



Top 5 Challenges/Mistakes for Nonprofit Organizations

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Presenters



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Top 5 Mistakes We See in Accounting for Nonprofits



#1:

Repeating Errors from Previous Year/ Inaccurate or Incomplete Schedules/ Missing Transactions

- Not posting all audit journal entries (starting from balances that do not match the audit report)
- Continuing practices the auditors must correct in preparing the financial statements
- Your schedules should match the trial balance at the beginning of the year & end of the year.
- Your schedules should include all activity for the year.
- Missing Transactions:
 - ✓ Payables: Retainage, Wages, PTO, Benefits, Taxes
 - ✓ Contributions: In-kind gifts (including interest-free loans), Pledges made

#1: Repeating Errors from Previous Year/ Inaccurate or Incomplete Schedules/ Missing Transactions

- Recommendation:
 - ✓ Agree your trial balance to the final audited trial balance at the end of each audit
 - ✓ Ensure your net asset trial balance account values agree by classification and total to the prior year audit report
 - ✓ Review your prior year control deficiency listing, listing of passed adjustments, and audit adjustments to see what corrections are needed in current year
- Recommendation: Agree your beginning balance to the prior year audit report, activity to your revenue/expense accounts, and ending balance to your trial balance.
- ✓ Tip: Avoid a question from your auditor by showing which accounts tie-in, show that you have tied within a trivial amount, etc.

#2:

Issues in Calculating Discount on Pledges Receivable/ Write-off of Pledges/ Capital Campaign Issues

- Not having a policy in setting your discount rates.
- Not discounting your pledges consistently.
- Changing your discount rate after it is assigned. Discount rates are not changed. (FASB ASC 835-30-25-11)
- Write-off of pledges receivable should go against the net asset classification & may be presented as a “loss”

#2:

Issues in Calculating Discount on Pledges Receivable/ Write-off of Pledges/ Capital Campaign Issues

- Recommendations: Review the guidance to ensure your policy is in alignment with GAAP. Per the AICPA Audit & Accounting Guide for Not-for-Profit Organizations, Chapter 5:
 - Contributions Receivable in Less than One Year, Initial measurement:
 - 5.186 FASB ASC 958-605-30-6 states that unconditional promises to give that are expected to be collected in less than one year may be measured at net realizable value because that amount results in a reasonable estimate of fair value. FASB Concept No. 5, Recognition and Measurement in Financial Statements of Business Enterprises, states that net realizable value is “the nondiscounted amount of cash, or its equivalent, into which an asset is expected to be converted in due course of business, less direct costs, if any, necessary to make that conversion.” That means, for contributions receivable, an NFP assesses whether the contribution is reasonably assured of collection, and only recognizes the amount that it estimates will be collected, less direct costs of collection, if any.
 - Contributions Receivable in One Year or More, Initial measurement:
 - 5.188 FASB ASC 958-605-30-4 discusses initial measurement of unconditional promises to give using present value techniques to measure the fair value of unconditional promises to give. An NFP should determine the amount and timing of the future cash flows of unconditional promises to give cash (or, for promises to give noncash assets, the quantity and nature of assets expected to be received). In making that determination, the NFP should consider all the elements in FASB ASC 820-10-55-5, including the following: when the receivable is expected to be collected, the creditworthiness of the other parties, the NFP's past collection experience, the NFP's policies concerning the enforcement of promises to give, expectations about possible variations in the amount or timing of the cash flows (that is, the uncertainty inherent in the cash flows), and other factors concerning the receivable's collectibility.

#2: Issues in Calculating Discount on Pledges Receivable Write-off of Pledges/ Capital Campaign Issues

- Cash flow statement – financing activity
- Matching/conditional gifts & tracking, as well as disclosure
- When to place in service & release the restriction
 - In accordance with FASB ASC 958-205-45-10A and FASB ASC 958-205-45-12, the effect of the expiration of restrictions is recognized in the period when the assets are placed in service (unless donor stipulations limit the use of the assets for a period of time or for a particular purpose), because the explicit purpose restriction carries more weight than the implied time restriction. (AICPA Audit & Accounting Guide for Not-for-Profit Organizations, Ch. 11)
- Read the agreement – was it for something particular related to the campaign? Or just the overall construction?

