CHAPTER 2
CONTRIBUTIONS

CONTRIBUTIONS: THE BASICS

One unique aspect of nonprofits is that people and organizations donate things to them. A donation is a gift. It is a transfer of resources without direct compensation being received in return.

Of course, it could be argued that every donor receives something in return, namely the pleasurable feeling derived from doing a good deed. But when we say "direct compensation," we mean to exclude psychic rewards. Direct compensation means that either money or a valuable good or service is received in return for the transferred resources.

Another way to define gifts focuses on intent. A donation is a transfer of resources for the purpose of helping the recipient or someone they will help, and nothing further. That is, no compensation other than the knowledge that one has helped is received.

Although putting exact words around the idea is surprisingly difficult, the exercise points to the view that a donation is made because *of the way the donated item is expected to be used*, and not because of any direct compensation to the donor. For example, when a bank loans money to a university, the bank is not making a donation. It expects to be compensated in the form of being repaid the principal of the loan plus interest. The bank cares about how the nonprofit uses the funds only to the extent that it affects the likelihood that the bank will be repaid the principal and the interest it has earned. The donor of funds used to endow a scholarship fund receives no direct repayment, but obtains satisfaction when the funds are used for the intended purpose – to help finance the education of the targeted recipients.

Accounting for contributions is at the heart of nonprofit accounting. Is a "gift" really a gift or does the donor expect something in return, that is, is it a contribution or an exchange transaction? If it is a contribution does it come with any donor imposed restrictions (e.g. it can only be used to support program A in the nonprofit (purpose restriction), it can only be used in a particular period or periods (time restriction), or it needs to be invested in perpetuity and only the investment proceeds may be used to support activities of the nonprofit (permanent restriction))? And finally, what is the value of the gift—not such an easy question when the gift is in-kind.

Contribution or Exchange Transaction?

"A contribution is an unconditional transfer of cash or other assets to an entity or a settlement or cancellation of its liabilities in a voluntary nonreciprocal transfer by another entity acting other than as an owner. Those characteristics distinguish contributions from exchange transactions, which are reciprocal transfers in which each party receives and sacrifices approximately equal value." "A promise to give is a written or oral agreement to contribute cash or other assets to another entity."[1] It is unconditional if it only depends on the passage of time or the donee having to ask for it. Contributions or promises that depend on the occurrence of an uncertain specific future event are termed conditional contributions and are not recognized as contribution revenue until the event occurs. Unconditional promises to give are recognized as revenue when the promise is received. Unconditional contributions and unconditional promises

[1] FASB Accounting Standards Codification glossary.

to give may come with *donor* restrictions ("strings"). As mentioned above these "strings" may represent a temporary constraint on the use of the contribution (either time or purpose restriction) or a permanent restriction (the contribution must be held in perpetuity and only the earnings from the gift can be spent). For the moment let's focus on cash contributions and unconditional promises to give cash in the future.

Cash Contributions

We will consider noncash contributions in the next section. The following examples should clarify some of the terminology and definitions.

Example 1: A donor gives a nonprofit hospital $500 to be used any way the hospital wishes to spend it to meet its mission. This is *a voluntary, unconditional, nonreciprocal, unrestricted* transfer of assets from a donor to the nonprofit. As such, the hospital can recognize the receipt of the cash and contribution revenue (an increase in unrestricted net assets).

Cash………………………...................................	500	
Contribution revenue (unrestricted)…………		500

Example 2: Same as in Example 1 but the donor restricts the use of the money to the creation of new educational programs for nurses. While this is recognized as contribution revenue it must be recorded as temporarily restricted.

Cash………………………......................................	500	
Contribution revenue (temporarily restricted)…		500

When money is spent to create a new educational program for nurses the hospital would recognize an expense and change the classification of $500 of temporarily restricted assets to unrestricted because the restriction will have been met.

Example 3: Now suppose a donor gives a hospital $500 with the understanding that the money must be returned to the donor if the hospital does not receive donations of at least $500 during the next 6 months to create new nursing programs. This is a *conditional* gift and as such no revenue can be recognized as the condition is not met. Since the hospital indeed has the cash it must recognize a liability to return the funds if the condition is not met.

