



LOOKING AT THE TOP LINE

Understanding Contributions vs. Exchange Transactions

Not-for-Profit Webinar

November 16, 2023



INTRODUCTION

GYF Strongly Believes in Serving Those Who Serve Others

- We are proud that, since our founding in 1990, serving the non-profit industry has been a primary focus for our firm
- Our professionals value a philanthropic spirit and culture and dedicate significant portions of their careers to serving non-profit organizations
- We utilize the expertise gained from assisting other non-profits to help you concentrate on your central purpose and fulfill your mission

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MEET THE EXPERTS



Megan Troxell, CPA
Partner – A&A Services Group
TROXELL@GYF.COM



Robin Ryan, CPA
Director – A&A Services Group
RYAN@GYF.COM

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TODAY'S OBJECTIVES

- Identify and distinguish between contributions and exchange transactions
- Determine required financial statement presentation and disclosure
- Discuss budgeting and forecasting best practices, including internal and external communication

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SOURCES OF “REVENUE” (POLL)

How many sources of revenue does your organization have?

- Single source
- 2-4 sources
- 5-7 sources
- 8 or more

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SOURCES OF “REVENUE”

We’ll cover today:

- Program service fees
- Contributions
- Grants
- Tuition
- Special events
- Membership dues
- Gifts in-kind
- Conditional gifts
- Merchandise sales
- Bequests

Excluded from discussion:

- Governmental assistance (COVID-related)
- Rent income
- Investment income
- Sale of land or other assets
- Oil & gas royalties

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Identifying and Distinguishing between Contributions and Exchange Transactions

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CONTRIBUTIONS VS. OTHER TRANSACTIONS

Importance of Distinguishing Contributions from Other Transactions

- Potential for misstating revenues and expenses
- Timing of recognition
- Classification

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CONTRIBUTIONS VS. OTHER TRANSACTIONS

Potential for misstating revenues and expenses

- Revenues and expenses can be misstated if an improper decision is made about whether a transaction is a contribution or an exchange transaction.
- Receipt as an agent, trustee, or intermediary is not revenue

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CONTRIBUTIONS VS. OTHER TRANSACTIONS

Timing of Recognition – Rescue Mission Example

- The Rescue Mission has an agreement with another party requiring the Mission to serve meals
- The agreement would be recorded differently depending on whether the transaction is a purchase (exchange) transaction, an unconditional contribution, or a conditional contribution

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CONTRIBUTIONS VS. OTHER TRANSACTIONS

Timing of Recognition – Rescue Mission Example

EXCHANGE TRANSACTION

If the agreement specifies that up to 100 meals will be purchased that month for a contract price of \$5 per meal, the revenue will be recognized as the meals are served. The expenses will be deferred until they can be matched with the revenue.

UNCONDITIONAL CONTRIBUTION

If the agreement specifies that the gift be used to serve meals in the Mission's kitchen, the revenue will be recognized when the contribution is received (even if meals have not yet been served). At a future date, when the meals are served, the expenses will be recognized (along with the release of the restrictions on the gift).

CONDITIONAL CONTRIBUTION

If the agreement specifies a \$500 contribution will be made if the Mission serves 100 meals in its kitchen during the month, the contribution is not recognized until that condition is met. Expenses would be recognized when the meals are served (prior to the revenue recognition). Revenue would be recognized only if 100+ meals were served during the month.

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CONTRIBUTIONS VS. OTHER TRANSACTIONS

Classification of revenues

- Revenues may be misclassified if transactions are improperly determined to be exchange transactions of contributions
- Existence or absence of donor-imposed restrictions
 - Exchange transactions are *always* recognized as increase in net assets without donor restrictions
 - Contributions depend

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CONTRIBUTIONS VS. OTHER TRANSACTIONS

Determination may not impact the financial statements

- If it is difficult to determine, may be helpful to analyze whether the revenue and expense recognition and classification would be the same, regardless of the determination
- If the same, it is generally sufficient to report with an appropriate description; however, disclosures need to be considered

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DEFINITION OF A CONTRIBUTION


Contribution has the following characteristics:

- It is an unconditional transfer of assets to an entity
- Consists of: 1) cash or other assets, or 2) reduction of liability
- From another entity acting other than as an owner
- Voluntary
- Nonreciprocal


Must have all of these characteristics!

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IDENTIFICATION & DETERMINATION

Determining If a Transfer Is Nonreciprocal

Does the resource provider receive anything in exchange?

NO
↓

Record the transaction as a contribution

→ YES →

Is the value given up by the organization more than nominal when compared to the value it received?

