Donald and Virginia Sherwood Trust

Financial Statement Guidelines for Applicants

In an effort to make financial reporting more transparent and understandable, the Sherwood Trust has worked closely with representatives from the nonprofit and accounting communities to develop financial statement guidelines for applicants. These guidelines should be helpful in making financial reports more understandable to all users, including staff, board members, friends, donors, and grant makers.

The guidelines are not intended to replace Generally Accepted Accounting Principles (GAAP). Overall, they are consistent with GAAP, but do cite preferences for certain formats and require additional disclosures in a few instances. For most organizations, implementing the financial statement guidelines will simply reflect a change in financial statement format rather than substance.

These guidelines became effective for grant proposals in excess of $25,000 submitted to the Sherwood Trust in 2010. Therefore, grant applicants should have implemented the guidelines for fiscal years beginning on or after January 1, 2009. Restatement of financial statements using these guidelines is not necessary for fiscal years ending prior to December 31, 2009.

CHECKLIST FOR THE STATEMENT OF FINANCIAL POSITION (OR BALANCE SHEET)

_____ 1. The Statement of Financial Position (or Balance Sheet) should be comparative and include at least the last two fiscal years.

_____ 2. Information about liquidity should be provided by one or both of the following:

   a. classifying assets and liabilities as current and non-current (see Format A on p. 5-6) and/or
   b. listing assets according to their nearness of conversion to cash and listing liabilities according to their nearness of maturity and resulting use of cash (see Format B on p. 7). In other words, assets should be listed in order of decreasing liquidity and liabilities in order of increasing maturity.

_____ 3. Cash and cash equivalents available for use in current operations should be shown on a separate line. Externally-restricted and board-designated cash & cash equivalents not available for operating use should be shown separately.

_____ 4. Investments with readily determined market values should be recorded on the Statement of Financial Position at fair market values, with any unrealized gains or losses reported in the Statement of Activities.

_____ 5. Material pledges or grants receivable should be recorded and netted against an estimated uncollectible amount, which should be disclosed separately on the Statement of Financial Position or in the notes to the financial statements. Although required by GAAP, recording long-term pledges or grants receivable at discounted present values is optional under these guidelines.

_____ 6. Property and equipment should be netted against accumulated depreciation, which should be disclosed separately on the Statement of Financial Position or in notes to the financial statements.

_____ 7. Net assets (or fund balance) should be classified as unrestricted, temporarily restricted and permanently restricted.

_____ 8. Unrestricted net assets should be further segregated among amounts
(a) available for current operations
(b) designated for certain purposes by the board (e.g. building reserve, quasi-endowment), and
(c) invested in land, building and equipment (net of related debt) and invested in inventory/supplies, if significant (net of related liabilities).

_____ 9. For temporarily restricted net assets, the nature of the restrictions should be described in a note to the financial statements. (See Note F on page 14 for an example.)

_____ 10. The nature of permanently-restricted net assets should be described in a note to the financial statements. For endowment funds, disclosure should be made of the types of investments, the nature of restrictions/designations, current value vs. original principal, and a summary of any spending policy and external management costs. (See Note G on page 14 for an example.)

CHECKLIST FOR THE STATEMENT OF ACTIVITIES

_____ 1. The Statement of Activities should be comparative and include at least the last two fiscal years.

_____ 2. Changes in unrestricted, temporarily restricted and permanently restricted net assets should be shown separately.

_____ 3. Changes in unrestricted net assets should be further broken down into the following sections:
   a. Operating activities
      i. External Support (see #4 below)
      ii. Revenue (fees, memberships, sales, etc.)
      iii. Expenses (see #5 below)
   b. Non-operating activities (see #6 below)

_____ 4. External support for operating activities from contributions and grants should be further broken down by major source, such as type of donor (e.g. individuals, foundations, corporations, government) and/or major fundraising program or event (e.g. gala, memorials).

_____ 5. Expenses should be divided into major natural categories, similar to the ones shown below. This can be done on the Statement of Activities or the Statement of Functional Expenses (see #6 below). Depreciation expense should be shown on a separate line.
   a. Personnel (salaries, wages, benefits, payroll taxes, independent contractors, etc.)

b. Occupancy (rent, utilities, maintenance, insurance, interest, etc.)
c. General & Administrative (telephone, office supplies, dues, conferences, travel, postage, etc.)
d. Marketing & Promotion (printing, advertising etc.)
e. Program Materials & Other Costs (e.g. direct program expenses not already included in another category)
f. Depreciation

_____ 6. A Statement of Functional Expenses should be prepared for each year presented (see page 10 for an example). Such a statement provides valuable information about service efforts and how expenses are connected with accomplishments. It should show naturally-classified expenses allocated among programs and support services. Only programs that are significant or easily separable need to be specifically identified. Support services should be further allocated between fund-raising and general/administrative expenses. Expenses should be allocated where reasonable estimations can be made in a practical manner.

_____ 7. Non-operating activities should be shown separately and include those transactions that are unusual, non-recurring, extraordinary, incidental, or peripheral to normal operations. Examples may include restricted funds released for capital purposes, unrealized gains/losses on unrestricted investments, realized gains/losses on disposal of assets, and endowment return in excess of spending policy.

