**Speaker: Ruth**

Hi. It’s great to be with you. Thank you so much for coming to our webinar today. Very excited about this one. As you saw, if you were waiting for this to begin, we started this whole process with collecting a lot of questions from *you*. But we’re not through yet; we’re still taking questions in our chat area if you want to insert them.

This webinar is brought to you by PricewaterhouseCoopers, which provides timely, accurate bookkeeping for nonprofits. They say, “Learn how cloud-based software can help nonprofit organizations streamline their accounting process and improve their transparency practices. Adopting a solution like Bookkeeping Connect, a PWC product, can help lighten the load on staff, make reporting easier, and prioritize what matters most for your organization.” So, thank you very much, PricewaterhouseCoopers, and as most of you know, this session today is being brought to you by the Nonprofit Financial Commons, which is a relatively new player on the scene in the nonprofit infrastructure, really concentrating on wisdom sharing from the trenches by nonprofit financial leaders.

And there is a lot of wisdom out there. We dedicate all of our work to you, because having been in the trenches ourselves, we know how much there always is still to learn. So, these sessions are really dedicated to helping answer the questions that you have, not that other people think you should have, and really trying to make sure that everybody gets what they need no matter what kind of organization, where you are, or what stage of growth you’re in.

I want to thank Gina McDonald. Gina is a very… she’s an incredible presenter and like an encyclopedia of rules and regulations about nonprofit accounting. So, I know—look at her, she’s wincing; she doesn’t think she’s an encyclopedia. She’s an applied encyclopedia.

We also are welcoming Wade Rogers and Dana Britto. And Wade and Dana are actually gonna be a little bit behind-the-scenes today. You can find them in our chat area, which is where we’re suggesting that you ask your questions and engage in a kind of a backroom conversation. Imagine that you’re sitting at a table in the conference and you’ve got a couple of people around you that you really value, and you’re commenting to them about the presentation as it’s going forward. It’s that kind of environment. We want you to learn as much from each other as we do from Gina, even though she’s got a huge amount to share.

I’m personally incredibly excited about this one, because this is one that, whenever I learned something new about revenue recognition when I was running nonprofits, it absolutely thrilled me. I felt like I had a new tool that was definitely going to be incredibly valuable to not just me but to all the stakeholders of my organization, because it really does help you make sense of what sometimes can look like nonsense if you don’t have these rules and regulations under your belt.

So, with that, I am going to pass this over to Gina. Welcome, Gina. We’re so glad to have you.

Speaker: Gina

Great. I’m happy to be here. You know who I am, and Ruth gave me a little introduction. I feel like it’s less about me, except to say I am with a firm called BDO. I’m a managing director working exclusively in our nonprofit and grantmakers team. But we do have a pretty big topic to cover today in just a little bit under an hour. So, I just want to walk us quickly through the agenda, really to highlight what are we going to cover and what things are we not going to cover, because, as Ruth mentioned, we have lots of folks on with us today and we got lots of advance questions. So, trying to cover as much as possible.

We are discussing how to account for contributed revenue in accordance with generally accepted accounting principles, otherwise known as GAAP. So, that really means we’re gonna talk about how we can identify contributed revenue. How do I know I have a contribution anyway, as opposed to another kind of revenue? How do I know how much revenue to record in the general ledger, and how do I know the timing of it? In other words, when to record that revenue and how to classify it. So this is all around GAAP basis financial accounting, right? So as a reminder, GAAP requires the accrual basis of accounting, so we’re going to presume accrual basis.

We’re not going to get into the very specialized rules around earned revenue, right? That would be a different kind of revenue. We’re also not going to get into anything related to IRS regulations or 990 reporting. Again, different topics. So, my goal today is to review our content as efficiently as possible. I will keep my eye on the clock as well, try and keep us on schedule so we can leave as much time as we can for questions at the end. All right?

So, with no further ado, I actually want to start with three poll questions so we can understand a little bit about who’s in the room today. And then we’re gonna learn about some commonality that we may or may not have in terms of questions coming up for us around contributed revenue. So, if folks want to go ahead and respond to the poll that you should see on your screen, what is your organization’s budget size? Again, really for us to understand who’s in our room today.

Also, it’s a good moment to mention that when it comes to these rules, our budget size does not matter. So, these rules will apply to $1 of contributed revenue, and the sky is the limit. I know that was a question that came up, also, submitted with the registrations: Is there some sort of a small amount of a contribution where certain rules don’t exist, don’t apply, and the answer is no.

Okay, so let’s see here. Oh, really wonderful. We have a wide variety of budget sizes represented, so this is great. We love to see organizations coming no matter where they are in this spectrum. So happy to have folks here today… pretty even representation.

