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Statement of Position

78-10

Accounting Principles and Reporting Practices for Certain Nonprofit Organizations

December 31, 1978

A Proposed Recommendation to the Financial Accounting Standards Board

Issued by
Accounting Standards Division

American Institute of
Certified Public Accountants

AICPA

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NOTE

Statements of position of the AICPA Accounting Standards Division are issued for the general information of those interested in the subject. They present the conclusions of at least a majority of the accounting standards executive committee, which is the senior technical body of the Institute authorized to speak for the Institute in the areas of financial accounting and reporting and cost accounting.

The objective of statements of position is to influence the development of accounting and reporting standards in directions the division believes are in the public interest. It is intended that they should be considered, as deemed appropriate, by bodies having authority to issue pronouncements on the subject. However, statements of position do not establish standards enforceable under the Institute's code of professional ethics.

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Accounting Principles and Reporting Practices for Certain Nonprofit Organizations

Introduction

1. The American Institute of Certified Public Accountants has issued the following industry audit guides applicable to certain types of nonprofit organizations.

- *Hospital Audit Guide* (1972)
- *Audits of Colleges and Universities* (1973)
- *Audits of Voluntary Health and Welfare Organizations* (1974)
- *Audits of State and Local Governmental Units* (1974)

2. However, many nonprofit organizations are not covered by any of those guides. This statement of position is issued to recommend financial accounting principles and reporting practices for nonprofit organizations not covered by existing guides that prepare financial statements in conformity with generally accepted accounting principles. This statement is not intended to supersede or amend any of the listed guides. For numerous nonprofit organizations, complex accounting may be neither practical nor economical, and reporting based on cash receipts and disbursements or some other basis may be adequately informative. Under those circumstances, special-purpose financial reports should be prepared.

3. The provisions of this statement need not be applied to immaterial items.

4. A number of terms with specialized meanings are used throughout this statement and are defined in Appendix A.

5. This statement of position applies to all nonprofit organizations not covered by the AICPA industry audit guides listed in paragraph 1, other than those types of entities that operate essentially as commercial businesses for the direct economic benefit of members or stockholders. Examples of the latter category are

employee benefit and pension plans, mutual insurance companies, mutual banks, trusts, and farm cooperatives. Although this list is not all-inclusive, the following organizations are among those covered by this statement:

Cemetery organizations
Civic organizations
Fraternal organizations
Labor unions
Libraries
Museums
Other cultural institutions
Performing arts organizations
Political parties
Private and community foundations
Private elementary and secondary schools
Professional associations
Public broadcasting stations
Religious organizations
Research and scientific organizations
Social and country clubs
Trade associations
Zoological and botanical societies

6. This statement of position applies to many diverse organizations. Some believe that separate accounting guidelines should be issued that fit the special requirements of each type of organization. Others, however, have criticized the published guides and this statement of position because of inconsistencies among the guides, contending that many of the inconsistencies cannot be justified. The accounting standards division believes that continuing to publish separate accounting papers or guidelines for different types of organizations would proliferate accounting practices unnecessarily. Similar transactions generally should be treated similarly by all organizations. The accounting standards division believes that it has considered the principal special requirements or conditions of the organizations covered by this statement of position and has provided special rules or exceptions where deemed appropriate.

7. Some have contended that the division has not sufficiently considered the costs and efforts involved in implementing its recommendations—especially for smaller organizations. Some organizations may believe that special-purpose reports prepared on a basis other than generally accepted accounting principles better serve their needs—especially in light of the relationship between costs and benefits; these recommendations do not preclude such organizations from continuing to use appropriate special-purpose reports.

Users of Financial Statements

8. A wide variety of persons and groups are interested in the financial statements of nonprofit organizations. Among the principal groups are (a) contributors to the organization, (b) beneficiaries of the organization, (c) the organization's trustees or directors, (d) employees of the organization, (e) governmental units, (f) the organization's creditors and potential creditors, and (g) constituent organizations.

9. A principal purpose of a nonprofit organization's financial statements is to communicate the ways resources have been used to carry out the organization's objectives. It requires reporting the nature and amount of available resources, the uses made of the resources, and the net change in fund balances during the period. In addition, while adequate measures of program accomplishment generally are not available in the context of present financial statements, the financial statements should identify the organization's principal programs and their costs. A third aspect of financial reporting for nonprofit organizations is disclosure of the degree of control exercised by donors over use of resources. A fourth aspect is that the financial statements of a nonprofit organization should help the reader evaluate the organization's ability to carry out its fiscal objectives.

10. The division has prepared this statement of position based on the foregoing concepts as a guide to preparing financial statements to be used primarily by persons outside the management of the organization. It recognizes that financial statements prepared for use by management or members of the governing board often require more detail than is prescribed in this statement.

Accrual Basis of Accounting

11. The accrual basis of accounting is widely accepted as providing a more appropriate record of all an entity's transactions over a given period of time than the cash basis of accounting. The cash basis or any basis of accounting other than the accrual basis does not result in a presentation of financial information in conformity with generally accepted accounting principles. Accordingly, financial statements of nonprofit organizations represented as being in conformity with generally accepted accounting principles should be prepared using the accrual basis of accounting.[1]

12. For example, under accrual basis accounting, goods and services purchased should be recorded as assets or expenses at the time the liabilities arise, which is normally when title to the goods passes or when the services are received. Encumbrances representing outstanding purchase orders and other commitments for materials or services not yet received are not liabilities as of the reporting date and should not be reported as expenses nor included in liabilities on the balance sheet. However, significant commitments should be disclosed in the notes to the financial statements, and an organization may designate in its balance sheet the portion of the fund balance so committed.

13. For numerous nonprofit organizations, complex accounting procedures may be neither practical nor economical, and reporting based essentially on cash receipts and disbursements may be adequately informative. If financial statements prepared on the cash basis are not materially different from those prepared on the accrual basis, the independent auditor may still be able to conclude that the statements are presented in conformity with generally accepted accounting principles. Otherwise, cash basis financial statements should be considered to be special purpose financial statements and should be reported on accordingly.

[1] Some organizations keep their books on a cash basis throughout the period and, through adjustment at the end of the period, prepare statements on the accrual basis. The requirement is only that the financial statements be presented on the accrual basis and not that the books be kept on that basis throughout the period.

Fund Accounting

14. Many nonprofit organizations receive resources restricted for particular purposes. To facilitate observance of limitations, the accounts are often maintained using fund accounting, by which resources are classified for accounting and reporting purposes into funds associated with specified activities or objectives. Each fund is a separate accounting entity with a self-balancing set of accounts for recording assets, liabilities, fund balance, and changes in the fund balance. Although separate accounts are maintained for each fund, the usual practice in preparing financial statements is to group funds that have similar characteristics.

15. The division believes that reporting on a fund accounting basis may be helpful where needed to segregate unrestricted from restricted resources. If an organization has restricted resources and elects not to report on a fund accounting basis, the financial statements should disclose all material restrictions and observe the specific requirements indicated in paragraphs 16 through 41, "Basic Financial Statements."

Basic Financial Statements

16. The basic financial statements, including related notes, of nonprofit organizations covered by this statement are—

- Balance sheet
- Statement of activity
- Statement of changes in financial position

17. The balance sheet is intended to present financial position. The statement of activity, including changes in fund balances, is intended to present results of operations. However, when it is intended that the financial statements present both financial position and results of operations, all three statements listed in paragraph 16 should be presented.

18. Although the division has identified the basic financial statements to be prepared, for the most part, it does not prescribe specific titles or formats. Each organization should develop the statement formats most appropriate to its needs in conformity

with the principles discussed in this statement. A number of illustrative financial statements are presented in Appendix C to demonstrate the diversity of formats that can be used.

Balance Sheet

19. The balance sheet should summarize the assets, liabilities, and fund balances of the organization.

20. An organization's unrestricted fund balance represents the net amount of resources available without restriction for carrying out the organization's objectives. Those resources include amounts designated by the board for specific purposes, undesignated amounts, and, frequently, amounts invested in operating plant. While the balance sheet may set forth amounts designated for a program or other purposes, the total of all unrestricted fund balances, other than amounts shown in a plant fund, as discussed in paragraph 22, should be shown and labeled on the balance sheet.

21. Current restricted resources and resources restricted for future acquisition of fixed assets should be reported in the balance sheet as deferred revenue until the restrictions are met. Other restricted resources such as endowment funds should be reflected separately in the fund balance section of the balance sheet. If significant, the nature of the restrictions on fund balances and deferred revenues should be described in the notes to the financial statements.

22. Many organizations use a separate fund to account for the investments in operating plant, art collections, rare books and manuscripts, and similar items. The sources of the funds used to acquire those assets often are a combination of unrestricted and restricted funds. It may not be clear whether assets purchased with restricted funds continue to bear the original donor restrictions. While the division believes an organization should indicate whether the fund balances are restricted or unrestricted, that may not be possible for the plant fund. Thus, the plant fund may be reported separately or combined with either the unrestricted or restricted funds, as appropriate.

23. Many organizations covered by this statement have only unrestricted funds. Those organizations should classify their assets as current, fixed, and other long-term assets and should classify their liabilities as current and long-term. To be classified as "current," the assets generally should be realizable and the liabilities payable within a normal operating cycle; however, if there is no normal operating cycle or the operating cycle is less than one year, all assets expected to be converted to cash or other liquid resources within one year and all liabilities to be liquidated within one year should be classified as current.

24. Other organizations have both unrestricted and restricted funds. Frequently, the fund classifications themselves adequately disclose the current and long-term nature of the assets and liabilities. If not, a classified balance sheet should be presented.

Statement of Activity

25. Throughout this statement of position the term *statement of activity* identifies the financial statement that reports the support, revenue, capital or nonexpendable additions, and functional expense categories. The statement might carry a different title, such as *statement of support, revenue, expense, capital additions, and changes in fund balances,* or simply *statement of changes in fund balances.* The statement of activity should include the activity for the period and a reconciliation between the beginning and ending fund balances. However, an organization may prepare two separate statements: a statement of activity and a statement of changes in fund balances. Changes in fund balances should include the excess or deficiency of revenue and support over expenses after capital additions for the period, adjustments to reflect changes in the carrying amount of certain marketable securities and other investments, as discussed in paragraph 80, and the additions and deductions of interfund transfers.

26. The division has considered the diverse practices used to report details of financial activity. It has concluded that variations in format and presentation are appropriate, provided that the statement of activity shows the major sources and amounts of revenue and support, as well as the principal sources and amounts of additions to plant, endowment, and other capital funds. This

does not prohibit an organization from reporting revenue and expenses separately from sources of support in its financial statements.

27. Nonprofit organizations derive revenues from a variety of sources—dues, sale of services, ticket sales, investment income, and so forth—but they are often not sufficient to cover the cost of providing services. Many organizations, therefore, solicit support to enable them to fulfill their program objectives. Such support may be obtained from individuals, foundations, corporations, governmental units, and other entities.

28. Certain contributions cannot be spent currently for program or supporting services because of donor or legal restrictions and have many of the characteristics of "capital." Such items include gifts, grants, and bequests to endowment, plant, and loan funds restricted either permanently or for a period of time by parties outside the organization. Those items also include investment income that has been restricted by donors and gains or losses on investments held in such funds that must be added to the principal.[2] The accounting standards division has concluded that disclosure of those items would be useful, and they should be differentiated from items that are available for current operations. Captions such as "capital additions," or "nonexpendable additions," should be used.

29. Capital additions do not include restricted gifts, grants, bequests, or gains on the sale of assets that can be used for current activities even though the contributions have been deferred until the organization incurs an expense that satisfies the terms of the restriction, nor do they include unrestricted amounts that the board designates as nonexpendable. See paragraphs 54 through 62 for a further discussion on current restricted gifts, grants, bequests, and other income.

30. While there is wide diversity of practice, the division concluded that an "excess" line-item caption in the statement of ac-

[2] The division does not suggest that gains on the sales of restricted assets are legally restricted or that they cannot be used at the discretion of the organization. Those are legal questions that depend on applicable law, donor intent, or both.

tivity is useful. Although the purpose of the organizations covered by this statement is not to make "profits" as this term is generally used, nonprofit entities can survive only if they have support, revenue, and other additions equal to or in excess of expenses. This measure is an important indicator of financial health and is therefore of interest to management, members of the governing board, donors, beneficiaries, and other users of the financial statements. Accordingly, the statement of activity should report the excess (deficiency) of revenues and support over expenses for the period.

31. If financial activities include capital additions, there should be *two* clearly labeled "excess" line-item captions, such as "excess (deficiency) of revenue and support over expenses before capital additions" and "excess (deficiency) of revenue and support over expenses after capital additions" (alternative wording may be used).

Statement of Changes in Financial Position

32. The statement of changes in financial position provides a summary of available resources and their use during the period.

33. Many nonprofit organizations obtain their resources from contributions, borrowed money, investment income, and so forth. The statement of changes in financial position provides the user with information about both the methods of financing programs and activities and the use and investment of resources during the period.

34. The statement of changes in financial position should summarize all changes in financial position, including capital additions, changes in deferred support and revenue, and financing and investing activities.

Other Types of Fund Classifications

35. Rather than using the traditional fund accounting classifications, some organizations prefer using classifications such as expendable and nonexpendable or unrestricted and restricted in their financial statements. Such classifications are appropriate

provided that all the required disclosures indicated in paragraphs 16 through 41 are met.

Columnar vs. Layered Presentation

36. The practice of presenting data by major fund groups has evolved to emphasize meaningful distinctions between the types of unrestricted and restricted resources for which an organization is accountable. Many organizations report financial position and results of activities in a multicolumn format. Others report their financial statements in a layered or "pancake" format, and still others report certain data in a columnar format and other data in a layered format. Each organization should develop the statement format most appropriate to its needs to conform with the principles discussed in this statement of position.

Totals of All Funds

37. Some organizations present their financial statements (either in columnar or layered format) only by major fund groups without showing totals of all funds. They do not consider totals of all funds to be meaningful and sometimes consider such totals to be misleading because of restrictions on the use of certain resources; however, other organizations, believing that totals are meaningful, present details by major fund groups and totals of all funds in one or more of their statements.

38. Certain organizations present financial statements showing only the totals of all funds and do not show the major fund groups. Organizations do that if they do not establish separate funds for reporting purposes, if the financial information concerning particular funds is not significant, or if such information can be adequately set forth in other ways in the statements or the notes.

39. Financial statements in columnar format lend themselves to presenting totals of all funds. Financial statements presented in layered format lend themselves to fund group presentations with comparative data for the preceding period.

40. The presentation of totals of all fund groups in all financial statements is preferable, although not required. In presenting

such totals, the specifics of the major fund groups should also be provided, and care should be taken to assure that the captions are not misleading and that adequate information is provided concerning interfund borrowings and important restrictions on the uses of resources.

Comparative Financial Statements

41. Although it is not required, financial statements of the current period should be presented on a comparative basis with financial statements for one or more prior reporting periods. If multi-column financial statements are presented for the current period, some organizations prefer to present only summarized, total-all-funds information (in a single column) for each of the prior periods because of space limitations and to avoid the confusion that a second set of multi-column statements might cause. However, where it is intended to present financial statements of the prior periods as well as the current period in accordance with generally accepted accounting principles, care must be taken that there is sufficient disclosure in the summarized data and in the supporting notes.

Financially Interrelated Organizations

42. For a reporting organization that controls another organization having a compatible purpose, it is presumed that combined or combining financial statements are more meaningful than separate statements and are usually necessary for a fair presentation in conformity with generally accepted accounting principles. *Control* means the direct or indirect ability to determine the direction of the management and policies through ownership, by contract, or otherwise.

43. The accounting standards division has considered the foregoing definition in relation to the nonprofit organizations covered by this statement of position and has concluded that it may be construed by some to be so broad, considering the structure of some nonprofit organizations, that presentation of combined financial statements might have relatively little value to users of such combined statements, particularly in relation to the cost of their preparation.

44. Nevertheless, the division has concluded that combined financial statements are necessary for informative presentation of certain financially interrelated organizations. To balance these objectives, combined financial statements should be presented if (1) control exists as defined in paragraph 42 and (2) any of the following circumstances exists:

a. Separate entities solicit funds in the name of and with the expressed or implicit approval of the reporting organization, and substantially all of the funds solicited are intended by the contributor or are otherwise required to be transferred to the reporting organization or used at its discretion or direction.

b. A reporting organization transfers some of its resources to another separate entity whose resources are held for the benefit of the reporting organization.

c. A reporting organization assigns functions to a controlled entity whose funding is primarily derived from sources other than public contributions.

The basis for combining financial statements, including the interrelationship of the combined organizations, should be disclosed in the notes to the financial statements.

45. Legally unrestricted resources held by organizations related to the reporting organization may be effectively restricted with respect to the reporting organization. In combined financial statements that include both the related organization and the reporting organization, it may be appropriate to present all resources of the related organization, both unrestricted and restricted, as restricted resources.

46. A national or international organization may have state or local chapters with varying degrees of autonomy. Affiliated organizations may be separate corporate entities or unincorporated boards, committees, or chapters. It is not intended to require a national or "parent" organization with loosely affiliated local organizations whose resources are principally derived and expended locally to combine the local organizations' financial statements with its own. The loose affiliation of the local organization would be characterized by locally determined program activities, finan-

cial independence of the local organization, and local organization control of its assets. Therefore, combined financial statements need not be presented unless the financial relationships between the entities are as described in paragraph 44.

47. If affiliated organizations are not combined because they do not meet the combining criteria or have loosely affiliated local organizations, the existence of the affiliates and their relationships to the reporting organization should be disclosed.

48. In view of the unique and complex organizational relationships and degrees of local autonomy common in religious organizations, there may be many circumstances in which application of this section on combination would not result in meaningful financial information. Thus, if a religious organization concludes that meaningful financial information would not result from the presentation of combined financial statements, the provisions of this section need not be applied.