_____ 8. A note to the financial statements should breakdown support between unrestricted and temporarily restricted amounts by purpose (operating vs. capital) and by source (such as type of donor) or by major fund-raising program or event. (See Note I on page 15 for an example.)

_____ 9. In order to allow for trend analysis, a separate schedule should be prepared showing operating activities (external support, revenues, and expenses) for the past five fiscal years or the number of years with comparable data, whichever is less. (See the illustrative Multi-Year Summary of Operating Activities on page 11.)

CHECKLIST FOR NOTES TO THE FINANCIAL STATEMENTS

_____ 1. The first note to the financial statements should include the following information: form of organization, when the organization was formed, where it is located, what its purpose is, who it serves, tax status, IRS classification, and related party transactions. (See Note A on page 13 for more information.)

_____ 2. The second note should disclose the significant accounting policies used, such as the basis of accounting and how assets are valued on the Statement of Financial Position. (See Note B on page 13 for more information.)

_____ 3. Note disclosure should be provided showing the composition of investments, the related cost and market values and any unrealized gains and losses. (See Note C on page 13 for an example.)

_____ 4. If not disclosed on the Statement of Financial Position, then note disclosure should be provided showing the amount of pledges and grants to be received within one year, the amount to be received after one year, and the amount estimated to be uncollectible. (See Note D on page 14 for an example.)

_____ 5. If not disclosed on the Statement of Financial Position, then note disclosure should be provided showing the composition of property and equipment and the related accumulated depreciation amounts. Also included should be the method of depreciation (straight-line, etc.) and range of lives assigned for each type of asset. (See Note E on page 14 for an example.)

_____ 6. Principal payments required for long-term debt over each of the next five years should be disclosed in a note. In addition, for any material leases (e.g. rental of real estate), the remaining lease term, payment amount, and payment frequency should be disclosed in a note. (See Note H on page 15 for an example.)

_____ 7. For temporarily restricted net assets, the nature of the restrictions should be described in a note to the financial statements. (See Note F on page 14 for an example.)

_____ 8. The nature of permanently-restricted net assets should be described in a note to the financial statements. For endowment funds, disclosure should be made of the types of investments, the nature of restrictions/designations, current value vs. original principal, and a summary of any spending policy and external management costs. (See Note G on page 15 for example.)

_____ 9. A note to the financial statements should breakdown support between unrestricted and temporarily restricted amounts by purpose (operating vs. capital) and by source (such as type of donor) or by major fund-raising program or event. (See Note I on page 15 for an example.)

OPTIONAL BUT ENCOURAGED DISCLOSURES

_____ **STATEMENT OF CASH FLOWS**

Although useful and informative, preparation of a Statement of Cash Flows is optional. (See illustrative Statement of Cash Flows on p. 12.) If a Statement of Cash Flows is not prepared, disclosure in the notes of capital expenditures and long-term debt incurred during the last two years is strongly encouraged.

ILLUSTRATIVE FINANCIAL STATEMENTS

The following financial statements are meant to illustrate the format and disclosures. A particular organization's financial statements could vary from these examples, depending on the nature and complexity of that organization's resources and programs.

Example Nonprofit			**Comments & Explanations**
Statement of Financial Position (or Balance Sheet)			
FORMAT A – Using Current & Non-Current Designations			
June 30, 2011 and 2010			
(amounts in thousands of dollars)			
	2011	**2010**	
ASSETS			
Current Assets:			# 1
Cash & Cash Equivalents Available for Operations	8	4	# 2
Short-term Investments [Note C]	30	11	# 3
Accounts & Interest Receivable (net)	22	14	# 4
Pledges & Grants Receivable (net) [Note D]	409	447	# 5
Inventory	35	30	# 6
Prepaid Expenses	13	10	# 7
Other Current Assets	10	8	
Total Current Assets	527	524	
Non-Current Assets:			# 1
Pledges & Grants Receivable (net) [Note D]	11	32	# 5
Property & Equipment (net) [Note E]	1,904	1,882	# 8
Temp. Restricted Cash & Investments [Notes C & F]	131	272	#14
Endowment Investments [Notes C & G]	378	376	#15
Other Non-Current Assets	14	6	
Total Non-Current Assets	2,438	2,568	
TOTAL ASSETS	2,965	3,092	
LIABILITIES			
Current Liabilities:			# 1
Accounts Payable & Accrued Liabilities	31	46	# 9
Notes Payable (current portion) [Note H]	40	55	#10
Funds Held for Others	12	14	#11
Other Current Liabilities	13	15	
Total Current Liabilities	96	130	
Non-Current Liabilities:			# 1
Notes Payable [Note H]	438	464	#10
Other Non-Current Liabilities	11	24	
Total Non-Current Liabilities	449	488	
TOTAL LIABILITIES	545	618	

