements of the planning phase:



# Planning Phase

Pre-Planning

Vision  
Case for Support  
Gift Acceptance Policy  
Time Tracking Policy  
Accounting Considerations

# Planning Phase

Feasibility  
Study

Hire consultants  
Community Impressions  
Evaluate Donor Base  
Evaluate Resources Available

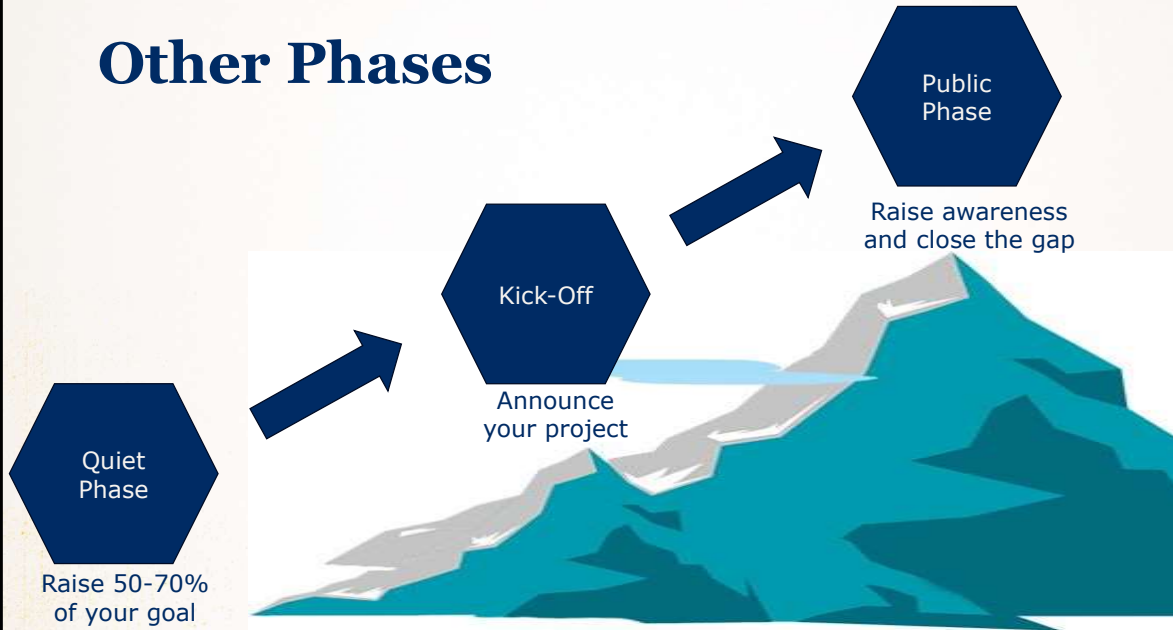


# Planning Phase

Finalize Plan

Budget and Costs  
Logo and Branding  
Pledge Cards  
Software  
Tracking and Data Collection

# Other Phases



## Best Practices Pledge Solicitation

- Language Matters
  - Be Consistent
  - Create Binding Pledges
- Ensure the amounts and timing are clear
- Retain physical pledge cards
- Track electronically

### Pledge Card

---

Name(s) \_\_\_\_\_

Address \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_

Phone \_\_\_\_\_ Email \_\_\_\_\_

Change of Address

I/we make the following pledge: \$ \_\_\_\_\_  
*(See pledge estimator on reverse side)*

weekly,     monthly,     quarterly,     annually

electronically     transfer of stock or securities  \_\_\_\_\_  
(other)

**For those using Donor-advised Funds, please use this section\*:**

I/we intend to request our Donor-advised Fund to make the following Grant(s).\*

A grant of \$ \_\_\_\_\_ on \_\_\_\_\_  
(date)

A recurring grant of \$ \_\_\_\_\_ to be issued  
(yearly/monthly) starting \_\_\_\_\_  
(month/year)

A grant upon my/our death

\*Grants from Donor-advised Funds cannot be used to satisfy personal pledges or in exchange for personal benefit.

