

## Non-Profit Notes Newsletter

# Views from the Audit Trail — Accounting for Temporary Donor Restrictions

By Robert Cordero, CPA, Partner

As auditors and advisors, we have a unique vantage point that allows us to identify accounting and financial reporting issues that are, at times, misunderstood by our clients. One issue that warrants further thought and consideration is the accounting for certain aspects of temporarily restricted net assets.

### Purpose and Time Restricted Donations

Temporary donor restrictions can be classified in two broad groups: as having either a purpose restriction or a time restriction. A donor may contribute an amount to fund a specific program or purchase, making the gift purpose restricted. Another donor may pledge a contribution to be paid over three years without a purpose restriction. Accordingly, the amounts scheduled to be collected by the entity in the second and third year are considered time restricted.

### Presentation in Financial Statements

Beginning next year with the implementation of [FASB ASU No. 2016-14](#), the presentation of restricted donations in the financial statements will change requiring both temporarily and permanently restricted net assets to be combined and labeled “net assets with donor restrictions.” However, the underlying accounting records will still need to delineate and corroborate the activity within temporarily and permanently restricted net assets — that will not change.

### Red Flag

Recently, we have seen several instances where organizations maintain purpose restricted funds in their accounting records with little to no activity for an extended period of time. This can be an indication of misapplication of generally accepted accounting principles.

The accounting literature requires that if an expense is incurred for a purpose for which both unrestricted and temporarily restricted net assets are available, an organization is required to treat temporarily restricted funds as if they are spent first and, accordingly, record a release from temporarily restricted net assets equal to the amount spent.

Too often, organizations do not take this approach, and it is to their potential detriment. The proper release of restricted funds increases unrestricted funds thereby potentially providing more flexibility for operations of the organization.

### Action Needed

We encourage you to review the composition of all of your temporarily restricted net assets. If your accounting records reflect specific temporarily restricted net asset accounts with little or no activity, you may discover that your organization has already met the donor’s intent and, therefore, such funds should have been released from restrictions, i.e. reclassified from temporarily restricted to unrestricted net assets.

Being proactive and discussing the proper accounting for large or unusual transactions with your professional services providers during the year is always a sound business decision.

## Contact Us

Should you have any questions regarding this bulletin, accounting for restricted net assets or other matters related to accounting, auditing and tax compliance for not-for-profit organizations, please contact Robert Cordero, CPA, Partner at [rcordero@odpkf.com](mailto:rcordero@odpkf.com), or any member of the not-for-profit team at PKF O'Connor Davies, LLP.

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