Module 6 Exercise: Financial Statements for a Nonprofit Organization

Overview

In this module, you will practice how donations, contributions, grants, donated services, gains and losses on investments, and interfund transfers are recorded for not-for-profit organizations in:

- Statement of Financial Position
- Statement of Activities

You will recognize, classify, and analyze transactions and see how everyday nonprofit activities affect the organization's financial position and the two classes of net assets: **with donor restrictions** and **without donor restrictions**. (The lecture uses the older three-class labels. "Temporarily restricted" and "permanently restricted" are now reported together as *with donor restrictions*; "unrestricted" is now *without donor restrictions*.)

Context

In Module 5 you recorded transactions for your own business or nonprofit idea. Now imagine you are working in the CFO's office of a nonprofit organization in Albany, NY:

- Name (example): Capital Region After-School Fund (CRAF)
- Mission: supports after-school tutoring and arts programs for middle-school students in Albany, in partnership with the public schools and UAlbany MPA students.

Your job is to recognize and classify transactions, prepare a Statement of Activities showing 2026 revenues and expenses, and build the year-end Statement of Financial Position.

Use the workbook `Module 6_exercise_template_2026.xlsx`. It has three sheets: **Transactions**, **Statement of Financial Position**, and **Statement of Activities**.

Step 1: Beginning position (January 1, 2026)

At the start of 2026, CRAF has the following balances (also on the worksheet):

Assets

- Cash and cash equivalents: $85,000
- Grants receivable (state grant, restricted for after-school program): $25,000
- Pledges receivable (unrestricted, expected in 60 days): $10,000
- Prepaid insurance: $3,000
- Investments – donor-restricted endowment: $100,000
- Furniture and equipment: $40,000

- Total assets: $263,000

Liabilities

- Accounts payable: $9,000
- Deferred revenue (program fees received in advance): $6,000
- Note payable – bank: $35,000
- Total liabilities: $50,000

Net assets

- Without donor restrictions: $78,000
- With donor restrictions:
  - Time/purpose restricted: $35,000
  - Permanently restricted/endowment: $100,000
  - Total with donor restrictions: $135,000
- Total net assets: $213,000

Assets $263,000 = Liabilities $50,000 + Net Assets $213,000

Step 2: Recognize and analyze transactions (2026)

Below are 15 transactions that happen during 2026, after a worked example. For each transaction, use the **Transactions** sheet to show the impact on:

- Assets
- Liabilities
- Net assets without donor restrictions
- Net assets with donor restrictions
- Revenues
- Expenses

Example (already on the worksheet): Collected the $10,000 unrestricted pledge from 2025. Assets: ↑ cash 10,000, ↓ pledges receivable 10,000.

Transactions (2026)

1. A local donor gives $25,000 in cash, no restrictions. (Hint: net assets without donor restrictions and cash.)
2. A local foundation pledges $40,000, which will be paid in 2027 to support next year's program. (Hint: a new time-restricted pledge; it is a receivable this year.)
3. You run training workshops for teachers and charge $12,000 in total; you receive $10,000 in cash, and $2,000 is still to be collected. (Hint: service revenue, part collected in cash and part receivable, without donor restrictions.)
4. A CPA donates audit-preparation services worth $2,500. (Hint: donated professional services; record a service expense as well.)
5. MPA students volunteer 100 hours of tutoring. (Hint: non-specialized volunteers; no record.)
6. You buy new laptops for the program and pay $8,000 cash. (Hint: a capital asset; not used yet.)
7. Record $6,000 depreciation on furniture and equipment. (Hint: depreciation expense of a capital asset.)
8. Pay program and administrative staff $70,000 in total. (Hint: personnel expense.)

9. Pay $18,000 cash for rent, utilities, and internet. (Hint: rent, utilities, and internet expenses.)
10. Endowment investments earn $4,000 in dividends and interest. The donor's letter says, "Income must stay in the endowment." (Hint: investments and net assets with donor restrictions both increase.)
11. One of the 2026 pledges (from transaction 2) looks doubtful; you write off $1,000. (Hint: pledges receivable and net assets with donor restrictions both go down, due to bad debt expense.)
12. The board votes to move $10,000 from general operating into a board-designated "program innovation fund." (Hint: this is not a donor restriction; it is an internal reclassification within net assets without donor restrictions — total net assets do not change.)
13. During 2026 you spend $20,000 on the after-school program that was previously donor-restricted. (Hint: net assets with donor restrictions decrease; service expense.)
14. You pay $5,000 on the principal of the bank note and $1,750 in interest. (Hint: affects cash, note payable, and interest expense.)
15. A local office supply store donates paper and art supplies worth $1,200, and your program uses them in 2026. (Hint: donated supplies used immediately, so expense and donation revenue both go up.)

After recording all transactions, check that your results still balance: Assets = Liabilities + Net Assets.

If you are not sure how a transaction should be recorded, you can ask the TA, me, or an AI tool. Decide each one yourself first, and treat the tool's answer as something to verify, not something to copy.

Step 3: Prepare end-of-year financial statements

After completing your transactions, prepare the year-end Statement of Financial Position and Statement of Activities on the two sheets provided. Then check one thing: your surplus or deficit on the Statement of Activities should equal the change in total net assets on your Statement of Financial Position. If it doesn't, recheck your transactions.

Write a short memo (1 page) responding to the following:

- **Net assets:** Does the organization have a positive or negative change in net assets at the end of 2026? Look at the two classes separately as well as the total.
- **Surplus or deficit:** Did the nonprofit earn a surplus or a deficit during the year?
- **Financial management reflection:** How can preparing financial statements help you manage a nonprofit more effectively?

What to submit

- Your completed workbook: the Transactions sheet, and the Statement of Financial Position and Statement of Activities for year-end 2026
- A 1-page memo responding to the Step 3 questions

AI-use disclosure: At the end of your memo, note which tool you used, if any. If you used one, describe one answer it gave that you decided not to accept, and why.