Cash………………………......................................	500	
Refundable gift ………………………………		500

If the additional $500 is raised within 6 months the following entry will be made:

Refundable gift…………………………..................	500	
Contribution revenue (temporarily restricted).		500

And if the additional $500 is not raised the money will be returned and recognized as follows:

Refundable gift………………....................................	500	
Cash…………… ………………………………		500

Unconditional promises to give are treated similar to accounts receivable in for profit accounting. If there is no reliable history for the contribution receivable the contribution is recognized at its present value along with contribution revenue. If the contribution is part of a group of similar contributions for which there is a known default history the allowance method of accounting is used.

Example 4:

On June 30, 2019, Example University receives an unconditional promise to give in the amount of $10,000. The $10,000 will be received on June 30, 2024. Example University has a fiscal year ending June 30 and uses a 3% discount rate for such pledges. Furthermore, experience shows that there is a 6% chance of default on such pledges.

June 30, 2019: To record the receipt of the pledge

Contributions receivable (TR)…………….……	10,000.00	
Contribution revenue (TR)………………	8,629.09[2]	
Discount on contributions receivable……		1,370.91
Bad Debts Expense ………………………………	517.75 (.06*8,629.09)	
Allowance for doubtful accounts…………		517.75

June 30, 2020: To amortize discount on contributions receivable

Discount on contributions receivable…………….	258.87 (.03*8629.09)	
Contribution revenue (TR)…………..….		258.87
Bad Debts Expense ………………………………	15.53 (.06*258.87)	
Allowance for doubtful accounts…………		15.53

June 30, 2021: To amortize discount on contributions receivable

Discount on contributions receivable…………….	266.64	
Contribution revenue (TR)………………		266.64
Bad Debts Expense ………………………………	16.00	
Allowance for doubtful accounts…………		16.00

Table 2.1 shows the complete amortization schedule for the 5 year period until the pledge is collected. When the pledge is collected the following journal entry will be made.

June 30, 2024: To show collection of pledge

Cash……………. ……………………….	10,000	
Contribution receivable (TR)……		10,000

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[2] $8,629.09 = (10,000/(1.03)^{5})$

Suppose instead that this receivable defaults right at the beginning of year 2. This would result in the following journal entry[3].

Allowance for doubtful accounts………	8,887.96	
Discount on contributions receivable ….	1,112.04 (1,370.91 – 258.87)	
Contribution receivable (TR) …		10,000

Table 2.1: Example University ($10,000 unconditional promise to give)

YR	Receivable Beginning Balance	Discount Beginning Balance	Amortized Discount	Bad Debts Expense	Discount Ending Balance	Receivable Ending Balance
1	$8,629.09	$1,370.91	$258.87	$15.53	$1,112.04	$8,887.96
2	$8,887.96	$1,112.04	$266.64	$16.00	$845.40	$9,154.60
3	$9,154.60	$845.40	$274.64	$16.48	$570.76	$9,429.24
4	$9,429.24	$570.76	$282.88	$16.97	$287.88	$9,712.12
5	$9,712.12	$287.88	$287.88	$17.27	0	$10,000

Note that the discount on the contribution is amortized into contribution revenue over the time period until the contribution is expected to be received in cash. As the discount is amortized the bad debt expense is simultaneously increased as well.

Later on, in a future chapter we, will return to other more complex cash contributions which are somewhat unique to nonprofits. This broad category of donations is referred to as split-interest-agreements. A nonprofit shares financial benefits from a trust or pool of funds that may be managed by the nonprofit or by an external trustee or fiscal agent.

GRANTS: CONTRIBUTIONS or EXCHANGE TRANSACTIONS

Grants are a major source of funding for many nonprofits. Grants can have characteristics of exchange transactions or contributions. How the grant is viewed dictates how it will be accounted for. Grants that require nonprofits to provide specific goods or services, or that reimburse a nonprofit for the costs (or cost plus) of providing a particular good or service should be viewed as exchange transactions (both the grantor and the nonprofit are getting benefits from the transaction). For example, a city agency gives a grant to a nonprofit working with homeless people to construct a small apartment complex.

Grants that are viewed as contributions usually offer support of a more general nature to the nonprofit, this money can be used to support your existing programs or this money can be used at the discretion of the nonprofit. Empirically, most grants from governments to nonprofits are more like exchange transactions and grants from private funders (foundations, individuals, etc.) are often more contribution like. Contributions increase cash or receivables (or other assets, or decrease liabilities) and simultaneously increase net assets. Exchange transactions, when funding is received in advance of providing the good or service, create liabilities. Be sure to read

[3] No adjustment is made to bad debt expense. Like in accounting for accounts receivable it is assumed that the 6% default rate is historically accurate.

any footnote material in a financial report dealing with grants so that you will understand how they affect the numbers in the statements.