Next poll question is, for your organization, select all that apply, but wondering what are your most common revenue types? So, for your organization, do you have lots of government funding? Do you have lots of multi-year grants coming through? Do you see matching grants, planned giving. Noticed some questions in the registration around planned giving; we also had some of this already come up in the chat. And do you all receive lots of purpose-restricted? All right, so wondering, and again, select more than one. Select your most common. You know, when we talk about the way we are funded, really we’re describing our organization’s business model, right? So what does your business model look like? Okay?

Now, interestingly enough, everything we see listed here really does relate to contributed revenue. And some folks might have their radar go up because government grants, yes, our most typical government grants do follow contributed revenue guidance.

So, let’s see. Great. So lots of us have government grants, multi-year grants, purpose restricted as a big part of our business model. We also have a fair amount of planned giving, close to 25%. Definitely, planned giving is on the rise as a fundraising strategy for sure.

Okay, and our last poll question—just a little bit, take a read of our group today. What challenges come up for you all when evaluating revenue? Is it really thinking about the timing? You know, when is the time right to record revenue in our general ledger? Is it trying to figure out if a contribution is conditional? Is it trying to figure out if it is restricted? Is it a determination around when to release restrictions? Is it something else not listed here? So, what are your most common challenges? Where do we spend lots of time? Select all that apply.

I’d say when it comes to the trickiness in nonprofit accounting, what we’re talking about today is the most tricky. So, definitely, this concept of revenue recognition, contributed revenue, identifying conditions, is the trickiest.

Okay, so let’s see what is coming up for folks. Ah, so lots of folks wondering when is the time right to recognize revenue. As a reminder, when an accountant says they’re gonna recognize something, really we’re talking about booking it at our general ledger, right? So, when’s the time right to book revenue? What period is it gonna fall into? Are there conditions? Are there restrictions? When is it right to release restrictions?

And a fair amount of “Other.” Feel free to drop the questions in the chat, as we mentioned earlier—in particular, folks who responded “Other,” if there‘s something special that we want to make sure we‘re aware of in terms of challenges when identifying revenue. Okay?

Okay, so, knowing that we’re all coming with lots of similar questions, challenges around contributed revenue recognition, to get us started, I always find it helpful to ground us with this particular context when evaluating revenue. We essentially have three options when it comes to categorizing revenue, right? So, we have what is noted here as “contracts with customers.” That’s one kind of revenue. You’ll notice we are also calling that “earned revenue,” right? So, we commonly call it earned revenue. It’s technically called contract with a customer. We see here in the middle we have contributed revenue, which is what we’re going to dig into. We also see we’re commonly calling this “grant” or “donation.” And then of course we have investment income. But these are our three big categories of revenue.

Now, in practice, we certainly do hear various labels, like grant, or contract, or donation. But really our first step here is evaluating the terms of any of these agreements for us to figure out, do we have this first variety of revenue? Do we have a contract with a customer, or do we have a contribution? Because there’s very different accounting rules for each of these. So, let’s try to simplify the features of those two revenue types, so that we know how we can spot a contribution, right? But really this is the first thing: do I have a contribution or not?

Okay, so, in terms of the key features of each of these kinds of revenue, let’s start with the key features of a contract with a customer. In a contract with a customer, we have a resource provider who is the primary recipient of the goods or services from the nonprofit organization. This resource provider is otherwise known as a customer. We’re gonna see that this is a major differentiator as compared to contributed revenue. We commonly think of this customer as buying something for themselves. It’s a key feature. Also, in this kind of transaction, there is presumed to be an equal exchange of value, otherwise known as commensurate value. What we’re saying is what the customer is receiving has equal value in terms of, as compared to, what they’re paying for this good or service. Again, also, we commonly refer to this as earned revenue. We also hear the term exchange transaction. But we’re talking about the same thing.

By contrast, contributed revenue is one in which we have a resource provider—sometimes we might say “our funder” or “our grantor”—who is not the recipient of our services, is not buying goods from us. They‘re not our customer. And again, by way of contrast, in a contribution, that resource provider is not presuming that they will be the recipient of an equal amount of value as compared to the resources they’re providing. So, these are the key differences. This is the really high-level analysis, this first lens we’re gonna use when we’re trying to determine, do we have contributed revenue, or do we have some other kind of revenue?

Now, once we get beyond this basic level of even determining whether or not we have a contribution, we can dig a little bit deeper into our evaluation. So let’s start here on the left hand side. Presuming we have a contribution, we should not see a customer buying services for themselves. And there is one note here at the bottom of our screen in regards to an exception: There could be a third-party payer sometimes, like Medicare or Medicaid, where that’s a resource provider paying for services and they are not the recipient. Those kinds of transactions are excluded from that rule. So, someone else can be a payer in an already-existing exchange transaction, it would not trigger that being a contribution, in other words.