Related-Party Transactions

49. Contributions made to an organization by its governing board members, officers, or employees need not be separately disclosed if the contributors receive no reciprocal economic benefits.

Revenue, Support, and Capital Additions

50. The statement of activity should report revenue, support, and capital additions. Revenue and support are discussed under "Statement of Activity," paragraphs 25 through 31.

Capital Additions

51. Capital additions include nonexpendable gifts, grants, and bequests restricted by donors to endowment, plant, or loan funds either permanently or for extended periods of time. Capital additions also include legally restricted investment income and gains or losses on investments held in such funds that must be added to the principal.[3] Capital additions do not include donor-restricted gifts for program or supporting services.

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[3] See footnote 2.

52. Capital additions that are restricted for acquisition of plant assets should be treated as deferred capital support in the balance sheet until they are used for the indicated purpose. Once used, these amounts should be reported as capital additions in the statement of activity.

53. Some organizations may prefer to use the caption "nonexpendable additions" instead of "capital additions." As previously noted, that or other wording is acceptable.

Current Restricted Gifts, Grants, Bequests, and Other Income

54. Current restricted gifts, grants, bequests, and other income provide expendable resources that have been restricted by donors, grantors, or other outside parties to the purposes for which they may be used. Such restrictions usually involve written assertions expressed in restrictive language by one party to the other. Amounts received from appeals for restricted funds by solicitation letter, radio, television, newspaper, and so forth are generally deemed to be restricted according to the nature of the appeal.

55. Two alternative accounting conventions have been used for reporting current restricted resources. Some report the full amount of such resources when received as "revenue and support" in a current restricted fund column in the statement of activity, without regard to whether the resources were used or the restrictions met.[4] Unspent amounts are reported in the "excess (deficiency) of revenue and support over expenses" and included in the fund balance of the current restricted fund.

56. This accounting convention is used because restricted resources are available for current use regardless of whether they are spent, and full accountability requires that this be recognized by reflecting receipt of such resources as revenue and support. Those who disagree express concern that the recognition of such amounts as revenue and support overlooks the legal obligation to return the resources if they are not used for the restricted pur-

[4] This is the approach recommended by the AICPA industry audit guide, *Audits of Voluntary Health and Welfare Organizations* (New York: AICPA, 1974).

pose. They further contend that large amounts received near the end of the period may significantly distort the financial statements of the organization.

57. The other accounting convention has been based on an assumption that a donee organization should not recognize such amounts as revenue until the particular resources are used for the purpose specified by the donors, since they are not "earned" until they are used and the restrictions met.[5] Under this accounting convention, receipts of current restricted funds are not reported as revenue until the resources are expended for the purpose specified. Until then, they are reported as a direct addition to the fund balance of the current restricted fund.

58. This approach may be satisfactory for restricted grants that impose conditions of discrete accountability with the requirement that unspent balances be refunded to the grantors. However, it allows management to defer recognition of restricted support as revenues although applicable expenses have been incurred.

59. The accounting standards division believes that neither accounting convention is entirely satisfactory and that the conventions should be changed based on the following concepts:

a. The recognition of the receipt of restricted funds as revenues should be determined by economic events rather than by arbitrary management decisions. The same economic events affecting two similar organizations in a similar manner should not appear to produce two different results because of differences in the management objectives.

b. For accounting purposes, donor restrictions are complied with when the organization incurs an expense for the function, program, project, or object and in the manner specified in the donative instrument or grant award unless such expense is attributable to other restricted funds.

c. Unexpended restricted funds should be reported in a manner that reflects the restrictions attached to such funds.

[5] This is the approach recommended by the AICPA industry audit guides for hospitals and for colleges and universities.

60. For example, if a donor restricted a contribution or responded to an appeal for restricted contributions to be used for a specific program service and the organization subsequently, or in anticipation of receiving the restricted contributions, incurred expenses for that particular program service, the accounting standards division believes the obligation imposed by the restriction should be deemed to have been met even if unrestricted funds were used. Management should not avoid recognizing the restricted contribution as support in that period simply because it chose to use dollars attributed to unrestricted funds at the time the expense was incurred.

61. Unless the donor specifies to the contrary, the donee organization should consider only expenses incurred after the receipt of the restricted contribution as meeting the restriction. This does not apply if the donor or grantor contributes in response to an appeal that specifies that the related expenses may have already been incurred in whole or in part.

62. The division has concluded, therefore, that current restricted gifts, grants, bequests, and other income should be accounted for as revenue and support in the statement of activity to the extent that expenses have been incurred for the purpose specified by the donor or grantor during the period. The balances should be accounted for as deferred revenue or support in the balance sheet outside the fund balance section until the restrictions are met. The specific language in the donative instrument or grant award should govern whether restrictions have been met. Recognition of expenses that satisfy donor restrictions results in recognition of equivalent amounts of revenue or support in that period.

Unrestricted Gifts, Grants, and Bequests

63. Unrestricted gifts, grants, and bequests should be reported in the unrestricted fund in the statement of activity above the caption "excess (deficiency) of revenue and support over expenses before capital additions."

Pledges

64. Pledges an organization can legally enforce should be recorded as assets and reported at their estimated realizable values.

In determining these values, such matters as the donee organization's past collection experience, the credit standing of the donor, and other matters affecting the collectibility of the pledges should be considered.

65. The estimated realizable amount of pledges should be recognized as support in the period designated by the donor. If the period designated by the donor extends beyond the balance sheet date, the pledge should be accounted for as deferred support in the balance sheet. In the absence of a specified support period, the net estimated realizable amount of pledges scheduled to be received over a future period should be assumed to be support for that period and should be accounted for as deferred support in the balance sheet.

66. Pledges for fixed assets should also be recorded in the balance sheet at their estimated realizable values and reported in the statement of activity as provided in paragraph 52.

Donated and Contributed Services

67. The nature and extent of donated or contributed services received by organizations vary and range from the limited participation of many individuals in fund-raising activities to active participation in the organization's service program. Because it is difficult to place a monetary value on such services, their values are usually not recorded. The accounting standards division believes that those services should not be recorded as an expense, with an equivalent amount recorded as contributions or support, unless all of the following circumstances exist:

a. The services performed are significant and form an integral part of the efforts of the organization as it is presently constituted; the services would be performed by salaried personnel if donated or contributed services were not available for the organization to accomplish its purpose; and the organization would continue this program or activity.

b. The organization controls the employment and duties of the service donors. The organization is able to influence their activities in a way comparable to the control it would exercise over employees with similar responsibilities. This includes control over time, location, nature, and performance of donated or contributed services.

c. The organization has a clearly measurable basis for the amount to be recorded.

d. The services of the reporting organization are not principally intended for the benefit of its members. Accordingly, donated and contributed services would not normally be recorded by organizations such as religious communities, professional and trade associations, labor unions, political parties, fraternal organizations, and social and country clubs.

68. Participation of volunteers in philanthropic activities generally does not meet the foregoing criteria because there is no effective employer-employee relationship. (See criterion *b,* above.)

69. Services that generally are not recorded as contributions, even though the services may constitute a significant factor in the operation of the organization, include the following:

a. Supplementary efforts of volunteer workers that are provided directly to beneficiaries of the organization. Such activities usually involve auxiliary activities or other services that would not otherwise be provided by the organization as a part of its operating program.

b. Periodic services of volunteers in concentrated fund-raising drives. The activities of volunteer solicitors are not usually subject to a degree of operating supervision and control by the organization sufficient to provide a basis for measuring and recording the value of time devoted. However, if individuals perform administrative functions in positions that would otherwise be held by salaried personnel, consideration should be given to recording the value of those services.

70. Notes to the financial statements should disclose the methods used by the organization in valuing, recording, and reporting donated or contributed services and should distinguish between donated or contributed services for which values have and have not been recorded.

Donated Materials and Facilities

71. Donated materials and facilities, if significant in amount, should be recorded at their fair value, provided the organization has a clearly measurable and objective basis for determining the value. If the materials are such that values cannot reasonably be determined, such as clothing, furniture, and so forth, which vary greatly in value depending on condition and style, they should not be recorded as contributions. If donated materials pass through the organization to its charitable beneficiaries, and the organization serves only as an agent for the donors, the donation should not be recorded as a contribution. The recorded value of the use of contributed facilities should be included as revenue and expense during the period of use.

Investment Income and Gains and Losses

72. Unrestricted investment income (interest and dividends) from all funds should be reported as revenue in the statement of activity when it is earned. All unrestricted gains and losses on investments of unrestricted and current restricted funds should also be reported in the statement of activity before the excess (deficiency) of revenue and support over expenses before capital additions. See paragraphs 77 through 82 for a discussion of the carrying amount of investments and the bases of reporting gains and losses.

73. As discussed in paragraph 21, restricted investment income and restricted gains and losses from investments of current restricted funds and restricted plant funds should be reported as deferred amounts in the balance sheet. Restricted expendable income from investments of endowment funds should also be reported as deferred amounts. Income from investments of endowment funds that must be added to the principal by direction of the donor should be reported as capital additions. Gains and losses on investments of endowment funds should be reported as capital additions or deductions.

74. Traditionally, nonprofit organizations have accounted for income yield (dividends, interest, rents, royalties, and so forth) as revenues available for current purposes and have excluded from

that category capital gains on investment transactions of the endowment fund.

75. In recent years, some institutions have adopted what is usually referred to as a "total return" approach to the management of investments of endowment and quasi-endowment funds. This investment approach emphasizes total investment return consisting of traditional yield plus or minus gains and losses. Typically, the governing board establishes a "spending rate" that is satisfied by traditional yield first, that is, by dividends and interest. To the extent that traditional yield is inadequate to meet the spending rate, the governing board may make a portion of realized, and in some cases unrealized, net gains available for current use. The use of net gains on investments of true endowment funds by the governing board is usually done with the advice of legal counsel.

76. A problem arises in the method of accounting for the available net gains from endowment funds because the concept thus far has produced few, if any, applications that appear to be objectively determinable. For example, some institutions have reported net gains made available as revenues, while most others follow existing AICPA industry audit guides and account for this transaction as a transfer from endowment funds to other funds. In some situations when traditional yield has exceeded the spending rate, the excess has been added directly to endowment fund balances rather than being reported as revenue. The spending rate policies of many institutions tend to place primary emphasis on spending without regard to the effect on endowment fund principal. While all of the total return approaches emphasize the use of prudence and a rational and systematic formula, those matters are subjective and not susceptible to measurement. Consequently, the accounting standards division concludes that the portion of available net gains from endowment investments utilized should be reported in the statement of activity as a transfer from endowment funds to other funds. To the extent such gains are transferred to a restricted fund in which unexpended gifts and investment income are reported as deferred support and revenues, the gains should be transferred to deferred revenue of that fund. Since quasi-endowment funds are to be accounted for as a part of current funds, using net gains on the investments of these funds

does not involve a transfer. Such gains and losses should be accounted for in the manner specified in paragraph 72.

Carrying Amount of Investments

77. Nonprofit organizations have traditionally carried purchased investments at cost and donated investments at fair value at date of receipt. Investments have normally been written down to market value when market values have declined below the carrying value and the declines were deemed to be permanent impairments. Beginning in 1973 with the issuance of the AICPA industry audit guide for colleges and universities, some nonprofit organizations have been carrying their investments at market, as a permissible alternative to cost, adjusting the carrying amount each year for value increases and decreases.

78. An organization carrying investments at market value recognizes the gains or losses that result from market fluctuations for the period in which the fluctuations occur. Those who are against carrying investments at market are concerned both with the difficulty of valuing nonmarketable investments and the effect that market fluctuations have on an organization's results of activity as reflected in the financial statements.

79. The division has concluded that organizations covered by this statement of position should report investments in the financial statements as follows:

- Marketable debt securities, when there is both the ability and intention to hold the securities to maturity, should be reported at amortized cost, market value, or the lower of amortized cost or market value;
- Marketable equity securities and marketable debt securities that are not expected to be held to maturity should be reported at either market value or the lower of cost or market value;
- Other types of investments, for example, real estate or oil and gas interests, should be reported at either fair value or the lower of cost or fair value.

The basis selected to value each of these three groups of investments should apply to all investments in that group. When investments are carried at other than market value, disclosure of market value for that group at the balance sheet date should be made.

80. For investments carried at the lower of (amortized) cost or market value, the division believes that declines should be recognized when the aggregate market value by fund group is less than the carrying amount. Recoveries of aggregate market amount in subsequent periods should be recorded in those periods subject only to the limitation that the carrying amount should not exceed the original cost. The adjustments to recognize the increases or decreases resulting from the application of this paragraph for noncurrent investments should be recognized as a direct addition or deduction to the fund balance; the adjustments applicable to current investments should be reflected in the statement of activity in the same manner as realized gains and losses. Investments held in current restricted funds should normally be considered to be current investments for purposes of this paragraph.

81. For investments carried at market value, increases or decreases in market value should be recognized in the period in which they occur, as described in paragraphs 72 and 73.

82. Interfund sales or exchanges of investments that involve a restricted fund should be recorded in the purchasing fund at fair value. The difference between the carrying amount and the fair value at the date of the sale or exchange should be accounted for in the selling fund in the same manner as realized gains and losses and appropriately disclosed.

83. The notes to the financial statements should set forth a summary of the total realized and unrealized gains and losses and income derived during the fiscal period from investments held by all funds except life income and custodial funds.

Subscription and Membership Income

84. Subscriptions and revenues derived from the performance of services or the sale of goods should be recognized as revenue in the periods in which they are provided. Revenue derived from membership dues should be recognized by the organization over

the period to which the dues relate. Nonrefundable initiation and life membership fees should be recognized as revenue in the period the fees are receivable, if future dues or fees can reasonably be expected to cover the cost of future services; otherwise, the fees should be amortized to future periods based on average membership duration, life expectancy, or other appropriate methods. However, if items such as dues, assessments, and nonrefundable initiation fees are in substance contributions and services are not to be provided to the member, they should be recognized as revenue and support in the periods in which the organization is entitled to them.

Expenses

Functional Classification of Expenses

85. Organizations that receive significant support in the form of contributions from the general public should summarize the cost of providing various services or other activities on a functional basis in the statement of activity. (For purposes of this paragraph, the accounting standards division believes that organizations receiving support from federated fund-raising or similar organizations are deemed to have received support from the general public.) Organizations receiving no significant support from such contributors are encouraged to report on a functional basis but may choose to summarize expenses on another basis (such as natural classifications) that would be considered useful to readers of the statement of activity. If expenses are not reported on a functional basis, the notes should contain a description of the basic programs of the organization. The remainder of this section is for those organizations that report expenses on a functional basis.

86. The functional classifications should include specific program services that describe the organization's service activities and supporting services, such as management and general and fund-raising.

87. The statement of activity should present costs separately for each significant program and supporting activity. Program activities are those directly related to the purposes for which the organization exists. Supporting activities do not relate directly

to the purposes for which the organization exists. Fund raising, membership development, and unallocated management and general expense are three examples of supporting activities that should be reported separately.

88. An organization may also present as supplementary information a schedule of functional expenses by object classification, that is, classifying expenses by type rather than function, such as salaries, employee-benefit expenses, and purchased services.

Program Services

89. Functional reporting classifications for program services vary according to the nature of the service rendered. For some organizations, a single functional reporting classification may be adequate to portray the program service provided. In most cases, however, several separate and identifiable services are provided, and in such cases, expenses for program services should be reported by the type of service function or group of functions. The purposes of the various functions should be clearly described, and each functional classification should include all of the applicable service costs.

90. Some local organizations remit a portion of their receipts to an affiliated state or national organization. The amount to be paid to the affiliates should be reported as either an expense or a deduction from total support and revenue in the statement of activity. The appropriate treatment depends on the arrangements: A reporting organization that is, in effect, a collecting agent for the state or national organization, such as local organizations that are required to remit a fixed percentage of all contributions, should report the remittance as a deduction from total support and revenue; other organizations should report the remittance as a program expense.

Management and General Costs

91. Management and general costs are those not identifiable with a single program or fund-raising activity but are indispensable to the conduct of those activities and to an organization's existence, including expenses for the overall direction of the

organization's general board activities, business management, general recordkeeping, budgeting, and related purposes. Costs of overall direction usually include the salary and expenses of the chief officer of the organization and his staff. However, if such staff spend a portion of their time directly supervising program services or categories of supporting services, their salaries and expenses should be prorated among those functions. The costs of disseminating information to inform the public of the organization's "stewardship" of contributed funds, announcements concerning appointments, the annual report, and so forth, should likewise be classified as management and general expenses.

Fund-Raising and Other Supporting Services

92. Fund-raising costs are incurred in inducing others to contribute money, securities, time, materials, or facilities for which the contributor will receive no direct economic benefit. They normally include the costs of personnel, occupancy, maintaining mailing lists, printing, mailing, and all direct and indirect costs of soliciting, as well as the cost of unsolicited merchandise sent to encourage contributions. The cost of such merchandise should be disclosed. Fund-raising costs paid directly by a contributor should be reported as support and as fund-raising expenses.

93. Some organizations hold special fund-raising events, such as banquets, dinners, theater parties, and so forth, in which the donor receives a direct benefit (for example, a meal or theater ticket). Some organizations sell merchandise as a fund-raising technique. The costs of such merchandise or direct benefits are not considered fund-raising costs and should be applied against gross proceeds received from the person receiving such direct benefit. The costs of such merchandise or direct benefit costs should be disclosed.

94. A growing number of users of financial statements are seeking financial information that will enable them to evaluate fund-raising costs. A single functional reporting classification ordinarily is adequate to portray the fund-raising activity; however, other organizations may believe that reporting total public support and total fund-raising expense does not provide adequate information for a useful evaluation because the organizations

conduct a number of fund-raising activities with widely varying relationships. For those organizations, it may be appropriate to report fund-raising costs and the corresponding support obtained separately for each type of fund-raising function, either in the statement of activity or in the notes. The various fund-raising functions should be adequately described and should include all of the applicable costs. The total of all fund-raising activities should be disclosed whether the entity reports expenses on a functional or some other basis.

