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Theory & Practice: Statement of Position No. 78-10, Accounting Principles and Reporting Practices for Certain Non-Profit Organizations

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Theory And Practice

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Statement of Position No. 78-10

Accounting Principles and Reporting Practices for Certain Non-Profit Organizations

Guest Editor:

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Statement of Position No. 78-10, "Accounting And Reporting Practices For Certain Nonprofit Organizations"¹, was issued to recommend financial accounting principles and reporting practices for nonprofit organizations not covered by existing AICPA audit guides (i.e. hospitals, colleges and universities, voluntary health and welfare organizations and state and local governments). The statement does not cover those nonprofit organizations that operate essentially as commercial businesses for the benefit of members or stockholders.

The Statement of Position (SOP No. 78-10) was prepared primarily to meet the needs of users of financial statements who are outside the management of the organization and was based on the concepts that financial statements should 1) communicate the ways resources have been used to carry out the organization's objectives, 2) identify the organization's principal programs and their costs, 3) disclose the degree of control exercised by donors over the use of resources, and 4) help the reader evaluate the organization's ability to carry out its fiscal objectives.

Basis of Accounting

If cash basis financial statements are materially different from those prepared on the accrual basis they are to be considered special purpose statements and reported on as such. Accordingly, financial state-

ments of non-profit organizations that are presented in accordance with generally accepted accounting principles should be prepared using the accrual basis of accounting. Reporting on a fund accounting basis is left to the discretion of the organization; however, SOP No. 78-10 indicates that fund accounting may be helpful where both restricted and unrestricted resources need to be segregated.

Basic Financial Statements

When the financial statements are intended to present both financial position and results of operations, the organization should prepare a Balance Sheet, a Statement of Activity and a Statement of Changes in Financial Position as well as related disclosures. In identifying the basic financial statements, the Statement does not attempt to prescribe specific titles and/or formats. In fact, Appendix C, "Illustrative Financial Statements," SOP No. 78-10 presents sample financial statements and related footnotes for thirteen types of organizations. The Statement recommends the use of comparative financial statements and, under specific circumstances, requires presentation of combined financial statements of certain financially interrelated organizations. The presentation of totals for all fund groups in all financial statements is also recommended but not required.

The *Balance Sheet* should summarize assets (including fixed assets and related depreciation), liabilities

(including grants payable), deferred revenue, deferred capital support, and fund balances (including the total of all unrestricted fund balances). SOP No. 78-10 recommends the use of a classified balance sheet unless the organization uses fund classifications which generally lend themselves to adequate disclosure of the current and long-term nature of assets and liabilities.

The *Statement of Activity* should show revenue, support, realized and most unrealized gains and losses on investments, capital or nonexpendable additions, functional expense categories (including program, management and general, and fund-raising and other supporting services). The beginning and ending fund balances should be reconciled. As an alternative, an organization may prepare a Statement of Activity and a Statement of Changes in Fund Balances. Objective classification of functional expenses may be presented in supplementary information.

The *Statement of Changes in Financial Position* should summarize all changes in financial position including changes in deferred support and revenue, and financing and investing activities.

Implementation

The Statement of Position was dated December 31, 1978, but its effective date is postponed until the FASB completes its project on "Objectives of Financial Reporting by Nonbusiness Organizations." If organizations voluntarily adopt the principles, they should apply them retroactively by prior-period adjustments.

Almost every accounting practice will have at least one organization that will be affected by Statement of Position No. 78-10. The transitional period affords the opportunity to counsel and advise these clients. Ω

NOTES

¹Statement of Position No. 78-10 was issued by the Accounting Standards Division, American Institute of Certified Public Accountants. Statements of Position do not establish standards enforceable under the AICPA's Code of Professional Ethics.

Wanda L. Patt, CPA is on the Audit Staff of Lavenhol and Horwath in Washington D.C. She is the immediate past president of the Washington ASWA Chapter. She is also a member of AWS CPA, AICPA, and the VA Society of CPA's.