Example Nonprofit Statement of Financial Position (or Balance Sheet) – CONTINUED *FORMAT A – Using Current & Non-Current Designations* June 30, 2011 and 2010 (amounts in thousands of dollars)			Comments & Explanations
	2011	**2010**	
NET ASSETS			#12
Unrestricted:			
Undesignated (available for operations)	475	453	
Designated by Board For:			
Building Replacement Reserve	10	10	#13
Endowment	318	316	
Expended for Property & Equipment (net of debt)	1,426	1,363	
Total Unrestricted	2,229	2,142	
Temporarily Restricted [Note F]	131	272	#14
Permanently Restricted [Note G]	60	60	#15
TOTAL NET ASSETS	2,420	2,474	#12
TOTAL NET ASSETS & LIABILITIES	2,965	3,092	

Example Nonprofit **Statement of Financial Position (or Balance Sheet)** ***FORMAT B – Sequencing Assets/Liabilities by Liquidity*** **June 30, 2011 and 2010** **(amounts in thousands of dollars)**	**2011**	**2010**	**Comments & Explanations**
ASSETS			# 1
Cash & Cash Equivalents Available for Operations	8	4	# 2
Short-term Investments [Note C]	30	11	# 3
Accounts & Interest Receivable (net)	22	14	# 4
Pledges & Grants Receivable (net) [Note D]	420	479	# 5
Inventory	35	30	# 6
Prepaid Expenses	13	10	# 7
Property & Equipment (net) [Note E]	1,904	1,882	# 8
Temp. Restricted Cash & Investments [Notes C & F]	131	272	#14
Endowment Investments [Notes C & G]	378	376	#15
Other Assets	24	14	
TOTAL ASSETS	2,965	3,092	
LIABILITIES			
Accounts Payable & Accrued Liabilities	31	46	# 9
Notes Payable [Note H]	478	519	#10
Funds Held for Others	12	14	#11
Other Liabilities	24	39	
TOTAL LIABILITIES	545	618	
NET ASSETS			#12
Unrestricted:			
Undesignated (available for operations)	475	453	
Designated by Board For:			
Building Replacement Reserve	10	10	#13
Endowment	318	316	
Expended for Property/Equipment (net of debt)	1,426	1,363	
Total Unrestricted	2,229	2,142	
Temporarily Restricted [Note F]	131	272	#14
Permanently Restricted [Note G]	60	60	#15
TOTAL NET ASSETS	2,420	2,474	#12
TOTAL NET ASSETS & LIABILITIES	2,965	3,092	

Alternatively, an organization may present a Statement of Financial Position in a format that has separate columns for unrestricted, temporarily restricted, permanently restricted, and total.

Example Nonprofit Statement of Activities - Page 1 Years Ended June 30, 2011 and 2010 (amounts in thousands of dollars)			Comments & Explanations
	2011	**2010**	
CHANGES IN UNRESTRICTED NET ASSETS			
OPERATING ACTIVITIES			
External Support (Contributions & grants)			#16
Individuals	538	419	
Foundations	248	323	
Corporations	89	71	
Government	101	113	
Total External Support	976	926	
Revenues			#17
Fee & Service Income	451	405	
Membership Income	82	77	
Endowment Return - Operations (per spending policy)	18	19	
Investment Income	5	6	
Other Income	28	30	
Total Revenues	584	537	
Total External Support & Revenues	1,560	1,463	
Expenses			#18
Personnel	984	940	
Occupancy	181	177	
General & Administrative	164	160	
Marketing & Promotion	115	130	
Program Materials & Other Costs	45	34	
Depreciation	61	57	
Total Expenses	1,550	1,498	
Change in Unrest. Net Assets -- Oper. Activities	10	(35)	
NON-OPERATING ACTIVITIES			#19
Unrealized Gain (Loss) on Unrestricted Investments	2	(1)	
Realized Gain (Loss) on Disposal of Assets	1	1	
Endowment Return in Excess of Spending Policy	2	5	
Restricted Funds Released for Capital Purposes	68	74	
Loss from Flood		(6)	
Insurance Settlement	4		
Change in Unrest. Net Assets-- Non-Oper. Activities	77	73	
Change in Unrestricted Net Assets	87	38	

Example Nonprofit Statement of Activities - Page 2 Years Ended June 30, 2011 and 2010 (amounts in thousands of dollars)			Comments & Explanations
	2011	2010	
CHANGES IN TEMP. RESTRICTED NET ASSETS			#20
Contributions Received:			
For Operating Purposes	96	298	
For Capital Purposes	62	78	
Net Assets Released from Restrictions:			
For Operating Purposes	(231)	(188)	
For Capital Purposes	(68)	(74)	
Change in Temporarily Restricted Net Assets	(141)	114	
CHANGES IN PERM. RESTRICTED NET ASSETS			#21
Endowment Gift Received		10	
Change in Permanently Restricted Net Assets		10	
CHANGE IN NET ASSETS	(54)	162	

Alternatively, an organization may present a Statement of Activities in a format that has separate columns for unrestricted, temporarily restricted, permanently restricted, and total activities. However, this format can get somewhat unwieldy and make it hard to compare from year-to-year.