So, presuming we have a resource provider who’s not buying services for themselves, we also notice in these kinds of contribution transactions, there are often different considerations imposed by the resource provider around the way the goods or services are delivered. The resource provider also oftentimes determines what they will pay. And again, that’s very different from the way earned revenue typically works. So, we have this evaluation where we’ve determined we have a contribution here. Once we determine we have a contribution, now we’ll move to Step 2. And the first thing we need to do is be on the lookout for conditions. Conditions are donor-imposed barriers coupled with the right of return. We’re gonna dig into conditions a little bit more, so have no fear, but conditions, when they exist and have not yet been satisfied prohibit the recording of revenue. So, this is why conditions are really, really important. We need to identify them, because if we have conditions that have not yet been satisfied, it affects the timing of revenue. We cannot book revenue until conditions have been satisfied. This is why conditions are really, really important. And, they are different from restrictions. They’re not the same thing.

So first, we’re identifying conditions. That tells us a lot about the timing, when the time is right to book revenue. Once we satisfy conditions and we’re able to book revenue, now we’re gonna be on the lookout for restrictions. Restrictions are donor-imposed limitations on the use of those funds. Now, we’re going to dig into conditions a lot more. We’re going to dig into restrictions a lot more. But we do want to pause here for what we’re calling a quick five-minute question pause. Because really what we’ve done is, we’ve given a really high-level overview taking us all the way through, “What’s a contribution? What’s a condition? What’s a restriction?” So, I want to see if anything we’ve seen, any themes or major questions that lots of us are having, that we should pause and answer right now.

**Speaker: Wade**

Yeah. Thanks, Gina. Hi everybody, I’m Wade Rogers, one of your moderators. And the chat is obviously very busy, and some of the questions that are coming in, just in this first part, relate to identifying some of the differences between contributed income and exchange transactions. Or, you know, we may even be looking at the notion of earned income. For instance, when you have a membership program, and you have members paying memberships, is that considered, in your terminology, Gina, a customer relationship?

**Speaker: Gina**

Yeah, wonderful question. There’s actually specific guidance that FASB provides around this, and it also highlights the fact that we really need to dig into the substance of these transactions. Meaning, we can’t say something like a membership is always this or that, because it really depends on, gee, what does it mean to have a membership? A membership might mean something different, say, with the YMCA—right?—and my gym membership, versus a membership at a nonprofit organization, where I know I’m donating and I become a member, I don’t really receive anything in terms of a member benefit, right?

So, the word “membership” is used to mean lots of different kinds of transactions with different substance behind the transaction. We need to understand which variety is it and treat the revenue accordingly. That means a membership may be totally earned revenue. A membership may be totally a contribution. A membership might be a little bit of both, and we have to bifurcate that revenue. And it could be some of each. So it really depends on the membership

**Speaker: Wade**

Similar to that, kind of in the same vein, but looking at situations, and this helps maybe differentiate the two areas as well: funding scholarships. Would you consider funding scholarships, and services provided to the students, earned income or contributed revenue? And this is coming from donors. The donor gets to name their scholarship but not select the students. So, yet another example of situations where that question might need to be asked.

**Speaker: Gina**

Yeah, great question. Most typical situations where the organization is fundraising or, you know, receiving funds restricted for scholarships, you know, that would be separate and distinct from a student paying tuition. Typically, contributing dollars for scholarship, restricted contribution. Also, an institution is collecting tuition, but that’s really tuition being paid by a student or someone on behalf of a student for themselves. So it seems like a situation where I have the donor contributing for scholarships… not earned income typically in that case. Yeah.

**Speaker: Wade**

And then, this is such a common question, and it’s coming up in so many different forms, but just that notion of looking at the grant agreement, and when the wording is confusing, especially when you‘re getting into the conditions and restrictions situation, the idea that sometimes the grant agreement itself is not going to be completely clear on establishing these distinctions…

**Speaker: Gina**

Mm-hmm, mm-hmm. Yeah.

**Speaker: Wade**

…and what maybe we can do to approach that.

**Speaker: Gina**

Yeah, absolutely. You know, we’re gonna also, towards the tail end here, look at a couple of examples. And we always can make the examples be so clear, so easy to apply the rules, right? Because these are examples we made up. In real life, wouldn’t it be amazing if every single grant contract agreement was really very clear, and easy to interpret and apply the rules? We know that that’s not real life. I’d say, for me, I always find it helpful to talk to the development team, right? Folks who have solicited the contributions, have had conversations with the funders and donors. Because I say, well, what do we think this means? What was the intention? And sometimes it’s really clear to folks who are fundraising what the intention was behind certain wording. If not? In a perfect world—and at BDO we work with lots of funders as well, and funders want to hear from us, is the message. So, in a perfect world, when something’s really hard to interpret, we should be empowered to ask a question of the funder. Ask for clarification. We also want to acknowledge we know there’s a power dynamic in these relationships many times, but really, I want to urge us to find a way to have conversations, open dialogue with our funders, and, if there’s something confusing about an agreement, try and clarify.