#3:

Issues in Endowments

- Unitization issues
- Investment management fees treatment
- Underwater endowments
 - Policy for spending
 - Change in reporting with ASU 2016-14
- “Loans” from the endowment
 - Donor approval requirements
 - Charging interest and formal documentation
 - If donor did not approve, impact on reporting

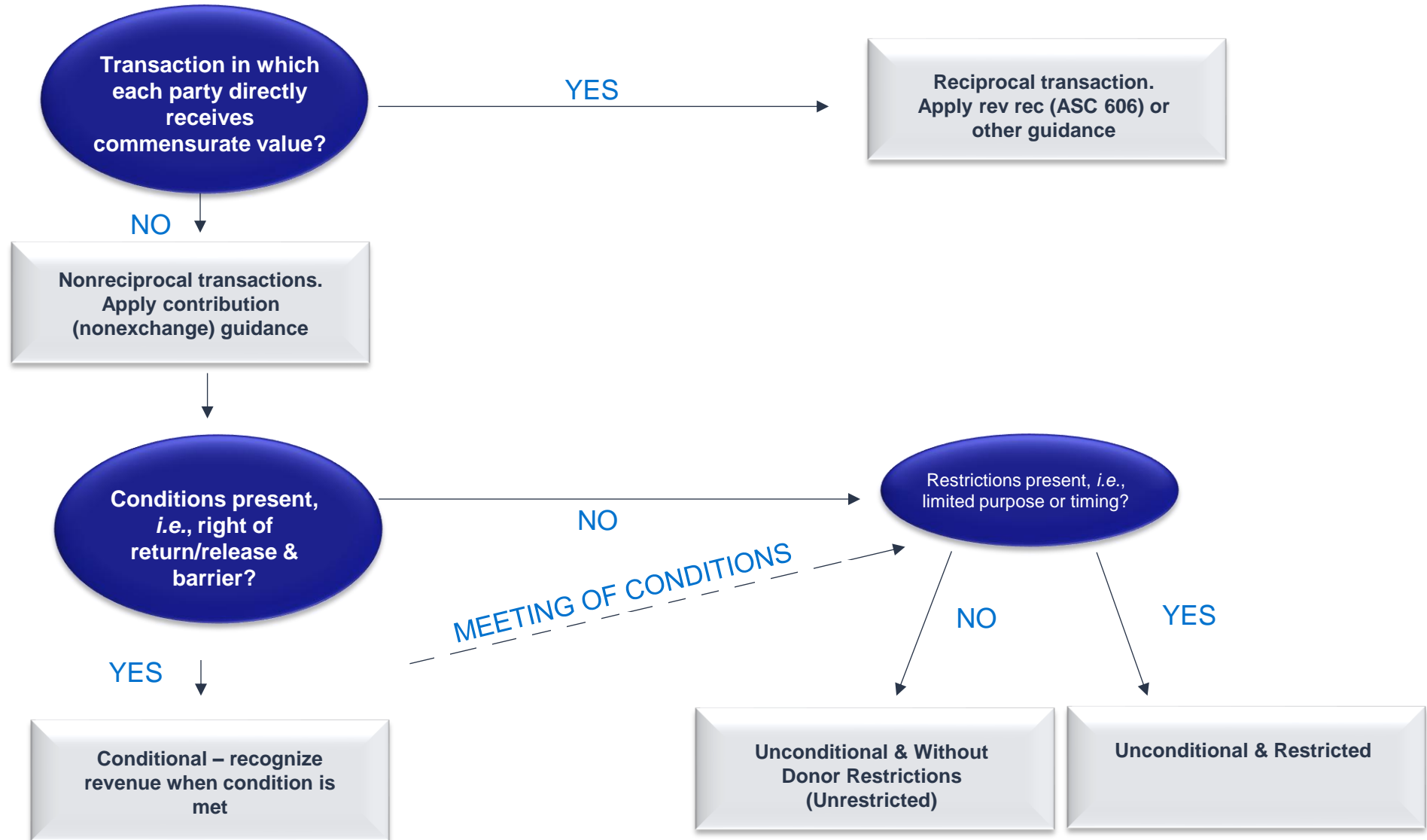
#4:

Exchange v. Non-Exchange & COBD to Donor

- Reminder: ASC Master Glossary Definitions are as follows –
 - ✓ Exchange: An exchange (or exchange transaction) is a reciprocal transfer between two entities that results in one of the entities acquiring assets or services or satisfying liabilities by surrendering other assets or services or incurring other obligations
 - ✓ Contribution (excerpt): 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...