Example Nonprofit
Statement of Functional Expenses
Year Ended June 30, 2011
(amounts in thousands of dollars)

	Program Service Expenses				Support Service Expenses			
	Program A	Program B	Other Programs	Total Programs	Fund-Raising	General & Admin.	Total Sup. Serv.	**Total Expenses**
Personnel								
Salaries and Wages	70	119	40	229	69	395	464	693
Benefits	18	30	10	58	18	98	116	174
Payroll Taxes	7	12	4	23	7	39	46	69
Independent Contractors	10			10	5	33	38	48
Total Personnel	105	161	54	320	99	565	664	984
Occupancy								
Rent		32		32				32
Utilities		6	3	9	1	39	40	49
Repairs & Maintenance		4	2	6	3	36	39	45
Insurance		3	2	5	2	18	20	25
Interest					2	28	30	30
Total Occupancy		45	7	52	8	121	129	181
General & Administrative								
Uncoll. Pledges/Grants						6	6	6
Telephone		1		1	2	5	7	8
Office Supplies	2	5	1	8	3	35	38	46
Meetings, Conferences		12		12	14	32	46	58
Dues		2		2	5	7	12	14
Postage	1	2	1	4	4	6	10	14
Travel		1		1	8	9	17	18
Total Gen. & Adm.	3	23	2	28	36	100	136	164
Marketing & Promotion								
Printing	1	10	2	13	60	17	77	90
Advertising					20	5	25	25
Total Mark./ Prom.	1	10	2	13	80	22	102	115
Program Materials, Etc.								
Program Materials	10	17	8	35				35
Other Program Costs	5	3	2	10				10
Total Program Etc.	15	20	10	45				45
Depreciation	1	5	3	9	5	47	52	61
TOTALS	125	264	78	467	228	855	1,083	1,550

A similar table would be prepared for the prior year. This statement is comparable to the one required on IRS Form 990. However, unlike Form 990, it is encouraged that expenses be grouped and sub-totaled by major natural categories.

Example Nonprofit					
Multi-Year Summary of Operating Activities					
Years Ended June 30					
(amounts in thousands of dollars)					
	2011	**2010**	**2009**	**2008**	**2007**
CHANGES IN UNRESTRICTED NET ASSETS					
Operating Activities					
External Support (Contributions & Grants)					
Individuals	538	419	321	290	250
Foundations	248	323	294	354	410
Corporations	89	71	65	63	51
Government	101	113	125	124	129
Total External Support	976	926	805	831	840
Revenues					
Fee & Service Income	451	405	401	412	371
Membership Income	82	77	72	65	60
Endowment Return – Oper. (per spending policy)	18	19	17	16	16
Investment Income	5	6	5	4	4
Other Income	28	30	27	25	30
Total Revenues	584	537	522	522	481
Total External Support & Revenues	1,560	1,463	1,327	1,353	1,321
Expenses					
Personnel	984	940	931	836	825
Occupancy	181	177	175	162	160
General & Administrative	164	160	151	150	145
Marketing & Promotion	115	130	105	102	97
Program Materials & Other Costs	45	34	39	41	39
Depreciation	61	57	48	45	43
Total Expenses	1,550	1,498	1,449	1,336	1,309
Change in Unrestr. Net Assets -- Operating Activities	10	(35)	(122)	17	12

Example Nonprofit Statement of Cash Flows (Optional) Year Ended June 30, 2011 (amounts in thousands)	
CASH FLOW FROM OPERATING ACTIVITIES	
Change in Net Assets	(54)
Adjustments to Reconcile Change in Net Assets to	
Net Cash Provided by Operating Activities:	
Depreciation Expense	61
Realized Gain on Disposal of Equipment	(2)
Unrealized Gain on Short-term Investments	(2)
Unrealized Gain on Endowment Investments	(2)
Endowment Return Reinvested	(2)
Contributions Restricted for Capital Purposes	(62)
Increase in Accounts & Interest Receivable	(8)
Decrease in Pledges & Grants Receivable	59
Increase in Inventory	(5)
Increase in Prepaid Expenses	(3)
Increase in Other Assets	(10)
Decrease in Accounts Payable & Accrued Liabilities	(15)
Decrease in Funds Held for Others	(2)
Decrease in Other Liabilities	(15)
Net Cash Used by Operating Activities	(62)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Property & Equipment	(83)
Proceeds from Disposal of Property & Equipment	2
Purchase of Short-term Investments	(17)
Decrease in Temporarily Restricted Cash & Investments	141
Net Cash Provided by Investing Activities	43
CASH FLOWS FROM FINANCING ACTIVITIES	
Contributions Restricted for Capital Purposes	62
Endowment Return Reinvested	2
Payments on Notes Payable	(41)
Net Cash Provided by Financing Activities	23
Net Increase in Cash & Cash Equivalents	4
Cash & Cash Equivalents at Beginning of Year	4
Cash & Cash Equivalents at End of Year	8
SUPPLEMENTAL DATA:	
Interest Paid	30

A similar Statement of Cash Flows for the previous year would also be prepared. Although the indirect method is illustrated here, the direct method can also be used. If a Statement of Cash Flows is not prepared, disclosure in the notes of any capital expenditures and long-term debt incurred during the last two years is strongly encouraged.