Example 5: Achievement First Brooklyn Charter Schools

Figure 2.1a and 2.1b contain the grant footnote and the balance sheet from the Achievement First Brooklyn Charter Schools' 2018 audited financial statements. The footnote indicates that all grants have been evaluated as having traits closer to exchange transactions than to contributions. As such the balance sheet shows that on 6/30/17 Achievement had a grant receivable from NYC Department of Education. Achievement had provided services to students for which they had not received reimbursement from the City. Because it was earned, the revenue was booked and the receivable shown. On 6/30/18 the reverse situation occurred. Achievement had received funds from the City in excess of the value of the services provided to students. This does not show up as grant or contribution revenue as this is an exchange transaction. Either Achievement will have had to return $246,092 to the City or it is obligated to provide this much in service to students. Once the service had been provided Achievement will recognize the $246,092 as revenue.

Figure 2.1a: Achievement First Brooklyn Charter Schools Grant Footnote

Grants and other receivables
Grants receivable represent amounts owed to the School based on exchange transactions. Grants receivable that are expected to be collected within one year, and recorded at net realizable value, are $3,289,604 at June 30, 2018. The School has determined that no allowance for uncollectible accounts for receivables is necessary as of June 30, 2018. Such estimate is based on management's assessments of the creditworthiness of its donors, the aging of its receivables as well as current economic conditions and historical information.

Revenue recognition
Revenue from federal, state and local government grants and contracts are recorded by the School when qualifying expenditures are incurred and billable. Funds received in advance for which qualifying expenditures have not been incurred are reflected as refundable advances from state and local government grants in the accompanying statement of financial position. Receivables are recognized to the extent costs have been incurred, but not reimbursed.

Revenue from the state and local governments resulting from the School's charter status is based on the number of students enrolled and is recorded when services are performed in accordance with the charter agreement.

The asset, "Government grants and other receivables" indicates that Achievement has already provided the services or delivered programs under government grants, submitted a "bill" to the governmental agencies for reimbursement and simultaneously recognizes the earned revenue. Many government agencies pay after the nonprofit has incurred costs to provide the services required by the grant.

Figure 2.1b: Achievement First Brooklyn Charter Schools Balance Sheet

Achievement First Brooklyn Charter Schools

Statement of Financial Position
June 30, 2018
(With Comparative Totals for 2017)

Assets

	2018	2017
Cash	$ 5,864,079	$ 747,391
Restricted cash	350,000	350,000
Grants and other receivables	3,337,519	4,973,220
Prepaid expenses and other assets	775,256	639,366
Due from related party	581,810	-
Due from other school	507	-
Due from NYC Department of Education	-	61,274
Construction in process	314,461	21,273
Property and equipment, net	6,555,851	6,609,786
Lease acquisition costs, net	4,997,751	5,224,164
Total assets	$ 22,777,234	$ 18,626,474

Liabilities and Net Assets

	2018	2017
Liabilities		
Accounts payable and accrued expenses	$ 2,191,633	$ 2,244,450
Accrued salaries and other payroll related expenses	1,587,922	1,628,420
Due to related party	-	1,208,345
Due to other schools	14,650	43,487
Due to NYC Department of Education	246,092	-
Due to NYS Education Department	665,915	-
Deferred revenue	18,528	40,641
Loans payable	2,730,771	2,046,897
Total liabilities	7,455,511	7,212,240
Net assets		
Unrestricted		
Undesignated	14,821,723	11,413,840
Board-designated reserve	500,000	-
Temporarily restricted	-	394
Total net assets	15,321,723	11,414,234
Total liabilities and net assets	$ 22,777,234	$ 18,626,474

EXAMPLES OF GIFTS IN KIND (noncash gifts)

It is very common for nonprofit entities to receive noncash gifts, referred to as gifts in kind. Nonprofits are often the recipient of gifts of fixed assets (buildings, trucks, etc.) building materials, food and medicines for redistribution, works of art for their collections and for resale, clothing, goods given to be sold at fundraising events, as well as many other items. They also are the beneficiaries of the work of volunteers. They may receive loans with no interest payments required or loans at below market rates of interest. Sometimes their loans are forgiven. Myriad accounting issues arise with respect to these sorts of gifts in kind. Which of these gifts should be recognized in the financial statements? When should they be recognized? How should they be valued?