**Speaker: Wade**

Great. Always have that dialogue, right? Well, thank you so much.

**Speaker: Gina**

Great. So, seems like we have lots of commonality in our questions. Definitely the most confusing thing, I would say, in all of nonprofit accounting is this concept of identifying conditions. So, I want to just hear in the chat from folks, what comes to mind when you hear “conditions”? When someone says “conditions,” what comes to mind for you all? Because we’re going to jump into a little bit more around understanding conditions, starting with a little more of a definition of conditions, and then, how can we spot conditions? So, folks either want to think to themselves or indicate in the chat, what do you think when you hear “conditions”?

So, conditions, and this is more of a definition, are donor imposed. So, remember, we can’t self-impose conditions; we also cannot self-impose restrictions. This is all external, coming in. Donor-imposed conditions are barriers coupled with a right of return or a release of obligation of the resource provider.

So, what does that all mean? Lots of words there. We really want to highlight the word “barrier.” Really think about the fact that—and I’m a visual learner, so I really think of, I’ve got maybe a stone wall here. I have this barrier. My contribution is here, on the other side, but I can’t get to it until I overcome this barrier. I have to satisfy this condition, and then I either can get my hands on this contribution, or, if I already have it in hand, I get to keep it. I get to retain it. And if I do not overcome the barrier, it could trigger this right of release. My donor would not have to fund this contribution, or perhaps I would have to pay it back. You need those two things together, the barrier and the right of return, to create a condition. Can’t be a barrier alone, can’t be right of return alone.

So, what is a barrier, anyway? Now, reminder, we also said this is important because if we have conditions that have not yet been satisfied, we cannot book revenue. So, affects the timing of revenue. But this little chart here, we’ve actually abstracted right from the FASB guidance. FASB gives us some indicators of conditions, and so the way I would look at this is, you might have a condition *if* you see something like this, okay? So, if you have a measurable performance related barrier coupled with a right of return—congratulations, you have a condition. So, it might be a requirement to meet a milestone in order to receive an installment payment. It might be a requirement to raise a match before unlocking the ability to receive a contribution. These are examples of measurable performance related barriers.

The second item here that’s an indicator of a condition is a stipulation that limits discretion. You’re saying, what on earth could that be? Think about our most common, maybe federal grants, or state grants, where we have allowability of our expenditures limited to only certain qualifying expenses or requiring specific protocol. These are stipulations in these grants that limit the nonprofit’s discretion. These are conditions, because if we do not follow those stipulations, we’re not getting that money. We will not be able to be reimbursed for those costs. These are indications of conditions.

And then finally, GAAP tells us that a condition has to be a stipulation related to the purpose of the agreement. So, really, what GAAP is telling us is conditions are not meant to relate to purely administrative tasks, and conditions are not meant to relate to just really trivial kinds of items. They really need to be related to the purpose of the agreement. So, a really common question comes up all the time around, what if a report is required, either periodically or at the end of a grant or a contract? What if, you know, the funder just says, “Hey, when we’re all done, please send me a final closeout report.” FASB tells us, GAAP tells us, that a simple reporting requirement alone is not enough to create a condition. GAAP tells us that is an administrative task. Any donor, of course, could say, let me know how you spent the money. That alone, that is not enough to create a condition.

So that is a condition, and again, we’re gonna run through some examples. Well, how is it different from a restriction? Remember, conditions and restrictions, not the same thing at all. So now, before we even look to see what’s a restriction, let’s kind of think back to say, well, our condition was like this, stone wall, it was our barrier coupled with a right of return. So, I’m over here with the letter from the donor. Here, I have my barrier. I need to overcome my barrier so I can get my hands on this contribution.

Ah! Now that I have my hands on it, I’m going to evaluate it to see if there are restrictions imposed, because now that I have my hands on this contribution, restrictions limit the use of it. Restrictions tell me, “Great, now that you have it, you’ve got to either use it for something special or use it in a specific timeframe.” This is how conditions and restrictions are different. So, as I just mentioned, a donor-imposed restriction—key term there, “donor-imposed,” we cannot self-impose restrictions—specify that the contribution has a purpose that’s narrower than our broad mission. Or, the donor is saying, you can only use this contribution… please use it for, you know, FY2025, right? So, it can be time or purpose restriction.

Restrictions can be temporary in nature, meaning I can satisfy them when I meet that donor’s restriction. Restrictions can be perpetual; this is our old “permanently restricted.” Certain restrictions can also be implied. This happens typically with implied time restrictions. If a donor says, I’m going to contribute $1 million, I’m going to pay you $250,000 a year for each of four years in a row, that’s an implied time restriction. That’s an implied time restriction because we cannot use, even though they didn’t say “use 250 this year and 250 the next year and so forth,” it is implied by virtue of the fact that we’re not receiving the money all up front.