95. Fund-raising efforts made in one year, such as those made to obtain bequests or to compile a mailing list of prospective contributors, often result in contributions that will be received in future years. Some have advocated deferring the costs of such fund-raising efforts until the period in which the contributions are expected to be received. Although there may be valid reasons to consider deferring those costs, the accounting standards division is concerned with the difficulty of assessing their ultimate recovery and the possibility of misstating the fund-raising cost relationships. Accordingly, fund-raising costs should be expensed when incurred. However, if pledges or restricted contributions that have already been received are recorded as deferred revenue and support, related fund-raising costs, if specifically identifiable with the contributions, may also be deferred if it is clear that the contributor intended that the contribution could be used to cover such costs. Similarly, costs incurred in the acquisition of literature, materials, and so forth, that will be used in connection with a fund-raising drive to be conducted in a succeeding period should be deferred to that period.

96. Costs incurred in the solicitation of grants from foundations or governments and cost of membership development in bona fide membership organizations should be shown as separate categories of supporting expenses. If the membership fee includes an element of contribution, the costs of membership development should be allocated between membership development and fund raising.

97. If an organization combines the fund-raising function with a program function (for example, a piece of educational literature with a request for funds), the costs should be allocated to

the program and fund-raising categories on the basis of the use made of the literature, as determined from its content, the reasons for its distribution, and the audience to whom it is addressed.

Allocation of Costs That Pertain to Various Functions

98. In some larger organizations, individual functions are performed by separate departments, with expenses classified by types within each department. Many other organizations incur items of cost that apply to more than one functional purpose. For those organizations, it may be necessary to allocate the costs among functions. Examples include salaries of persons who perform more than one type of service, rental of a building used for various program services, management and general expenses, and expenses of fund-raising activities.

99. The salaries of employees who perform duties relating to more than one function, as well as all other expenses pertaining to more than one function, should be allocated to the separate functional categories according to procedures that determine, as accurately as possible, the portion of the cost related to each function.

100. A reasonable allocation of an organization's functional expenses may be made on a variety of bases, and costs that have been allocated to programs and supporting services should be disclosed in the notes to the financial statements. It is not the intention of this statement to require organizations to undertake extensive detailed analyses and computations aimed at making overly meticulous allocations. The division recognizes that meaningful financial statements can often be prepared using estimates and overall computations when appropriate. (See Appendix B for illustrative allocation procedures.)

Grants

101. Organizations that make grants to others should record grants as expenses and liabilities at the time recipients are entitled to them. That normally occurs when the board approves a specific grant or when the grantee is notified.

102. Some grants stipulate that payments are to be made over a period of several years. Grants payable in future periods subject only to routine performance requirements by the grantee and not requiring subsequent review and approval for continuance of payment should be recorded as expenses and liabilities when the grants are first made. However, if the grant instrument specifically states that the grantor reserves the right to revoke the grant regardless of the performance of the grantee, unpaid grants should not be recorded. Grants subject to periodic renewal should be recorded as expenses and liabilities at renewal with a disclosure of the remaining commitment in the notes to the financial statements.

Tax Allocation

103. Certain organizations are subject to a federal excise tax on investment income or to federal and state income taxes on certain unrelated business income. If timing differences exist between the income base for tax and financial reporting purposes, interperiod allocation of tax should be made.

Transfers

104. Allocations of resources among fund groups are neither revenues nor expenses of the related funds and should be distinguished from support and revenues that increase the total resources available to fulfill the objectives of an organization. Therefore, interfund transfers, including board-designated transfers of gains under the total-return concept, should be reported as changes in fund balances under the caption "fund balance beginning of the period." Transfers required under contractual arrangements with third parties should be separately disclosed. Transfers required as a result of the expiration of a term endowment fund also should be separately disclosed.

Balance Sheet

Fixed Assets

105. Nonprofit organizations should capitalize purchased fixed assets at cost. Donated fixed assets should be recorded at their fair value at the date of the gift. Organizations that have not pre-

viously capitalized their fixed assets should do so retroactively. If historical costs are unavailable for assets already in service, another reasonable basis may be used to value the assets. Other bases might be cost-based appraisals, insurance appraisals, replacement costs, or property tax appraisals adjusted for market. However, an alternative basis should be used only if historical cost information is unavailable and only to establish a value at the date an organization adopts this statement of position. Subsequent additions should be recorded at cost, or fair value for donated assets. The basis of valuation and the amount of any assets pledged to secure outside borrowing should be disclosed in the financial statements.

Depreciation

106. In Accounting Terminology Bulletin no. 1, *Review and Résumé,* the AICPA Committee on Terminology defined *depreciation accounting* as a means of allocating the cost or other carrying value of tangible capital assets to expense over their useful lives:

> *Depreciation accounting* is a system of accounting which aims to distribute the cost or other basic value of tangible capital assets, less salvage (if any), over the estimated useful life of the unit (which may be a group of assets) in a systematic and rational manner. It is a process of allocation, not valuation. *Depreciation for the year* is the portion of the total charge under such a system that is allocated to the year. Although the allocation may properly take into account occurrences during the year, it is not intended to be a measurement of the effect of all such occurrences.

107. Exhaustible fixed assets should be depreciated over their estimated useful lives. The relative effort being expended by one organization compared with others and the allocation of the efforts to various programs of the organization are indicated, in part, by cost determinations. Depreciation of fixed assets used in providing such services is relevant as an element of that cost. Although depreciation can be distinguished from most other elements of cost in that it requires no current equivalent cash outlay, recognition of depreciation as a cost is not optional. Most assets used in providing services are both valuable and exhaustible.

Thus, a cost is associated with the use of exhaustible assets whether they are owned or rented, acquired by gift or by purchase or used by a business or a nonprofit organization.

108. Assets that are not exhaustible, such as landmarks, monuments, cathedrals, or historical treasures, need not be depreciated. Structures used primarily as houses of worship need not be depreciated.

109. An organization may receive grants, allocations, or reimbursements from other organizations on the basis of the cost associated with its program and supporting services. Recording depreciation as an element of cost does not indicate that it necessarily should be included in the base on which grants, allocations, or reimbursements will be determined; whether the base includes or excludes depreciation depends on the agreement or understanding reached between the two organizations.

110. The amount of depreciation provided on assets carried at historical cost and the amount, if any, provided on assets carried on a basis other than historical cost should be disclosed.

111. Depreciation accounting is sometimes confused with funding replacements. The means of replacing fixed assets and the degree to which replacements should be funded currently are financing decisions to be made by the governing board and do not directly affect the current costs of providing program or supporting services. Depreciation accounting is designed to determine and present those costs, not to provide replacement funds.

112. Retroactive adjustments should be made to reflect accumulated depreciation as of the date an organization adopts this statement of position. For this purpose, the determination of asset lives should be based on a combination of the period from acquisition to the adoption date, plus estimated remaining life based on the current condition and planned use of the assets. When an organization records fixed assets using one of the "current value" methods referred to in paragraph 105, it is not necessary to disclose accumulated depreciation that would have been recorded had cost-based data been available.

Collections

113. The accounting standards division considered at length the desirability of capitalizing (but not depreciating) the inexhaustible collections owned by museums, art galleries, botanical gardens, libraries, and similar entities. In view of the stewardship of those organizations to the public, it is desirable to catalogue and control the collections. Some believe that it is also desirable to present values for the collections on the organizations' balance sheets, since those values usually represent the largest assets of the organizations. The division has concluded that it is often impracticable to determine a value for such collections and accordingly has concluded that they need not be capitalized. If records and values do exist for the collections, the division encourages capitalization, at cost, if purchased, and at a fair value, if acquired by donation. If historical cost is indeterminable, the alternative methods of valuing described in the section on fixed assets should be used. If such collections are not capitalized, the caption "collections" should appear on the balance sheet with no amount shown but with a reference to a note that describes the collections.

114. The nature and the cost or contributed value of current-period accessions and the nature of and proceeds from deaccessions should be disclosed in the financial statements.

115. Collections that are exhaustible, such as exhibits with a limited display life, and that have been capitalized should be amortized over their useful lives.

Investment Pools

116. To obtain investment flexibility, nonprofit organizations frequently pool investments of various funds. Inasmuch as the realized and unrealized gains or losses and income of specific investments cannot be identified with the specific funds participating in the pool, realized and unrealized gains or losses and income should be allocated equitably. To accomplish an equitable allocation, investment pools should be operated using the "market value unit method." Under that method, each fund is assigned a number of units based on the relationship of the

market value of all investments at the time of entry in the pool. Periodically, the pooled assets are valued and new unit values are calculated. The new unit value is used to determine the number of units to be allocated to new funds entering the pool or to calculate the equity of funds withdrawing from the pool. Investment pool income, gains, and losses should be allocated periodically to participating funds based on the number of units held by each fund during the period. Other methods based on market value, including percentage participation, may also accomplish the same result.

117. Pooled investments may include investments carried at other than market value even though, as indicated in paragraph 116, the pool itself must be operated on the basis of market value. Differences may exist between the carrying amounts of assets and fund balances withdrawn from the investment pool. Such differences should be allocated to the participating funds remaining in the pool in the same manner as income, gains, and losses. Alternatively, such adjustments could be reported separately from the carrying amount of specific investments or the fund balances of funds remaining in the pool.

Interfund Borrowings

118. A governing board may sometimes authorize borrowings from restricted, endowment, or plant funds. The organization should determine if interest should be accrued. Interfund borrowings should be considered permanent and recorded as transfers when it becomes evident that contemplated sources of funds for repayment are not readily available. There may be legal prohibitions against lending such funds and against recording such transfers. If so, appropriate disclosure should be made.

119. Material interfund borrowings should be disclosed when restricted funds have been loaned or when the liquidity of either fund is in question. If summary financial information is presented for a prior period, similar disclosure should be made.

Designations of Fund Balances

120. The governing board of an organization may designate a portion of an unrestricted fund balance for a specific purpose.

The designation is proper to the board's managerial function. However, such designations of fund balances are not expenses and should not be shown as such in the statement of activity. (See examples of designations in the Illustrative Financial Statements, Appendix C.)

Other Funds

121. Donors frequently make gifts of future interests. The present value of the actuarially determined liability resulting from an annuity gift should be recorded at the date of the gift. The excess (or deficiency) in the amount of the annuity gift over the liability should be recorded as support in the year of the gift if it may be used immediately for the general purposes of the organization; in other instances, the excess should be reported as deferred revenue if restricted for specific purposes. The principal amount of life income gifts, in which the donor reserves the right to the income generated from the gift for life or some other stipulated period of time, should also be recorded as deferred support in the balance sheet in the period the gift is received. The amount previously recorded as deferred support should be reflected as support or a capital addition at the future date when the terms of the annuity or life income gifts have been met.

122. Funds that are held in trust by others under a legal trust instrument created by a donor independently of the reporting organization and that are neither in the possession nor under the control of the organization but are held and administered by outside fiscal agents with the organization deriving income from such funds should not be included in the balance sheet with funds administered by the organization. The funds contemplated by this paragraph are those of which the reporting organization is not the remainderman in the trust. Their existence should be disclosed either parenthetically in the endowment funds group in the balance sheet or in the notes to the financial statements. Significant income from such trusts should be reported separately.

123. Certain organizations have customarily used other fund groups not specifically mentioned in this statement. Those fund groups are used to account for resources relating to activities such as agency or custodial relationships, self-administered pen-

sions, and permanent maintenance funds. Such fund groups are frequently useful and informative and, therefore, may be reported separately in the financial statements. Alternatively, those funds may be combined with other similar fund groups to simplify statement presentation. In either case, the accountability for the fund group should be classified according to the exact nature of the funds involved, so that balances that are liabilities (such as agency, custodial, and self-administered pension funds) are distinguished from those that are fund balances (such as permanent maintenance funds). If there are true fund balances, changes in the balances should be accounted for in the statement of activity. The restricted nature of such funds should also be disclosed.

Transition

124. The accounting standards division recognizes that the Financial Accounting Standards Board presently has on its agenda a project on "Objectives of Financial Reporting by Nonbusiness Organizations." The results of that project may affect financial reporting by the entities covered by this statement of position. On completion of that project, any recommendations in this statement of position that conflict with the FASB's conclusions would need to be changed. Accordingly, the division has concluded that the principles contained in this statement of position need not be adopted until after the Financial Accounting Standards Board completes its project. At that time, a specific date on which the adoption of these principles is recommended will be announced. Organizations may voluntarily adopt these principles.

125. Organizations that adopt the conclusions of this statement of position should apply them retroactively by prior-period adjustments. If financial statements for periods prior to adoption are not presented, the conclusions of the statement of position should be applied by adjusting opening fund balances for the initial application period. When financial statements for periods prior to adoption are presented, they should be restated to reflect the prior-period adjustments. The nature of the restatements and their effects should be disclosed in the period of change.

APPENDIX A

Glossary

A number of terms used throughout this document are commonly used by nonprofit organizations and, because these terms have specialized meaning, this glossary is included.

accessions Additions, both purchased and donated, to collections held by museums, art galleries, botanical gardens, libraries, and similar entities.

agency fund *See* custodian funds.

annuity gift A gift of money or other property given to an organization on the condition that the organization bind itself to make periodic stipulated payments that terminate at a specified time to the donor or other designated individuals.

auxiliary activity An activity providing a service that is not part of the basic program services of the organization. A fee is normally charged that is directly related to, although not necessarily equal to, the cost of the service.

capital additions Gifts, grants, bequests, investment income, and gains and losses on investments restricted either permanently or for a period of time by parties outside of the organization to endowment and loan funds. Capital additions also include similar resources restricted for fixed asset additions but only to the extent expended during the year.

collections Works of art, botanical and animal specimens, books, and other items held for display or study by museums and similar institutions.

custodian funds Funds received and held by an organization as fiscal agent for others.

deaccessions Dispositions of items in collections held by museums, art galleries, botanical gardens, libraries, and similar entities.

deferred capital additions Capital additions received or recorded before the related restrictions are met. *See also* capital additions.

deferred revenue and support Revenue or support received or recorded before it is earned, that is, before the conditions are met, in whole or in part, for which the revenue or support is received or is to be received.

designated funds Unrestricted funds set aside for specific purposes by action of the governing board. *See also* quasi-endowment funds.

encumbrances Commitments in the form of orders, contracts, and similar items that will become payable when goods are delivered or services rendered.

endowment fund A fund in which a donor has stipulated in the donative instrument that the principal is to be maintained inviolate and in perpetuity and only the income from the investments of the fund may be expended. *See also* term endowment.

expendable funds Funds that are available to finance an organization's program and supporting services, including both unrestricted and restricted amounts.

functional classification A classification of expenses that accumulates expenses according to the purpose for which costs are incurred. The primary functional classifications are program and supporting services.

fund An accounting entity established for the purpose of accounting for resources used for specific activities or objectives in accordance with special regulations, restrictions, or limitations.

fund group A group of funds of similar character, for example, operating funds, endowment funds, and annuity and life income funds.

funds held in trust by others Resources held and administered, at the direction of the donor, by an outside trustee for the benefit of the organization.

investment pool Assets of several funds pooled or consolidated for investment purposes.

life income agreement An agreement whereby money or other property is given to an organization on the condition that the organization bind itself to pay periodically to the donor or other designated individual the income earned by the assets donated to the organization for the lifetime of the donor or of the designated individual.

loan funds Resources restricted for loans. When both principal and interest on the loan funds received by the organization are loanable, they are included in the loan-fund group. If only the income from a fund is loanable, the principal is included in endowment funds, while the cumulative income constitutes the loan fund.

natural expense classification *See* object classification of expenses.

net investment in plant The total carrying value of all property, plant, equipment, and related liabilities, exclusive of those real properties that are held for investment.

nonexpendable additions *See* capital additions.

object classification of expenses A method of classifying expenditures according to their natural classification, such as salaries and wages, employee benefits, supplies, purchased services, and so forth.

pledge A promise to make a contribution to an organization in the amount and form stipulated.

quasi-endowment funds Funds that the governing board of an organization, rather than a donor or other outside agency, has determined are to be retained and invested. The governing board has the right to decide at any time to expend the principal of such funds. *See also* designated funds.

restricted funds Funds whose use is restricted by outside agencies or persons as contrasted with funds over which the organization has complete control and discretion.

revenues Gross increases in assets, gross decreases in liabilities, or a combination of both from delivering or producing goods, rendering services, or other earning activities of an organization during a period, for example, dues, sale of services, ticket sales, fees, interest, dividends, and rent.

support The conveyance of property from one person or organization to another without consideration, for example, donations, gifts, grants, or bequests.

term endowment A fund that has all the characteristics of an endowment fund, except that at some future date or event it will no longer be required to be maintained as an endowment fund.

transfer Moving fund balances from one fund to another, usually as a result of an intended change in the use of assets.

unrestricted funds Funds that have no external restriction on their use or purpose, that is, funds that can be used for any purpose designated by the governing board as distinguished from funds restricted externally for specific purposes (for example, for operations, plant, and endowment).

APPENDIX B

Illustrative Allocation Procedures Under Paragraph 100

Although the following allocation procedures are illustrative only, using them or similar procedures ordinarily results in a reasonable allocation of an organization's multiple function expenses:

- A study of the organization's activities may be made at the start of each fiscal year to determine the best practicable allocation methods. The study should include an evaluation of the preceding year's time records or activity reports of key personnel, the use of space, the consumption of supplies and postage, and so forth. The results of the study should be reviewed periodically, and the allocation methods should be revised, if necessary, to reflect significant changes in the nature or level of the organization's current activities.
- Periodic time and expense records may be kept by employees who spend time on more than one function as a basis for allocating salaries and related costs. The records should indicate the nature of the activities in which the employee is involved. If the functions do not vary significantly from period to period, the preparation of time reports for selected test periods during the year might be sufficient.
- Automobile and travel costs may be allocated on the basis of the expense or time reports of the employees involved.
- Telephone expense may be allocated on the basis of use by extensions, generally following the charge assigned to the salary of the employee using the telephone, after making direct charges for the toll calls or other service attributable to specific functions.
- Stationery, supplies, and postage costs may be allocated based on a study of their use.
- Occupancy costs may be allocated on the basis of a factor determined from a study of the function of the personnel using the space involved.
- Depreciation and rental of equipment may be allocated based on asset usage.

