

MEALS ON WHEELS ASSOCIATION OF AMERICA

NON-PROFIT FINANCIAL MANAGEMENT INSTITUTE

Intermediate Specialist Certificate Program

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January 19 – 20, 2012



Learning Objectives

At the end of this program, participants should be able to:

1. Read and understand the basic information conveyed by the financial statements of a non-profit organization.
2. Understand the impact of typical business transactions of a non-profit organization's financial statements.



Learning Objectives

3. Perform basic financial analysis of a non-profit organization.
4. Draw conclusions about the financial strength and operating performance of a non-profit organization.
5. Understand the general requirements of the Form 990 tax return.
6. Understand the basics of budgeting and be able to develop a detailed budget.
7. Develop some measurements to monitor organizational effectiveness.

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Program Schedule

Day One - Thursday, January 19, 2012

- Introduction to non-profit organizations
- Financial statements of non-profits and their business transactions
- Financial analysis of non-profits

Program Schedule

Day Two – Friday, January 20, 2012

- The Form 990 tax return
- Budgeting and Cash Management
- Organizational Effectiveness
- General questions, program summary and wrap-up

Introduction to Non-Profit Organizations

- What is unique about non-profit organizations?
- How are non-profits financially different from for-profit entities?

Financial Statement Differences Between Non-Profit and For-Profit Entities

Non-Profit

- Statement of Financial Position/Condition
- Statement of Activities
- Statement of Cash Flows
- Notes to Financial Statements

For-Profit

- Balance Sheet
- Income Statement
- Statement of Cash Flows
- Notes to Financial Statements

Financial Statement Differences

- Statement of Financial Position — includes the organization's assets, liabilities and its "net assets"
- Statement of Activities — reports the organization's revenues and expenses
- Statement of Cash Flows — reports cash inflows and outflows

Financial Statement Differences

- Non-profits have "net assets" on their statement of financial position. Three types or categories of net assets:
 - Unrestricted
 - Temporarily Restricted
 - Permanently Restricted

The Statement of Financial Position—A Closer Look

- The statement is as of a “point in time”—covers a specific date (usually at month-end or year-end)
- Includes assets, liabilities and “net assets”
- A summary of what the organization owns, owes, and what’s “left over”

The Statement of Financial Position—A Closer Look

Let's start with general definitions:

- Assets—
- Liabilities—
- Net Assets—

The statement is based on the accounting equation:

$$\text{Assets} = \text{Liabilities} + \text{Net Assets}$$

The Statement of Financial Position—A Closer Look

Classification on the statement:

Current vs. non-current

Current Assets (examples)

Cash	Prepaid expenses
Accounts receivable	Other assets
Short-term investments	

The Statement of Financial Position—A Closer Look

Long-term assets (examples)

Investments	Vehicles
Land	Furniture & Fixtures
Buildings	Vehicles
Equipment	

The Statement of Financial Position—A Closer Look

Current Liabilities (examples)

Accounts payable

Accrued liabilities

Current portion of long-term obligations
(e.g., mortgage)

The Statement of Financial Position—A Closer Look

Long-term liabilities (examples)

Bonds payable

Mortgage loan payable

Pension liability

The Statement of Financial Position: Net Asset Categories

- Unrestricted –
- Temporarily Restricted –
- Permanently Restricted –

Statement of Activities—A Closer Look

- Captures the “operations” of the organization
- Covers a “period” of time (typically a month/quarter/year)
- Reports information in the categories of the net assets (unrestricted, temporarily restricted, and permanently restricted)

Statement of Activities— Accounting for Contributions

- Contributions:
 - a) Conditional promise to give
 - b) Unconditional promise to give
 - c) Donated goods and services
- Unconditional promises to give:
 - a) Unrestricted
 - b) Restricted—temporarily or permanent

Statement of Activities—A Closer Look

Operations of the organization:

- Public Support—contributions, grants, etc. (impact of restrictions)
- Revenues—contracted services, rental revenue, program fees, etc.
- “In-kind” donations
- “Releases from Restrictions”

Statement of Activities—A Closer Look

Expenses—typically shown two ways:

- Summarized into categories: program expenses, general & administrative, and fund-raising
- Additionally, most organizations provide more detail on expenses in a “Statement of Functional Expenses” which shows the nature of the expenses (wages, benefits, etc.)

Example Transactions Affecting Non-Profit Organizations and their Financial Statement Effects

Let's review a series of transactions of a typical non-profit organization and their specific effect on the organization's financial statements.

Remember the Accounting Equation:

$$\text{Assets} = \text{Liabilities} + \text{Net Assets}$$

Example Transactions Affecting Non-Profit Organizations and their Financial Statement Effects

The following is a series of transactions experienced by the Anytown Meals Program (AMP), a non-profit organization, for a six month period.

Transaction #1

AMP receives \$150,000 in unrestricted donations, and another \$400,000 in pledges (no restrictions) that are to be paid by year-end. Experience shows an 80% collection rate on pledges.



Example Transactions Affecting Non-Profit Organizations and their Financial Statement Effects

Transaction #1—Effect

Assets—Cash increases by \$150,000 and pledges receivable increase by \$400,000 net of allowance for uncollectible pledges of \$80,000.

Net Assets—unrestricted—increases from unrestricted contributions revenue of \$470,000.



Example Transactions Affecting Non-Profit Organizations and their Financial Statement Effects

Transaction #2

AMP receives \$310,000 in cash related to the pledges receivable.