So, let’s put this all together and go through our couple of examples and see if that helps us to think about how we would apply this. And then our goal is to use the rest of our time together after we run through those couple of examples on answering questions.

So, we’ve got a couple of screens here which serve to give us some helpful reminders to help get us started in our assessment of revenue after we leave today. So, when we get the slides, we’ll have a couple of helpful tools. We know we’re gonna read all of the language that’s in our grants, contracts, agreements, donor documentation. And once we have determined that we do in fact have a contribution—we don’t have a contract with a customer—as it notes here on the left-hand side, we need to ask ourselves the question, do conditions exist? This is what we want to try and remember.

First stop, do I have a contribution? If I have a contribution, do I see any conditions? If the answer is yes, we see conditions, then notice the first thing we have to do here is work to satisfy conditions that gets us to our shining star moment where we can record revenue. We record revenue once we have satisfied conditions, and that revenue is recorded according to the donor’s desired level of restriction.

You’ll notice, though, if we don’t have conditions, we’re going to record revenue immediately. So, if it wasn’t super clear before, hopefully it is clear now: Absence of conditions means record revenue immediately, always. We can‘t say, well, we want to save this revenue for next year or something like that. We have no choice. We record revenue even if it is restricted, even if it is time-restricted, immediately, so long as there are no identified conditions that have not yet been satisfied. And then, of course, once we record revenue, if it is restricted, we’re working to satisfy the donor’s restrictions.

Now, sometimes folks ask, gee, what if I’m here in this top section? I have conditional revenue; what if the donor gives me an advance? What if I receive cash up front? So, remember, we are using the accrual basis of accounting. Even if I have cash early, I can’t book revenue unless I’ve satisfied conditions. So, that’s what we have here. As a helpful tip, if cash is received prior to satisfying conditions, we might have a refundable advance. We may have a liability to record. I know commonly folks refer to this as deferred revenue. Accounting treatment is the same: It’s a liability. FASB wants us to use “refundable advance” when we’re talking about contributed revenue; FASB really wants us to use the term, the label, “deferred revenue” when we’re talking about a contract with a customer. But the accounting treatment is the same.

Also, I want to remind folks, the second item here? We cannot perform a probability analysis related to our ability to satisfy conditions. So, we can’t say, “Well, I know this is conditional, but I’m *definitely* going to satisfy the conditions, so I’m gonna go ahead and book revenue even though I didn’t satisfy them yet.” We can’t do that. We have to actually wait until the conditions are satisfied, even if we’re sure to satisfy them in the future.

Third item here—reminder, we talked about certain kinds of revenue, like memberships, may be part contribution and part exchange transaction. And when we walk through our example, we‘re going to highlight this last item, which is this concept of, I could actually be working to satisfy conditions and I could satisfy a restriction all at the same time. So how does this happen? And our second example is gonna show us that.

Okay. Let’s look at our examples. First example is capital campaign solicitation. We have an individual donor who‘s responding to our capital campaign solicitation, and we’re asking for dollars to renovate our facility. Donor writes back to us and says, great, I would love to support your capital campaign, the purpose of which is to renovate your facility. I will pledge $100,000, but you need to raise another, a different $100,000, in order to get my $100,000. And if you don’t, you’re not getting my $100,000. This is otherwise known as a one-to-one match.

At the same time, the donor does send us a check for $25,000 at the same time we receive this notification, because they know, hey, by the way, you’re probably incurring costs, and wouldn’t it be great to have some money up front? “We trust you. We know you can do this. Here’s your first 25,000.” So, I think we all agree this sounds like contributed revenue, right, so we definitely have a contribution. How will this contribution be recognized? Well, conditions exist here, right? So, if we look at the substance of this contribution, we do see conditions. The matching requirement is a condition. It is a barrier to both receiving the rest of that hundred thousand; it’s a barrier to keeping that $25,000 advance.

If…. Let’s look at the second item here. In this case, you know, when it comes to matching, a lot of folks ask, well, what if I don’t raise the whole $100K? What if I only raise $50K towards that match? Could I book $50K? Can I book it along the way as I’m raising that match? How can this happen? Conditions can be satisfied in stages if the donor permits. So, again, this highlights the importance of really understanding the agreements with funders, with donors. If the donor says it’s a hundred grand or nothing, then it’s a hundred grand or nothing. If the donor says, I’ll match up to 100,000? Then, it can be somewhere in-between, and of course you could record the revenue as you go. So, the answer is, it depends what the donor will allow. And remember, in this case, the $25,000 received upfront is a refundable advance. The moment you receive it, even though you get the cash, it’s not revenue yet if I have not raised that match accordingly.