APPENDIX C

Illustrative Financial Statements

The following illustrative financial statements (exhibits 1 through 13) demonstrate the practical applications of the reporting practices discussed in this statement of position. Specific types of nonprofit organizations have been selected to illustrate a wide diversity of reporting practices; it is not intended that these illustrations represent either the only types of disclosure or the only statement formats that would be appropriate. Nonprofit organizations are urged to develop financial statement formats that are appropriate for their individual circumstances while being consistent with the accounting and reporting practices discussed in this document.

The notes to the financial statements in exhibit 1 are representative of the basic types of disclosure a typical nonprofit organization would include in its financial report. To avoid unnecessary repetition, the notes to the financial statements of exhibits 2 through 13 have been condensed to indicate only major topics of disclosure, except in those instances in which it is appropriate to include additional items that are unique to a particular type of nonprofit organization.

For conciseness, only some of the sample financial statements have been presented in comparative format. As noted in the text of the statement, the division encourages the presentation of comparative statements.

Index to Illustrative Financial Statements

	Exhibit nos.
Independent School	1
Cemetery Organization	2
Country Club	3
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EXHIBIT 1—INDEPENDENT SCHOOL

EXHIBIT 1A

Sample Independent School

Balance Sheet

June 30, 19X1

	Operating Funds	*Plant Funds*	*Endowment Funds*	*Total All Funds*
Assets				
Cash	$ 87,000	$ 15,000	$ 19,000	$ 121,000
Accounts receivable, less allowance for doubtful receivables of $3,000	34,000	—	—	34,000
Pledges receivable, less allowance for doubtful pledges of $10,000	—	75,000	—	75,000
Inventories, at lower of cost (FIFO) or market	7,000	—	—	7,000
Investments (Note 2)	355,000	10,000	100,000	465,000
Land, buildings, equipment, and library books, at cost less accumulated depreciation of $980,000 (Note 3)	—	2,282,000	—	2,282,000
Other assets	17,000	—	—	17,000
Total assets	$500,000	$2,382,000	$119,000	$3,001,000
Liabilities and Fund Balances				
Accounts payable and accrued expenses	$ 13,000	—	—	$ 13,000
Deferred amounts (Note 6)				
Unrestricted	86,000	—	—	86,000
Restricted	27,000	$ 100,000	—	127,000
Long-term debt (Note 4)	—	131,000	—	131,000
Total liabilities	126,000	231,000	—	357,000
Fund balances				
Unrestricted				
Designated by the governing board for long-term investment	355,000	—	—	355,000
Undesignated	19,000	—	—	19,000
	374,000	—	—	374,000
Restricted—nonexpendable	—	—	$119,000	119,000
Net investment in plant	—	2,151,000	—	2,151,000
Total fund balances	374,000	2,151,000	119,000	2,644,000
Total liabilities and fund balances	$500,000	$2,382,000	$119,000	$3,001,000

EXHIBIT 1B

Sample Independent School

Statement of Support and Revenue, Expenses, Capital Additions, and Changes in Fund Balances

Year Ended June 30, 19X1

	Operating Funds					
	Unrestricted	*Restricted*	*Total*	*Plant Funds*	*Endowment Funds*	*Total All Funds*
Support and revenue						
Tuition and fees	$ 910,000	—	$ 910,000	—	—	$ 910,000
Contributions	104,000	$80,500	184,500	—	—	184,500
Endowment and other investment income	23,000	1,500	24,500	—	—	24,500
Net loss on investment transactions	(8,000)	—	(8,000)	—	—	(8,000)
Auxiliary activities	25,000	—	25,000	—	—	25,000
Summer school and other programs	86,000	—	86,000	—	—	86,000
Other sources	26,000	—	26,000	—	—	26,000
Total support and revenue	1,166,000	82,000	1,248,000	—	—	1,248,000
Expenses						
Program services						
Instruction and student activities	798,000	43,000	841,000	$ 69,000	—	910,000
Auxiliary activities	24,000	—	24,000	—	—	24,000
Summer school and other programs	91,000	—	91,000	7,000	—	98,000
Financial aid	—	37,000	37,000	3,000	—	40,000
Total program services	913,000	80,000	993,000	79,000	—	1,072,000

Supporting services						
General administration	147,000	2,000	149,000	13,000	—	162,000
Fund raising	12,000	—	12,000	1,000	—	13,000
Total supporting services	159,000	2,000	161,000	14,000	—	175,000
Total expenses	1,072,000	82,000	1,154,000	93,000	—	1,247,000
Excess (deficiency) of support and revenue over expenses before capital additions	94,000	—	94,000	(93,000)	—	1,000
Capital additions						
Contributions and bequests	—	—	—	80,000	$ 30,000	110,000
Investment income	—	—	—	5,000	—	5,000
Net gain on investment transactions	—	—	—	1,000	2,000	3,000
Total capital additions	—	—	—	86,000	32,000	118,000
Excess (deficiency) of support and revenue over expenses after capital additions	94,000	—	94,000	(7,000)	32,000	119,000
Fund balances at beginning of year	387,000	—	387,000	2,047,000	91,000	2,525,000
Transfers						
Equipment acquisitions and principal debt service payments	(111,000)	—	(111,000)	111,000	—	—
Realized gains on endowment funds utilized	4,000	—	4,000	—	(4,000)	—
Fund balances at end of year	$ 374,000	—	$ 374,000	$2,151,000	$119,000	$2,644,000

EXHIBIT 1C

Sample Independent School

Statement of Changes in Financial Position

Year Ended June 30, 19X1

	Operating Funds	*Plant Funds*	*Endowment Funds*	*Total All Funds*
Resources provided				
Excess (deficiency) of support and revenue over expenses before capital additions	$ 94,000	$ (93,000)	—	$ 1,000
Capital additions				
Contributions and bequests	—	80,000	$ 30,000	110,000
Investment income	—	5,000	—	5,000
Net gain on investments	—	1,000	2,000	3,000
Excess (deficiency) of support and revenue over expenses after capital additions	94,000	(7,000)	32,000	119,000
Items not using (providing) resources				
Provision for depreciation	—	93,000	—	93,000
Net (gain) loss on investment transactions	8,000	(1,000)	(2,000)	5,000
Decrease in inventories	2,000	—	—	2,000
Increase in deferred amounts	3,000	75,000	—	78,000
Proceeds from sale of investments	160,000	2,000	47,000	209,000
Total resources provided	267,000	162,000	77,000	506,000
Resources used				
Purchases of equipment	—	145,000	—	145,000
Reduction of long-term debt	—	52,000	—	52,000
Purchases of investments	210,000	6,000	136,000	352,000
Increase in other assets	1,000	—	—	1,000
Increase in accounts and pledges receivable	3,000	60,000	—	63,000
Decrease in accounts payable and accrued expenses	3,000	—	—	3,000
Total resources used	217,000	263,000	136,000	616,000
Transfers				
Equipment acquisitions and principal debt service payments	(111,000)	111,000	—	—
Realized gains on endowment funds utilized	4,000	—	(4,000)	—
Total transfers	(107,000)	111,000	(4,000)	—
Increase (decrease) in cash	$ (57,000)	$ 10,000	$ (63,000)	$(110,000)

EXHIBIT 1D

Sample Independent School

Notes to Financial Statements

Year Ended June 30, 19X1

Note 1—Summary of Significant Accounting Policies

The financial statements of Sample Independent School have been prepared on the accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of resources available to the school, the accounts of the school are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

The assets, liabilities, and fund balances of the school are reported in three self-balancing fund groups as follows:

- Operating funds, which include unrestricted and restricted resources, represent the portion of expendable funds that is available for support of school operations.
- Plant funds represent resources restricted for plant acquisitions and funds expended for plant.
- Endowment funds represent funds that are subject to restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be used.

Expendable Restricted Resources

Operating and plant funds restricted by the donor, grantor, or other outside party for particular operating purposes or for plant acquisitions are deemed to be earned and reported as revenues of operating funds or as additions to plant funds, respectively, when the school has incurred expenditures in compliance with the specific restrictions. Such amounts received but not yet earned are reported as restricted deferred amounts.

Plant Assets and Depreciation

Uses of operating funds for plant acquisitions and principal debt service payments are accounted for as transfers to plant funds. Proceeds from the sale of plant assets, if unrestricted, are transferred to operating fund balances, or, if restricted, to deferred amounts restricted for plant acquisitions. Depreciation of buildings and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis.

Other Matters

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owned the assets. Ordinary income from investments, receivables, and the like is accounted for in the fund owning the assets, except for income derived from investments of endowment funds, which is accounted for, if unrestricted, as revenue of the expendable operating fund or, if restricted, as deferred amounts until the terms of the restriction have been met.

Legally enforceable pledges less an allowance for uncollectible amounts are recorded as receivables in the year made. Pledges for support of current operations are recorded as operating fund support. Pledges for support of future operations and plant acquisitions are recorded as deferred amounts in the respective funds to which they apply.

Note 2—Investments

Investments are presented in the financial statements in the aggregate at the lower of cost (amortized, in the case of bonds) or fair market value.

	Cost	*Market*
Operating funds	$355,000	$365,000
Plant funds	10,000	11,000
Endowment funds	100,000	109,000
	$465,000	$485,000

Investments are composed of the following:

	Cost	*Market*
Corporate stocks and bonds	$318,000	$320,000
U.S. government obligations	141,000	159,000
Municipal bonds	6,000	6,000
	$465,000	$485,000

The following tabulation summarizes the relationship between carrying values and market values of investment assets.

	Carrying Value	*Market Value*	*Excess of Market Over Cost*
Balance at end of year	$465,000	$485,000	$ 20,000
Balance at beginning of year	$327,000	$335,000	8,000
Increase in unrealized appreciation			12,000
Realized net loss for year			(5,000)
Total net gain for year			$ 7,000

The average annual yield exclusive of net gains (losses) was 7% and the annual total return based on market value was 9% for the year ended June 30, 19X1.

Note 3—Plant Assets and Depreciation

A summary of plant assets follows.

Land	$ 255,000
Buildings	2,552,000
Equipment	340,000
Library books	115,000
	3,262,000
Less accumulated depreciation	980,000
	$2,282,000

Note 4—Long-Term Debt

A summary of long-term debt follows.

7½% unsecured notes payable to bank due in quarterly installments of $2,500	$ 29,000
8½% mortgage payable in semiannual installments of $3,500 through 19X7	102,000
	$131,000

Note 5—Pension Plans

The school has noncontributory pension plans covering all personnel. Total pension expense for the year ended June 30, 19X1, was $60,000, which includes amortization of prior service costs over a period of twenty years. The school's policy is to fund pension costs accrued. The actuarially computed value of vested benefits as of June 30, 19X1, exceeds net assets of the pension fund by approximately $100,000.

Note 6—Changes in Deferred Restricted Amounts

	Operating Funds	*Plant Fund*
Balances at beginning of year	$ 24,000	$ 25,000
Additions		
Contributions and bequests	79,000	158,000
Investment income	6,000	1,000
Net gain on investment transactions	—	2,000
	109,000	186,000
Deductions—funds expended during the year	82,000	86,000
Balances at end of year	$ 27,000	$100,000

Note 7—Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of support and revenue, expenses, capital additions, and changes in fund balances. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Note 8—Commitments

The school has entered into various agreements aggregating approximately \$80,000 for the purchase of equipment to be received subsequent to June 30, 19X1.

EXHIBIT 2—CEMETERY ORGANIZATION

EXHIBIT 2A

Sample Cemetery Organization

Balance Sheet

June 30, 19X1, and 19X0

Assets	*19X1*	*19X0*
Current		
Cash	$ 47,000	$ 27,000
Receivables, net	15,000	15,000
Inventory of supplies	55,000	46,000
Prepaid expenses	4,000	3,000
Total current assets	121,000	91,000
Inventory		
Investment in real estate	370,000	370,000
Space development	197,000	110,000
Total inventory	567,000	480,000
Property, plant, and equipment, at cost (Note 2)		
Land, other than burial spaces	125,000	125,000
Buildings	105,000	105,000
Equipment	75,000	70,000
	305,000	300,000
Less accumulated depreciation	217,000	125,000
Fixed assets, net	88,000	175,000
Total	$776,000	$746,000

Liabilities and Fund Balance	*19X1*	*19X0*
Current		
Accounts payable	$ 90,000	$ 41,000
Accrued expenses	12,000	8,000
Portion of long-term debt currently due	30,000	30,000
Total current liabilities	132,000	79,000
Long-term debt (Note 4)	240,000	270,000
Fund balance	404,000	397,000
Total	$776,000	$746,000

EXHIBIT 2B

Sample Cemetery Organization

Statement of Revenue and Expenses

Years Ended June 30, 19X1, and 19X0

	19X1	*19X0*
Revenue		
Net sales		
Spaces	$210,000	$201,000
Memorials and inscriptions	36,000	30,000
Interment fees	20,000	14,000
Other fees	6,000	2,000
Total	272,000	247,000
Cost of sales		
Spaces	150,000	151,000
Memorials	19,000	14,000
Burial services	16,000	13,000
Total	185,000	178,000
Gross margin	87,000	69,000
Expenses		
Maintenance	60,000	50,000
General administration	30,000	18,000
Commissions	10,000	9,000
Total	100,000	77,000
Operating margin	(13,000)	(8,000)
Other revenue		
Income from care and maintenance funds (Note 3)	20,000	13,000
Excess of revenue over expenses	7,000	5,000
Fund balance—beginning	397,000	392,000
Fund balance—ending	$404,000	$397,000

EXHIBIT 2C

Sample Cemetery Organization

Statement of Changes in Financial Position

Years Ended June 30, 19X1, and 19X0

	19X1	*19X0*
Source of cash		
Excess of revenue over expenses	$ 7,000	$ 5,000
Charges not requiring (providing) cash in the current period—depreciation and amortization	92,000	74,000
Cash provided from operations	99,000	79,000
Increases in accounts payable and accrued expenses	53,000	14,000
Total sources of cash	152,000	93,000
Uses of cash		
Space development and equipment	92,000	40,000
Increase in accounts receivable	—	15,000
Reduction of long-term debt	30,000	30,000
Increase in supplies and prepaid expenses	10,000	2,000
Total uses of cash	132,000	87,000
Increases in cash	20,000	6,000
Cash, beginning of year	27,000	21,000
Cash, end of year	$ 47,000	$ 27,000

EXHIBIT 2D

Sample Cemetery Organization

Notes to Financial Statements*

June 30, 19X1, and 19X0

Note 1—Summary of Significant Accounting Policies

(In addition to the policy disclosures illustrated in Note 1 of exhibit 1, the following are typical of additional disclosures to be considered for this type of organization.)

Revenue Recognition

Sales of spaces are recorded when contracts of sales are signed.

Cost of Spaces Sold

The cost of each space sold is computed based on allocation of total expenses incurred in developing the cemetery.

Note 2—Property, Plant, and Equipment

Note 3—Maintenance Funds

General Maintenance

Under the State Cemetery Act, Sample Cemetery is required, among other things, to collect and pay into a general maintenance fund the following fees and charges:

Fifteen percent (15%) of the gross sales price of each plot sold.
Ten dollars ($10) for each interment.
Five cents ($.05) per square unit of surface area of the base of a memorial.

The general maintenance fund principal is restricted by the State Cemetery Act for major improvements and repairs and, accordingly, is not included in the financial statements. At June 30, 19X1, and 19X0 this fund amounted to $383,000 and $338,000, respectively. Investment income is unrestricted and is included in other income.

Specific Trusts

Specific trust funds are restricted for flowers, seeding, sodding, and other maintenance of the specific plots as prescribed by the external source and are not available for general use by the cemetery. During the years ended

*For suggested comments in each area of note disclosure above, see example included in comprehensive set of Notes to Financial Statements for exhibit 1, pages 51–54.

June 30, 19X1, and June 30, 19X0, \$11,000 and \$2,000, respectively, were expended for specific trust maintenance and have been reflected in the statement of revenue and expense.

