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Educational case

Accountants' Relief Foundation (ARF): A not-for-profit case examining contribution receipts and distributions

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ABSTRACT

The Accountants' Relief Foundation case study exposes students to not-for-profit (NFP) transactions and performance evaluation. Your task is to: (1) explain the advantages and restrictions associated with NFPs, (2) describe and calculate customary NFP performance metrics and assess risks, (3) determine the existence of liabilities and expenses, (4) discuss contract-timing issues, (5) evaluate differences between discretionary and non-discretionary power, (6) evaluate contribution alternatives, and (7) use primary and secondary accounting literature to solve the case.

1. Case study

1.1. Background

Founded in the late 1970s, the Accountants' Relief Foundation (ARF) is a charitable nongovernmental organization formed under Internal Revenue Code (IRC) Section 501(c) (3) as a tax-exempt charitable entity. Its mission is to provide (1) relief to CPAs who have been harmed by all types of disasters or who are indigent or unable to support themselves because of mental, physical, or other handicaps, and (2) charitable funding opportunities for CPAs. The seven member foundation was organized by the Accounting Philanthropic Organization (APO), an organization similar to the AICPA, which is managed by personnel (hereafter, management) appointed by the APO Board. However, although consolidated

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by the APO, the ARF also autonomously produces financial statements for its December 31 fiscal year end because its activities and financial statement users are far different than APO's (e.g., ARF's financial statement users and constituents are members considering making a donation). Consequently, for better clarity and transparency, ARF's users prefer separate financial statements so as not to be distracted by consolidated activities. All accounting questions presented in this case study are to be considered from the perspective of the ARF's stand-alone financial statements.

1.2. Part I: Contributions made

Shortly after the catastrophic attacks on September 11, 2001, the ARF began to support the families of CPAs killed during these events. Management wanted to donate at least $1500,000 and discussed possibly contributing another $1000,000 in the future. At a special board meeting on December 11, 2001, the Board, after reviewing a draft agreement, authorized management to identify a nongovernmental, independent, not-for-profit (NFP) third party to grant $2000,000 to support the families. Specifically, these contributions were to help children of deceased CPAs pay their college education, provided that qualifying students submit proof of their admission to or continual enrollment at a college or university.

On December 31, 2001, the ARF signed an agreement with a third-party organization named 911 Educational Support (hereafter, 911ES) that obligated the ARF to provide $2000,000 to fund qualifying students. The ARF also issued a press release describing its intention to distribute the funds as described, the general terms of the 911ES arrangement, and why it chose 911ES to distribute the funds.

After evaluating three qualified proposals submitted during a formal RFP (request for proposals) process conducted a few months earlier, the ARF was pleased to award the administration of these grants to 911ES, a fully recognized 501(c) (3) charitable organization with a demonstrated record of student grant administration. Most particularly, it had provided similar grant administration for two large athletic conferences in support of grant programs for inner city "working poor" families. Certain ARF board members who were familiar with 911ES noted its outstanding reputation, as did several articles published in *The New York Times*.

The 911ES organization agreed to distribute the funds to students after comprehensive review and "vetting" of their applications, providing funding annually based upon proof of admission or continual

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Gains				
Program Service Revenue	$27,870,681			$27,870,681
Membership Dues	233,750			233,750
Interest and Dividends	15,422			15,422
Net Assets Released from Restrictions	176,660	(176,660)	0	0
Total Revenues and Gains	28,296,513	(176,660)	0	28,119,853
Expenses and Losses				
Program Services	14,938,463			14,938,463
Management and General	6,148,556			6,148,556
Legal and Accounting Fees	2,507,234			2,507,234
Fund-Raising	2,797,699			2,797,699
Total Expenses and Losses	26,391,952	0	0	26,391,952
Changes in Net Assets	1,904,561	(176,660)	0	1,727,901
Net Assets at the Beginning of Year	569,489	276,602	758,013	1,604,104
Net Assets at End of Year	$2,474,050	$99,942	$758,013	$3,332,005

Fig. 1. Unadjusted statement of activities for the year ended December 31, 2001.