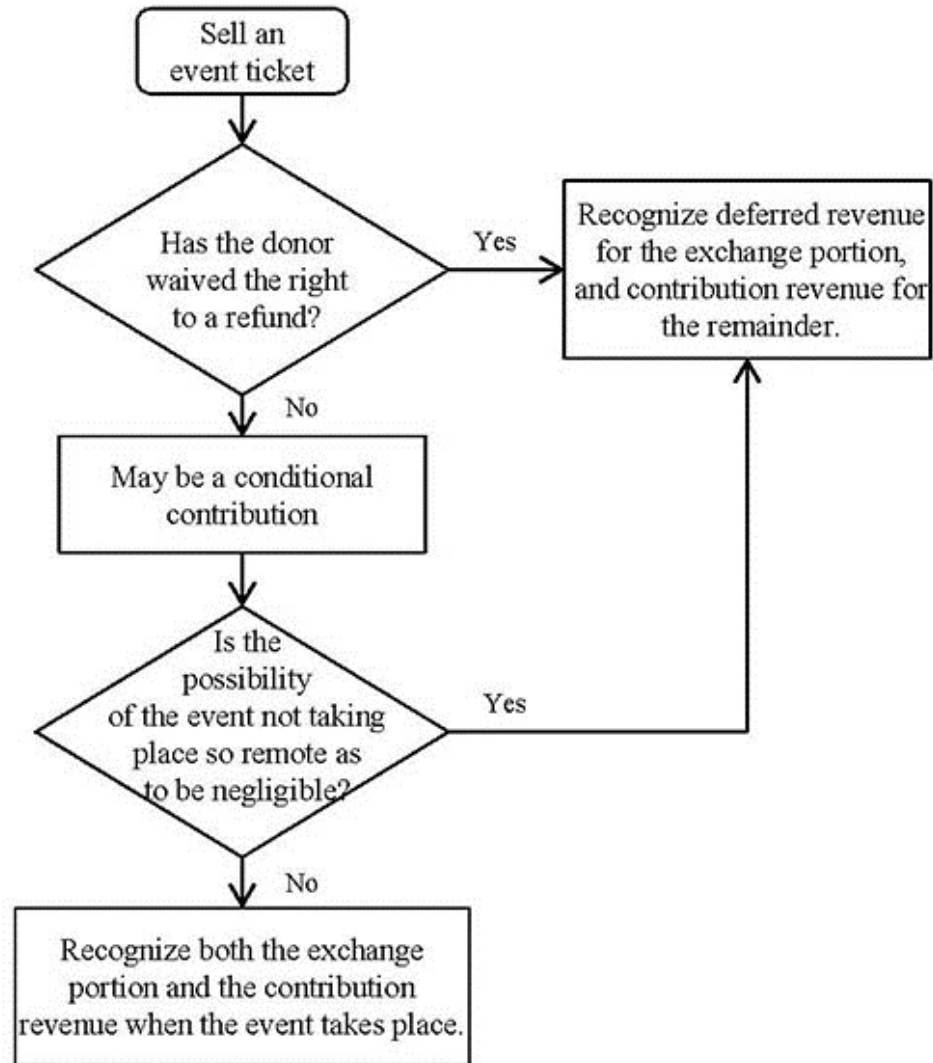
#4:

Exchange v. Non-Exchange & COBD to Donor



#4:

Exchange v. Non-Exchange & COBD to Donor



FinREC's Guidance for Reporting the Revenue of a Special Event That Will Be Held After Year-End for Which Amounts Are Received Before Year-End

#4:

Exchange v. Non-Exchange & COBD to Donor

- Be sure to work with development in identifying exchange transaction elements, including sponsorship agreements.
- When you have identified the exchange transaction elements, ensure you have a clear methodology in assigning value.
- Cost of direct benefits to donors should be identified and tracked to ensure proper presentation in the financial statements & should not include event costs that are to be presented as fundraising costs.