NOTES TO THE FINANCIAL STATEMENTS

Note A – Description of Organization
The first note to the financial statements should include the following information about the nonprofit organization:

1. Form of organization (e.g. nonprofit corporation in Washington State), when the organization was formed, where it is located, what its purpose is, and who it serves.
2. Tax status (if exempt from income tax) and related IRS classification, such as 501(c)(3).
3. Related parties: disclose whether the organization has a right to, or a responsibility for, the operating results of another entity; or is entitled to the net assets or responsible for the debts of another entity. Also disclose any significant subsidies or financial support received from a related party.

Note B – Significant Accounting Policies
If not disclosed elsewhere, the following accounting policies should be described here, if applicable:

1. Basis of accounting (e.g. accrual or modified cash basis).
2. How investments are valued on the Statement of Financial Position.
3. How pledges or grants receivable are valued and under what criteria they are recorded.
4. How inventories are valued and what cost flow assumption is used (LIFO, etc.)
5. The method of depreciation (straight-line, etc.) and range of lives assigned for each type of depreciable asset.

Note C – Investments
Investments are valued on the Statement of Financial Position at fair value, with any unrealized gains or losses reported in the Statement of Activities.

	6/30/11		**Unreal-ized Gains/ Losses**
Description ($000s)	**Fair Value**	**Cost**	
Money Market Funds	76	76	
Mutual Funds	105	107	2
Federal Treasury & Agency Bonds	212	212	
Corporate Bonds	117	117	
Total Investments	510	512	2
Unrestricted or undesignated	30		
Temporarily-restricted	102		
Restricted or designated for endowment	378		
Total Investments	510		

A similar table would be prepared for the prior year.

Note D – Pledges & Grants Receivable

Pledges and grants receivable are recorded at net realizable value, which is the promised amount less an estimate for uncollectible amounts.

Description ($000s)	6/30/11	6/30/10
Amounts to be paid within one year	413	451
Amounts to be paid after one year	13	33
Less: Amounts estimated to be uncollectible	-6	-5
Total pledges & grants receivable at net realizable value	420	479

Note E – Property & Equipment

Purchased property and equipment are recorded at cost less accumulated depreciation. Donated property and equipment are recorded at fair value at the time of donation. Depreciation is calculated using the straight-line method. Lives assigned range from 20-50 years for land improvements, 3-20 years for equipment, and 20-70 years for buildings.

Description ($000s)	6/30/11	6/30/10
Land	200	200
Land Improvements	145	145
Less Accum. Depreciation – Land Improvements	-25	-20
Buildings	2,006	2,006
Less Accum. Depreciation – Buildings	-750	-700
Equipment & Furniture	422	340
Less Accum. Depreciation – Equipment & Furniture	-94	-89
Total Property & Equipment	1,904	1,882

Note F – Temporarily Restricted Cash and Investments

Contributions have been received with external restrictions on when or how they can be used. The balance of such funds and the related restrictions are shown below:

Description ($000s)	6/30/11	6/30/10
Cash and Equivalents	29	32
Investments	102	240
Total Temporarily Restricted Assets	131	272
Funds restricted for capital purposes	18	24
Fund restricted for future periods	11	32
Funds restricted for Program A operations	102	216
Total Temporarily Restricted Net Assets	131	272

Note G – Endowment & Permanently-Restricted Net Assets

Description ($000s)	2011	2010
Beginning market value	376	361
Additional assets contributed	0	10
Total investment return	21	25
Less: withdrawals for operating use (per spending policy)	-18	-19
Less: withdrawal for investment management fees	-1	-1
Ending market value	378	376
Accumulated reinvested endowment return	7	5
Internally-designated as endowment principal	311	311
Permanently-restricted as endowment principal	60	60
Total Endowment Net Assets	378	376

This note should also disclose the following:

1. Whether the endowment is governed pursuant to a written policy and who, under the policy, is responsible for endowment oversight.
2. Details as to the policy on withdrawals for operating support. Are withdrawals pursuant to a spending rate formula? If so, what is the formula and when was it instituted?
3. The permanently restricted amount and the relationship between current market and the permanently restricted amount.
4. Particularly if the endowment fund is externally managed, the expense incurred to manage the endowment should be disclosed (in dollars and as a percent of the endowment's market value).

Note H – Notes Payable

Description ($000s)	6/30/11	6/30/10
Notes Payable	40	55
Mortgage Payable	438	464
Total	478	519
Principal maturities of notes and mortgage payables:		
Year-ended June 30, 2012	44	
Year-ended June 30, 2013	47	
Year-ended June 30, 2014	50	
Year-ended June 30, 2015	54	
Year-ended June 30, 2016	60	
Thereafter	223	
Total	478	

If the organization has entered into material lease agreements (e.g. rental of real estate), the following should be disclosed: the remaining lease term, payment amount, and payment frequency.