Volunteer labor

With respect to volunteer labor, the footnote in Figure 2.2, taken from the 2018 audited financial statements of Habitat for Humanity of Metro Denver, Inc. spells out the two GAAP criteria for recognizing volunteer labor in the financial statements.

Figure 2.2: Habitat for Humanity of Metro Denver Volunteer Labor

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Donated Services and Goods

Donated services are recognized as contributions at estimated fair value on the date of receipt if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by Habitat.

In 2018, Habitat estimated the cost of volunteer labor to be approximately $27,000 to $32,000 for a single-family home and $3,400 for a unit for a renovation or repossession. These volunteer costs are recognized as contribution revenue and cost of homes sold in the consolidated statement of activities when the home is sold.

Approximately $7,000 was recorded for donated materials and electrical services on each Habitat home during 2018.

Donated property utilized in the operations of Habitat is recorded at the estimated fair value at the date of the donation.

Consistent with the Habitat International *Affiliate Operations Manual*, goods donated to the ReStores are reflected as revenue at the time of sale when there is an objective, measurable basis for determining fair value. This accounting reflects the nature of many donations received by the ReStores wherein significant uncertainties exist about the realizability of the values; thus, fair value is not determinable within reasonable limits until the time of sale.

As an example, the labor of volunteer "pin stripers" in a hospital would not be accounted for as the hospital would not hire these volunteers if they had to pay for them. In the case of Denver habitat the following journal entry is made when volunteers construct houses (because the voluntary labor increases the value of a nonfinancial asset, the house under construction, and would have to be paid for if not donated).

The following journal entry is made when volunteers construct houses (because the voluntary labor increases the value of a nonfinancial asset, the house under construction, and would have to be paid for if not donated).

Construction in Progress……………..	xx	
Contributed labor revenue…..		xx

The construction in progress account becomes cost of homes sold (an expense) when the property is transferred to an owner.

The value of contributed labor can be substantial and in some instances the nonprofit might have to scale back what it does in the absence of volunteer labor. Figure 2.3 contains a footnote relating to volunteer labor from the Oregon Humane Society. The labor donated last year (2018) was the equivalent of 135 full time employees (none of which appears as contribution revenue in the statement of activities). Obviously managing an army of volunteers does not come without costs. Figure 2.4 shows the cost of managing the volunteer labor.

Figure 2.3: Oregon Humane Society Volunteer Labor

Volunteers – The compassion of the Society's volunteer force changed the world for each dog, cat, rabbit, rodent, or bird they helped on a daily basis. The lives saved, through a kind word, a walk, a gentle touch, a photo taken, or a new toy, are those of this community's homeless animals. Foster Care has contributed significant time to the Society's volunteer hours. Donating 281,613 hours of service to all programs offered at the Society in 2018, volunteers provided services equivalent to 135 full-time employees.

Adult Volunteers

- Total adult volunteer hours – 281,613;
- Total number of individuals volunteering their time to OHS was 5,359;
- Volunteer hours for behavior and enrichment care totaled 56,800; and
- Other volunteer hours totaled 224,813.

Youth and Community Groups Program

- Individuals who participated in the Youth and Community Groups Program numbered 2,842, providing 15,813 volunteer hours;
- Individual youth volunteers (not including groups) numbered 249, resulting in 9,911 hours volunteered; and
- Groups totaled 382 group volunteers – 5,900 hours volunteered.

Foster Care

- There were 525 foster care volunteer families, volunteering 165,470 hours; and
- Animals fostered totaled 2,030.