Note 4—Long-Term Debt

Note 5—Functional Allocation of Expenses

Note 6—Commitments

EXHIBIT 3—COUNTRY CLUB

EXHIBIT 3A

Sample Country Club

Balance Sheet

March 31, 19X1, and 19X0

	19X1	*19X0*
Assets		
Current assets		
Cash	$ 44,413	$ 37,812
Investments (Note 2)	289,554	388,007
Accounts receivable, less allowances of $5,000 in 19X1, and $6,000 in 19X0	71,831	45,898
Inventories, at lower of cost (FIFO) or market	27,930	28,137
Prepaid expenses	19,154	13,948
Total current assets	452,882	513,802
Property and equipment, at cost (Note 3)		
Land and land improvements	1,085,319	1,098,828
Buildings	1,331,590	1,200,585
Furniture, fixtures, and equipment	274,761	254,540
	2,691,670	2,553,953
Less accumulated depreciation	864,564	824,088
	1,827,106	1,729,865
Other assets		
Deferred charges	15,077	16,524
Beverage license	10,500	10,500
	25,577	27,024
	$2,305,565	$2,270,691
Liabilities and Membership Equity		
Current liabilities		
Accounts payable and accrued expenses	$ 61,426	$ 63,600
Deferred revenues—initiation fees (Note 1)	15,677	7,755
Due to resigned members	16,400	12,900
Taxes	20,330	23,668
Total current liabilities	113,833	107,923
Membership equity		
Proprietary certificates, 500 at $1,500 each—no change during the years	750,000	750,000
Cumulative excess of revenue over expenses	1,441,732	1,412,768
	2,191,732	2,162,768
	$2,305,565	$2,270,691

EXHIBIT 3B

Sample Country Club

Statement of Revenue, Expenses, and Changes in Cumulative Excess of Revenue Over Expenses

Years Ended March 31, 19X1, and 19X0

	19X1	*19X0*
Revenue		
Dues	$ 590,000	$ 600,000
Restaurant and bar charges	270,412	265,042
Greens fees	171,509	163,200
Tennis and swimming fees	83,829	67,675
Initiation fees	61,475	95,220
Locker and room rentals	49,759	49,954
Interest and discounts	28,860	28,831
Golf cart rentals	26,584	24,999
Other—net	4,011	3,893
Total revenue	1,286,439	1,298,814
Expenses		
Greens	241,867	244,823
House	212,880	210,952
Restaurant and bar	153,035	136,707
Tennis and swimming	67,402	48,726
General and administrative	533,838	690,551
Net (gains) losses on investments	98,453	(98,813)
Total expenses	1,307,475	1,232,946
Excess (deficiency) of revenue over expenses before capital additions	(21,036)	65,868
Capital additions		
Assessments for capital improvements	50,000	—
Excess (deficiency) of revenue over expenses after capital additions	28,964	65,868
Cumulative excess of revenue over expenses—beginning of year	1,412,768	1,346,900
Cumulative excess of revenue over expenses—end of year	$1,441,732	$1,412,768

EXHIBIT 3C

Sample Country Club

Statement of Changes in Financial Position

Years Ended March 31, 19X1, and 19X0

	19X1	*19X0*
Sources of funds		
Excess (deficiency) of revenue over expenses before capital additions	$ (21,036)	$ 65,868
Capital additions	50,000	—
Excess (deficiency) of revenue over expenses after capital additions	28,964	65,868
Add-back provision for depreciation, which does not affect working capital	40,476	61,618
Total from operations	69,440	127,486
Decrease in deferred charges—net	1,447	—
Total sources	70,887	127,486
Applications of funds		
Purchases of property and equipment	137,717	84,377
Increase in deferred charges—net	—	8,909
Total applications	137,717	93,286
Increase (decrease) in working capital	$ (66,830)	$ 34,200
Changes in the components of working capital are summarized as follows:		
Increase (decrease) in current assets		
Cash	$ 6,601	$ (70,928)
Investments	(98,453)	98,813
Accounts receivable	25,933	5,000
Inventories	(207)	8,112
Prepaid expenses	5,206	2,056
	(60,920)	43,053
(Increase) decrease in current liabilities		
Accounts payable and accrued expenses	2,174	(5,597)
Deferred revenues—initiation fees	(7,922)	(3,517)
Due to resigned members	(3,500)	(2,700)
Taxes	3,338	2,961
	(5,910)	(8,853)
Increase (decrease) in working capital	$ (66,830)	$ 34,200

EXHIBIT 3D

Sample Country Club

Notes to Financial Statements*

March 31, 19X1, and 19X0

Note 1—Summary of Significant Accounting Principles

(In addition to the policy disclosures illustrated in Note 1 of exhibit 1, the following are typical of additional disclosures to be considered for this type of organization.)

Membership Dues and Initiation Fees

Membership dues are recognized as revenue in the applicable membership period. Initiation fees are recorded as revenue in the period when the fees are due.

Note 2—Investments

Note 3—Property and Equipment and Depreciation

Note 4—Pension Plans

*For suggested comments in each area of note disclosure above, see example included in comprehensive set of Notes to Financial Statements for exhibit 1, pages 51–54.

EXHIBIT 4—LIBRARY

EXHIBIT 4A

Sample Library

Balance Sheet

December 31, 19X1
(With Comparative Totals for 19X0)

	December 31, 19X1							December 31, 19X0
	Unrestricted			Current				
	Operating	*Investment*	*Total*	*Restricted*	*Plant*	*Endowment*	*Total*	*Total*
Assets								
Current assets								
Cash, including interest-bearing accounts of $600,000 in 19X1, and $400,000 in 19X0	$ 690,000	—	$ 690,000	$ 3,000	$ 7,000	—	$ 700,000	$ 411,000
Certificates of deposit	375,000	—	375,000	75,000	—	—	450,000	525,000
Grants receivable (Note 1)								
Governments	120,000	—	120,000	—	—	—	120,000	161,000
Other	30,000	—	30,000	27,000	8,000	—	65,000	35,000
Pledges receivable, at estimated net realizable value (Note 1)	15,000	—	15,000	—	—	—	15,000	15,000
Prepaid expenses and other current assets	70,000	—	70,000	—	—	—	70,000	85,000
Total current assets	1,300,000	—	1,300,000	105,000	15,000	—	1,420,000	1,232,000
Investments—at market (Note 2)	—	$920,000	920,000	—	165,000	$985,000	2,070,000	2,172,000
Land, buildings, and equipment—at cost, less accumulated depreciation of $90,000 and $79,000, respectively (Note 3)	—	—	—	—	1,525,000	—	1,525,000	1,491,000
Inexhaustible collections and books (Note 1)	—	—	—	—	—	—	—	—
Total assets	$1,300,000	$920,000	$2,220,000	$105,000	$1,705,000	$985,000	$5,015,000	$4,895,000

Liabilities and Fund Balances

Current liabilities								
Accounts payable, accrued expenses, and current portion of long-term debt	$ 200,000	—	$ 200,000	—	$ 10,000	—	$ 210,000	$ 130,000
Deferred restricted contributions, etc. (Note 6)	—	—	—	$105,000	5,000	—	110,000	100,000
Total current liabilities	200,000	—	200,000	105,000	15,000	—	320,000	230,000
Long-term debt (Note 4)	—	—	—	—	180,000	—	180,000	190,000
Total liabilities	200,000	—	200,000	105,000	195,000	—	500,000	420,000
Fund balances								
Unrestricted								
Designated by the board for								
Investment	—	$920,000	920,000	—	—	—	920,000	740,000
Purchase of equipment	50,000	—	50,000	—	—	—	50,000	35,000
Undesignated	1,050,000	—	1,050,000	—	1,510,000	—	2,560,000	2,725,000
Restricted	—	—	—	—	—	$985,000	985,000	975,000
Total fund balances	1,100,000	920,000	2,020,000	—	1,510,000	985,000	4,515,000	4,475,000
Total liabilities and fund balances	$1,300,000	$920,000	$2,220,000	$105,000	$1,705,000	$985,000	$5,015,000	$4,895,000

EXHIBIT 4B

Sample Library

Statement of Support, Revenue, and Expenses and Changes in Fund Balances

Year Ended December 31, 19X1
(With Comparative Totals for 19X0)

	Year Ended December 31, 19X1							Year Ended December 31, 19X0
	Unrestricted			Current				
	Operating	*Investment*	*Total*	*Restricted*	*Plant*	*Endowment*	*Total*	*Total*
Support and revenue								
Support								
Grants (Note 1)								
Governments	$ 150,000	—	$ 150,000	—	—	—	$ 150,000	$ 150,000
Other	25,000	—	25,000	—	—	—	25,000	—
Contributions, legacies, and bequests (Note 1)	350,000	$ 90,000	440,000	$75,000	—	—	515,000	490,000
Contributed services of volunteers (Note 1)	75,000	—	75,000	—	—	—	75,000	50,000
Use of contributed facilities (Note 1)	47,000	—	47,000	—	—	—	47,000	50,000
Total support	647,000	90,000	737,000	75,000	—	—	812,000	740,000
Revenue								
Fees for services	50,000	—	50,000	—	—	—	50,000	45,000
Book rentals and fines	320,000	—	320,000	—	—	—	320,000	250,000
Investment income including net gains	25,000	93,000	118,000	10,000	—	—	128,000	103,000
Total revenue	395,000	93,000	488,000	10,000	—	—	498,000	398,000
Total support and revenue	1,042,000	183,000	1,225,000	85,000	—	—	1,310,000	1,138,000

Expenses (Note 7)								
Program services								
Circulating library	390,000	—	390,000	75,000	$ 5,000	—	470,000	430,000
Research library	169,000	—	169,000	—	1,000	—	170,000	155,000
Collections and exhibits	49,000	—	49,000	10,000	1,000	—	60,000	50,000
Educational services	49,000	—	49,000	—	1,000	—	50,000	55,000
Community services	29,500	—	29,500	—	500	—	30,000	20,000
Total program services	686,500	—	686,500	85,000	8,500	—	780,000	710,000
Supporting services								
General administration	315,500	3,000	318,500	—	21,500	—	340,000	290,000
Fund raising	200,000	—	200,000	—	5,000	—	205,000	200,000
Total supporting services	515,500	3,000	518,500	—	26,500	—	545,000	490,000
Total expenses	1,202,000	3,000	1,205,000	85,000	35,000	—	1,325,000	1,200,000
Excess (deficiency) of support and revenue over expenses before capital additions	(160,000)	180,000	20,000	—	(35,000)	—	(15,000)	(62,000)
Capital additions								
Contributions	—	—	—	—	40,000	—	40,000	95,000
Investment income including net gains	—	—	—	—	5,000	—	5,000	17,000
Contributed materials, equipment, etc. (Note 1)	—	—	—	—	10,000	—	10,000	—
	—	—	—	—	55,000	—	55,000	112,000
Excess (deficiency) of support and revenue over expenses after capital additions	(160,000)	180,000	20,000	—	20,000	—	40,000	50,000
Fund balances at beginning of year	1,270,000	740,000	2,010,000	—	1,480,000	$985,000	4,475,000	4,425,000
Mandatory transfers—principal of indebtedness	(10,000)	—	(10,000)	—	10,000	—	—	—
Fund balances at end of year	$1,100,000	$920,000	$2,020,000	—	$1,510,000	$985,000	$4,515,000	$4,475,000

EXHIBIT 4C

Sample Library

Statement of Changes in Financial Position

Year Ended December 31, 19X1 (With Comparative Totals for 19X0)

	Year Ended December 31, 19X1						Year Ended December 31, 19X0
	Unrestricted						
	Operating	*Investment*	*Total*	*Current Restricted*	*Plant*	*Total*	*Total*
Sources of working capital							
Excess (deficiency) of support and revenue over expenses before capital additions	$(160,000)	$180,000	$ 20,000	—	$(35,000)	$ (15,000)	$ (62,000)
Capital additions	—	—	—	—	55,000	55,000	112,000
Excess (deficiency) of support and revenue over expenses after capital additions	(160,000)	180,000	20,000	—	20,000	40,000	50,000
Add (deduct) items not using (providing) working capital							
Depreciation	—	—	—	—	11,000	11,000	11,000
Contributed equipment	—	—	—	—	(10,000)	(10,000)	—
Working capital provided by operations	(160,000)	180,000	20,000	—	21,000	41,000	61,000
Deferred restricted contributions and investment income received	—	—	—	$85,000	—	85,000	100,000
Sale of investments	22,000	245,000	267,000	—	—	267,000	110,000
	(138,000)	425,000	287,000	85,000	21,000	393,000	271,000

Uses of working capital							
Purchase of investments	—	—	—	—	165,000	165,000	—
Purchase of fixed assets	—	—	—	—	35,000	35,000	35,000
Reduction of long-term debt	—	—	—	—	10,000	10,000	10,000
Deferred restricted contributions and investment income recognized as support	—	—	—	85,000	—	85,000	100,000
Transfers between funds	10,000	—	10,000	—	(10,000)	—	—
	10,000	—	10,000	85,000	200,000	295,000	145,000
Increase (decrease) in working capital	$(148,000)	$425,000	$277,000	—	$(179,000)	$ 98,000	$126,000
Changes in working capital components							
Increase (decrease) in current assets							
Cash	$(129,000)	$425,000	$296,000	$ (7,000)	—	$289,000	$ (5,000)
Certificates of deposit	22,000	—	22,000	20,000	$(117,000)	(75,000)	61,000
Grants receivable	54,000	—	54,000	(8,000)	(57,000)	(11,000)	60,000
Pledges receivable	—	—	—	—	—	—	(5,000)
Prepaid expenses and other current assets	(15,000)	—	(15,000)	—	—	(15,000)	—
	(68,000)	425,000	357,000	5,000	(174,000)	188,000	111,000
(Increase) decrease in current liabilities							
Accounts payable, accrued expenses, and current portion of long-term debt	(80,000)	—	(80,000)	—	—	(80,000)	15,000
Deferred restricted contributions, etc.	—	—	—	(5,000)	(5,000)	(10,000)	—
Increase (decrease) in working capital	$(148,000)	$425,000	$277,000	—	$(179,000)	$ 98,000	$126,000

EXHIBIT 4D

Sample Library

Notes to Financial Statements*

December 31, 19X1

Note 1—Summary of Significant Accounting Policies

(In addition to the policy disclosures illustrated in Note 1 of exhibit 1, the following are typical of additional disclosures to be considered for this type of organization.)

Contributed Facilities

The library occupies without charge certain premises located in government-owned buildings. The estimated fair rental value of the premises is reported as support and expense in the period in which the premises are used.

Grants

The library records income from unrestricted grants in the period designated by the grantor.

Inexhaustible Collections and Books

Because the values of the existing inexhaustible collections, including research books, are not readily determinable, the library has not capitalized them. Collections that are exhaustible are capitalized and included with equipment in the financial statements and are amortized over their estimated useful lives. Accessions and deaccessions during 19X0 and 19X1 were not significant. Books used in the circulating library have not been capitalized because their estimated useful lives are less than one year.

Summarized Financial Information for 19X0

The financial information for the year ended December 31, 19X0, presented for comparative purposes, is not intended to be complete financial statement presentation.

Note 2—Investments

Note 3—Plant Assets and Depreciation

Note 4—Long-Term Debt

Note 5—Pension Plans

Note 6—Changes in Deferred Restricted Amounts

Note 7—Functional Allocation of Expenses

*For suggested comments in each area of note disclosure above, see example included in comprehensive set of Notes to Financial Statements for exhibit 1, pages 51–54.

Note 8—Commitments and Contingencies

The library receives a substantial amount of its support from federal, state, and local governments. A significant reduction in the level of this support, if this were to occur, may have an effect on the library's programs and activities.

EXHIBIT 5—MUSEUM

EXHIBIT 5A

Sample Museum

Balance Sheet
June 30, 19X1
(With Comparative Totals for 19X0)

	Operating Fund	*Plant Fund*	*Endowment Fund*	*Total*	*June 30, 19X0 Total*
Assets					
Current assets					
Cash	$ 19,800	—	—	$ 19,800	$ 23,700
Receivables, less reserve of $7,700	145,500	—	—	145,500	125,800
Investments (Note 2)	210,000	—	—	210,000	—
Inventories, at lower of cost (FIFO) or market	121,100	—	—	121,100	120,600
Prepayments	26,600	—	—	26,600	12,700
Total current assets	523,000	—	—	523,000	282,800
Fixed assets, net of depreciation (Note 3)	—	$1,964,000	—	1,964,000	1,866,800
Art collection (Note 11)					
Cash held for investment	—	—	$ 6,000	6,000	3,800
Investments (Note 2)	4,044,500	—	7,688,400	11,732,900	11,709,300
Total	$4,567,500	$1,964,000	$7,694,400	$14,225,900	$13,862,700

Liabilities and Fund Balances					
Current liabilities					
Accounts payable and accrued expenses	$ 256,900	—	—	$ 256,900	$ 252,900
Deferred revenue and restricted gifts, current portion (Note 5)	242,100	—	—	242,100	208,100
Total current liabilities	499,000	—	—	499,000	461,000
Deferred revenue and restricted gifts, noncurrent portion (Note 5)	409,900	—	—	409,900	167,300
Fund balances					
Endowment	—	—	$7,694,400	7,694,400	7,621,800
Land, buildings, and equipment	—	$1,964,000	—	1,964,000	1,866,800
Unrestricted					
Designated for investment	3,490,000	—	—	3,490,000	3,490,000
Designated for plant expansion	150,000	—	—	150,000	—
Unappropriated	18,600	—	—	18,600	255,800
Total fund balances	3,658,600	1,964,000	7,694,400	13,317,000	13,234,400
Total	$4,567,500	$1,964,000	$7,694,400	$14,225,900	$13,862,700

EXHIBIT 5B

Sample Museum

Statement of Activity

Year Ended June 30, 19X1

(With Comparative Totals for 19X0)

	Operating Fund	*Plant Fund*	*Endowment Fund*	*Total*	*Year Ended June 30, 19X0 Total*
Support and revenue					
Admissions	$ 131,100	—	—	$ 131,100	$ 123,400
Government appropriations	110,700	—	—	110,700	104,000
Gifts and grants (Notes 5 and 8)	130,000	—	—	130,000	124,700
Memberships	48,400	—	—	48,400	39,900
Investment income	828,800	—	—	828,800	841,700
Net realized investment gains (losses)	6,300	—	—	6,300	(2,600)
Revenue, auxiliary activities	483,100	—	—	483,100	417,200
Total	1,738,400	—	—	1,738,400	1,648,300

Expenses					
Program					
Curatorial and conservation	578,600	$ 27,400	—	606,000	602,000
Exhibits	108,600	—	—	108,600	109,100
Education	133,400	4,800	—	138,200	131,600
Fellowships	68,200	—	—	68,200	52,800
Public information	66,400	2,700	—	69,100	67,700
Accession of art for collection, net of deaccessions (Note 11)	200,000	—	—	200,000	170,000
Supporting services					
Management and general	67,400	10,800	—	78,200	77,300
Fund raising	10,300	—	—	10,300	9,600
Cost of sales and expense of auxiliary activities	441,100	8,700	—	449,800	384,600
Total	1,674,000	54,400	—	1,728,400	1,604,700
Excess (deficiency) of support and revenue over expenses before capital additions	64,400	(54,400)	—	10,000	43,600
Capital additions					
Gifts and grants (Note 8)	—	—	$ 76,400	76,400	18,200
Net investment income	—	—	4,700	4,700	1,800
Net realized investment gains (losses)	—	—	(8,500)	(8,500)	(2,000)
Total	—	—	72,600	72,600	18,000
Excess (deficiency) of support and revenue over expenses after capital additions	64,400	(54,400)	72,600	82,600	61,600
Fund balances, beginning of period	3,745,800	1,866,800	7,621,800	13,234,400	13,172,800
Add (deduct) transfers (Note 9)	(151,600)	151,600	—	—	—
Fund balances, end of period	$3,658,600	$1,964,000	$7,694,400	$13,317,000	$13,234,400

EXHIBIT 5C

Sample Museum

Statement of Changes in Financial Position

Year Ended June 30, 19X1

Sources of working capital	
Excess of support and revenue before capital additions	$ 10,000
Capital additions	72,600
Excess of support and revenue after capital additions	82,600
Depreciation	54,400
Deferred revenue and restricted gifts received in excess of expenses incurred	242,600
Investments sold	952,200
	1,331,800
Uses of working capital	
Fixed assets purchased	151,600
Investments purchased	978,000
	1,129,600
Increase in working capital	$ 202,200
Changes in working capital, increase (decrease)	
Cash	$ (3,900)
Receivables	19,700
Investments	210,000
Inventories	500
Prepayments	13,900
Accounts payable and accrued expenses	(4,000)
Deferred revenue and restricted gifts, current portion	(34,000)
	$ 202,200

EXHIBIT 5D

Sample Museum

Notes to Financial Statements*

June 30, 19X1

Note 1—Summary of Significant Accounting Policies

Note 2—Investments

Note 3—Fixed Assets and Depreciation

Note 4—Pension Plans

Note 5—Deferred Revenue and Restricted Gifts

Note 6—Functional Allocation of Expenses

Note 7—Commitments

Note 8—Gifts Received

Note 9—Interfund Transfers

During the year ended June 30, 19X1, the trustees authorized a transfer from the Operating Fund to the Plant Fund in the amount of $151,600 representing fixed assets purchased with resources of the Operating Fund.