So, while conditions exist, we know we also have restrictions. Because this is restricted for the purpose of the capital campaign. A lot of folks also ask, and I think something came up in one of the pre-questions around, when can I release that revenue? In this case, it’s a facility renovation. It might go on for more than one year. It could be a long-term construction project. The answer is when that asset is placed in service. FASB now requires the placed-in-service approach when releasing revenue that is restricted for fixed assets.

Alrighty. So that’s our first example. And our second example is likely something very common for lots of us. This has to do with a government grant. So, we have here a state contract. And we’ve noted that, oh, although we received this contract from the state, it’s actually federal money, and it’s for our organization to provide afterschool programs. This contract has been determined to be a contribution based on several factors, including the resource provider. The state or the federal government is not the service recipient here. Our resource provider is paying for our nonprofit to provide services to the kids coming to the afterschool program.

We also have here a stipulation that limits our discretion, coupled with a release from the resource provider’s obligation. The fact that the nonprofit must follow OMB Uniform Guidance rules, all of those rules in the 1200 pages in the Uniform Guidance, limits our discretion when it comes to the way we can think about allowability of costs under the contract. Limitations on what we can spend the dollars on, things of that nature. So, we have a stipulation that limits our discretion in running this activity and also being funded by this contract. So, these things make this contract both a contribution, and we’re gonna see in a moment, this is really creating a condition. This is a reimbursement-based contract. We’re going to invoice the state monthly and be reimbursed, and also we have to provide some reports. So, I feel like intuitively, we usually get this right when we’re booking this revenue, but sometimes we don’t know why we’re doing it. But intuitively, I think we recognize here that this is conditional. This is conditional, because if we don’t follow all these rules, we don‘t get to voucher or invoice the full amount under this contract. Intuitively, we know that these conditions are going to be satisfied in stages—and, actually, this should say, “Conditions can be recorded, can be satisfied, in stages, and revenue can be recorded along the way.” Because in practice, we know that when we invoice these kind of monthly reimbursement requests, we know that’s when we book the revenue. And we do that because we know at those moments, we’re satisfying conditions a little bit along the way and booking our revenue accordingly.

Of course, this money is restricted, right? We can’t just use it for whatever we want. We likely also have a really particular line-item budget that’s funder approved. So why do we never book this kind of revenue as restricted? Again, we intuitively do this right. We don’t book it as restricted, typically, because what we have here is a really fancy simultaneous satisfaction of a condition and a release from restriction. Because, by the way, when we satisfied the condition, we also already spent the money *and* satisfied the purpose restriction at the same time. So that is why in practice we typically book this kind of government revenue as without donor restrictions, which is permissible.

So, how did we do, Wade? We got through… we wanted to power through the content so we could get as many questions in as possible. So we’re at the question moment.

**Speaker: Wade**

We definitely achieved getting lots of questions in. This is a great chat room here, and I’ve been trying to group them into the areas, first of all, just in terms of conditions and restrictions, and then there are a lot of questions about timing as well.

There was an interesting question that came in regarding restrictions down the road. A nonprofit gets funds to purchase a building that they’re gonna use as a shelter. This donor has said, though, if the building is ever sold, it reverts to being a loan back to that donor. Any comments you can make on that? If a restriction is in place, even from the beginning?

**Speaker: Gina**

Interesting. Yeah. So, use restriction. This might be a good one… so, I have seen these. I’d say… Couple of things. Would really want to know if there are any other stipulations in these agreements. It gets… these really, we‘d say, in-depth ones are tricky to answer on the fly, not seeing the documentation. I definitely have seen long-term use restrictions stay restricted for those periods of time. So, I have seen that a long-term use restriction does keep those net assets, if you will, restricted for that entire use period. So, I have seen that. Again, it is possible that it says something in the agreement that makes it be different, but it is possible that it’s restricted long term. Yeah.

**Speaker: Wade**

Yeah. And again, that’s a very specific case as well that we’d need to see greater detail on. Yeah, for sure.

Talking about those conditions that you talked about being administrative or even trivial, there will be sometimes written into grants, for instance, if you lose your 501(c)(3) status, you’ll need to return those funds. Is that a condition?

**Speaker: Gina**

Great question, and you’re right, lots of things fall under that, the overarching category of boilerplate language. So, this gives us a good opportunity to talk about boilerplate language. When FASB says the condition needs to be related to the purpose of the agreement, this is what they’re talking about. We can, for purposes of looking for conditions, we can ignore clearly boilerplate language and things that are not related to the purpose of the agreement. So when it says you need to maintain your 501(c)(3), you need to not be in violation of laws, regulations, things of that nature, we’re presuming this is boilerplate language and we’re not going to flag those as conditions.

**Speaker: Wade**

And along those lines, too, and I run into this with my clients as well, is there’s a classic language in grant agreements where a general operating support unrestricted grant will be awarded and they say, we need for you to send a report of how you spent our funds. Is that really triggering any sort of restriction there, or is that just an administrative detail as well, in terms of that tracking?

