I. GENERAL PURPOSE FINANCIAL STATEMENTS FOR NOT-FOR-PROFIT ORGANIZATIONS.

A. Purpose of a Set of Financial Statements.

The primary purpose of financial statements is to provide relevant information to meet the common interests of donors, members, creditors, and others who provide resources to not-for-profit organizations. Those external users of financial statements have common interests in assessing (a) the services an organization provides and its ability to continue to provide those services and (b) how managers discharge their stewardship responsibilities and other aspects of their performance.

More specifically, the purpose of financial statements, including accompanying notes, is to provide information about:

1. The amount and nature of an organization’s assets, liabilities, and net assets.

2. The effects of transactions and other events and circumstances that change the amount and nature of the net assets.

3. The amount and kinds of inflows and outflows of economic resources during a period and the relation between the inflows and outflows.

4. How an organization obtains and spends cash, its borrowing and repayment of borrowing, and other factors that may affect its liquidity.

5. The service efforts of an organization.
B. **ASC 958-205, Presentation of Financial Statements.**

This pronouncement establishes standards for general purpose external financial statements prepared by not-for-profit organizations. It specifies that a complete set of financial statements should include:

- A statement of financial position (balance sheet);
- A statement of activities (income statement);
- A statement of functional expenses (required for voluntary health and welfare organizations\(^1\) only);
- A statement of cash flows; and
- Notes to the financial statements.

The financial statements should include information required by generally accepted accounting principles (GAAP), except for principles included in authoritative pronouncements that specifically exempt not-for-profit organizations, including information required by applicable specialized accounting and reporting principles and practices.

Financial statements in conformity with GAAP are presented on the accrual basis. A distinction should be made between accrual based financial statements and cash or modified cash based financial statements. An organization that wishes to present financial statements on the cash or modified cash basis would not be in conformity with GAAP, but would rather follow the principals under other comprehensive bases of accounting (OCBOA). The basis that a not-for-profit organization uses to prepare its financial statements generally is determined by the needs of those who will use the financial statements. Organizations reporting financial results to third parties ordinarily use GAAP financial statements. The use of GAAP financial statements in such circumstances promotes comparability among financial statements, and because users become familiar with GAAP through experience with it, its general use increases user understanding.

As with any entity, authoritative literature encourages comparative financial statements, but does not require comparative financial statements. However, if a not-for-profit organization chooses to report comparative information for a prior year, the comparative information must be by net asset class. Some not-for-profit organizations choose to present only summarized comparative information. This presentation would not include the minimum information required by GAAP. If

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\(^1\) Organizations formed for the purpose of performing voluntary services for various segments of society. They are tax exempt (organized for the benefit of the public), supported by the public, and operated on a “not-for-profit” basis. Most voluntary health and welfare organizations concentrate their efforts and expend their resources in an attempt to solve health and welfare problems of our society and, in many cases, those of specific individuals. As a group, voluntary health and welfare organizations include those not-for-profit organizations that derive their revenue primarily from voluntary contributions from the general public to be used for general or specific purposes connected with health, welfare, or community services. Examples would be Salvation Army, Red Cross.
a not-for-profit organization chooses to present summarized comparative information, the nature of the prior year information should be described by the use of appropriate titles on the face of the financial statements and in a note to the financial statements.

1. **ASC 958-210, Statement of Financial Position.**

   The primary purpose of a statement of financial position is to provide relevant information about an organization’s assets, liabilities, and net assets.

   a. **Aggregation of Assets and Liabilities.**

      A statement of financial position should focus on the organization as a whole and should report the amounts of its assets, liabilities, and net assets. Assets and liabilities should be aggregated into reasonably homogeneous groups. Assets need not be disaggregated on the basis of the presence of donor imposed restrictions on their use. For example, cash available for unrestricted current use need not be reported separately from cash received with donor-imposed restrictions that is also available for current use. However, cash or other assets designated for long-term purposes or received with donor-imposed restrictions for long-term use, should not be aggregated on the statement of financial position with cash or other assets available for current use. Cash or other assets restricted for long-term use should be listed as a separate line item on the statement of financial position and be described in the notes to the financial statements if its nature is not clear from the description on the face of the statement of financial position.

   b. **Disclosing the Organization’s Liquidity.**

      ASC 958-210 requires that one or more of the following techniques be used to provide information about the organization’s liquidity:

      (i) Sequencing assets by their liquidity and sequencing liabilities according to their nearness of their maturity and resulting use of cash.

      (ii) Classifying assets and liabilities as current and noncurrent, as defined by ASC 210-10.

      (iii) Disclosing in the notes to the financial statements relevant information about the liquidity or maturity of assets and liabilities, including restrictions on the use of particular assets.

      Information about the liquidity or maturity of assets and liabilities, including restrictions on the use of particular items, should be
disclosed in a separate note to the financial statements if that information is not apparent from the face of the statements or other notes.

c. Net Asset Classes.

The statement of financial position reports amounts for each of the three classes of net assets (permanently restricted net assets, temporarily restricted net assets, and unrestricted net assets), as well as total net assets. The classification of net assets is based solely on the existence or absence of donor-imposed restrictions.

(i) Permanently restricted net assets result from (a) contributions and other inflows of assets whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by the organization’s actions; (b) other asset enhancements and diminishments subject to the same kinds of stipulations; and (c) reclassifications from or to other classes of net assets as a consequence of donor-imposed stipulations.

(ii) Temporarily restricted net assets result from (a) contributions and other inflows of assets whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the organization pursuant to these stipulations; (b) other asset enhancements and diminishments subject to the same kinds of stipulations; and (c) reclassifications from or to other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the organization pursuant to those stipulations. Net assets may be temporarily restricted for various purposes, such as use in future periods or use for specified purposes.