## **Best Practices**

### **Pledge Tracking**

- Ensure that software can create reports with all necessary data and for a given date range
- Ensure that pledge collections are also tracked for each donor
- Ensure that reporting can separate pledge payments from 1-time donations
- Ensure reports include an aging schedule

# The Fun Part - Accounting

- Do not net campaign revenue and project expenses
- Pledges must be recorded at fair value
  - Allowance for uncollectable pledges
  - Net Present Value Discount

Hypothetical Example:

<u>Date</u>	<u>Balance</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>Rate</u>	<u>Net Present Value</u>
Dec-23 \$	100.00	20	20	20	20	20	3.00%	\$91.59
Allowance for Uncollectable Pledges:								(5.00)
<b>Net Pledges Reported on Balance Sheet:</b>								<b><u>\$86.59</u></b>

# Accounting

- Capital campaign pledges are generally considered time or purpose restricted
- Restricted net assets are not released for construction projects until the asset is placed into service
- Donations of stock or other property or equipment are valued at fair value
- Donations should be recorded when received or pledged, not based on the check date.



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## Key Takeaways

- Ensure accounting and development are working together.
- Have documentation for all pledges.
- Have a system in place to track pledges and payments on those pledges.
- Have a system in place to track campaign revenue as well as the projects expenses.
- Use consistent, clear language in solicitations to establish the use and purpose of campaign funds.
- Know your accounting for the funds raised (contributions, pledges, in-kind) and the costs incurred (fundraising, capital assets, and financing costs)



# Revenue Recognition for Grants and Contributions





## Presenter



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Manager



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## Contribution Definition

- An unconditional transfer of cash or other assets, as well as unconditional promises to give, to an entity, or a reduction, settlement, or cancellation of its liabilities in a voluntary nonreciprocal transfer by another entity acting other than as an owner.
- A donation
- Can be cash, noncash assets, services, promises to give financial resources or noncash assets at a future date, or cancellation of liabilities

## Promises to Give

- An agreement to contribute cash or other assets to an organization at a later date. The recipient of a promise to give has a right to expect the promised assets will be received in the future. The donor has an obligation to make the promised transfer.
- Can be conditional or unconditional
- Unconditional promises to give have no barriers that the recipient must overcome to receive the contribution. Fulfillment depends only on the passage of time or demand by the donor for performance.
- Conditional promises to give have barriers, or conditions, that the recipient must overcome in order to receive the donation. Failure to overcome the barrier gives the donor the right to a return of the assets.
  - Conditions are not administrative in nature.



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## Conditional vs. Unconditional Examples

- Charity A runs a feeding program in an area with a large population of homeless people. A receives a contribution to assist with the feeding program which requires the charity to provide 1,500 evening meals per month.
  - Barrier is to provide a specific number of meals at a particular time of day
- Charity B operates an educational outreach program. The charity receives a contribution that indicates the goal is to fund five part-time staff and purchase equipment the staff will need in their outreach. The contribution is silent on whether funds must be returned if those staffing levels are not met.
  - Staffing level is merely a goal, not a barrier to overcome. Also, there is no right of return.

## Elements of a Promise to Give

- Legally enforceable
- Documentation – can be written or oral



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## When to Recognize Contribution Revenue

- Generally, contributions are recognized when received
- Unconditional promises to give are recognized in the period the promise is made (and accepted), not when the actual transfer of resources occurs.
  - Reported as a receivable and contribution income
- Conditional promises to give are recognized as revenue when the barrier, or condition, is overcome.



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# Donor Restrictions

- Unconditional promises to give are tracked in net assets with donor restrictions.
  - Time restrictions are implicit in all promises to give with future payment dates
  - Time restrictions are released to net assets without donor restrictions in the period that payment is received
  - Can also be received with purpose restrictions
- Contributions can only be restricted by donors
  - Funds restricted by board members and management are considered board designated



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## Types of Donor Restrictions

- Time – restricted for a period of time
  - Restriction released when the receivable is due/received
- Purpose – donor stipulated purpose
  - Restriction released when the funds are spent for the donor specified purpose
- Permanent - donor states resources must be held in perpetuity
  - Restriction is never released, unless the organization receives approval from the donor
  - A donor contributes \$100,000 and stipulates the NFP entity is to invest the money to provide a permanent source of income for scholarships.