**Speaker: Gina**

Yeah, I would love to hear, Wade, if you agree. I would say, again, let‘s fall back on having a condition need to be related to the purpose of the agreement. So, it’s somehow related to it. You know, if we saw language that said “general operating support,” or “here’s money for your mission”.… I’m not seeing a purpose restriction. If I have general operating, I also likely am not tracking what I‘m spending it on. Now, I might, but I’m not tracking like I’m gonna track for a restricted contribution. And so, in that case, when a funder is asking for a report only, at the end, it’s not enough to create a condition. So that looks like an administrative. So first stop, do I have conditions? Doesn’t sound like it. If that’s all we have, is “general operating support dollars, also give us a report at the end”? If that was all we saw, then we definitely don’t have conditions. We’re gonna book revenue immediately as general operating. I’m not gonna track expenses to it if I don’t need to. Wonderful opportunity to have a conversation with a funder and ask, what is it that… we’re happy to provide something at the end of this contract, what would you like to see? Oftentimes funders may say, oh, we just, you know, a narrative would be okay, or we, you know, we want to know what your accomplishments were this year. You know, maybe send us your year-end financial, something like that. They may not think the way we’re thinking in terms of, oh gosh, now I’ve got to track this. Right? And they definitely don’t want to place undue burden on us.

**Speaker: Wade**

That’s right. And it often is just a narrative, or, here’s what we did with your help, but it does warrant having that discussion with them. Definitely.

Some timing questions relating to when the timing of the revenue occurs. There’s often that question of, what is it that triggers that revenue recognition when the award is made? Is it the receipt of the letter in the mail? Is it an email, is it a phone call? Is it a check in the mail?

**Speaker: Gina**

Yep. Yeah. So, great question. If we want to think back, we are accrual basis, so so long as we have verifiable documentation—then, if we have verifiable documentation, written documentation—and it is unconditional, then we book revenue immediately. So, what does that mean? Let’s first presume that everything we’re talking about right now is unconditional. Because remember, conditions are gonna block us from booking revenue. So, presuming unconditional, if I get a letter in the mail from a donor with an unconditional promise, yes, we must book revenue immediately. If I get an email from a donor, yes, email counts as verifiable written documentation. Just a phone call, just oral? No. Needs to be written verifiable documentation. So long as you have that, and we can understand the amount, and we can understand that it’s unconditional, then FASB says, you must book that pledge. Now of course, you know, we want to make sure it’s not just, like, we’re gonna have another conversation. It’s not just something that’s in development’s pipeline, but more so a verifiable, written promise from a donor. But it doesn’t have to be a fancy grant or anything like that; it can definitely be an email.

**Speaker: Wade**

Right. Thanks. That’s often a question that I get as well in my work, so that’s really helpful, I think, for a lot of people.

And while there are hundreds of questions that have come in, I do want to honor another that has been a common theme, especially in our preliminary questions that came in, and that’s simply the fact that our revenue recognition, especially for multi-year grants, occurs upon award. But what we wrestle with is spreading that grant revenue out over the period of its use. Really, we know what’s happening with that, with Generally Accepted Accounting Principles; it’s in our internal operations and our budgeting that it becomes more of a difficulty for us. Gina, is there any, in the about 45 seconds that remain—I’ve just opened up Pandora’s Box, I believe—but is there anything you could just say very briefly about that issue and how we may actually parlay that into additional forum discussion?

**Speaker: Gina**

Yeah, that‘s a wonderful question. So, really, to recap, we’re saying, gee, maybe I received a multi-year award. Maybe it’s our example of $1 million and restricted maybe over a five-year period. So, time-restricted, multi-year award. The answer is, yes, we have $1 million of revenue immediately, all in one year, right now. We can’t spread the revenue, we can’t save it, we can’t book revenue $250K a year for—I don’t know if I said four or five years, but we can’t spread the revenue. It’s gonna be restricted, but still revenue. So, a lot of times folks say, it makes my bottom line lumpy. I have all the revenue this year, I’m gonna have all the expenses later years, now my bottom line looks, you know, up and down. Yes, we want to urge folks to think about, imagine in your mind, maybe what your financial statement audit looks like. We have what used to be called “unrestricted”; now we’ve got this category of “without donor restrictions.” That’s your operations. That’s your operations.

So, what still is hanging out in the restricted category has not yet been released to your operations. If we could have a way in our internal reporting to just look at our operations, that will be pure, right? That won’t have restricted revenue mucking it up. It’ll just have your releases. So that’s gonna have your release in it every year. That’s also typically the way folks budget, where we’re budgeting just for the portion that we’re going to use that year, so if we could have a way that folks aren’t confusing revenue already raised with a release, and clearly label this, we could use our unrestricted operations as compared to our budget. And this could be a good way, to not consider what is for the future until that time comes. We’ll still do our accounting correctly, but how do we analyze it internally?