Note 10—Contributed Services

A substantial number of unpaid volunteers have made significant contributions of their time to develop the Museum's programs, principally in membership development and educational programs. The value of this contributed time is not reflected in these statements since it is not susceptible to objective measurement or valuation.

Note 11—Art Collection

In conformity with the practice followed by many museums, art objects purchased and donated are not included in the balance sheet.

The value of the objects acquired by gift for which the Museum can make a reasonable estimate is reported as gifts in the Statement of Activity ($28,000 in the year ended June 30, 19X1).

The cost of all objects purchased together with the value of objects acquired by gift as indicated in the preceding paragraph, less the proceeds from deaccessions of objects, is reported as a separate program expense. During the year ended June 30, 19X1, purchase of art objects amounted to $185,000 and the proceeds from deaccessions was $13,000.

Gifts of cash or other property restricted by donors for the purchase of items for the collection are classified as deferred revenue until acquisitions are made in accordance with the terms of the gifts.

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*For suggested comments in each area of note disclosure above, see example included in comprehensive set of Notes to Financial Statements for exhibit 1, pages 51–54.

EXHIBIT 6—PERFORMING ARTS ORGANIZATION

EXHIBIT 6A

Sample Performing Arts Organization

Balance Sheet

June 30, 19X1, and 19X0

	19X1	*19X0*
Assets		
Current assets		
Cash	$216,074	$169,466
Marketable securities (Note 2)	266,330	50,967
Accounts receivable, net of allowance for doubtful accounts	70,051	26,685
Grants receivable	—	6,100
Other	39,378	13,441
Total current assets	591,833	266,659
Noncurrent assets		
Investments and endowment funds cash (Note 2)	267,869	256,648
Property and equipment at cost, net of accumulated depreciation (Note 3)	55,061	40,226
Rent and other deposits	3,839	9,130
	$918,602	$572,663
Liabilities and Entity Capital		
Current liabilities		
Accounts payable and accrued expenses	$111,150	$166,351
Deferred revenues—subscriptions (Note 1)	297,430	193,042
Deferred revenues—grants (Note 1)	42,562	—
Current portion of long-term debt	50,000	50,000
Total current liabilities	501,142	409,393
Long-term debt (Note 4)	32,000	69,740
Contingencies (Note 6)		
Entity capital		
Plant fund	33,061	38,594
Endowment funds (Note 5)	267,869	256,648
Unrestricted funds	84,530	(201,712)
	$918,602	$572,663

EXHIBIT 6B

Sample Performing Arts Organization

Statement of Activity

Years Ended June 30, 19X1, and 19X0

	19X1	*19X0*
Revenue and support from operations		
Admissions	$1,557,567	$1,287,564
Dividends and interest	21,555	2,430
Net realized gains and losses	54,700	18,300
Tuition	242,926	130,723
Concessions and other support	103,582	68,754
	1,980,330	1,507,771
Production costs	476,982	427,754
Operating expenses	797,044	685,522
Ballet school	473,658	301,722
Neighborhood productions	378,454	81,326
General and administrative expense	390,487	469,891
	2,516,625	1,966,215
Deficiency from operations	(536,295)	(458,444)
Donated services, materials, and facilities	—	8,000
Annual giving	150,379	78,469
Grants	702,368	678,322
Fund-raising costs	(35,743)	(50,454)
	817,004	714,337
Excess from current endeavors	280,709	255,893
Capital additions	11,221	18,250
Total increase in entity capital	$ 291,930	$ 274,143

EXHIBIT 6C

Sample Performing Arts Organization

Statement of Changes in Entity Capital

Years Ended June 30, 19X1, and 19X0

	Endowment Funds	*Plant Fund*	*Unrestricted Funds*	*Total*
Entity capital—June 30, 19X9	$238,398	$43,214	$(462,225)	$(180,613)
Excess from current endeavors	—	(4,620)	260,513	255,893
Capital additions	18,250	—	—	18,250
Entity capital—June 30, 19X0	256,648	38,594	(201,712)	93,530
Excess from current endeavors	—	(5,533)	286,242	280,709
Capital additions	11,221	—	—	11,221
Entity capital—June 30, 19X1	$267,869	$33,061	$ 84,530	$ 385,460

EXHIBIT 6D

Sample Performing Arts Organization

Statement of Changes in Financial Position

Years Ended June 30, 19X1, and 19X0

	19X1	*19X0*
Funds provided by		
Excess from current endeavors	$280,709	$255,893
Add expenses not requiring outlay of working capital in current period		
Depreciation	5,533	4,620
Other deferred charges	—	7,500
Funds provided from current endeavors	286,242	268,013
Increase in long-term debt	12,260	—
Other	5,291	—
Capital additions	11,221	18,250
Total funds provided	315,014	286,263
Funds applied		
Increase in noncurrent investments and cash	11,221	—
Acquisition of property, plant, and equipment	20,368	4,362
Reduction of long-term debt	50,000	25,280
Total funds applied	81,589	29,642
Increase in working capital	$233,425	$256,621
Changes in the components of working capital		
Increase (decrease) in current assets		
Cash	$ 46,608	$220,342
Marketable securities	215,363	42,312
Accounts receivable	43,366	21,269
Grants receivable	(6,100)	—
Other	25,937	15,413
Increase in current assets	325,174	299,336
(Increase) decrease in current liabilities		
Accounts payable and accrued expenses	55,201	36,149
Deferred revenues—subscriptions	(104,388)	(78,864)
Deferred revenues—grants	(42,562)	—
(Increase) in current liabilities	(91,749)	(42,715)
Increase in working capital	$233,425	$256,621

EXHIBIT 6E

Sample Performing Arts Organization

Notes to Financial Statements*

June 30, 19X1, and 19X0

Note 1—Summary of Significant Accounting Policies

Note 2—Investments

Note 3—Property and Equipment

Note 4—Long-Term Debt

Note 5—Endowments

An endowment in the amount of $125,000 required the establishment of a ballet school. The second endowment, in the amount of $100,000, established the organization's neighborhood production program. Income from those endowments, including capital gains, is to be used for those programs.

Note 6—Commitments and Contingencies

The organization leases its theatre and offices under a lease expiring in 19X8 at $25,000 per year with a renewal option for ten years at the same rent. Heating, ventilating, and air-conditioning are paid separately as common area charges. The lease is not considered a capital lease under FASB Statement 13.

Grants, bequests, and endowments require the fulfillment of certain conditions as set forth in the instrument of grant. Failure to fulfill the conditions, or in the case of endowments, failure to continue to fulfill them, could result in the return of the funds to grantors. Although that is a possibility, the Board deems the contingency remote, since by accepting the gifts and their terms, it has accommodated the objectives of the organization to the provisions of the gift.

*For suggested comments in each area of note disclosure above, see example included in comprehensive set of Notes to Financial Statements for exhibit 1, pages 51–54.

EXHIBIT 6F

Sample Performing Arts Organization

Schedule of Functional Expenses—Supplementary Schedule

Year Ended June 30, 19X1

(With Comparative Totals for 19X0)

	Program Services					*Support Services*			
	Production Costs	*Operating Expenses*	*Ballet School*	*Neighborhood Productions*	*Total Program Services*	*General and Administrative*	*Fund Raising*	*Total Year Ended 19X1*	*Total Year Ended 19X0*
Item of Expense									
Salaries, payroll taxes, and employee benefits	$219,370	$464,570	$388,113	$306,026	$1,378,079	$260,755	$15,782	$1,654,616	$1,312,504
Professional fees	7,864	—	2,785	—	10,649	15,624	—	26,273	21,722
Supplies	15,628	17,128	—	3,728	36,484	25,823	—	62,307	43,784
Telephone	—	—	—	—	—	10,725	1,211	11,936	10,783
Postage and shipping	—	—	—	—	—	3,816	14,439	18,255	15,622
Occupancy	—	258,622	82,760	5,478	346,860	41,540	1,527	389,927	322,147
Rental and maintenance of equipment	—	56,724	—	—	56,724	6,927	2,784	66,435	52,764
Printing and publications	—	—	—	—	—	10,381	—	10,381	10,078
Travel	—	—	—	—	—	5,824	—	5,824	4,728
Conferences, conventions, and meetings	—	—	—	—	—	2,783	—	2,783	1,568
Membership dues	—	—	—	—	—	756	—	756	2,064
Scenery	154,682	—	—	35,540	190,222	—	—	190,222	143,523
Costumes	79,438	—	—	27,682	107,120	—	—	107,120	70,762
Depreciation and amortization	—	—	—	—	—	5,533	—	5,533	4,620
Total, year ended June 30, 19X1	$476,982	$797,044	$473,658	$378,454	$2,126,138	$390,487	$35,743	$2,552,368	
Total, year ended June 30, 19X0	$427,754	$685,522	$301,722	$ 81,326	$1,496,324	$469,891	$50,454		$2,016,669

EXHIBIT 7—PRIVATE FOUNDATION

EXHIBIT 7A

Sample Private Foundation

Balance Sheet

December 31, 19X1, and 19X0

	19X1	*19X0*
Assets		
Cash	$ 75,000	$ 50,000
Accrued interest and dividends receivable	175,000	225,000
Securities, at market (cost, 19X1—$17,800,000; 19X0—$17,400,000) (Note 2)		
U.S. government obligations	2,000,000	1,750,000
Corporate and other obligations	5,000,000	7,000,000
Stocks	12,000,000	10,000,000
	19,000,000	18,750,000
Total assets	$19,250,000	$19,025,000
Liabilities and Fund Balance		
Federal excise taxes payable (Note 3)	$ 41,000	$ 39,000
Accrued expenses payable	9,000	11,000
Deferred taxes	10,000	5,000
Unconditional grants payable	40,000	75,000
Total liabilities	100,000	130,000
Commitments (Note 4)		
Fund balance	19,150,000	18,895,000
Total liabilities and fund balance	$19,250,000	$19,025,000

EXHIBIT 7B

Sample Private Foundation

Statement of Revenue, Expense, and Changes in Fund Balance

Years Ended December 31, 19X1, and 19X0

	19X1	*19X0*
Revenue and support		
Dividends	$ 525,000	$ 500,000
Interest	500,000	585,000
Unrestricted donations	100,000	—
Total revenue and support	1,125,000	1,085,000
Expense		
Program services		
Program grants		
Health	530,000	525,000
Education	390,000	375,000
Program management	82,500	80,000
	1,002,500	980,000
Management and general expenses	72,500	70,000
Provision for federal excise taxes	40,000	38,000
	112,500	108,000
Total expense	1,115,000	1,088,000
Excess (deficiency) of revenue and support over expense before gains (losses) on securities	10,000	(3,000)
Net gains (losses) on securities	245,000	(172,000)
Excess (deficiency) for the year	255,000	(175,000)
Fund balance, beginning of year	18,895,000	19,070,000
Fund balance, end of year	$19,150,000	$18,895,000

EXHIBIT 7C

Sample Private Foundation

Statement of Changes in Cash

Years Ended December 31, 19X1, and 19X0

	19X1	*19X0*
Sources of cash		
Excess (deficiency) for the year	$ 255,000	$ (175,000)
Net (gains) losses on securities	(245,000)	172,000
Decrease in accrued interest and dividends receivable	50,000	40,000
Proceeds on disposition of securities	5,105,000	4,000,000
	5,165,000	4,037,000
Uses of cash		
Purchase of securities	5,110,000	4,007,000
Decrease in liabilities	30,000	40,000
	5,140,000	4,047,000
Increase (decrease) in cash for year	25,000	(10,000)
Cash, beginning of year	50,000	60,000
Cash, end of year	$ 75,000	$ 50,000

EXHIBIT 7D

Sample Private Foundation

Notes to Financial Statements*

December 31, 19X1, and 19X0

Note 1—Summary of Significant Accounting Policies

(In addition to the policy disclosures illustrated in Note 1 of exhibit 1, the following are typical of additional disclosures to be considered for this type of organization.)

Office Furnishings

Costs of office furnishings and equipment are consistently charged to expense because the foundation does not deem such amounts to be sufficiently material to warrant capitalization and depreciation.

Note 2—Investment in Securities

Note 3—Federal Excise Taxes

In accordance with the applicable provisions of the Tax Reform Act of 1969, the foundation is subject to an excise tax on net investment income, including realized gains, as defined in the act. Accordingly, federal excise taxes have been accrued in amounts of $41,000 and $39,000 as of December 31, 19X1, and 19X0, respectively.

In addition, the Tax Reform Act requires that certain minimum distributions be made in accordance with a specified formula. At December 31, 19X1, the foundation had distributed approximately $200,000 more than the required minimum.

Note 4—Commitments

Trustees of the foundation had approved, as of December 31, 19X1, and 19X0, grants amounting to $750,000 and $700,000, respectively. Such grants are subject to the satisfaction by the intended recipients of prior conditions before payment. The commitments outstanding at December 31, 19X1, are scheduled for payment as follows.

Year	*Amount*
19X2	$600,000
19X3	100,000
19X4	50,000
	$750,000

Note 5—Pension Plans

Note 6—Functional Allocation of Expenses

*For suggested comments in each area of note disclosure above, see example included in comprehensive set of Notes to Financial Statements for exhibit 1, pages 51–54.

EXHIBIT 8—PUBLIC BROADCASTING STATION

EXHIBIT 8A

Sample Public Broadcasting Station

Balance Sheet

December 31, 19X1, and 19X0

	19X1			*19X0*
	Unrestricted	*Restricted*	*Total*	*Total*
Assets				
Current assets				
Cash	$ 78,000	$ 24,000	$ 102,000	$ 71,000
Accounts receivable, principally grants, net of allowance for doubtful accounts of $4,000 in 19X1, and $9,000 in 19X0 (Note 2)	192,000	80,000	272,000	245,000
Costs incurred for programs not yet telecast (Note 1)	117,000	74,000	191,000	176,000
Other assets	105,000	—	105,000	89,000
Total current assets	492,000	178,000	670,000	581,000
Property and equipment (Notes 1 and 3)				
Leasehold improvements, net of accumulated amortization of $154,000 in 19X1, and $94,000 in 19X0	359,000	—	359,000	374,000
Television and other equipment, net of accumulated depreciation of $672,000 in 19X1, and $407,000 in 19X0	1,568,000	—	1,568,000	1,676,000
	1,927,000	—	1,927,000	2,050,000
Total assets	$2,419,000	$178,000	$2,597,000	$2,631,000
Liabilities and Fund Balance				
Current liabilities				
Accounts payable and accrued expenses	$ 113,000	—	$ 113,000	$ 186,000
Deferred revenue for programs not yet telecast (Notes 1 and 7)	—	$178,000	178,000	270,000
Current portion of long-term debt (Note 4)	50,000	—	50,000	—
Total current liabilities	163,000	178,000	341,000	456,000
Long-term debt (Note 4)	250,000	—	250,000	300,000
Total liabilities	413,000	178,000	591,000	756,000
Fund balance	2,006,000	—	2,006,000	1,875,000
Total liabilities and fund balance	$2,419,000	$178,000	$2,597,000	$2,631,000

EXHIBIT 8B

Sample Public Broadcasting Station

Statement of Revenue, Expenses, and Changes in Fund Balance

Years Ended December 31, 19X1, and 19X0

	19X1			*19X0*
	Unrestricted	*Restricted*	*Total*	*Total*
Revenue (Note 2)				
Contributions	$ 946,000	—	$ 946,000	$ 790,000
Community service grants	—	$327,000	327,000	287,000
Other grants	—	189,000	189,000	155,000
Telecasting and production	286,000	—	286,000	302,000
Facilities rental	36,000	—	36,000	31,000
Total revenue	1,268,000	516,000	1,784,000	1,565,000
Expenses				
Program services				
Programming production, including designated projects (Note 1)	274,000	335,000	609,000	563,000
Broadcasting and technical	385,000	—	385,000	279,000
Public information	162,000	—	162,000	134,000
Total program expenses	821,000	335,000	1,156,000	976,000
Supporting services				
General administration	372,000	136,000	508,000	421,000
Fund raising	146,000	45,000	191,000	154,000
Total supporting expenses	518,000	181,000	699,000	575,000
Total expenses	1,339,000	516,000	1,855,000	1,551,000
Excess (deficiency) of revenue over expenses before special grants	(71,000)	—	(71,000)	14,000
Special grants	202,000		202,000	107,000
Excess for the year	131,000		131,000	121,000
Fund balance, beginning of year	1,875,000		1,875,000	1,754,000
Fund balance, end of year	$2,006,000		$2,006,000	$1,875,000

EXHIBIT 8C

Sample Public Broadcasting Station

Statement of Changes in Financial Position

Years Ended December 31, 19X1, and 19X0

	19X1			*19X0*
	Unrestricted	*Restricted*	*Total*	*Total*
Financial resources were provided by				
Excess (deficiency) of revenue over expenses before special grants	$ (71,000)	—	$ (71,000)	$ 14,000
Special grants	202,000	—	202,000	107,000
Excess for the year	131,000	—	131,000	121,000
Add items not requiring working capital—amortization and depreciation	325,000	—	325,000	281,000
Working capital provided by operations	456,000	—	456,000	402,000
Increase in long-term debt	—	—	—	300,000
Total resources provided	456,000	—	456,000	702,000
Financial resources were used for				
Leasehold improvements	45,000	—	45,000	30,000
Purchases of property and equipment	157,000	—	157,000	457,000
Reduction of long-term debt	50,000	—	50,000	—
Total resources used	252,000	—	252,000	487,000
Increase in working capital	$204,000	—	$204,000	$215,000
Analysis of changes in working capital				
Increase (decrease) in current assets				
Cash	$ 57,000	$(26,000)	$ 31,000	$ 25,000
Accounts receivable	62,000	(35,000)	27,000	49,000
Costs incurred for programs not yet telecast	46,000	(31,000)	15,000	45,000
Other assets	16,000	—	16,000	21,000
	181,000	(92,000)	89,000	140,000
Decrease (increase) in current liabilities				
Accounts payable and accrued expenses	73,000	—	73,000	32,000
Deferred revenue for programs not yet telecast	—	92,000	92,000	43,000
Current portion of long-term debt	(50,000)	—	(50,000)	—
	23,000	92,000	115,000	75,000
	$204,000	—	$204,000	$215,000

EXHIBIT 8D

Sample Public Broadcasting Station

Notes to Financial Statements*

December 31, 19X1, and 19X0

Note 1—Summary of Significant Accounting Policies

(In addition to the policy disclosures illustrated in Note 1 of exhibit 1, the following are typical of additional disclosures to be considered for this type or organization.)