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# Tracking Donor Restrictions

- Important to ensure donor wishes are being met
- Way to track restrictions and related spending:
  - Create classes or projects in accounting software
  - Excel spreadsheet
- Retain documentation as evidence of donor restrictions and fulfilling those restrictions.
  - Donor communication and/or check stubs
  - Expenses and fixed asset purchases



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## Stock Donations

- Stock becomes an asset of the organization once it is transferred to the organization, not when it is sold by the organization
- Contribution is recorded at the fair value of the stock on the date it is received
- Difference between the proceeds received from the sale of stock and the fair value recorded on the date received, is recorded a realized gain or loss on the organization's general ledger



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## Contributed Services

- Contributions of services are recognized if the services received meet either of the following criteria:
  - Create or enhance nonfinancial assets
  - Require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.



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## Contributed Non-Financial Assets

- Items contributed for use in fundraising – (auction items)
  - Recorded as an inventory asset at fair value when received.
  - Record difference between the amount received for those items and the fair value originally recorded as an adjustment to the original contribution amount when sold
- Items contributed for use by the Organization
  - Recorded as revenue at fair value when received

## Grant Revenue

- Refers to government grant revenue – can be from international, national, local, or quasi-governmental agencies
- Government grants do not include:
  - Amounts received in transactions with the government that are part of the normal business transactions of the entity
  - Tax credit and other tax incentives received
  - Government involvement in the ownership of the entity
- Grants from private foundations, corporations, individuals, etc. are recorded as contribution revenue



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## Grants that are Exchange Transactions

- Exchange is a reciprocal transfer between two parties that results in one of the entities acquiring assets or services or satisfying liabilities by surrendering other assets or services or incurring other obligations.
- Example: payments from Medicare, Medicaid, or another state agency where the agency is covering the cost of care to a specific individual
- Revenue recorded when earned (in accordance with ASC 606: Revenue from Contracts with Customers)



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## Refundable Advances

- If funds are received for an agreement that is assessed as conditional (funds would need to be returned if conditions are not met), the funds should be accounted for as a refundable advance until the conditions have been substantially met.
- Refundable advance is a liability on the Statement of Financial Position.



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## Grants that are Contributions

- Determine there is no reciprocal exchange, record the same as a contribution.



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## Reimbursement Grants

- A grant where funds are received only after eligible expenses are incurred.
- Revenue is recorded when the expenses are incurred and reimbursement request has been submitted.



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## Grant Examples

- A student is enrolled at a University. Tuition charged to the student is \$20,000. The student receives a \$5,000 state grant that is paid directly to the University and applied to the student's receivable balance.
  - Grant benefits an identified individual and their exchange transaction with the university therefore it is an exchange transaction grant – revenue is recognized when earned.
- A homeless shelter receives a grant from the county to provide shelter for a night to individuals who meet criteria designated by the organization and the county.
  - This grant benefits a group of beneficiaries and therefore is nonexchange and recognized when received.



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# Endowments



## Presenter



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Burrow**

CPA  
Senior Manager



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## What is an Endowment?

- A donation of money or property to a nonprofit organization, which uses the resulting investment income for a specific purpose.
- Most are designed to keep the principal amount intact while using the investment income for charitable activities.
- Can be either with donor-imposed restrictions or without.
- In most cases, endowments are established by donor-restricted gifts and bequests.



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# Policies that Should be In Place

- Investment Policy
  - Most nonprofits rely on professional investment advisors to do the actual investing of the funds.
  - Policy should include which types of investments the manager is allowed to make.
  - Policy should also include how aggressive the manager can be.



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## Policies that Should be In Place, Continued

- Withdrawal/Spending Policy
  - Establishes the amount the organization can take out each period.
  - Can be based on needs of organization.
  - Most endowments use a percentage of the total amount in the fund.
  - Can include amount of principal that needs to be maintained in account.



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## Donor-Restricted Endowments

- Source of income for nonprofit organizations in perpetuity or for a specific period of time.
- Amount of original gift stays in investment account.
- Earnings each year can be used by the nonprofit organization if in line with intended purpose.