Figure 2.3: Oregon Humane Society Statement of Functional Expenses excerpt

		2018									
		Program services									
		Sheltering and adoptions	Medical services	Community awareness	Humane education	Investigations and rescue	Best Friends' Corner	Volunteers	Behavior, training, and animal-assisted interactions	ASAP/ Spay & Save	Total
Salaries	$	2,688,055	1,240,650	628,476	162,126	439,866	148,346	183,062	367,051	140,183	5,997,815
Payroll taxes		201,066	90,205	44,316	13,929	31,316	13,987	13,783	26,203	12,010	446,815
Group insurance		321,084	106,072	73,260	12,662	39,040	18,359	17,645	34,116	17,755	639,995
Retirement		104,210	57,528	33,347	5,751	24,236	7,066	8,311	17,988	5,779	264,216
Workers' compensation		18,433	5,475	2,963	549	1,872	565	820	1,453	542	32,672
Professional services		25,588	8,452	141,470	1,126	2,970	1,429	1,151	18,687	2,226	203,099
Surgical, medications, and lab		14,943	267,075	–	–	13,525	–	–	–	69,879	365,222
Animal transportation and boarding		93,817	–	–	–	4,840	–	–	–	–	98,657
Feed, shelter, and program supplies		426,468	122,589	848	16,968	14,325	812	63,102	4,661	659	650,432
Office supplies and postage		16,709	6,065	2,432	660	6,634	801	1,074	4,729	1,763	40,867
Printing		100	105	385	690	235	–	–	830	530	2,875
Communication		862	–	600	–	456	–	–	–	–	1,918
Direct mail		–	–	–	–	–	–	–	–	–	–
Vehicle maintenance		15,251	–	1,581	6	6,697	–	–	–	–	23,535
Travel and training		61,958	18,258	5,629	1,237	11,789	803	2,951	6,123	377	109,125
Occupancy and equipment		7,674	4,069	495	–	1,760	–	2,995	–	35	17,028
Repairs and maintenance		178	9,090	348	–	10	–	–	–	–	9,626
Insurance		11,462	2,090	2,084	1,255	24,915	834	699	764	1,651	45,754
Dues and subscriptions		3,262	6,732	750	130	6,880	–	390	1,530	–	19,674
Computer		12,129	7,932	21,828	–	1,756	477	8,392	–	793	53,307
Development and promotion		–	70	122,335	–	1,987	–	–	–	588	124,980
Public awareness		–	–	1,392,048	–	–	–	–	–	5,436	1,397,484
Bank fees		38,510	4,228	58,891	2,912	267	11,304	93	5,032	12	121,249
Depreciation		432,145	152,321	21,425	26,971	59,745	20,301	8,466	59,054	6,366	786,794
Other		21,166	17,242	2,178	1,512	32,938	102	3,296	1,021	946	80,401
Total expenses before allocations		4,515,070	2,126,248	2,557,689	248,484	727,859	225,186	316,230	549,242	267,530	11,533,538
Allocation of technology and facilities costs		1,135,534	325,234	103,037	69,829	65,871	63,393	33,933	151,061	32,036	1,979,928
Total expenses	$	5,650,604	2,451,482	2,660,726	318,313	793,730	288,579	350,163	700,303	299,566	13,513,466

See accompanying notes to financial statements.

Forgivable Loans

It is not uncommon for municipalities, states and foundations to loan money to nonprofit organizations to construct various kinds of housing associated with social program delivery (homeless shelters, subsidized housing, halfway houses, etc.). These "construction loans" are forgiven once the agreed upon housing is constructed and turned over to the funder to carry on its social program. As an example, consider the following note taken from Habitat for Humanity of Metro Denver's 2018 financial report.

Figure 2.4: Habitat for Humanity of Metro Denver (Forgivable Loans)

Note 14 - Forgivable Notes Payable

Habitat's forgivable notes payable consist of the following:

	June 30, 2018	June 30, 2017
Notes due to the Denver Housing Authority. No interest or principal payments required. The amounts were forgiven and recorded as forgiveness of debt during 2018.	$ -	$ 840,000
Notes due to the City and County of Denver. No interest or principal payments required. The amounts will be forgiven and recorded as grants revenue upon the sale of the last units developed with these funds to qualifying homeowners. During 2018, $1,391,300 was forgiven and recorded as forgiveness of debt. As of June 30, 2018, Habitat is using the remaining funds for those specified purposes.	400,800	1,792,100

Figures 2.5, 2.6 and 2.7 contain portions of the Habitat's financial statements for the 2018 fiscal year. For the moment, think of the statement of activities as the nonprofit's income statement. This is not literally true and we will develop a more comprehensive understanding of this in chapters 3 and 4. However, revenues and expenses are the revenues and expenses we are familiar with from for profit accounting and this knowledge alone will enable us to see some things about contributions and how they appear in the statements. The statement of financial position (balance sheet) and the statement of cash flows are very similar to their for profit equivalents. Again, in the next couple of chapters we will get into the finer detail of the differences and similarities in these statements across the sectors.