NO
↓

Record the transaction as a contribution.
Record an expense for the value given up by the organization.

→ YES →

Is the value received commensurate with the value given?

NO
↓


Record the transaction as a contribution to the extent that the value received exceeds the value given.

→ YES →


Transaction is not a contribution. Record transaction as an exchange transaction.

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CONTRIBUTION VS. EXCHANGE (POLL)

What is the makeup of your Organization's top line revenue?

- >50% contribution; <50 % exchange transaction
- >50% exchange transaction; <50 % contribution
- Approximately even
- Close to "single" source (either *all* contribution or *all* exchange)

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REVENUE RECOGNITION PRINCIPLES

“New” Topic 606: Revenue from Contracts with Customers

- Background
 - Prior to ASU 2014-09 there was a combination of broad principles with transaction-specific and industry-specific rules
 - Current guidance, effective for all entities beginning with years after January 1, 2019 is a five-step process

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REVENUE RECOGNITION PRINCIPLES


“An entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to receive in exchange for those goods or services.”

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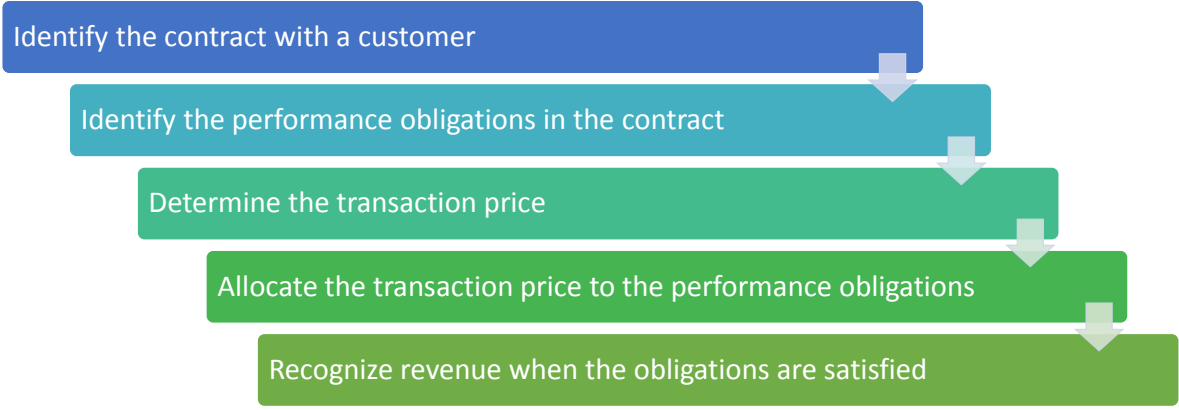


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FIVE STEP PROCESS



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IDENTIFYING CONTRACTS

Contracts exist when all of the following hold true:

- Must have commercial substance (impact cash flows)
- All parties approve it and are committed to performance
- Each party has rights regarding the transfer of goods/services
- The payment terms can be identified
- Collection of consideration is probably (ability and intent)

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IDENTIFYING CONTRACTS

- ***Contracts create enforceable rights and obligations between two or more parties***
- ***Can be written, oral, or implied by an entity's customary business practices***

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CONTRACTS – NFP CONSIDERATIONS

- NFP's must still first evaluate whether an agreement is a contract (exchange transaction) or a contribution
 - **Government contracts may or may not be exchange transactions depending on the terms of the agreement**
- Have the contracts been formalized?
- Significant collectability issues may impact recognition

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IDENTIFYING PERFORMANCE OBLIGATIONS

- A performance obligation is a promise to transfer either a:
 - Good or service that is distinct, or
 - A distinct series of goods or services that are essentially the same and have the same pattern of transfer to the customer
 - Have the contracts been formalized?
- Distinct – the customer can benefit from the good or service on its own and can be delivered separately by the vendor

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IDENTIFYING PERFORMANCE OBLIGATIONS

- Performance obligations identify how the contract value is allocated and the timing of recognition
- A contract with only one performance obligation vs. a series of obligations will have a simpler recognition method

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DETERMINING THE TRANSACTION PRICE

- The transaction price represents the amount of consideration the entity expects to be entitled to from the customer (not factoring in credit risk)
- Key areas for many industries due to the variety of pricing considerations
 - Discounts, refunds, credits, etc.
 - Fixed and variable components
 - Contingent consideration

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TRANSACTION PRICE – NFP CONSIDERATIONS