Note I – Source of Support (Contributions and Grants)

For Year-Ended June 30, 2011 (amounts $000s)								
Temporarily Restricted Contributions						Unrestricted Contributions		
	Column 1	*Plus* Column 2	*Minus* Column 3	*Equals* Column 4		Column 5	*Plus* Column 6	*Equals* Column 7
	Balance 6/30/10	Received in 2011	Released to Unrestr. in 2011	Balance 6/30/11		Temp. Rest. Released in 2011	Unrestr. Received in 2011	TOTAL Support for 2011
For Operations								
Individuals	108	40	118	30		118	420	538
Foundations	132	38	108	62		108	140	248
Corporations	2	6	5	3		5	84	89
Government	6	12		18			101	101
Total For Operations	248	96	231	113		231	745	976
For Capital								
Foundations	24		6	18		6		6
Government		62	62			62		62
Total For Capital	24	62	68	18		68		68
TOTAL	272	158	299	131		299	745	1,044

A similar table would be prepared for the prior year.

COMMENTS AND EXPLANATIONS

The following discussion provides more background and detail about certain line items in the illustrative financial statements.

Comment # 1 – Disclosure of Liquidity

Organizations have the option of disclosing liquidity by classifying assets and liabilities as current and non-current (Format A); or by listing assets according to their nearness of conversion to cash and liabilities according to their nearness to maturity and resulting use of cash (Format B). In either case, assets are listed in order of decreasing liquidity and liabilities are listed in the order of increasing maturity.

The following discussion is for organizations which choose to distinguish between current and non-current assets and liabilities (Format A).

Current assets include cash and other assets expected to be converted into cash, sold or consumed within one year of the balance sheet date. An example of an asset to be converted into cash is a receivable. An example of an asset to be sold is inventory. Examples of assets to be consumed are supplies or prepaid insurance. Current assets should be listed in the order of decreasing liquidity (i.e. the most liquid asset is listed first, and so on). By definition, current assets are those which can be used in the operations of the organization within the next year. Current assets do not include assets which are: (1) externally-restricted as to withdrawal or use for other than current operations, or (2) board-designated for non-operating purposes (e.g. acquisition or construction of buildings, or segregated for payment of long-term debts).

Non-current assets are obviously those that are not considered current. Non-current assets would include restricted funds (cash, investments or other assets) that are not available for current operations.

Current liabilities are obligations that an organization expects to pay through either the use of current assets or the creation of other current liabilities. Current liabilities also include unearned or deferred revenues to be earned within the next year and the portion of long-term debt to be paid within the next year. Current liabilities should be listed in the order of increasing maturity (i.e. those with the closest due dates should be listed first, etc.)

Non-current liabilities are obviously those that are not considered current. They include obligations due beyond a year that are not expected to be paid with current assets.

Comment # 2 – Cash and Cash Equivalents

Cash and cash equivalents are liquid resources available for operating purposes. Restricted cash and cash equivalents should be shown separately or as non-current assets.

Cash consists of the following: currency/coin; funds on deposit at the bank (e.g. checking and savings accounts that have no withdrawal restrictions); petty cash funds; and undeposited money orders, certified checks, cashier’s checks, personal checks and bank drafts.

Cash equivalents are short-term, highly liquid investments that have original maturities of three months or less. Since these investments can be turned into cash easily and quickly without loss of value, they are considered equivalents to cash. Examples include the following (assuming original maturities of 3 months or less): Treasury bills, commercial paper, money market funds, and bank certificates of deposit (CDs).

Cash and cash equivalents with external-restrictions or board-designations on when or how they can be used should be shown separately from operating cash. For example, if cash is externally-restricted or board-designated for construction of a new building, these funds (even though liquid) should be shown separately from operating cash. If the terms of a loan stipulate that a minimum amount of cash be maintained for additional protection to the lender, these reserve funds are not available for current operations and therefore should not be included in cash and cash equivalents.

NOTE: Only external donors can restrict funds. When an organization sets aside its own funds, these funds are called "board-designated" or "board-allocated" but not restricted.

Comment # 3 – Short-term Investments

Short-term investments are those intended to be sold and the proceeds used for current operating purposes. Short-term investments not available for use in current operations should be shown separately. Examples of short-term investments include: money market funds with maturities greater than three months (CDs, commercial paper, etc.); corporate or government notes and bonds; common or preferred stocks, etc. Investments that are marketable should generally be valued on the Statement of Financial Position at fair market value, with any unrealized gains or losses reported in the Statement of Activities.

Comment # 4 – Accounts and Interest Receivable

Receivables should be reported at net realizable value, which is the amount of cash expected to be collected. The estimated amount that will not be collected (allowance for uncollectibles) should netted against the gross receivable amount and either disclosed on the Statement of Financial Position or in the notes to financial statements.

Comment # 5 – Pledges and Grants Receivable

Material pledges and grants receivable to be collected within one year should be reported at net realizable value, which is the amount of cash expected to be collected. The estimated amount that will not be collected (allowance for uncollectibles) should be netted against the gross receivable amount and disclosed either on the Statement of Financial Position or in the notes to financial statements. For receivables scheduled to be collected after one year, the organization can choose to discount the cash flows at present values (required by GAAP) or record them at net realizable value (face value less allowance for uncollectibles).