#4:

Exchange v. Non-Exchange & COBD to Donor

GAAP – Auctions	990 – Auctions
Establish fair market value	All activities must be presented gross
All ongoing activities must be presented gross	
Present cost of direct benefits to donors separately	Present direct costs of the event separately
Donated services should be recorded if they meet the criteria for recognition	Donated services are not includible
Donated auction items do not result in COGS <ul style="list-style-type: none">•Revenue is counted once – as an in-kind contribution equal to auction proceeds	Cost of donated auction items is included in direct costs of the fundraising event <ul style="list-style-type: none">•Revenue is counted twice – as a general noncash contribution equal to FMV of the item received & as gross income from the event equal to the actual auction proceeds•If it can be substantiated that the proceeds exceed the FMV of the auctioned item, <i>i.e.</i>, the purchaser intended to make a donation, a portion may be considered an event contribution

#4:

Exchange v. Non-Exchange & COBD to Donor

GAAP Raffles	990 Raffles
Do not have to separate on the FS. All part of one line-item Special events	Required to be reported separately in a separate schedule
Recorded at the FMV of the item donated for the raffle	Recorded at the FMV of the item donated for the raffle

#4:

Exchange v. Non-Exchange & COBD to Donor

Costs Comparison GAAP vs. Tax

- GAAP – Direct cost of benefits to donors
 - Meals
 - Facility rental costs
 - Decorations
 - Entertainment
 - Raffle prizes
- Direct expenses of gaming include
 - Gaming direct expenses
 - Cash prizes,
 - Noncash prizes,
 - Compensation to bingo callers & workers,
 - Rental of gaming equipment, &
 - Cost of gaming supplies such as pull tabs, bingo cards, etc.
 - Fundraising direct expenses
 - The cost or other basis of any items sold at the events
 - The expenses that relate directly to the production of the revenue

#4:

Exchange v. Non-Exchange & COBD to Donor

GAAP v. Form 990 Auction Example

- ABC School receives a donated Tech Gadget & makes a good faith estimate of FMV at the time of donation as \$150. Attendees at the event are informed of this FMV. The Tech Gadget sells for \$160 at a fundraising auction

Element	Form 990	GAAP
Contribution from fundraising/special event	\$0	\$10
Other non-cash contribution (receipt of Tech Gadget)	\$150	\$150
Gross income from fundraising event	\$160	\$160
Direct expenses of fundraising event (COGS)	\$150	\$0
Net income from fundraising/special event	\$10	\$160

#5:

Errors in Statement of Cash Flows

- Financing activities –
 - Proceeds from contributions restricted for long-term investment (ex, endowments)
 - Proceeds from contributions restricted for acquisitions of long-lived assets
 - Gross changes (draws & repayments) on lines of credit
 - Proceeds from/payments on establishment/repayment of split interest agreements or issuance of annuities and trusts payable
- Cash v. non-cash
- Missing supplemental cash activity disclosure
- Line of credit activity
- Policy of liquidating donated securities

#5:

Errors in Statement of Cash Flows

- Cash v. non-cash
- Missing supplemental cash activity disclosure
 - Interest paid (net of amount capitalized)
 - Long-term debt incurred for purchase of property & equipment
 - Property & equipment acquired through noncash contributions
 - Property & equipment in accounts payable
- Policy of liquidating donated securities
 - Immediate liquidation may be operating activities
 - If holding & essentially making an investment decision, may be investing

BONUS INFORMATION

Development & Accounting – Lost in Translation

- Recording payments on existing pledges as new contribution revenue
 - Common occurrence with turnover
- Cut-off (when to record under GAAP)
 - If there is sufficient, verifiable evidence that a promise was received and made, it should be recorded at that time
- Charitable trust agreements & implications for GAAP
 - Right to change beneficiary changes the accounting

Development & Accounting – Lost in Translation

- Conditional v. unconditional
 - Must be determinable from the agreement (or another document referenced in the agreement) that a recipient is only entitled to the transferred assets or future transfer of assets if it has overcome the barrier.
 - FASB ASC 958-605-25-5D contains a table listing indicators that may be helpful in determining whether an agreement contains a barrier.
- Deferred revenue v. restricted gift
 - Funds raised for future budget periods or fiscal years that are unconditional should not be deferred until that budget period.
 - Likely a restricted gift for time depending upon the wording of the agreement, which would be recognized when received.