(iii) Unrestricted net assets are contributions which are absent of donor-imposed restrictions. ASC 958-210 permits organizations to disclose self-imposed limitations (such as board designated) on the use of unrestricted net assets in the notes to the financial statements or on the face, provided that total unrestricted net assets are displayed.

2. ASC 958-225, Statement of Activities.

The primary purpose of a statement of activities is to provide relevant information about the effects of transactions and other events and circumstances that change the amount and nature of net assets and how the organization’s resources are used in providing various programs or services.
a. Change in Net Assets.

The statement of activities should focus on the organization as a whole and should report the amount of the change in net assets for the period using a descriptive term such as change in net assets or change in equity. It should report the amounts of changes in permanently restricted net assets, temporarily restricted net assets, unrestricted net assets, and total net assets. ASC 958-225 requires that there be a subtotal for the change in each class of net assets before the effects of extraordinary items, discontinued operations, or accounting changes.

b. Revenues, Expenses, Gains, and Losses.

Revenues, expenses, gains, and losses should be classified by net asset class. Events that simultaneously increase one net asset class and decrease another (reclassifications) should be reported separately. Revenues, gains, and losses should be classified based on the presence or absence of donor-imposed restrictions. In the absence of donor-imposed restrictions, revenues should be reported as an increase in unrestricted net assets. All expenses are to be reported as a decrease in unrestricted net assets. Gains and losses should be reported as increases and decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. Expirations of donor-imposed restrictions that simultaneously increase one net asset class and decrease another should be reported as separate items.

In some situations, an organization may meet donor-imposed restrictions on all or a portion of the amount contributed in the same reporting period in which the contribution is received. An organization may adopt a policy to report the contribution, to the extent that the restrictions have been met in the same period as received, as unrestricted support that increases unrestricted net assets. However, this policy must be disclosed in the notes to the financial statements and must be consistently followed from period to period.

ASC 958-225 does not specify how to sequence revenues, expenses, gains, losses, and reclassifications; however, it does suggest several ways that they could be sequenced.

(i) Revenues and gains, reclassifications, expenses, and losses.

(ii) Revenues, expenses, gains, losses, and reclassifications.

(iii) Certain revenues, less directly related expenses, followed by a subtotal, then other revenues, other expenses, gains and losses, and reclassifications.
(iv) Additional classifications may exist, such as revenues and expenses, within a class or classes of net assets as operating and nonoperating, expendable and nonexpendable, recurring and nonrecurring, or in other ways, such as by business segments.

c. Reclassifications.

Reclassifications of net assets, that is simultaneous increases in one net asset class and decreases in another, should be made if (a) the organization fulfills the purposes for which the net assets were restricted, (b) donor-imposed restrictions expire with the passage of time or with the death of an annuity beneficiary, (c) a donor withdraws, or court action removes, previously imposed restrictions, or (d) donors impose restrictions on otherwise unrestricted net assets.

d. Reporting Expenses.

To help users assess an organization’s service efforts, the statement of activities or the notes to the financial statements should report expenses by their functional classification, such as major programs and supporting activities. The guidance breaks down supporting activities into three categories: management and general, fundraising, and membership development.

Expenses may be incurred for purposes for which both unrestricted and temporarily restricted net assets are available. If an expense is incurred for a purpose for which both unrestricted and temporarily restricted net assets are available, a donor-imposed restriction is fulfilled to the extent of the expense incurred unless the expense is for a purpose that is directly attributable to another specific external source of revenue.


A statement of functional expenses shows how the natural expense classifications are allocated to significant program and supporting services. Natural expense classifications include such items as salaries, rent, electricity, interest expense, depreciation, professional fees, and insurance. The level of detail may vary depending on the nature and complexity of the organization’s activities.


A statement of cash flows provides relevant information about an organization’s cash receipts and cash payments during a period. The statement classifies those receipts and payments as resulting from operating, investing, and financing activities. Separate disclosure of noncash investing and financing activities is also required. For example,
receiving contributions of buildings, securities, or recognized collection items.

The guidance generally requires gross cash flows from investing and financing activities to be reported rather than net amounts.

a. Operating Activities.

<table>
<thead>
<tr>
<th>Cash Receipts From:</th>
<th>Cash Payments For:</th>
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<tbody>
<tr>
<td>• Contributions (other than those</td>
<td>• Wages</td>
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<td>restricted for long-term purposes)</td>
<td>• Supplies</td>
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<tr>
<td>• Service recipients</td>
<td>• Grants</td>
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<tr>
<td>• Grants</td>
<td>• Interest (excluding amounts</td>
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<tr>
<td>• Unrestricted or temporarily restricted</td>
<td>capitalized as long-lived assets)</td>
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<tr>
<td>restricted interest and dividends available</td>
<td>• Other cash payments not related to</td>
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<tr>
<td>for current use</td>
<td>investing and financing activities</td>
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<tr>
<td>• Other cash receipts not arising from</td>
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<td>investing or financing activities</td>
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b. Investing Activities.

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</thead>
<tbody>
<tr>
<td>• Sale of property and equipment</td>
<td>• Property and equipment</td>
</tr>
<tr>
<td>• Sale or maturity of investments</td>
<td>• Purchase of investments</td>
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<tr>
<td>• Collections on loans</td>
<td>• Loans</td>
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c. Financing Activities.

<table>
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<th>Cash Receipts From:</th>
<th>Cash Payments For:</th>
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<td>• Contributions restricted for long-term</td>
<td>• Repayment of amounts borrowed</td>
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<td>purposes</td>
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<tr>
<td>• Borrowings</td>
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<tr>
<td>• Interest and dividends restricted for long-</td>
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<td>term purposes</td>
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