- Credits or other considerations should be netted against the transaction price (revenue) rather than being charged to expense (e.g. agreed-upon medical reimbursement rates)
- For NFPs, transaction price will often be fixed in total or by unit of service
- If there is variable pricing, the NFP must estimate at beginning

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ALLOCATION OF TRANSACTION PRICE

- Revenue is recognized when (or as) each performance obligation is satisfied
- Based on the customer's ability to control the use of, and receive the benefits from, the goods or services
- Must determine at the inception of the contract whether control is achieved over time or at a point in time

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ALLOCATION – NFP CONSIDERATIONS

- Topic 606 affirms existing guidance for separating the contribution portion of transaction from the exchange portion
 - Purchase of an event ticket or event sponsorship
 - Certain membership dues
- Should first identify the fair value of the exchange, with any residual amount reported as a contribution

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PRACTICAL APPLICATION

- Document revenue recognition policies (discuss with those involved in delivering the good/service)
 - Should address process for assessing the five steps
 - Cover each type of revenue transaction your organization has
 - Include procedures for re-evaluating estimates and assumptions
- Monitor and review new incoming streams when they arise

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PRACTICAL APPLICATION

Exchange transactions that might have a contribution element

- Corporate sponsorships
- Membership dues
- Initiation fees
- Special events

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CORPORATE SPONSORSHIPS

- Acknowledgment – incidental value
- Naming opportunity – individual donor (positive sentiment doesn't constitute commensurate value)
- Naming opportunity – local corporation (is there value?)
- Value received in exchange

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CORPORATE SPONSORSHIPS

Sponsorship may be:

- Entirely a contribution
- Part contribution/part exchange
- Entirely an exchange

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MEMBERSHIP DUES

INDICATOR	EXCHANGE TRANSACTION	CONTRIBUTION
NFP's expressed intent	Request describes the dues as providing economic benefit to members	Request describes the dues as being used to provide economic benefits to the general public
Extent of benefits to members	Substantive	Nominal or incidental benefit
Limitations on distribution of benefits	Only to members or are available to nonmembers for an increased fee	Benefits provided to nonmembers as well as members for the same fee or without charge
Compulsion to be a member	Necessary	Not necessary
Refundability	Fully or partially refundable if member withdraws from membership	Not refundable
Qualifications	Meet certain criteria	Open to the public

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PRESENTATION AND DISCLOSURE

Within the financial statements:

- On the Statement of Activities, distinguish between your distinct and significant revenue streams
 - Separate line items for each type
 - Use descriptive language
 - When presenting comparative, make sure this is true!

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PRESENTATION AND DISCLOSURE

For the disclosures:

- Aim to meet the requirements in language that is understandable to an informed reader
 - Revenue recognition policies for each type of exchange transaction
 - Contributions – unique aspects
- Tie the disclosures to what is in the financial statements

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LOOKING AT THE TOP LINE



Budget Considerations and Best Practices

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ATTITUDES ABOUT BUDGETING (POLL)

What is your reaction when budget time rolls around?

- Again?!?
- I don't have time for this...
- I hate numbers!!
- I've got this!

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ROLE OF BUDGETING

What role does budgeting play in an organization?

- Effective financial management is an ongoing process that features a cycle of good management habits – an integral part of this is thoughtful budgeting and monitoring
- How can your organization execute its mission without a plan?
- Budgeting is a form of risk management and transparency

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BUDGETING – WHERE DO YOU START?

So we need a budget for our organization...what now?

- Who should be involved?
- When should budgeting occur?
- What information do we need to get started?

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BUDGETING – WHO SHOULD BE INVOLVED? (POLL)

Who is ultimately responsible for your Organization's budget?

- Me
- CEO/Executive Director
- Board
- CFO (or equivalent)

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BUDGETING – WHO SHOULD BE INVOLVED?

- ***Engage those responsible for making operating/program decisions first***
 - CFO/Controller/Accountant; Executive Director; HR
- ***Include those who need to adhere to the budget***
 - Program Directors, Staff
- ***Let the staff make the “first pass”***
- ***Determine level of Board participation***

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BUDGETING – WHEN SHOULD IT OCCUR?

- ***Do not wait until year-end to budget***
- ***Stick to a schedule or timeline annually***
- ***Delegate to reduce stress***

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BUDGETING – WHAT INFORMATION IS NEEDED?

- ***History tells the story of where you've been***
 - Current year-to-date comparison to budget
 - Forecast out to the end of the year
- ***What is the plan for the future?***
 - Trends and expectations
 - Not all budget figures are dollars and cents

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BUDGETING FOR THE TOP LINE

- ***How does your strategy for revenue and support align with the Organization's mission?***
- ***What are the key drivers for your revenue and support?***
 - Revenue (those exchange transactions!)
 - Support (those contributions!)
- ***Do you have capital support considerations (may vary)?***

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BUDGETING FOR THE TOP LINE: MISSION FIRST

How does your strategy for revenue and support align with the Organization's mission?