In the statement of activities (Figure 2.5) first note the many in-kind revenues and expenses that appear in it: professional services, inventory, and donated inventory expense, labor and construction materials. Other donated costs are hidden in other categories. For instance, the donated labor and construction materials value was put into Construction in Progress and appears as a cost in the low cost housing program expense. So there is both a revenue and expense for this item in the statement of activities.

Figure 2.5: Austin Habitat: Statement of Activities

AUSTIN HABITAT FOR HUMANITY, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2013

	Unrestricted	Temporarily Restricted	Total
REVENUES:			
Contributions and other:			
Contributions and grants	$ 3,896,217	121,538	4,017,755
Gain on sale of property and equipment	71,632	-	71,632
Partnership income	24,266	-	24,266
In-kind professional services and other	3,585	-	3,585
Investment income	549	-	549
Other revenue	313,754	-	313,754
Net assets released from restrictions	87,615	(87,615)	-
Total contributions and other	4,397,618	33,923	4,431,541
ReStore revenues:			
In-kind contributions of inventory	876,853	-	876,853
ReStore sales of donated inventory	876,853	-	876,853
Donated inventory expense	(876,853)	-	(876,853)
ReStore sales of purchased inventory	579,429	-	579,429
ReStore cost of goods sold	(318,550)	-	(318,550)
Total ReStore revenues, net	1,137,732	-	1,137,732
Low-cost housing revenues:			
Home sales	1,505,000	-	1,505,000
In-kind contributions of labor and construction materials	899,021	-	899,021
Total low-cost housing revenues	2,404,021	-	2,404,021
Total revenues and net assets released from restrictions	7,939,371	33,923	7,973,294
EXPENSES:			
Low-cost housing program	5,713,286	-	5,713,286
ReStore program	514,703	-	514,703
Fundraising	358,145	-	358,145
Management and general	482,196	-	482,196
Total expenses	7,068,330	-	7,068,330
CHANGE IN NET ASSETS	871,041	33,923	904,964
NET ASSETS, beginning of year	9,232,700	84,809	9,317,509
NET ASSETS, end of year	$ 10,103,741	118,732	10,222,473

Figure 2.6: Austin Habitat: Statement of Financial Position

Now look at the statement of financial position in Figure 2.6. It looks similar to any for profit balance sheet with the owner's equity section replaced by net assets. We'll just have to get used to seeing some assets and liabilities classified in different sections of the balance sheet. For instance, *Construction in Progress* is a current asset and *Forgivable Loans Payable* is a current liability because these are part of the normal short-term operating activities of Austin Habitat. While forgivable loans payable is one of the largest liabilities on Habitat's balance sheet, is it really a liability as Habitat has every intention to complete its construction projects and meet all conditions of getting the loans forgiven and never have to pay them off? This is just another example of another nonprofit theme, *conditions*. Technically it is debt in the conventional sense because all the conditions of forgiveness are not yet met. But should we include it in the computation of Austin Habitat's debt to equity ratio? Probably not. More on that later.

AUSTIN HABITAT FOR HUMANITY, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2013 AND 2012

	2013	2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,001,899	$ 1,572,495
Restricted cash	151,242	177,730
Marketable investments	1,139,235	-
Accounts receivable	452,853	192,203
Grants receivable	705,188	14,271
Mortgages receivable, current portion, net	292,909	273,816
ReStore inventory	394,454	290,481
Construction in progress	1,172,285	824,248
Prepaid expenses and other	251,422	164,318
Total current assets	5,561,487	3,509,562
LAND HELD FOR DEVELOPMENT	2,547,010	3,815,201
MORTGAGES RECEIVABLE, long-term portion, net	7,127,392	6,593,343
INVESTMENTS IN JOINT VENTURES	2,429,247	2,429,247
PROPERTY AND EQUIPMENT, net	365,276	440,883
INTANGIBLES, net	133,588	151,511
TOTAL ASSETS	$ 18,164,000	$ 16,939,747
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 356,469	$ 26,579
Accrued expenses	440,886	394,377
Loans payable - mortgages	729,549	468,469
Forgivable loans payable	2,311,890	3,223,508
Notes payable, current portion, net of discount	51,188	31,775
Total current liabilities	3,889,982	4,144,708
NOTES PAYABLE, long-term portion, net of discount	4,051,545	3,477,530
Total liabilities	7,941,527	7,622,238
NET ASSETS:		
Unrestricted	10,103,741	9,232,700
Temporarily restricted	118,732	84,809
Total net assets	10,222,473	9,317,509
TOTAL LIABILITIES AND NET ASSETS	$ 18,164,000	$ 16,939,747