Effect #2

Assets—Cash increases by \$310,000
Pledges receivable decreases by
\$310,000

Example Transactions Affecting Non-Profit Organizations and their Financial Statement Effects

Transaction #3

AMP determines that they need an additional storage facility. Estimated cost is \$300,000. Dr. Glad Todonate agrees to contribute \$150,000 *if* AMP can provide the remaining amount from fund-raising efforts.

Example Transactions Affecting Non-Profit Organizations and their Financial Statement Effects

Effect #3

What is the effect on AMP's financial statements at this time? Why?

Example Transactions Affecting Non-Profit Organizations and their Financial Statement Effects

Transaction #4

Dewey, Cheatem & Howe, Attorneys, provided services to AMP at no charge. The fair market value of the legal services provided was \$15,000.

Effect #4

Net Assets—unrestricted—recognize an increase in donated services revenue of \$15,000 and an offsetting increase in legal expense of \$15,000.

Why is this transaction recorded in this manner?

Example Transactions Affecting Non-Profit Organizations and their Financial Statement Effects

Transaction #5

AMP's Fund-raising and Development Committee raises \$165,000 specifically for the storage facility. Dr. Glad Todonate provides his donation of \$150,000.

Effect #5

Assets—Cash increases by \$315,000

Net Assets—temporarily restricted—contributions revenue increases by \$315,000.



Example Transactions Affecting Non-Profit Organizations and their Financial Statement Effects

Transaction #6

Construction of the storage facility completed. Final cost was \$320,000. Paid for with amounts raised and remainder with unrestricted funds.

Effect #6

Assets—Buildings increase and cash decreases by \$320,000.

Net Assets—a release from restriction (RFR) occurs, increasing unrestricted and decreasing temporarily restricted.



Example Transactions Affecting Non-Profit Organizations and their Financial Statement Effects

Transaction #7

Received county contract (Area Agency on Aging) to provide meals to qualified county residents for the next six months. Received advance payment of \$20,000. County agency will be final billed based on actual meal counts and agreed upon amount per meal served (\$2.05/meal) plus delivery expense.

Effect #7

Assets—Cash increases by \$20,000.

Liabilities—Unearned revenue increases by \$20,000 (will be recognized as contract revenue when earned).

Example Transactions Affecting Non-Profit Organizations and their Financial Statement Effects

Transaction #8

AMP pays for the following expenses and purchases during the period:

Salaries and wages	\$78,300
Payroll taxes & benefits	51,485
Utilities	24,100
Food purchases	225,000
Supplies	33,575

Example Transactions Affecting Non-Profit Organizations and their Financial Statement Effects

Effect #8

Assets—cash decreases by \$412,460.
Food inventory increases by \$225,000.
Total assets decrease by \$187,460 (net
effect).

Unrestricted net assets—decreases by
\$187,460 (total of the various expenses).

Example Transactions Affecting Non-Profit Organizations and their Financial Statement Effects

Transaction #9

Billed the county Area Agency on Aging for meals
served during the period. 10,105 meals served @
\$2.05/meal (per contract), less advance received of
\$20,000, plus \$1,875 in delivery expenses.

$$(10,105 \times \$2.05) - \$20,000 + \$1,875 = \$22,590.25$$

Effect #9

Assets—Accounts receivable increases by \$22,590.25

Net assets—unrestricted—increases by \$22,590.25
(County Contract Revenue)

Example Transactions Affecting Non-Profit Organizations and their Financial Statement Effects

Transaction #10

Received food donations, 232,750 pounds, valued at \$1.50/lb., from various sources (grocery stores, bakeries, etc.).

Effect #10

Assets—Food inventory increases by \$349,125.

Net Assets—unrestricted—donated goods revenue increases by \$349,125.



Example Transactions Affecting Non-Profit Organizations and their Financial Statement Effects

Transaction #11

Local residents donate 675 hours of volunteer time to the operation. AMP would have paid \$7.25/hour (minimum wage) if it had to hire individuals to perform these tasks.

Effect #11

Nothing is recorded in the accounting records. Why not?



Example Transactions Affecting Non-Profit Organizations and their Financial Statement Effects

Transaction #12

A local foundation makes a pledge of \$150,000 to AMP, payable in three years. The present value of the pledge today is \$125,943 (assuming a 6% interest rate).

Effect #12

Assets—pledges receivable increase by \$125,943.

Net assets—temporarily restricted—contribution revenue increases by \$125,943 (time restriction)



Example Transactions Affecting Non-Profit Organizations and their Financial Statement Effects

Transaction #13

Dr. Glad Todonate and several of his friends donate \$350,000 to the organization to establish an endowment fund. The principal cannot be utilized; however, investment earnings can be used for AMP's general operations.



Example Transactions Affecting Non-Profit Organizations and their Financial Statement Effects

Effect #13

Assets—cash/investments increase by \$350,000.

Net Assets—permanently restricted—contribution revenue is reported in the amount of \$350,000. Future investment income on the fund will be unrestricted.

Example Transactions Affecting Non-Profit Organizations and their Financial Statement Effects

Transaction #14

A physical count of the food inventory on hand at the end of the period valued it at \$42,285.
(Purchases + donations less ending amount)

Effect #14

Assets—decrease inventory by \$531,840.

Net Assets—unrestricted—decrease by recognizing \$531,840 in food expense.

In-Class Exercise—Transactions and Their Effect on Non-Profit Financial Statements

- Participants will be provided a list of transactions for a hypothetical non-profit organization (see separate handout)
- Participants will “process” the transactions on pre-printed forms and prepare resulting financial statements for the organization (see separate handouts)