

READING 1 NASAA TRAINING - 12/5/2007

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Frequently Asked Questions

Question

What financial statements are nonprofits required to issue?

Answer

Statement of Financial Position

Statement of Activities

Statement of Cash Flow

The end products of the accounting process are the financial statements, summarizing all of the financial transactions of the organization for the period. The Financial Accounting Standards Board issued Statement of Account Standards No. 117, *Financial Statements for Not-for-profit Organizations* requiring nonprofits to prepare three primary financial statements:

- Statement of Financial Position (Balance Sheets)
- Statement of Activities (Income Statement)
- Statement of Cash Flows

In addition, nonprofits must provide information about expenses as reported in their functional classifications (program services and supporting services.) Voluntary health and welfare organizations are also required to present a statement that reports expenses by their natural classification (e.g., salaries, rent, telephone, printing, etc.) Other nonprofits are encouraged to report in both formats as well.

The following briefly describes the information included in each statement.

Statement of Financial Position

Reports amounts of the organization's assets, liabilities and net assets (fund balances) at a specified date. This statement was previously known as the Balance Sheet.

Assets are properties and resources the agency owns and can use to achieve its goals.

Current assets include cash accounts, certificates of deposits and other investments, and items such as receivables which will be converted to cash within one year. **Fixed assets** include land, buildings and equipment.

Liabilities are debts of the organization, what is owed. **Current liabilities** typically include accounts payable to vendors, short-term loans due, withheld payroll taxes due, etc. **Long term liabilities** include long term debt, mortgages, etc.

Net Assets (previously called fund balances) represents the net of assets over liabilities. Three classes of net assets must be reported on unrestricted, temporarily restricted, and permanently restricted. Restrictions are determined by the conditions which donors place on their contributions.

Statement of Activities

Reports revenues, expenses, and the resulting change in net assets for the year. Charges are reported for each of the three classes of net assets (unrestricted, temporarily restricted, and permanently restricted.) This statement was previously known as the Income Statement or Statement of Revenue, Expenses and Changes in Fund Balances.

Statement of Cash Flows

Reports how the organization's cash position changed during the year. Cash flow information is divided among receipts and disbursements from investing, financing, and operating activities. Many nonprofits ask their auditors to prepare this statement.

Other Related Documents

In addition to the financial statements required for audit purposes, nonprofits are required by federal and state governments to file various information returns to maintain their tax-exempt status and document tax compliance. The primary federal reports are the annual Form 990 and Schedule A to the 990. State governments may require additional reports.

Sample Statements of Financial Position and Activities**The Helpful Organization: Statement of Financial Position**

	Statement of Financial Position (Balance Sheet) The Helpful Organization Year Ended June 30, 19x8	
ASSETS	<u>19x8</u>	<u>19x7</u>
Cash and Cash Equivalents	\$11,400	\$6,300
Grants Receivable	2,500	0
Prepaid Expense	950	1,300
Fixed Assets at Cost:		
Office Equipment	15,496	
Less:		
Accumulated Depreciation	<15,496>	
Net Fixed Assets	- 0 -	- 0 -
Total Assets	\$14,850	\$7,600
LIABILITIES		
Accounts Payable	\$1,500	\$4,500
NET ASSETS (Fund Balance)	\$13,350	\$3,100

The Helpful Organization: Statement of Activities
Statement of Activities
The Helpful Organization
Year Ended June 30, 19x8

FORMAT A
Functional Expense Classification

REVENUES

Government Grants	\$ 35,000
Other Grants	50,000
Individual Contributions	25,000
Fees for Service	45,000
Interest	<u>2,000</u>
Total Income	\$157,000

EXPENSES

Counseling Program	\$ 52,800
Training Program	62,100
Management and General	21,865
Fundraising	<u>9,985</u>
Total Expenses	\$146,750
Increase/<Decrease> in Net Assets	\$ 10,250

The Helpful Organization: Statement of Activities

Statement of Activities
The Helpful Organization
Year Ended June 30, 19x8

FORMAT B: Natural Expense Classification

REVENUES

Government Grants	\$ 35,000
Other Grants	50,000
Individual Contributions	25,000
Fees for Service	45,000
Interest	<u>2,000</u>
Total Income	\$157,000

EXPENSES

Salaries and Fringe:

Executive Director	\$ 38,000
Program Directors	50,000
Secretary	27,000
Rent	12,000
Supplies	11,000
Telephone	3,300
Postage	2,500
Copying	<u>2,950</u>
Total Expenses	\$146,750
Increase/<Decrease> in Net Assets	\$ 10,250

The Helpful Organization: Statement of Cash Flows

Statement of Cash Flows
The Helpful Organization
Year Ended June 30, 19x8

Change in Net Assets	\$10,250
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Adjustments to reconcile change in net assets to net cash <used by> operating activities:

<Increase> in grants receivable	< 2,500>
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Decrease in prepaid expenses	350
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<Decrease> in accounts payable	< 3,000>
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Net cash <used by> operating activities	< 5,150>
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Net increase in cash and cash equivalents	5,100
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Cash and Cash Equivalents — Beginning of year	6,300
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Cash and Cash Equivalents — End of year	\$11,400
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The Helpful Organization: Statement of Functional Expenses

Statement of Functional Expenses

The Helpful Organization

Year Ended June 30, 19x8

	Counseling Program	Training Program	Total Program	Mgt and General	Fund- raising	Total Support	Total All Expenses
Salaries and Fringe:							
Executive Director	\$12,500	\$12,500	\$25,000	\$7,000	\$6,000	\$13,000	\$38,000
Program Directors	25,000	25,000	50,000				50,000
Secretary	7,000	10,000	17,000	8,000	2,000	10,000	27,000
Rent	4,000	6,000	10,000	1,565	435	2,000	12,000
Supplies	2,500	4,500	7,000	3,000	1,000	4,000	11,000
Telephone	1,000	1,100	2,100	1,000	200	1,200	3,300
Postage	500	1,000	1,500	800	200	1,000	2,500
Copying	300	2,000	2,300	500	150	650	2,950
Total Expenses	\$52,800	\$62,100	\$114,900	\$21,865	\$9,985	\$31,850	\$146,750