Finally let's take a quick look at Austin Habitat's cash flow statement (Figure 2.7). In the operating section we see that the balance in *Forgivable Loans Payable* went down by $911,618 (check the balance sheet). Even though this decrease is shown as a use of cash that really is not the case as there is an offsetting grant revenue in the increase in net assets for the year. As the footnote indicates the following journal entry was made:

Forgivable loans payable. 911,618
Grant revenue ……... 911,618

We will come back often to the indirect method cash flow statement as we believe it is key to relating the cash flow story to the accrual story to truly understand what is going on in the organization. But first, let us consider a few more examples of revenues and expenses unique to nonprofit organizations.

Figure 2.7: Austin Habitat: Cash Flow Statement

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 904,964	$ 981,170
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Mortgages receivable discount	478,318	500,200
Amortization - mortgages receivable discount	(398,996)	(435,641)
Debt discount	(17,448)	-
Noncash interest expense	2,737	-
Depreciation expense	56,971	46,871
Amortization expense - intangibles	17,923	12,913
Unrealized gain on investments	(549)	-
Gain on sale of property and equipment	(71,632)	(174,673)
Changes in assets and liabilities that (used) provided cash:		
Accounts receivable	(260,650)	(40,477)
Grants receivable	(690,917)	18,499
Mortgages receivable	(632,464)	(858,181)
ReStore inventory	(103,973)	(20,091)
Construction in progress	(348,037)	891,653
Prepaid expenses and other	(87,104)	42,311
Land held for development	1,268,191	(45,059)
Accounts payable	329,890	(165,336)
Accrued expenses	46,509	302,261
Forgivable loans payable	(911,618)	(1,075,933)
Net cash (used in) provided by operating activities	(417,885)	(19,513)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Restricted cash	26,488	(127,671)
Purchases of investments	(1,138,686)	-
Investments in joint ventures	-	(1,431,009)
Purchases of property and equipment	(39,668)	(273,482)
Dispositions of of property and equipment	58,304	147,991
Proceeds from the sale of property and equipment	71,632	316,193
Purchases of intangible assets	-	(80,649)
Net cash used in investing activities	(1,021,930)	(1,448,627)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds on notes payable	916,500	2,154,679
Payments on notes payable	(308,361)	(341,521)
Proceeds on loans payable - mortgages	261,080	148,234
Net cash provided by financing activities	869,219	1,961,392
NET CHANGE IN CASH AND CASH EQUIVALENTS	(570,596)	493,252
CASH AND CASH EQUIVALENTS, beginning of year	1,572,495	1,079,243
CASH AND CASH EQUIVALENTS, end of year	$ 1,001,899	$ 1,572,495

Refundable Grants and Advances

The following note is taken from 2018 audited financial statements of The Trickle Up Program, Inc., an international program set up to provide seed capital and business training to impoverished populations around the world (see Figure 2.8). Trickle Up is the beneficiary of a $250,000 grant with a term of 5 years. During the five year period it can use earnings generated by the grant to support its operations but must return the $250,000 at the end of the 5 year period.

At the time the grant is received Trickle Up makes the following journal entry to recognize the grant. Refundable Advance is a liability on Trickle Up's balance sheet.

	Debit	Credit
Cash…………………….…………	250,000	
Refundable Advance …...		250,000

Every year the investment earns income of $x Trickle Up recognizes the income as grant revenue.

	Debit	Credit
Cash….. …………………………	x	
Grant Revenue …………..		x

Finally when the grant is given back Trickle Up will make the following entry.

	Debit	Credit
Refundable Grant ………………..	250,000	
Cash ……………………..		250,000

The point is that only the earnings from the temporary "loan" of the money is grant revenue, the $250,000 is not revenue as it cannot be spent and there is an obligation to repay it.

Figure 2.8: Trickle Up Program Note

Note 6 - <u>Refundable Advance</u>

Trickle Up received a term endowment grant in the amount of $250,000. The grant has a five year term expiring on March 31, 2019. Upon the expiration of the term, the donor has the right to redesignate the endowment. Accordingly, this amount has been recognized as a refundable advance in the accompanying financial statements. During the term of the grant, Trickle Up may use any investment earnings for its general operations.