**Speaker: Ruth**

Yeah.

**Speaker: Gina**

Ooh, thank you. So, I know we’re right at time. And so, not wanting to hold folks late, but I also know Ruth wants to give us a couple of takeaways—I think, Ruth, I said that correctly—and I‘m also happy just to let folks know, when you receive the slide deck, we have a few resource links here, which include… one of the resource links includes a super helpful flowchart. But really, to talk about what is next, happy to turn it over to Ruth.

**Speaker: Ruth**

Okay. A wonderful job, Gina. Before I say anything else, I just want to deeply apologize for whatever technological problems we were having on the accessibility side. It is unacceptable, I agree with you. It will not happen again. I do want to say that today was actually the day that we put our new website up, and this is the first time using this platform, and we had a death in the family of the person who was running it. None of which accumulates to any kind of a good excuse, for sure, that this webinar was accessible. But we will do absolutely everything in our power never to have this happen again and to try to ensure that those of you who do need the closed captions are sent transcripts or whatever else you need for this presentation. I do apologize. And I encourage you, if you feel like you need to communicate with us more about this, you can email me directly at ruth@nonprofitfinancials.org and, and we will do everything we can.

Okay. I’d like to say a couple of things. One is we are, as many of you may know, a fairly new organization. We’re just emerging into the sunlight. We’ve spent a lot of time looking at what it was that we needed to do to be a fully participatory platform for you. And I think we’ve been overwhelmed a little bit by the fact that not only was there a need, there’s a *huge* need to answer very specific contextual questions for all of you. And we’ve known this for ages, and it’s been very difficult, I think, when you get a general answer to a very specific question; it may not feel like exactly what you need. And that’s why we tend to go to each other as peers to ask for advice.

This platform, the Nonprofit Financial Commons, is where you can go to contact your peers about that very specific advice. Wade and Dana and Mark are all moderators who are there to identify where your question needs to go and who might be able to answer it, et cetera. They can be contacted, and you can ask your very specific questions through the forums area of our new website. So, feel free to go to the forums area and ask any question you want to.

On top of that, we’re gonna take questions that you asked today and asked before this and try to sort them and figure out how it’s best to answer all of those. And maybe, in some cases, even to have smaller discussions on some of the specific items. And maybe we can persuade Dana to join us in some of that.

Again, all of this right now is no charge, and so it’s completely free. We’re not anticipating charging anybody for it. The thing that we need from you, actually, is both your questions and your answers to other people’s questions. That’s the capital that we need. It’s very human. It’s wisdom-based. It’s the only thing that’s gonna make this work for all of us. We started this with the assumption that we have deep undying respect for people even in the smallest nonprofit organizations who make miracles every day, who figure out ways around contextually imposed problems. Problems that are caused by funder practices, that are caused by changes in local administrations, in government, all of those kinds of things. And that we need to be able to address those specifically. And that not every kind of organization experiences the same kinds of problems. Many smaller organizations in this sector have been marginalized for ages. They’ve had a difficult time connecting to the sophisticated resources that they need even to run those very small organizations.

This is an invitation to get involved and stay involved. We’ve given you the forum location. We put in the chat a couple of different links that you can go to the website. The website is at nonprofitfinancials.org, and you can reach us there. I gave you my address; I’ll give it to you again: ruth@nonprofitfinancials.org. And feel free—any thoughts, criticisms, things that you think we need to be thinking about. (We‘re still very much in the building phase and probably will remain that way forever.) We welcome all of that, and I will make sure, and the moderators will make sure, that you get responded to in that process.

So, I’d like to give Wade and Dana and Gina a chance to say goodbye. But I will say, I’m incredibly excited about this project, and excited about the fact that we want to stay honest in making sure that it is here for everyone that needs it. Gina?

**Speaker: Gina**

Yeah, I’m just… echo all of that. Thank you to everyone. I’m also typing my email in the chat. Folks can also feel free. Happy to hear—it’s my favorite topic—happy to hear questions at any point in time. I’m also connected on the forum and feel like that really is the best place to have the most folks see, learn from each other. So, I will be checking out that area as well.

**Speaker: Ruth**

Great. Wade?

**Speaker: Wade**

Again, thanks to all of you. I look forward to seeing you all on the forum. Please be active, we’ll be there for you.

**Speaker: Gina**

Yep.

**Speaker: Ruth**

Dana?

**Speaker: Dana**

Again, thank you so much for being here, and our sincere apologies again for the accessibility issue. But I think, again, I encourage you to, like Wade said, to bring the conversation to the forums. If there are questions that you want answered, or that you feel weren’t answered, or replies and responses and experiences you want to share, we’d love to see that space be made as useful and productive and safe for you all. So, thank you all for being here.

**Speaker: Ruth**

Thank you.