- Does the budget support the mission?
- Long-term strategic planning
- Where do we see ourselves in 5 years or 10 years?

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BUDGETING FOR THE TOP LINE (EXCHANGE)

Key drivers for revenue generation


- Residential – Occupancy (“Heads in Beds”)
- Per diem rates for services provided
- Contracted rates
- Educational – tuition rates or program registration fees
- Ticket sales (special events, etc.)

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BUDGETING FOR THE TOP LINE (CONTRIBUTIONS)

Foundation solicitations & grant proposals


- Likelihood of receiving approach

	Solicitation	Likelihood	Budget
World Foundation	\$ 250,000	25%	\$ 62,500
Family Foundation	100,000	50%	50,000
Robin's Organization	50,000	100%	50,000
Mary Lou's Philanthropy	50,000	90%	45,000
	\$ 450,000		\$ 207,500

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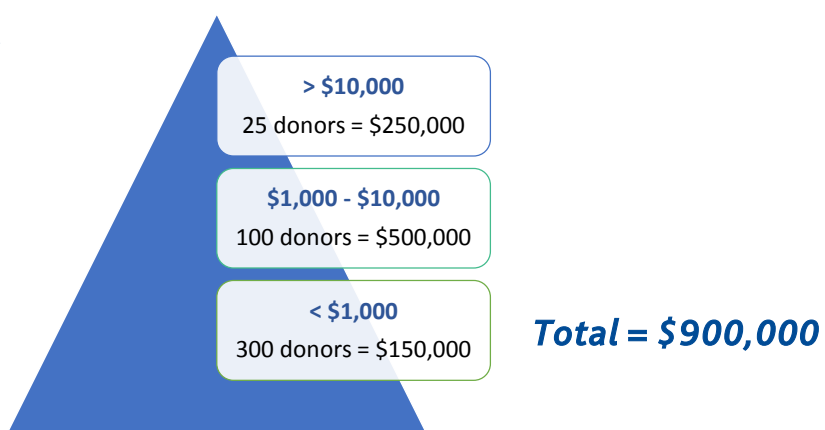


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BUDGETING FOR THE TOP LINE (CONTRIBUTIONS)

Individual donors

- Levels of giving
- Step approach



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BUDGETING FOR THE TOP LINE: CAPITAL NEEDS

Don't forget the capital

- Not all budgeting is about period costs and expenses
- Build sustainability
- Capital campaigns
- Board designations for future growth or reserves

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BUDGETING FOR THE TOP LINE

Additional considerations:

- Concentration risks
- Volatility
- Identify variables and future growth (or contraction)
- Multiple scenarios
- Consider restrictions and long-term contributions/pledges

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COMMON BUDGETING PITFALLS

- Inflating revenue accounts to cover overspending
- Misunderstanding of impact of investment income
- Getting lost in the details
- Ambitious vs. Conservative

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BUDGETING CONFIDENCE FACTOR (POLL)

What is your confidence factor in your Organization's budget?

- Fairly certain we will meet or exceed our budgeted revenue
- Our budgeted revenue is ambitious and reflects optimistic goals
- There are a lot of variables in our revenue – could go either way
- Leaving it up to prayer

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WE HAVE OUR BUDGET... NOW WHAT?

- Monitor, analyze, refine, repeat...
- Informed employees result in accountability
- Avoid conflicting messages to different stakeholders
- Be prepared for the unexpected
- Ask questions, challenge the budget and welcome this from others
- Align budget with your internal reporting or general ledger format

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REVIEW AND ANALYSIS

- Should be done regularly (possibly in preparation for Board meetings)
- Prepare budget vs. actual reports for staff and Board (consider timing differences)
- Forecast through the end of the year
- Create an action plan to address budget shortfalls
- Revise the budget if necessary

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RESOURCES FOR NONPROFITS

- www.nonprofitaccountingbasics.org
- www.councilofnonprofits.org
- www.nonprofithub.org

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QUESTIONS?



Thank You for Attending the Program!

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PLEASE REACH OUT IF YOU NEED ASSISTANCE



Megan Troxell, CPA
Partner – A&A Services Group
 TROXELL@GYF.COM



Robin Ryan, CPA
Director – A&A Services Group
 RYAN@GYF.COM

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