Sponsorships ... Things to Consider

- Qualified sponsorship rules & understanding
- Quid Pro Quo understanding
- UBIT – how special events impact it
- Revenue recognition rules & its impact

Qualified Sponsorship Definition

- IRC Section 513(i) defines a “qualified sponsorship payment” as any payment made by any person engaged in a trade or business with respect to which there is no arrangement or expectation that such person will receive any substantial return benefit other than the use or acknowledgement of the name or logo (or product lines) of such person's trade or business in connection with the activities of the organization that receives such payment
- Such a use or acknowledgement does not include advertising such person's products or services (including messages containing qualitative or comparative language, price information, or other indications of savings or value, an endorsement, or an inducement to purchase, sell, or use such products or services)

Qualified Sponsorships

- Qualified Sponsorships (Section 513(i))
 - No substantial return benefit
 - Acknowledgement vs. Advertising
 - Exclusive category vs. Exclusive provider
 - FMV of return benefit exceeds 2% = subst. return benefit

Issue Indicators of IRS Audit Tips

Review contracts for sponsorship payments to determine if

- The “sponsor” received any substantial return benefit. Payments are contingent upon the level of attendance
- The payment entitles the payor to the use or acknowledgement of the name or logo (or product lines) of the payor's trade or business in periodicals
- The payment is made in connection with any qualified convention or trade show activity
- An exclusive provider arrangement exists
- Determine if the use or acknowledgement contains
 - qualitative or comparative language
 - price information
 - indications of savings or value
 - an endorsement or an inducement to purchase, sell, or use such products or services

Naming Opportunities

- NFPs may publicly recognize resource providers (individuals, foundations, corporate entities, & others) through what are commonly referred to as naming opportunities
- *Naming opportunities*, which may be accompanied by additional rights & privileges, may be either an acknowledgement of a gift or what is effectively advertising (or other benefits) provided by the NFP in exchange for the resources provided, or a combination of both

Naming Opportunities Example

- For example, naming opportunities might include the following
 - An NFP gives resource providers the opportunity to name or sponsor a building or a portion thereof, based on receiving certain dollar amounts. Such naming opportunities may result in the sponsorship being publicized through name & logo placement at the building, in addition to other benefits that may be provided.
 - A college or university gives resource providers the opportunity to name a faculty position or to provide scholarships bearing the resource provider's name, based on receiving certain dollar amounts. As part of the transaction, the resource provider may receive certain recruiting privileges

Naming Opportunities Example

- For example, naming opportunities might include the following
 - An NFP gives resource providers the opportunity to sponsor a particular event, with that sponsorship being publicized through logo placement at the event & in any publications or advertisements connected with the event
 - An NFP conducts a multiyear capital campaign (or similar fundraiser), with different levels of commitment resulting in an escalating variety of sponsorship or advertising benefits to the resource provider. The benefits include future naming options (either for a specified time or in perpetuity), as well as other items of significant value being delivered to the resource provider

Donor Status

- Sometimes, NFPs use status or recognition levels such as platinum, gold, silver, & bronze to acknowledge the generosity of their donors
- Often those levels include benefits provided by the NFP beyond the mere listing of names under the appropriate heading in a roll of donors
- Typically, the benefits have some fair value, & the NFP should consider whether amounts received are in excess of the fair value returned to the donor
- Some NFPs offer increasing levels of benefits for increasing levels of recognition

Accounting Implications – Naming Opportunities

Indicator	Contribution	Exchange Transaction
Value of Public Recognition	Donor receives nominal value & no other benefits	Donor receives significant value or other direct benefits
Length of time that the naming benefit is provided	Relatively short period of time, limited audience, or NFP has right to change name	Relatively long period of time, large audience, name can't be changed at the NFP discretion
Control over name & logo use	Donor can't change the name	Donor can change name (such as corporate donor's name changes & requires NFP to change name)
Other rights & privileges	Donor receives no other rights/benefits	Donor receives other rights, such as exclusivity, use of the asset, recruitment

Quid pro quo

- Event tickets/Raffle tickets
- Auction items (but sold above FMV?)
- Disclosure statement must be provided to donor for payments of more than \$75
- Private Foundation rules are strict

Unrelated Business Income Tax (UBIT)

- Fundraising & gaming activities, if regularly carried on, may result in UBIT
- Are the activities
 - A trade or business?
 - Regularly carried on?
 - Unrelated to exempt purpose?
- Exceptions
 - Qualified sponsorships
 - Volunteers

Exception to UBIT

Activities Conducted by Volunteers

- Revenue from events for which substantially all work is conducted by uncompensated volunteers is specifically excluded from UBIT, even when regularly carried on
 - “Substantially all” is not defined; however, 85% is a common rule of thumb
 - Track hours
 - Compensation broadly interpreted