Programs Not Yet Telecast

Costs incurred for programs not yet telecast relate to programs that will be aired principally in the next fiscal year. Grants and contributions relating to programs not yet telecast are included as deferred revenue. As the programs are telecast, the costs incurred will be included in operating expenses and the deferred revenue will be included in revenue.

Note 2—Grants

Note 3—Property and Equipment

Note 4—Long-Term Debt

Note 5—Lease Commitments

Note 6—Retirement Plans

Note 7—Changes in Restricted Deferred Revenue

Note 8—Functional Allocation of Expenses

*For suggested comments in each area of note disclosure above, see example included in comprehensive set of Notes to Financial Statements for exhibit 1, pages 51–54.

EXHIBIT 9—RELIGIOUS ORGANIZATION

EXHIBIT 9A

Sample Religious Organization

Balance Sheet

December 31, 19X1

	Expendable Funds				*Nonexpendable Funds*		
Assets	*Operating*	*Deposit and Loan*	*Total*	*Plant Fund*	*Endowment*	*Annuity and Life Income*	*Total All Funds*
Cash	$1,750,000	$ 10,000	$ 1,760,000	$ 408,000	$ 20,000	$ 2,000	$ 2,190,000
Accounts receivable, less allowance for doubtful receivables of $12,000	520,000	—	520,000	—	—	—	520,000
Pledges receivable, less allowance for doubtful pledges of $25,000	500,000	—	500,000	80,000	—	—	580,000
Investments (Note 2)	3,800,000	300,000	4,100,000	260,000	1,300,000	178,000	5,838,000
Loans receivable, less allowance for doubtful loans of $350,000	—	2,600,000	2,600,000	—	—	—	2,600,000
Advances to plant funds	—	3,500,000	3,500,000	—	—	—	— *
Land, buildings, and equipment at cost, less accumulated depreciation of $23,500,000 (Note 3)	—	—	—	44,800,000	—	—	44,800,000
Other assets	150,000	—	150,000	—	—	—	150,000
Total assets	$6,720,000	$6,410,000	$13,130,000	$45,548,000	$1,320,000	$180,000	$56,678,000

Liabilities and Fund Balances

Accounts payable and accrued expenses	$ 600,000	—	$ 600,000	$ 20,000	—	$120,000	$ 740,000
Deferred amounts (Note 6)							
Unrestricted	160,000	—	160,000	—	—	—	160,000
Restricted	870,000	—	870,000	328,000	—	60,000	1,258,000
Advances from expendable funds	—	—	—	3,500,000	—	—	—*
Deposits payable	—	$7,310,000	7,310,000	—	—	—	7,310,000
Long-term debt (Note 4)	—	—	—	2,800,000	—	—	2,800,000
Total liabilities	1,630,000	7,310,000	8,940,000	6,648,000	—	180,000	12,268,000
Fund balances (deficit)							
Unrestricted							
Designated for long-term investment	3,800,000	—	3,800,000	—	—	—	3,800,000
Undesignated	1,290,000	(900,000)	390,000	—	—	—	390,000
	5,090,000	(900,000)	4,190,000	—	—	—	4,190,000
Restricted	—	—	—	—	$1,320,000	—	1,320,000
Net investment in plant	—	—	—	38,900,000	—	—	38,900,000
Total fund balances (deficit)	5,090,000	(900,000)	4,190,000	38,900,000	1,320,000	—	44,410,000
Total liabilities and fund balances	$6,720,000	$6,410,000	$13,130,000	$45,548,000	$1,320,000	$180,000	$56,678,000

*Interfund borrowings eliminated in combination.

EXHIBIT 9B

Sample Religious Organization

Statement of Support and Revenue, Expenses, Capital Additions, and Changes in Fund Balances

Year Ended December 31, 19X1

	Expendable Funds					Nonex-pendable	
	Operating		Deposit		Plant	Endow-	Total
	Unrestricted	*Restricted*	*and Loan*	*Total*	*Fund*	*ment Funds*	*All Funds*
Support and revenue							
Contributions and bequests	$ 6,800,000	$180,000	—	$ 6,980,000	—	—	$ 6,980,000
Fees for services	4,000,000	—	—	4,000,000	—	—	4,000,000
Endowment and other investment income	200,000	40,000	—	240,000	—	—	240,000
Net gain on investment transactions	250,000	—	—	250,000	—	—	250,000
Contributed services	950,000	—	—	950,000	—	—	950,000
Auxiliary activities	205,000	—	$535,000	740,000	—	—	740,000
Total support and revenue	12,405,000	220,000	535,000	13,160,000	—	—	13,160,000
Expenses							
Program services							
Pastoral	3,300,000	45,000	—	3,345,000	$ 300,000	—	3,645,000
Education	4,000,000	80,000	—	4,080,000	460,000	—	4,540,000
Health care	2,800,000	25,000	—	2,825,000	250,000	—	3,075,000
Social services	900,000	50,000	—	950,000	85,000	—	1,035,000
Cemeteries	220,000	20,000	—	240,000	20,000	—	260,000
Religious personnel development	600,000	—	—	600,000	55,000	—	655,000
Auxiliary activities	160,000	—	685,000	845,000	5,000	—	850,000
Total program services	11,980,000	220,000	685,000	12,885,000	1,175,000	—	14,060,000

Supporting services							
General administration	180,000	—	—	180,000	15,000	—	195,000
Fund raising	120,000	—	—	120,000	10,000	—	130,000
Total supporting services	300,000	—	—	300,000	25,000	—	325,000
Total expenses	12,280,000	220,000	685,000	13,185,000	1,200,000	—	14,385,000
Excess (deficiency) of support and revenue over expenses before capital additions	125,000	—	(150,000)	(25,000)	(1,200,000)	—	(1,225,000)
Capital additions							
Contributions and bequests	—	—	—	—	310,000	$ 200,000	510,000
Investment income	—	—	—	—	15,000	—	15,000
Net gain on investment transactions	—	—	—	—	—	80,000	80,000
Total capital additions	—	—	—	—	325,000	280,000	605,000
Excess (deficiency) of support and revenue over expenses after capital additions	125,000	—	(150,000)	(25,000)	(875,000)	280,000	(620,000)
Fund balances (deficit) at beginning of year	5,315,000	—	(750,000)	4,565,000	39,425,000	1,040,000	45,030,000
Transfers to plant funds for plant acquisitions and principal debt service payments financed from operating funds	(350,000)	—	—	(350,000)	350,000	—	—
Fund balances (deficit) at end of year	$ 5,090,000	—	$(900,000)	$4,190,000	$38,900,000	$1,320,000	$44,410,000

EXHIBIT 9C

Sample Religious Organization

Statement of Changes in Financial Position

Year Ended December 31, 19X1

	Expendable Funds				*Nonexpendable Funds*		
	Operating	*Deposit and Loan*	*Total*	*Plant Fund*	*Endowment*	*Annuity and Life Income*	*Total All Funds*
Resources provided							
Excess (deficiency) of support and revenue over expenses before capital additions	$ 125,000	$(150,000)	$ (25,000)	$(1,200,000)	—	—	$(1,225,000)
Capital additions							
Contributions and bequests	—	—	—	310,000	$200,000	—	510,000
Investment income	—	—	—	15,000	—	—	15,000
Net gain on investment transactions	—	—	—	—	80,000	—	80,000
Excess (deficiency) of support and revenue over expenses after capital additions	125,000	(150,000)	(25,000)	(875,000)	280,000	—	(620,000)
Items that do not use (provide) resources							
Provision for depreciation	—	—	—	1,200,000	—	—	1,200,000
Net gain on investment transactions	(250,000)	(15,000)	(265,000)	—	(80,000)	$(12,000)	(357,000)
Issuance of long-term debt	—	—	—	400,000	—	—	400,000
Increase in deferred amounts	650,000	—	650,000	3,000	—	2,000	655,000
Proceeds from sale of investments	1,800,000	210,000	2,010,000	332,000	590,000	49,000	2,981,000
Total resources provided	2,325,000	45,000	2,370,000	1,060,000	790,000	39,000	4,259,000

Resources used							
Purchases of building and equipment	—	—	—	755,000	—	—	755,000
Reduction of long-term debt	—	—	—	320,000	—	—	320,000
Purchases of investments	1,830,000	70,000	1,900,000	—	784,000	36,000	2,720,000
Increase in accounts and pledges receivable	400,000	—	400,000	5,000	—	—	405,000
Increase in loans receivable	—	45,000	45,000	—	—	—	45,000
Decrease in accounts payable and accrued expenses	70,000	—	70,000	10,000	—	2,000	82,000
Decrease in deposits payable	—	10,000	10,000	—	—	—	10,000
Total resources used	2,300,000	125,000	2,425,000	1,090,000	784,000	38,000	4,337,000
Transfers to plant funds for plant acquisitions and principal debt service payments financed from operating funds	(350,000)	—	(350,000)	350,000	—	—	—
Increase (decrease) in cash	$ (325,000)	$ (80,000)	$ (405,000)	$ 320,000	$ 6,000	$ 1,000	$ (78,000)

EXHIBIT 9D

Sample Religious Organization

Notes to Financial Statements*

December 31, 19X1

Note 1—Summary of Significant Accounting Policies

(In addition to the policy disclosures illustrated in Note 1 of exhibit 1, the following are typical of additional disclosures to be considered for this type of organization.)

Basis of Presentation

The accompanying financial statements include the assets, liabilities, fund balances, and financial activities of all institutions and organizations providing services at the level of administration above the individual congregation. All significant balances and transactions among the organizations included in the financial statements have been eliminated.

Other Matters

Support arising from contributed services of certain religious personnel has been recognized in the accompanying financial statements. The computation of the value of the contribution of those services represents the difference between the stipends and other amounts paid to or on behalf of the religious personnel and the comparable compensation that would be paid to lay persons if lay persons were to occupy those positions. No computation is made for positions that can be held only by religious personnel.

Note 2—Investments

Note 3—Plant Assets and Depreciation

Note 4—Long-Term Debt

Note 5—Pension Plans

Note 6—Changes in Deferred Restricted Amounts

Note 7—Functional Allocation of Expenses

Note 8—Commitment

The organization has a lease for certain office facilities that expires December 31, 19X9. The lease contains operating expense and real estate tax escalation clauses. The minimum rental commitment on the lease as of December 31, 19X1, aggregates approximately $210,000 with annual payments ranging from $25,000 to $35,000. Rent expense for the year ended December 31, 19X1, amounted to $28,000.

*For suggested comments in each area of note disclosure above, see example included in comprehensive set of Notes to Financial Statements for exhibit 1, pages 51–54.

EXHIBIT 10A

Sample Research and Scientific Organization

Balance Sheet

June 30, 19X1, and 19X0

Assets	*19X1*	*19X0*
Current assets		
Cash	$ 125,000	$ 115,000
Certificates of deposit	200,000	210,000
Accounts receivable	372,000	346,000
Unbilled contract revenues and reimbursable grant expenses	488,000	390,000
Prepaid expenses and other current assets	40,000	38,000
Total current assets	1,225,000	1,099,000
Property, plant, and equipment (Notes 1 and 4)		
Land and building	220,000	220,000
Furniture and equipment	167,000	156,000
Leased property under capital leases	479,000	479,000
	866,000	855,000
Less—accumulated depreciation and amortization	259,000	185,000
	607,000	670,000
	$1,832,000	$1,769,000

Liabilities and Fund Balance	*19X1*	*19X0*
Current liabilities		
Accounts payable and accrued expenses	$ 418,000	$ 388,000
Restricted grant advances (Note 2)	261,000	210,000
Obligations under capital leases (Note 4)	88,000	82,000
Total current liabilities	767,000	680,000
Noncurrent capital lease obligations (Note 4)	309,000	397,000
	1,076,000	1,077,000
Fund balance		
Unrestricted	458,000	419,000
Net equity in fixed assets	298,000	273,000
Total fund balance	756,000	692,000
	$1,832,000	$1,769,000

EXHIBIT 10B

Sample Research and Scientific Organization

Statement of Revenues, Expenses, and Changes in Fund Balance

Years Ended June 30, 19X1, and 19X0

	19X1	*19X0*
Revenues (Notes 1, 2, and 3)		
Contract revenues—U.S. government	$ 5,958,000	$5,578,000
Restricted grants—foundations and individuals	4,752,000	4,172,000
Other, including interest	43,000	41,000
	10,753,000	9,791,000
Expenses		
Research and development		
Environmental	5,263,000	4,997,000
Health	2,992,000	2,766,000
National defense	1,166,000	938,000
Management and general	1,103,000	985,000
Contract and grant procurement	165,000	151,000
	10,689,000	9,837,000
Excess (deficiency) of revenues over expenses	64,000	(46,000)
Fund balance, beginning of year	692,000	738,000
Fund balance, end of year	$ 756,000	$ 692,000

EXHIBIT 10C

Sample Research and Scientific Organization

Statement of Changes in Financial Position

Years Ended June 30, 19X1, and 19X0

	19X1	*19X0*
Financial resources were provided by		
Excess (deficiency) of revenues over expenses	$ 64,000	$ (46,000)
Add—expenses not requiring current outlay of working capital—depreciation and amortization	74,000	26,000
Working capital provided by (used in) operations	138,000	(20,000)
Financing of fixed asset additions through capital leases	—	397,000
Total resources provided	138,000	377,000
Financial resources were used for		
Acquisition of property, plant, and equipment	11,000	481,000
Reduction of noncurrent capital lease obligations	88,000	—
Total resources used	99,000	481,000
Increase (decrease) in working capital	$ 39,000	$(104,000)
Changes in working capital were represented by		
Increase (decrease) in current assets—		
Cash	$ 10,000	$ (14,000)
Certificates of deposit	(10,000)	(40,000)
Accounts receivable	26,000	10,000
Unbilled contract revenues and reimbursable grant expenses	98,000	42,000
Other	2,000	(1,000)
	126,000	(3,000)
(Increase) decrease in current liabilities—		
Accounts payable and accrued expenses	(30,000)	(23,000)
Restricted grant advances	(51,000)	4,000
Obligations under capital leases	(6,000)	(82,000)
	(87,000)	(101,000)
Increase (decrease) in working capital	$ 39,000	$(104,000)

EXHIBIT 10D

Sample Research and Scientific Organization

Notes to Financial Statements*

June 30, 19X1, and 19X0

Note 1—Summary of Significant Accounting Policies

(In addition to the policy disclosures illustrated in Note 1 of exhibit 1, the following are typical of additional disclosures to be considered for this type of organization.)

Revenue Recognition

Substantially all of the organization's revenue is derived from restricted grants and cost-plus-fixed-fee contracts. Revenue is recognized based on the proportion of project expenses incurred to total anticipated project expenses (percentage-of-completion method). Losses on contracts are recognized when identified.

Note 2—Restricted Grants

Note 3—Government Contracts

Certain contract costs billed to the U.S. government are subject to audit by the Defense Contract Audit Agency. The agency has audited costs billed before July 1, 19X0.

Note 4—Lease Commitments

The organization uses data processing equipment under capital leases expiring in 19X7 which provide for the transfer of ownership of the equipment at the end of the lease term. The related future minimum lease payments as of June 30, 19X1, are as follows:

19X2	$ 94,000
19X3	94,000
19X4	94,000
19X5	94,000
19X6	94,000
19X7	10,000
	480,000
Less—amount representing interest	(83,000)
Present value of minimum lease payments	$397,000

Note 5—Functional Allocation of Expenses

*For suggested comments in each area of note disclosure above, see example included in comprehensive set of Notes to Financial Statements for exhibit 1, pages 51–54.