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## Donor-Restricted Endowments, Continued

- Most fall under Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA)
  - Donor-imposed restrictions are extended to investment return until funds are approved to be spent.
  - Subsequent gifts to the fund are also included in amount that has donor-imposed restrictions.
  - Approval of expenditures can be made during annual budget process or during the year as needs arise.
  - Reported in net assets with donor restrictions until spent.



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## Donor-Restricted Endowment Example

- A donor leaves \$300,000 to be used to provide scholarships for students attending a particular school district.
- Fund agreement specifies that 5% of the market value may be distributed annually for scholarships.
- Fund agreement also notes that all funds contributed will be kept in this separate account.



## Donor-Restricted Endowment Example, Continued

- Results on Financial Statements
  - Investment account included on the balance sheet at the fair market value.
  - Donor-restricted contribution of \$300,000 recorded in year received.
  - Net assets with donor restrictions for the \$300,000 plus the market earnings for the year that are not spent.
  - At this point, the \$300,000 would be the amount maintained in perpetuity.
  - Net assets are released to net assets without donor restrictions in the year earnings are spent on scholarships.



## Board-Designated Endowments

- An endowment fund created by the organization's governing board with net assets without donor restrictions.
  - Sometimes called a quasi-endowment.
- Both amount of original endowment and earnings on funds are without donor restrictions and can be used for any of organizations' operations or programs.
- If board approves for a specific purpose, still considered net assets without donor restrictions.



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## Board-Designated Endowment Example

- XYZ Organization has built up an investment portfolio of \$25 million.
- The Organization decides to set aside funds in perpetuity for future operating needs.
- The board votes to approve the transfer of \$2 million to an endowment fund for this purpose.



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## Board-Designated Endowment Example, Continued

- \$2 million plus any earnings that are made on those investments are included in investments as an endowment.
- Fair market value of these funds are included as net assets without donor restrictions.
- Board-designated endowments are a separate line in endowment disclosures.
- Each year, earnings on this endowment can be used for the operations of the organization without using savings or other cash.



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# Underwater Endowments

- Poor market conditions can cause fair market value of an endowment fund to be less than the original gift or the balance to be maintained in perpetuity.
- If organization has underwater endowment, still allowed to take distributions if in line with spending policy.
- Creates additional disclosure requirements in financial statements.
  - Dollar amount of underwater endowments
  - Organizations' plans to eliminate the underwater amount



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# Audit Documentation

- Copy of endowment agreement.
- Support for the funds received as a donation in the initial year and any donations made to the fund in future years.
- Investment statement for the year under audit for the fund.
- Support for any funds that are spent to verify they were spent for the correct purpose.
- Copies of related policies that are in place.



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## Other Disclosure Requirements

- General description of UPMIFA and its rules for endowments.
- Return objectives and risk parameters.
  - Investment policy alignment and strategy
- General Description of organization's spending policy.
- Numerical required information (see next slide).



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# Example of Disclosure Requirements

## *Endowment Net Asset Composition by Type of Fund as of December 31, 2023:*

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Board-designated endowment funds	\$ 2,130,000	\$ -	\$ 2,130,000
Donor-restricted endowment funds:			
Original donor-restricted gift and amounts required to be maintained in perpetuity by donors	-	300,000	300,000
Accumulated investment gains	-	7,800	7,800
<b>TOTAL</b>	<b>\$ 2,130,000</b>	<b>\$ 307,800</b>	<b>\$ 2,437,800</b>

**Funds with Deficiencies** - From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration (underwater endowments). In accordance with U.S. GAAP, deficiencies of this nature are reported in net assets with donor restrictions. The deficiencies may result from unfavorable market fluctuations that have occurred. The Organization did not have any such deficiency as of December 31, 2023.

## *Changes in Endowment Net Assets for the Year Ended December 31, 2023:*

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ -	\$ -
Investment return, net	160,000	24,000	184,000
Contributions	2,000,000	300,000	2,300,000
Appropriation of endowment assets pursuant To spending-rate policy	-	(16,200)	(16,200)
Other changes:			
Distribution from board-designated endowment pursuant to distribution policy	(30,000)	-	(30,000)
Endowment net assets, end of year	<b>\$ 2,130,000</b>	<b>\$ 307,800</b>	<b>\$ 2,437,800</b>



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# Questions?