Exception to UBIT

Bingo

- Traditional bingo is exempt from UBIT, even when regularly carried on, but only if the game is
 - In accordance with the technical IRS definition of bingo
 - Legal under state & local law, &
 - Not ordinarily carried out on a commercial basis in the jurisdiction where the charity conducts the game

Not-for-Profit Reporting of Gifts-in-Kind Requirements of ASU 2020-07

Present	Disclose	Disclose	Provide	Disclose
Present contributed nonfinancial assets as separate line item in the statement of activities	Disclose disaggregation by category of nonfinancial asset, including whether used or monetized. If used, in which areas/programs. Also, any monetization policies	Disclose a description of donor restrictions associated with nonfinancial asset	Provide description of the valuation techniques & inputs used to arrive at a fair value measure for contributed nonfinancial assets in accordance with paragraph 820-10-50-2(bbb)(1) of Codification for initial recognition	Disclose principal market (or most advantageous market) used to arrive at fair value measure if it is a market in which the recipient NFP is prohibited by donor restrictions from selling or using the contributed asset

In-Kind Presentation in Statement of Activities

Integrated Columns, Separate Rows

	Without Donor Restrictions	With Donor Restrictions	Total
Support, revenues, and gains			
Contributions and grants, primarily private	18,510	5,670	24,180
Gifts-in-kind	67,680		67,680
Government grants	9,680	-	9,680
Other income	465	-	465
Net assets released from restrictions	1,430	(1,430)	-
Total support, revenues, and gains	97,765	4,240	102,005
Expenses			
Food bank operations	86,940	-	86,940
Supporting services:			-
General and Administrative	1,050	-	1,050
Fundraising	3,475	-	3,475
Total expenses	91,465	-	91,465
Change in net assets	6,300	4,240	10,540

In-Kind Presentation in Statement of Activities

Separate Columns

	Without Donor Restrictions			With Donor Restrictions	
	Financial	Non-Financial	Total		Total
Support, revenues, and gains					
Contributions and grants, primarily private	18,510	67,680	86,190	5,670	91,860
Government grants	9,680	-	9,680	-	9,680
Other income	465	-	465	-	465
Net assets released from restrictions	1,430	-	1,430	(1,430)	-
Total support, revenues, and gains	30,085	67,680	97,765	4,240	102,005
Expenses					
Food bank operations	21,730	65,210	86,940	-	86,940
Supporting services:					
General and Administrative	1,050	-	1,050	-	1,050
Fundraising	3,475	-	3,475	-	3,475
Total expenses	26,255	65,210	91,465	-	91,465
Change in net assets	3,830	2,470	6,300	4,240	10,540

Gifts in-kind (GIK) Disclosure

Tabular Example

20X2		Usage in programs/ Activities	Donor-imposed Restrictions	Fair Value Techniques
Food	\$ 49,920	Mobile Food Pantry	\$10,000 restricted for emergency hurricane response in the local community. The remainder was unrestricted.	Estimated average US wholesale price per pound for each food category as determined by America's Food Product Valuation Survey, which is performed annually by Crackers, LLP.
Clothing	13,540	Adult and Children's Programs	Unrestricted	Estimated US wholesale prices of identical or similar products using pricing data under a 'like-kind' methodology considering the goods condition and utility for use at the time of the contribution.
Supplies	4,220			
\$ 67,680				

Gifts In-Kind (GIK) Disclosure

Narrative Example to Meet the New Requirements

For the year ending June 30 20X2, GIK recognized within the statement of activities included

	<u>20X2</u>
Food	\$49,920
Clothing	13,540
Supplies	<u>4,220</u>
	<u>\$67,680</u>

GIK Valuation Techniques: Contributed food items are valued using average U.S. wholesale price per pound for each food category as determined by America's Food Product Valuation Survey, which is performed annually by Crackers, LLP. All other GIK is valued using estimated U.S. wholesale prices of identical or similar products using pricing data of similar products under a 'like-kind' methodology, considering the goods' condition & utility for use at the time of the contribution

Donor Restrictions & GIK Use: No GIK was restricted, except for \$10,000 of food contributions restricted for emergency hurricane response in the local community

The Organization does not sell donated GIK & only distributes goods for program use, including the Mobile Food Pantry & Adult & Children Programs