EXHIBIT 11—TRADE ASSOCIATION

EXHIBIT 11A

Sample Trade Association

Balance Sheet

June 30, 19X1, and 19X0

	19X1	*19X0*
Assets		
Current assets		
Cash	$ 15,000	$ 24,000
Marketable securities, at market (Note 2)	433,000	330,000
Accounts receivable, net of allowance for doubtful accounts of $6,000 in 19X1 and $8,000 in 19X0	51,000	67,000
Publications inventory, at lower of cost (FIFO) or market	122,000	80,000
Total current assets	621,000	501,000
Long-term investments, at market (Note 2)	240,000	250,000
Fixed assets, at cost, net of accumulated depreciation of $45,000 in 19X1 and $26,000 in 19X0 (Note 1)	66,000	60,000
Other assets	56,000	46,000
Total assets	$983,000	$857,000
Liabilities and Fund Balance		
Current liabilities		
Accounts payable and accrued expenses	$ 96,000	$ 41,000
Deferred membership dues (Note 1)	262,000	245,000
Total current liabilities	358,000	286,000
Fund balance	625,000	571,000
Total liabilities and fund balance	$983,000	$857,000

EXHIBIT 11B

Sample Trade Association

Statement of Revenue, Expenses, and Changes in Fund Balance

Years Ended June 30, 19X1, and 19X0

	19X1	*19X0*
Revenue		
Membership dues (Note 1)	$ 369,000	$ 279,000
Conferences and meetings	642,000	601,000
Publication sales and advertising	285,000	275,000
Special assessments	101,000	95,000
Investment income including net gains on investments	21,000	23,000
Total revenue	1,418,000	1,273,000
Expenses (Note 5)		
Member services	113,000	109,000
Conferences and meetings	335,000	334,000
Technical services	437,000	472,000
Communications, including publication of magazine	122,000	72,000
Total program expenses	1,007,000	987,000
General administration	308,000	219,000
Membership development	49,000	38,000
Total expenses	1,364,000	1,244,000
Excess of revenue over expenses	54,000	29,000
Fund balance, beginning of year	571,000	542,000
Fund balance, end of year	$ 625,000	$ 571,000

EXHIBIT 11C

Sample Trade Association

Statement of Changes in Financial Position

Years Ended June 30, 19X1, and 19X0

	19X1	*19X0*
Funds were provided by		
Excess of revenue over expenses	$ 54,000	$29,000
Add item not requiring funds—depreciation	19,000	12,000
Funds provided by operations	73,000	41,000
Sale of long-term investments	10,000	—
Total funds provided	83,000	41,000
Funds were used for		
Purchase of fixed assets	(25,000)	—
Increase in other assets	(10,000)	(25,000)
Total funds used	(35,000)	(25,000)
Increase in working capital	$ 48,000	$16,000
Analysis of changes in working capital		
Increase (decrease) in current assets		
Cash	$ (9,000)	$17,000
Marketable securities	103,000	21,000
Accounts receivable	(16,000)	(8,000)
Publications inventory	42,000	16,000
	120,000	46,000
Decrease (increase) in current liabilities		
Accounts payable and accrued expenses	(55,000)	(17,000)
Deferred membership dues	(17,000)	(13,000)
	(72,000)	(30,000)
	$ 48,000	$16,000

EXHIBIT 11D

Sample Trade Association

Notes to Financial Statements*

June 30, 19X1, and 19X0

Note 1—Summary of Significant Accounting Policies

Note 2—Investments

Note 3—Pension Plan

Note 4—Lease Agreements/Commitments

Note 5—Functional Allocation of Expenses

*For suggested comments in each area of note disclosure above, see example included in comprehensive set of Notes to Financial Statements for exhibit 1, pages 51–54.

EXHIBIT 12—UNION

EXHIBIT 12A

Sample Union

Balance Sheet

December 31, 19X1

(With Comparative Totals for 19X0)

	General Fund (Undesignated)	*Strike Insurance Fund (Designated)*	*December 31, 19X1 Total*	*December 31, 19X0 Total*
Assets				
Current assets				
Cash (including savings accounts of $2,100,000 and $1,050,000) (Note 3)	$ 650,800	$ 1,710,000	$ 2,360,800	$ 1,238,100
Investments at market	491,800	9,054,200	9,546,000	9,640,400
Per capita dues receivable	51,800	133,200	185,000	189,500
Accrued interest receivable	1,800	210,700	212,500	214,600
Loans to affiliated organizations (Note 4)	21,400	—	21,400	27,300
Accounts receivable (less allowance for doubtful accounts of $2,300 and $2,500)	67,900	—	67,900	68,900
Prepaid expenses	74,900	—	74,900	71,500
Total current assets	1,360,400	11,108,100	12,468,500	11,450,300

Property, furniture, and equipment at cost (Note 1)				
Land	678,400	—	678,400	678,400
Buildings (net of accumulated depreciation of $743,500 and $675,600)	1,973,400	—	1,973,400	1,515,500
Furniture and equipment (net of accumulated depreciation of $314,800 and $278,200)	50,800	—	50,800	87,400
Total property, furniture, and equipment	2,702,600	—	2,702,600	2,281,300
Total assets	$4,063,000	$11,108,100	$15,171,100	$13,731,600
Liabilities and Fund Balances				
Current liabilities				
Accounts payable	$ 337,600	—	$ 337,600	$ 423,100
Notes payable	13,100	—	13,100	19,600
Affiliation dues payable	48,800	—	48,800	49,600
Accrued salaries	31,500	—	31,500	33,000
Payroll taxes and employee deductions payable	89,300	—	89,300	90,400
Total current liabilities	520,300	—	520,300	615,700
Fund balances	3,542,700	$11,108,100	14,650,800	13,115,900
Total liabilities and fund balances	$4,063,000	$11,108,100	$15,171,100	$13,731,600

EXHIBIT 12B

Sample Union

Statement of Revenue, Expense, and Changes in Fund Balances

Year Ended December 31, 19X1
(With Comparative Totals for 19X0)

	General Fund (Undesignated)	*Strike Insurance Fund (Designated)*	*December 31, 19X1 Total*	*December 31, 19X0 Total*
Revenue				
Per capita dues (Note 2)	$9,385,500	$ 3,532,300	$12,917,800	$13,219,800
Initiation fees	24,100	—	24,100	22,800
Sales of organizational supplies	26,700	—	26,700	17,900
Rental income	216,300	—	216,300	216,100
Administrative fees—apprentice training	11,800	—	11,800	12,100
Interest income	28,100	609,000	637,100	644,100
Total revenue	9,692,500	4,141,300	13,833,800	14,132,800

Expense (Note 6)				
Program services				
Strike assistance to local unions	877,900	2,630,500	3,508,400	3,345,600
Constitutional convention	154,600	—	154,600	132,800
Field office services				
Organization	2,054,000	—	2,054,000	2,106,500
Negotiation	2,156,700	—	2,156,700	2,212,000
Grievance	924,300	—	924,300	947,900
Total program services	6,167,500	2,630,500	8,798,000	8,744,800
Administrative and general	3,537,700	57,600	3,595,300	1,425,200
Net (gains) losses on investments	(94,400)	—	(94,400)	2,062,800
Total expense	9,610,800	2,688,100	12,298,900	12,232,800
Excess of revenue over expense	81,700	1,453,200	1,534,900	1,900,000
Fund balances, beginning of year	3,461,000	9,654,900	13,115,900	11,215,900
Fund balances, end of year	$3,542,700	$11,108,100	$14,650,800	$13,115,900

EXHIBIT 12C

Sample Union

Statement of Changes in Financial Position

Year Ended December 31, 19X1

(With Comparative Totals for 19X0)

	General Fund (Undesignated)	*Strike Insurance Fund (Designated)*	*December 31, 19X1 Total*	*December 31, 19X0 Total*
Sources of working capital				
Excess of revenue over expense	$ 81,700	$1,453,200	$1,534,900	$1,900,000
Add charges not affecting working capital				
Depreciation	104,500	—	104,500	100,300
Working capital provided	186,200	1,453,200	1,639,400	2,000,300
Use of working capital				
Purchase of property, furniture, and equipment	525,800	—	525,800	352,000
Increase (decrease) in working capital	$(339,600)	$1,453,200	$1,113,600	$1,648,300

Changes in working capital				
Increase (decrease) in current assets				
Cash	$(413,900)	$1,536,600	$1,122,700	$ 186,300
Investments	(15,900)	(78,500)	(94,400)	1,425,200
Per capita dues receivable	(1,300)	(3,200)	(4,500)	(2,300)
Accrued interest receivable	(400)	(1,700)	(2,100)	(1,200)
Loans to affiliated organizations	(5,900)	—	(5,900)	(2,600)
Accounts receivable	(1,000)	—	(1,000)	(100)
Prepaid expenses	3,400	—	3,400	2,900
	(435,000)	1,453,200	1,018,200	1,608,200
Increase (decrease) in current liabilities				
Accounts payable	(85,500)	—	(85,500)	(32,200)
Notes payable	(6,500)	—	(6,500)	(6,500)
Affiliation dues payable	(800)	—	(800)	(200)
Accrued salaries	(1,500)	—	(1,500)	(800)
Payroll taxes and employee deductions payable	(1,100)	—	(1,100)	(400)
	(95,400)	—	(95,400)	(40,100)
Increase (decrease) in working capital	$(339,600)	$1,453,200	$1,113,600	$1,648,300

EXHIBIT 12D

Sample Union

Notes to Financial Statements*

December 31, 19X1, and 19X0

Note 1—Summary of Significant Accounting Policies

Note 2—Strike Insurance Fund

In accordance with the provisions of the Union Constitution, 27 percent of the per capita dues paid to the Union are designated for the Strike Insurance Fund. The fund may be distributed for strike relief at the discretion of the Union Executive Board. No charges may be made against the fund for administrative expenses.

Note 3—Pledged Assets and Contingent Liabilities

The Union is contingently liable as guarantor of a loan of $15,000 to an affiliated local. In connection with the guarantee, a savings account, having a balance of $20,000, is pledged as collateral for the loan.

Note 4—Loans to Affiliated Organizations

The loans to affiliated organizations represent short-term loans to local unions at current interest rates. All such loans are expected to be collected within one year.

Note 5—Pension Plan

Note 6—Functional Allocation of Expenses

*For suggested comments in each area of note disclosure above, see example included in comprehensive set of Notes to Financial Statements for exhibit 1, pages 51–54.

EXHIBIT 13A

Sample Zoological and Botanical Society

Balance Sheet

December 31, 19X1

	Operating Funds	*Plant Fund*	*Endowment Funds*	*Total All Funds*
Assets				
Cash	$ 257,000	$ 20,000	$ 50,000	$ 327,000
Accounts receivable, less allowance for doubtful receivables of $18,000	125,000	—	—	125,000
Pledges receivable, less allowance for doubtful pledges of $95,000	520,000	120,000	—	640,000
Inventories, at lower of cost (FIFO) or market	330,000	—	—	330,000
Investments (Note 2)	7,800,000	3,000,000	2,800,000	13,600,000
Land, buildings, and equipment, at cost or fair value at date of gift, less accumulated depreciation of $10,500,000 (Note 3)	—	23,000,000	—	23,000,000
Other assets	180,000	—	—	180,000
Collections (Note 9)	—	—	—	—
Total assets	$9,212,000	$26,140,000	$2,850,000	$38,202,000
Liabilities and Fund Balances				
Accounts payable and accrued expenses	$ 350,000	$ 225,000	—	$ 575,000
Deferred amounts (Note 6)				
Unrestricted	50,000	—	—	50,000
Restricted	1,600,000	2,915,000	—	4,515,000
Long-term debt (Note 4)	—	900,000	—	900,000
Total liabilities	2,000,000	4,040,000	—	6,040,000
Fund balances				
Unrestricted				
Designated by the governing board for long-term investment	6,200,000	—	—	6,200,000
Undesignated	1,012,000	—	—	1,012,000
	7,212,000	—	—	7,212,000
Restricted—nonexpendable	—	—	$2,850,000	2,850,000
Net investment in plant	—	22,100,000	—	22,100,000
Total fund balances	7,212,000	22,100,000	2,850,000	32,162,000
Total liabilities and fund balances	$9,212,000	$26,140,000	$2,850,000	$38,202,000

EXHIBIT 13B

Sample Zoological and Botanical Society

Statement of Support and Revenue, Expenses, Capital Additions, and Changes in Fund Balances

Year Ended December 31, 19X1

	Operating Funds			*Plant*	*Endowment*	*Total*
	Unrestricted	*Restricted*	*Total*	*Funds*	*Funds*	*All Funds*
Support and revenue						
Contributions and bequests	$ 550,000	$1,045,000	$1,595,000	—	—	$ 1,595,000
Fees and grants from governmental agencies	—	1,200,000	1,200,000	—	—	1,200,000
Admission charges	1,300,000	—	1,300,000	—	—	1,300,000
Membership dues	350,000	—	350,000	—	—	350,000
Endowment and other investment income	420,000	90,000	510,000	—	—	510,000
Net gain realized on investments	180,000	15,000	195,000	—	—	195,000
Auxiliary activities	3,000,000	—	3,000,000	—	—	3,000,000
Total support and revenue	5,800,000	2,350,000	8,150,000	—	—	8,150,000
Expenses						
Program services						
Animal collections and exhibits	2,742,000	1,825,000	4,567,000	$ 440,000	—	5,007,000
Educational activities	350,000	135,000	485,000	42,000	—	527,000
Conservation and public service	60,000	90,000	150,000	14,000	—	164,000
Research activities	220,000	300,000	520,000	50,000	—	570,000
Membership activities	78,000	—	78,000	6,000	—	84,000
Auxiliary activities	1,800,000	—	1,800,000	216,000	—	2,016,000
Total program services	5,250,000	2,350,000	7,600,000	768,000	—	8,368,000

Supporting services						
General administration	530,000	—	530,000	24,000	—	554,000
Fund raising	80,000	—	80,000	8,000	—	88,000
Total supporting services	610,000	—	610,000	32,000	—	642,000
Total expenses	5,860,000	2,350,000	8,210,000	800,000	—	9,010,000
Excess (deficiency) of support and revenue over expenses before capital additions	(60,000)	—	(60,000)	(800,000)	—	(860,000)
Capital additions						
Contributions and bequests	—	—	—	1,030,000	$ 20,000	1,050,000
Investment income	—	—	—	150,000	—	150,000
Net gain realized on investments	—	—	—	100,000	110,000	210,000
Total capital additions	—	—	—	1,280,000	130,000	1,410,000
Excess (deficiency) of support and revenue over expenses after capital additions	(60,000)	—	(60,000)	480,000	130,000	550,000
Fund balances at beginning of year	7,428,000	—	7,428,000	21,384,000	2,800,000	31,612,000
Transfers						
Equipment acquisitions and principal debt service payments	(236,000)	—	(236,000)	236,000	—	—
Realized gains on endowment funds utilized	80,000	—	80,000	—	(80,000)	—
Fund balances at end of year	$7,212,000	—	$7,212,000	$22,100,000	$2,850,000	$32,162,000

EXHIBIT 13C

Sample Zoological and Botanical Society

Statement of Changes in Financial Position

Year Ended December 31, 19X1

	Operating Funds	*Plant Fund*	*Endowment Funds*	*Total All Funds*
Resources provided				
Excess (deficiency) of support and revenue over expenses before capital additions	$ (60,000)	$ (800,000)	—	$ (860,000)
Capital additions				
Contributions and bequests	—	1,030,000	$ 20,000	1,050,000
Investment income	—	150,000	—	150,000
Net gain realized on investments	—	100,000	110,000	210,000
Excess (deficiency) of support and revenue over expenses after capital additions	(60,000)	480,000	130,000	550,000
Items that do not use (provide) resources				
Provision for depreciation	—	800,000	—	800,000
Net gain realized on investments	(195,000)	(100,000)	(110,000)	(405,000)
Issuance of long-term debt	—	900,000	—	900,000
Increase in deferred amounts	200,000	350,000	—	550,000
Proceeds from sales of investments	3,200,000	1,270,000	900,000	5,370,000
Total resources provided	3,145,000	3,700,000	920,000	7,765,000
Resources used				
Purchases of building and equipment	—	1,480,000	—	1,480,000
Reduction of long-term debt	—	36,000	—	36,000
Purchases of investments	2,861,000	2,372,000	848,000	6,081,000
Increase in accounts and pledges receivable	80,000	30,000	—	110,000
Increase in inventories	8,000	—	—	8,000
Decrease in accounts payable and accrued expenses	10,000	20,000	—	30,000
Total resources used	2,959,000	3,938,000	848,000	7,745,000
Transfers				
Equipment acquisitions and principal debt service payments	(236,000)	236,000	—	—
Realized gains on endowment funds utilized	80,000	—	(80,000)	—
Total transfers	(156,000)	236,000	(80,000)	—
Increase (decrease) in cash	$ 30,000	$ (2,000)	$ (8,000)	$ 20,000

EXHIBIT 13D

Sample Zoological and Botanical Society

Notes to Financial Statements*

December 31, 19X1

Note 1—Summary of Significant Accounting Policies

Note 2—Investments

Note 3—Plant Assets and Depreciation

Note 4—Long-Term Debt

Note 5—Pension Plan

Note 6—Changes in Deferred Restricted Amounts

Note 7—Functional Allocation of Expenses

Note 8—Commitments

Note 9—Collections

The note should disclose the following:

a. Capitalization basis or a statement that collections are not capitalized.

b. Policy on accounting for current year's purchased and donated collections.

c. The nature and the cost, or contributed value, of current year accessions and the nature of and proceeds from deaccessions.

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*For suggested comments in each area of note disclosure above, see example included in comprehensive set of Notes to Financial Statements for exhibit 1, pages 51–54.