

Hello, I am Ned Smith and today I will give you a high level overview of the revenues commonly generated by non profits. We will also discuss when the different revenues can be recognized and their main characteristics.

1. All non profit revenues can be grouped into either **contributions transactions** or **exchange transactions**.
 - Within the **contribution transactions** group we can find the following types of revenues: **donations, pledges, gifts in kind, and donated services**.
Note: these revenue types affect your fundraising efficiency ratio which is one of the main metrics reviewed by charity watchdogs
 - And within the **exchange transactions** group we can find the following types of revenue: **service revenue**

2. **Donations** are commonly the main revenue source for non profits. Donations are recognized and recorded in the period that they are received and come in three different forms.

- **Unrestricted donations** are those that can be used any way that the nonprofit chooses.
 - i. For example, on 01/10/2014 a donor gives the nonprofit \$10,000. This donation should be recorded to unrestricted revenue the day it was received.

Journal entry example:

Date: 01/10/2014

Dr. Cash Account	\$10,000.00
Cr. Unrestricted Donations	\$10,000.00

Comment: To record the donation received on 01/10/2014.

- **Temporarily restricted donations** are those where the donor has placed limits on the use of the contributed resources. Temporary restrictions can be time or purposes based.
 - i. For example, on 1/10/2014 a donor gives the nonprofit \$10,000 to be used for 2015's administrative expenses. This donation has both a time and a purpose restriction. The funds cannot be used until next year (that's the time restriction) and they can only be used for administrative expenses (that's the purpose restriction). Therefore, this donation should be recorded to temporarily restricted revenue the day it was received.

Journal entry example:

Date: 01/10/2014

Dr. Cash Account	\$10,000.00
Cr. Temporarily Restricted Donations	\$10,000.00

Comment: To record the donation received on 01/10/2014.

- **Permanently restricted donations** are those where the donor has placed permanent limits on the use of the contributed resources.

- i. For example, on 01/10/2014 a donor gives the nonprofit \$100,000 to be permanently restricted as an endowment. This donation should be recorded to permanently restricted revenue the day it was received. Furthermore, this donation can never be spent. Only the interest income generated by the donation can be spent.

Journal entry examples:

Date: 01/10/2014

Dr. Cash Account	\$100,000.00
Cr. Temporarily Restricted Donations	\$100,000.00

Comment: To record the donation received on 01/10/2014.

Date: 12/31/2014

Dr. Cash Account	\$5,000.00
Cr. Interest Income	\$5,000.00

Comment: To record the interest income earned as of 12/31/2014.

- 3. **Pledges** are a patron's promise to give, in the future, to the nonprofit. Pledges are recognized and recorded when they are unconditional and there is sufficient evidence or documentation that the promise was made and received. Pledges come in three forms.

- **Unconditional** promises to give only depend on the passage of time.

- i. For example, on 06/30/2014 a donor makes a promise to give the nonprofit \$10,000. This promise to give is unconditional and can be recorded when received.

Journal entry example:

Date: 06/30/2014

Dr. Contributions Receivable	\$10,000.00
Cr. Unrestricted Donations	\$10,000.00

Comment: To record the pledge received on 06/30/2014.

- **Conditional** promises to give depend on the occurrence of a specified future and uncertain event.

- i. For example, on 06/30/2014 a donor makes a promise to give the nonprofit \$10,000 in April 2015, if the nonprofit saves the lives of at least 200 animals in the first three months of the year. This promise to give is conditional and can only be recorded when the condition has been substantially met.

Journal entry example:

Date: 02/28/2015

Dr. Contributions Receivable	\$10,000.00
Cr. Unrestricted Donations	\$10,000.00

Comment: To record the pledge received on 06/30/2014 because the lives of more than 200 animals were saved in the first two months of 2015.

ii. Please note that a conditional promise to give is considered unconditional if the possibility that the condition will not be met is remote.

- **Multiyear pledges** are promises to give to the nonprofit over several years.

i. For example, on 06/30/2014 a donor makes a promise to give the nonprofit \$10,000 each year for five years starting on 06/30/2014. This promise to give is unconditional and can be recorded when received.

Journal entry examples:

Date: 06/30/2014

Dr. Cash	\$10,000.00
Dr. Contributions Receivable	\$40,000.00
Cr. Unrestricted Donations	\$39,000.00
Cr. Discount on Contributions Receivable	\$1,000.00

Comment: To record the multiyear pledge and first payment received on 06/30/2014.