Contributed Nonfinancial Assets

	<u>Revenue Recognized</u>	<u>Utilization in Programs/Activities</u>	<u>Donor Restrictions</u>	<u>Valuation Techniques and Inputs</u>
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.
Medical supplies	\$90,389	Natural Disaster Services	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.
Pharmaceuticals	\$111,876	International Health Services; Natural Disaster Services	Restricted to use outside the United States	In valuing contributed pharmaceuticals otherwise legally permissible for sale in the United States, NFP K used the Federal Upper Limit based on the weighted average of the most recently reported monthly Average Manufacturer Price (AMP) that approximate wholesale prices in the United States (that is, the principal market). In valuing pharmaceuticals not legally permissible for sale in the United States (and primarily consumed in developing markets), NFP K used third-party sources representing wholesale exit prices in the developing markets in which the products are approved for sale.

Gifts In-Kind (GIK) Disclosure

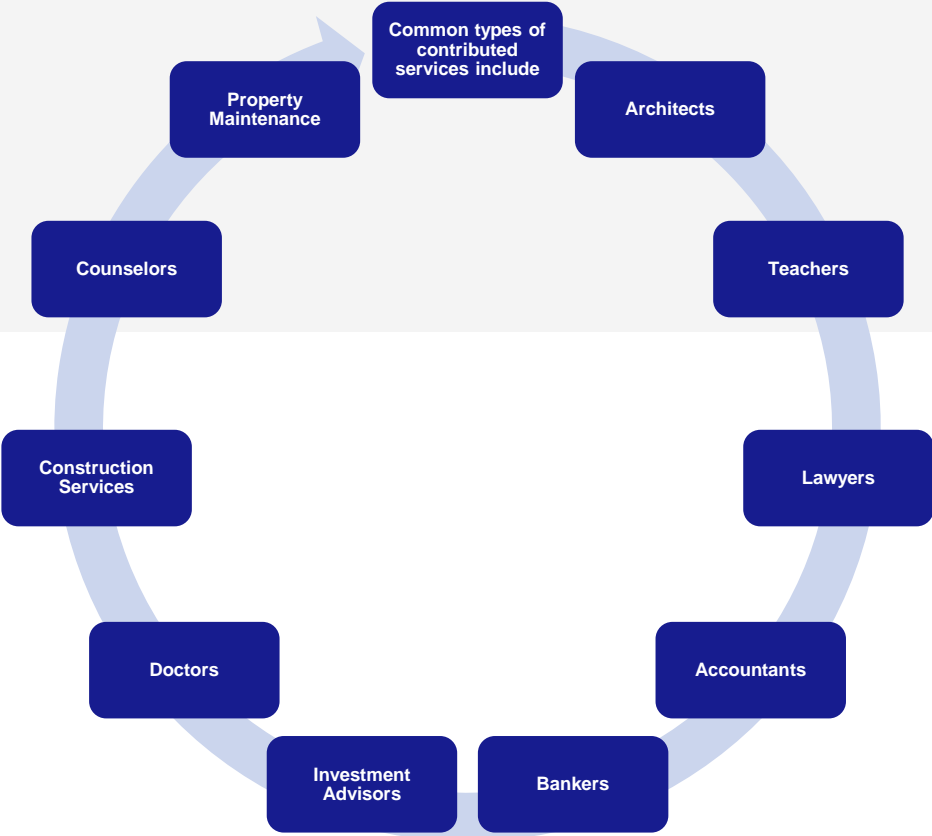
AICPA Example

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

It is NFP K's policy to sell all contributed vehicles immediately upon receipt at auction or for salvage unless the vehicle is restricted for use in a specific program by the donor. No vehicles received during the period were restricted for use. All vehicles were sold and valued according to the actual cash proceeds on their disposition.

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 Services – Most Common Examples



NOTE: Common indicators of specialized skills include maintaining a particular license, certification, or working with technical tools or artistic talent at a proficiency greater than the general public

Accounting for Contributed Services – Definition per GAAP

- The majority of nonprofits, including churches, receive some form of volunteer time, whether it is for direct services in its programs, consultants, vendors, or board involvement
- The value of contributed services must be recognized if the service either (does not apply to affiliates – different rules)
 - ✓ creates or enhances assets that are not financial in nature, *e.g.*, buildings, materials, supplies, etc., or
 - ✓ requires specialized skills, are provided by individuals with those skills, & would typically need to be purchased if the services had not been donated

Questions?



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