NOTE: A pledge or grant should only be booked as a receivable if the organization has received a voluntary, non-exchange, irrevocable, unconditional promise from the donor to give and there is evidence of the donor's intent (pledge cards, letters, telephone records,

Comment # 6 – Inventory

Some nonprofit organizations may accumulate materials or supplies that are waiting to be sold or used in delivering services or making a product. Any significant amounts of inventory should be shown separately (at cost) with the related sales and cost of sales disclosed in the Statement of Activities, if material. Inventory does not include office supplies, which should either be shown separately (if material) or lumped in with other assets.

Comment # 7 – Prepaid Expenses

Prepaid expenses and other deferred charges arise when an organization will receive future benefits or services that have already been paid for. As they are "used up," they will be expensed. Common examples include prepaid insurance, rent, advertising, or service/maintenance contracts. If prepaid expenses are not significant, they may be lumped together with other assets.

Comment # 8 – Property & Equipment

This category includes land used by the organization, land improvements (e.g. parking lots, fences), buildings, equipment, vehicles, furniture, etc. Acquired assets are recorded at cost and donated assets are recorded at fair value at the date of contribution. Property held for investment or held for sale should be shown separately as an investment. Accumulated depreciation, which indicates the overall age of assets, should be disclosed either on the face of the Statement of Financial Position or in the notes to the financial statements.

Comment # 9 – Accounts Payable & Accrued Liabilities

Accounts payable amounts are those owed on regular "trade" accounts at the balance sheet date. Accrued liabilities are those expenses that must be accrued in order to be properly divided between accounting periods (e.g. wages, interest).

Comment # 10 – Notes Payable

This category includes the principal balances on promissory notes, loans backed by real estate, and other long-term debt. A note to the financial statements must disclose the principal payments scheduled for long-term debt over each of the next five years. In addition, for any material leases (e.g. rental of real estate), the remaining lease term, payment amount, and payment frequency should be disclosed in a note to the financial statements.

Comment # 11 – Funds Held for Others

Nonprofits often receive funds to be held in trust ("trust funds"). These funds should be classified as liabilities since they do not belong to the nonprofit and must eventually be returned to the owners.

Comment # 12 – Net Assets

Net assets are simply assets netted against liabilities (or the excess of assets over liabilities). Net assets were formerly called fund balance. In the commercial sector, net assets are called net worth, owners' equity, or capital. Net assets represent a residual or abstraction, existing no where except on the financial statement. In a sense, net assets represent a claim against the assets, the portion belonging to the nonprofit after creditors have been paid. Therefore, net assets tell the financial statement reader the amount of resources actually "owned" by the nonprofit. By dividing net assets into some meaningful components, financial statement readers can determine the amount of resources available for use, the amount already spent, and the amount with restrictions as to how or when they can be used. As explained in the following paragraphs, net assets are further broken into three classes: unrestricted, temporarily restricted, and permanently restricted.

Comment # 13 – Unrestricted Net Assets

Unrestricted net assets represent the portion of net assets unencumbered by any external restrictions (made by donors) and therefore can be used freely by the nonprofit. Unrestricted net assets can be further divided into three categories:

(1) *Expended for Property & Equipment (net of related debt)*: This category includes unrestricted resources that have already been spent on property and equipment and

therefore are not available for future expenditure. If inventory or supplies are a significant asset, a separate category of net asset should also be shown for it as well (net of related liabilities).

(2) *Designated by the Board*: Although unrestricted net assets have no external restrictions, the nonprofit's board can designate (or set aside) the funds for certain purposes, such as for a building replacement reserve or endowment. In unusual circumstances, the board can vote to reverse the designation of these funds so that they can be spent for any purpose.

(3) *Undesignated (Available for Operations)*: This final category obviously includes unrestricted net assets that have not been expended for property, equipment, inventory or supplies (category #1) and have not been designated for a certain purpose (category #2). Unrestricted, unexpended, and undesignated net assets are by default available for use in the operations of the organization. This is an important distinction because it indicates how much "buffer" the organization has with which to absorb future operating losses.

Comment # 14 – Temporarily Restricted Net Assets

Temporarily restricted net assets represent those resources that have been donated to the organization with donor-imposed restrictions that can be satisfied by the passage of time (time restriction) or by actions of the nonprofit (purpose restriction).

A time restriction can occur if the donor has not yet paid the promised contribution or the donor specifies that the contribution cannot be used until a certain time. Examples of time restrictions include (1) when a donor gives an unrestricted pledge to donate $1,000 over the next four years, or (2) when a donor gives $1,000 and specifies that it can't be used until two years have passed (e.g. sometimes called a term endowment).

A purpose restriction may be placed by the donor on a contribution to specify how funds must be used. An example is when a donor gives a contribution towards cell phones for battered women in a shelter.

Comment # 15 – Permanently Restricted Net Assets

Permanently restricted net assets represent those resources having donor-restrictions that cannot be removed by the nonprofit. The most common example is an endowment in which the donor specifies that the principal of the gift remain intact forever and the return only be used. Such endowments are often called true, pure, perpetual or permanent endowments. They should be distinguished from term-endowments and quasi-endowments. Term endowments are when the principal can be used after a certain period of time and is thus considered temporarily restricted. Quasi-endowments are when funds are set aside for investment by the nonprofit board (not by an external donor) and therefore are considered unrestricted but board-designated.