Date: 06/30/2015

Dr. Cash	\$10,000.00
Cr. Contributions Receivable	\$10,000.00

Comment: To record the second payment of the multiyear pledge received on 06/30/2014.

Date: 06/30/2016

Dr. Cash	\$10,000.00
Cr. Contributions Receivable	\$10,000.00

Comment: To record the third payment of the multiyear pledge received on 06/30/2014.

Date: 06/30/2017

Dr. Cash	\$10,000.00
Cr. Contributions Receivable	\$10,000.00

Comment: To record the fourth payment of the multiyear pledge received on 06/30/2014.

Date: 06/30/2018

Dr. Cash	\$10,000.00
Dr. Discount on Contributions Receivable	\$1,000.00
Cr. Contributions Receivable	\$10,000.00
Cr. Unrestricted Donations	\$1,000.00

Comment: To record the fifth payment of the multiyear pledge received on 06/30/2014 and to eliminate the discount on contributions receivable associated with the multiyear pledge.

- ii. **Please note that multiyear pledges and pledges that will be realized in more than 12 months should be discounted to the present value of the donation in order to be recorded at Fair Market Value.**

4. **Gifts in kind** are non cash donations received by a nonprofit. Gifts in kind can be recorded by the nonprofit if they can be sold or used by the nonprofit. However, it is important to note that gifts in kind often present valuation challenges.

- Gifts in kind of **tangible property** are donations of goods that can be touched.
 - i. For example, on 10/01/2014 a donor gives the nonprofit ten 50 lbs. bags of dog food. This donation can be recorded because it can be used or sold by the nonprofit.

Journal entry examples:

Date: 10/01/2014

Dr. Dog Food Expense	\$400.00
Cr. Gifts in Kind	\$400.00

Comment: To record the ten 50 lbs. bags of dog food received on 10/01/2014.

- Gifts in kind of **intangible property** are donations of goods that cannot be touched.
 - i. For example, on 10/01/2014 a donor gives the nonprofit 5 free licenses to accounting software. This donation can be recorded because it can be used by the nonprofit.

Journal entry examples:

Date: 10/01/2014

Dr. IT Expenses	\$1,000.00
Cr. Gifts in Kind	\$1,000.00

Comment: To record the five accounting software licenses received on 10/01/2014.

- It is important to remember that gifts in kind must be recorded at fair market value which means that you must consider the value the donated goods would have in the open market. Therefore, you must consider the condition, the shelf life, and other characteristics of the donated goods.
- It is also important to remember that gifts in kind unlike other donations are usually recorded as programmatic expenses when received.
 - i. For example, in the above example of the dog food. The journal entry for this donation would be a debit to the dog food expense account and a credit to the gifts in kind revenue account.

5. **Donated Services** are donations of a patron's time and skills. Donated services can only be recorded if they either:

- **Create or enhance a non financial asset, or**

- i. For example, a donor who is a general contractor provides his services to the nonprofit free of charge during the construction of a new shelter. This donated service can be recorded because it creates a non financial asset, in this case the shelter building.

Journal entry examples:

Date: 12/31/2014

Dr. Building	\$30,000.00
Cr. Donated Services	\$30,000.00

Comment: To record the donated services received by the general contractor in relation to the construction of the new shelter building.

- **Require specialized skills, are provided by individuals possessing those skills, and would need to be purchased if not donated.**

- i. For example, a veterinarian visits the shelter once a month to provide medical treatment to the shelter’s sick animals. This donated service can be recorded because it requires a specialized skill, is provided by an individual possessing those skills, and would need to be purchased if not donated.

Journal entry examples:

Date: 12/31/2014

Dr. Medical Expenses	\$25,000.00
Cr. Donated Services	\$25,000.00

Comment: To record a year’s worth of free medical services provided by a veterinarian.

6. **Exchange Transactions** are defined by a reciprocal exchange of economic benefit.

- **Service revenue** is the most typical example of an exchange transaction that generates revenue. Service revenue is generated when a service or a good is provided to a customer and the customer pays for what he or she has received.

- i. For example, on 12/31/2014 a patron adopts a dog and purchases a t-shirt from the shelter. These are examples of service revenue and should be recorded accordingly.

Journal entry examples:

Date: 12/31/2014

Dr. Cash	\$275.00
Cr. Adoption Fees	\$250.00
Cr. Merchandise Sales	\$25.00

Comment: To record service revenue for 12/31/2014