

FASB Standards for Nonprofits

Purpose of Financial Statements

958-205-05-3: Primary Purpose of Financial Statements

The primary purpose of financial statements is to provide relevant information to meet the common interests of donors, members, creditors, and others who provide resources to NFPs. Those external users of the financial statements have common interests in assessing both of the following:

- i. The services an NFP provides and its ability to continue to provide those services;
- ii. How managers discharge their stewardship responsibilities and other aspects of their performance;

958-205-05-4: Specific Purpose

- i. The amount and natures of an NFP's assets, liabilities, and net assets
- ii. The effects of transactions and other events and circumstances that change the amount and nature of net assets
- iii. The amount and kinds of inflows and outflows of economic resources during a period and the relation between the inflows and outflows
- iv. How an NFP obtains and spends cash, its borrowing and repayment of borrowing, and other factors that may affect its liquidity
- v. The service efforts of an NFP

Preparing Financial Statements

958-205-05-5: General Purpose External Financial Statements

General purpose external financial statements provided by an NFP include a statement of financial position, a statement of activities, and a statement of cash flows. Individual financial statements provide different information, and the information each statement provides generally complements information in other financial statements.

958-205-05-6: Classifying Net Assets

General-purpose financial statements classify and report net assets in two groups: net assets with donor restrictions and net assets without donor restrictions. Other titles and labels may also be used.

958-205-45-2: Improving Usefulness of Contents

The usefulness of information provided by financial statements of NFPs can be vastly improved if certain basic information is classified in comparable ways. NFPs shall do the following:

- i. Report assets and liabilities in reasonably homogeneous groups and sequence or classify them in ways that provide relevant information about their interrelationships, liquidity, and financial flexibility.
- ii. Classify and report net assets in two groups
- iii. Aggregate items of revenues, expenses, gains, and losses into reasonably homogeneous groups and classify and report them as increases or decreases in net assets with donor restrictions or net assets without donor restrictions.
- iv. Classify and report cash receipts and cash payments as resulting from investing, financing, or operating activities.

What it means:

958-205-05-3

The main purpose of NPO's financial statements is to ensure they have the means to continue their mission and that they are responsibly using the resources donated to them.

958-205-05-4

NPO financial statements should clearly communicate what the organization owns and who it owes, how it spends its monies (resources), where the monies originate from, and its overall mission.

958-205-05-5

Financial statements include:
-Statement of Financial Position (commonly referred to as Balance Sheet)
-Statement of Activities (Profit and Loss or P&L Statement)
-Statement of Cash Flow

958-205-45-2

Statements on Financial Positions are more useful when General Ledger codes are grouped together in "like for like" categories, designated as with or without restrictions and are ordered by their degree of liquidity. Same holds true for Statements of Activities, without consideration of liquidity.