Many endowment funds have a "total return" spending policy that uses a formula to determine how much return may be spent. The accounting for endowment returns can be very complicated and thus can't be sufficiently covered in this document. In 2009, Washington State adopted the Uniform Prudent Management of Institutional Funds Act of 2006, which is an update of the previous Act passed in 1972. Organizations should refer to this act for further guidance on endowment accounting.

<u>Comment # 16 – External Support</u>

External support from contributions and grants should be broken down by major source, such as type of donor (e.g. individuals, foundations, corporations, government) and/or major fundraising program or event (e.g. gala, memorials).

<u>Comment # 17 – Revenues</u>

Unlike external support which is received from donors, revenues are increases in net assets resulting from the organization's activities. Revenues should be divided into major natural categories such as income from fees, services, memberships, and sales of inventory. Although investment income would usually be classified as operating revenue, some organizations may classify it as a non-operating activity. Revenues also would include endowment return; but if an endowment spending policy is in place, the portion of total endowment return in excess of the spending policy should be classified as a non-operating activity.

<u>Comment # 18 – Expenses</u>

Expenses should be divided into major natural categories, similar to the ones shown below. This can be done on the Statement of Activities or the Statement of Functional Expenses. Depreciation expense should be shown on a separate line.

1. Personnel (salaries, wages, benefits, payroll taxes, independent contractors, etc.)
2. Occupancy (rent, utilities, maintenance, insurance, interest, etc.)
3. General & Administrative (telephone, office supplies, dues, conferences, travel, postage, etc.)
4. Marketing & Promotion (printing, advertising etc.)
5. Program Materials & Other Costs (e.g. direct program expenses not already included in another category)
6. Depreciation

A Statement of Functional Expenses should be prepared for each year presented (see p. 10 for illustrative example), similar to the statement required on IRS Form 990. However, unlike on Form 990, it is encouraged that expenses be grouped and sub-totaled by major natural categories. Such a statement shows naturally-classified expenses allocated among programs and support services and provides valuable information about service efforts and how expenses are connected with accomplishments. Only programs that are significant or easily separable need to be specifically identified. Support services should be allocated between fund-raising and management/general expenses. Expenses need only be allocated where reasonable estimations can be made in a practical manner.

<u>Comment # 19 – Non-Operating Activities</u>

There is no hard definition of what is considered operating and non-operating. Since these distinctions will differ depending on the nature of the organization, each nonprofit will need to make their own determination of what is operating or not. Generally speaking, non-operating activities include those transactions that are unusual, non-recurring, extraordinary, incidental, or peripheral to normal operations. Examples may include:

1. restricted funds released for capital purposes
2. unrealized gains/losses on unrestricted investments
3. realized gains/losses on disposal of assets
4. endowment return in excess of spending policy
5. losses from a windstorm or flood and the subsequent insurance proceeds

Although investment income would usually be classified as operating revenue, some organizations may classify it as a non-operating activity.

Comment # 20 – Changes in Temporarily Restricted Net Assets

Increases in temporarily restricted net assets represent those resources that have been donated to the organization with donor-imposed time or purpose restrictions.

1. *Time Restrictions* can be satisfied by the passage of time. A time restriction can occur if the donor has not yet paid the promised contribution or the donor specifies that the contribution cannot be used until a certain time. Examples of time restrictions include (1) when a donor gives an unrestricted pledge to donate $1,000 over the next four years, or (2) when a donor gives $1,000 and specifies that it can't be used until two years have passed (e.g. sometimes called a term endowment).
2. *Purpose restrictions* can be satisfied by actions of the nonprofit. A purpose restriction may be placed by the donor on a contribution to specify how funds must be used. An example is when a donor gives a contribution towards cell phones for battered women in a shelter. The nature of purpose restrictions may include geographic location (e.g. to a city or neighborhood), population to be served (e.g. disabled children), anticipated outcome (e.g. fewer teenage pregnancies), or precise use of the gift (e.g. bloodmobile repairs.)

Decreases in temporarily restricted net assets include the amounts that are released from their restrictions. Both increases and decreases in temporarily restricted net assets should be split into amounts for operating purposes and amounts for capital purposes.

Donor-restricted contributions with restrictions that can be met within the same fiscal year may report the contributions as unrestricted provided that the nonprofit does this consistently from period to period and discloses this in its accounting policy.

Comment # 21 – Changes in Permanently Restricted Net Assets

Increases in permanently restricted net assets represent those resources that have been donated to the organization having donor-restrictions that cannot be removed by the nonprofit. The most common example is an endowment in which the donor specifies that the principal of the gift remain intact forever and the income only be used. Such endowments are often called true, pure, perpetual or permanent endowments.

Many endowment funds have a "total return" spending policy that uses a formula to determine how much return may be spent. The accounting for endowment returns can be very complicated and thus can't be sufficiently covered in this document. In 2009, Washington State adopted the Uniform Prudent Management of Institutional Funds Act of 2006, which is an update of the previous Act passed in 1972. Organizations should refer to this act for further guidance on endowment accounting.