Subsidized Interest

The Figure 2.9 and Figure 2.10 are excerpted from the financial statements of the Corporation for Supportive Housing. Nonprofits are often the beneficiaries of no-interest or below market rate interest loans. GAAP requires that interest expense be reported at a fair market rate in the financial statements and the difference between that market rate and what they actually pay is a contribution in kind.

Figure 2.9: Corporation for Supportive Housing Statement of Expenses by Function

	2018			
	Program services	Management and general	Fund raising	Total
Expenses				
Salaries and wages	$ 9,811,867	$ 2,919,487	$ 284,719	$ 13,016,073
Employee benefits and payroll taxes	2,421,609	702,894	72,947	3,197,450
Consultants	3,432,397	224,086	-	3,656,483
Professional fees	197,825	262,703	-	460,528
Rent, utilities, and maintenance	712,724	380,915	45,662	1,139,301
Management information system	56,213	157,445	-	213,658
Telephone	123,133	36,032	3,721	162,886
Supplies	26,604	17,443	588	44,635
Equipment repairs and maintenance	34,822	72,548	-	107,370
Postage and messenger services	13,814	3,941	396	18,151
Duplication	60,442	18,512	1,479	80,433
Staff travel	808,749	166,864	2,764	978,377
Insurance	2,177	80,193	-	82,370
Other administrative expenses	92,135	174,535	5,391	272,061
Conferences, meetings and seminars	757,905	94,459	143	852,507
Grants and direct support	13,346,673	768	-	13,347,441
Depreciation and amortization	9,422	95,175	-	104,597
Interest	3,000,973	-	-	3,000,973
In-kind interest and services	1,975,877	-	-	1,975,877
Income Taxes	5,300	-	-	5,300
Provision for bad debt expense	1,098,855	-	-	1,098,855
	$ 37,080,516	$ 5,408,000	$ 417,810	$ 43,815,326

Figure 2.10: Corporation for Supportive Housing Interest Footnotes

Note I - Loans payable

Interest expense for 2018 and 2017 was $4,971,850 and $3,872,263, respectively, including $1,970,877 and $2,061,733, respectively, of in-kind interest (as disclosed in Note J).

Note J - In-kind contributions

As disclosed in Note I, loans payable consist of loans that bear either no interest or interest at below-market rates. The difference between interest computed at a reasonable fair-market rate (5%) and at the stated interest rates is included in the accompanying consolidated statements of activities as an in-kind contribution and corresponding expense. This amount was determined to be $1,970,877 and $2,061,733 for 2018 and 2017, respectively.

Other Contributions in Kind

It is not difficult to find examples of nonprofits that have many different gifts in kind that sum to a significant portion of their total revenues. As a reader you should always ask and try to understand exactly how the values were arrived at for these kinds of revenues. Some gifts in kind may only be mentioned in the footnotes if there is not a reasonable basis for attaching a fair value to the received gift in kind. The following is excerpted from the Boys & Girls Clubs of King County in Seattle, Washington (Figure 2.11).

Figure 2.11: Boys and Girls Clubs of King County

In-kind goods and services

Donated marketable securities and other non-cash donations are recorded as contributions at their estimated fair values at the date of donation. The following in-kind support has been recorded in the financial statements for the years ended June 30:

	2017	2016
Goods	$ 389,097	$ 66,282
Imputed interest on non-interest bearing notes	135,000	155,138
Use of contributed facilities and equipment	740,424	740,424
Services	38,218	4,924
Total in-kind expenses	1,302,739	966,768
Reduction in contributed facilities receivable	(194,989)	(186,212)
Debt forgiveness	1,250,000	447,500
Land	1,890,000	-
Property and equipment	64,991	16,100
Total in-kind revenue	$ 4,312,741	$ 1,244,156

In-kind support benefited the following activities for the years ended June 30:

	2017	2016
Program services	$ 1,265,961	$ 961,844
Management and general	13,760	4,160
Fundraising	23,018	764
	$ 1,302,739	$ 966,768

There is an appendix to this chapter. Appendix 2A (Feed the Children) details an example of a large nonprofit that ran into trouble because of the questionable practices it used to value contributions of medicines. .