

## SECTION 4400 financial statement presentation by not-for-profit organizations

TABLE OF CONTENTS	Paragraph
<b>Purpose and scope</b>	.01
<b>Definitions</b>	.02-.03
<b>General</b>	.04
<b>Financial statements</b>	.05
<b>Fund accounting</b>	.06-.17
Interfund transfers and balances	.12-.17
<b>Statement of financial position</b>	.18-.29
Disclosure of restrictions	.24-.25
Disclosure of restrictions — deferral method	.26-.27
Disclosure of restrictions — restricted fund method	.28-.29
<b>Statement of operations</b>	.30-.38
Statement of operations — deferral method	.33-.34
Statement of operations — restricted fund method	.35-.36
Presentation of revenues and expenses	.37-.38
<b>Statement of changes in net assets</b>	.41-.44
<b>Statement of cash flows</b>	.46-.53
<b>Effective date and transition</b>	.54-.55
<b>Illustrative examples</b>	

### PURPOSE AND SCOPE

- .01 This Section establishes presentation and disclosure standards for financial statements of not-for-profit organizations. These standards supplement those in GENERAL STANDARDS OF FINANCIAL STATEMENT PRESENTATION FOR NOT-FOR-PROFIT ORGANIZATIONS, Section 1401.

### DEFINITIONS

- .02 The following terms are used in this Section with the meanings specified. Definitions for financial statement elements, such as assets and liabilities, are included in FINANCIAL STATEMENT CONCEPTS FOR NOT-FOR-PROFIT ORGANIZATIONS, Section 1001. Additional definitions of particular relevance to financial reporting by not-for-profit organizations are presented in CONTRIBUTIONS — REVENUE RECOGNITION, Section 4410, TANGIBLE CAPITAL ASSETS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4433, and INTANGIBLE ASSETS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4434.
- (a) **Not-for-profit organizations** are entities, normally without transferable ownership interests, organized and operated exclusively for social, educational, professional, religious, health, charitable or any other not-for-profit purpose. A not-for-profit organization's members, contributors and other resource providers do not, in such capacity, receive any financial return directly from the organization.
  - (b) **Restrictions** are stipulations imposed that specify how resources must be used. External restrictions are imposed from outside the organization, usually by the contributor of the resources. Internal restrictions are imposed in a formal manner by the organization itself, usually by resolution of the board of directors. Restrictions on contributions may only be externally imposed. Net assets or fund balances may be internally or externally restricted. Internally restricted net assets or fund balances are often referred to as reserves or appropriations.
  - (c) **Fund accounting** comprises the collective accounting procedures resulting in a self-balancing set of accounts for each fund established by legal, contractual or voluntary actions of an organization. Elements of a fund can

- include assets, liabilities, net assets, revenues and expenses (and gains and losses, where appropriate). Fund accounting involves an accounting segregation, although not necessarily a physical segregation, of resources.
- (d) The **restricted fund method** of accounting for contributions is a specialized type of fund accounting that involves the reporting of details of financial statement elements by fund in such a way that the organization reports total general funds, one or more restricted funds, and an endowment fund, if applicable. Reporting of financial statement elements segregated on a basis other than that of use restrictions (for example, by program or geographic location) does not constitute the restricted fund method. Other definitions related to the restricted fund method appear in CONTRIBUTIONS — REVENUE RECOGNITION, Section 4410.
  - (e) Under the **deferral method** of accounting for contributions, restricted contributions related to expenses of future periods are deferred and recognized as revenue in the period in which the related expenses are incurred. Endowment contributions are reported as direct increases in net assets. All other contributions are reported as revenue of the current period. Organizations that use fund accounting in their financial statements without following the restricted fund method would account for contributions under the deferral method.
- .03 A not-for-profit organization would follow either the deferral method or the restricted fund method of accounting for contributions. (A detailed discussion of these two methods is presented in CONTRIBUTIONS — REVENUE RECOGNITION, Section 4410.) An organization's choice of method of accounting for contributions has implications for financial statement presentation. For example, the deferral method and the restricted fund method result in differences in the recognition of restricted contributions in the statement of operations and in the presentation of restricted resources in the statement of financial position. Most of the requirements of this Section apply to both the deferral and the restricted fund methods. Other requirements apply only to one of the deferral or the restricted fund method and are identified as such.

#### **GENERAL**

- .04 *A clear and concise description of a not-for-profit organization's purpose, its intended community of service, its status under income tax legislation and its legal form should be included as an integral part of its financial statements.*

#### **FINANCIAL STATEMENTS**

- .05 Financial statements for a not-for-profit organization normally include:
- (a) a statement of financial position;
  - (b) a statement of operations;
  - (c) a statement of changes in net assets; and
  - (d) a statement of cash flows.

These names are used for descriptive purposes only. Organizations may use whatever titles are appropriate in the circumstances as long as each financial statement provides the information necessary to meet the requirements of this and other Sections in a manner that results in the fair presentation in accordance with generally accepted accounting principles of the organization's financial position, results of operations and cash flows. The statement of changes in net assets may be combined with the statement of operations. Notes to financial statements and supporting schedules to which the financial statements are cross-referenced are an integral part of such statements.

#### **FUND ACCOUNTING**

- .06 *An organization that uses fund accounting in its financial statements should provide a brief description of the purpose of each fund reported.*
- .07 A description of the specific purpose of each fund reported provides useful information for understanding the organization's use of fund accounting. This description would include the extent to which the particular fund is used to report restricted resources and the types of expenses that are reported in the fund.
- .08 Each fund reported would be presented on a consistent basis from year to year. Particular revenues and expenses reported in a given fund would continue to be reported in that fund in future periods. Any change in the revenues and expenses reported in a particular fund would constitute a change in accounting policy, unless the change results from events or transactions that are clearly different from those previously occurring or from the recognition of events or transactions occurring for the first time (see ACCOUNTING CHANGES, Section 1506 in Part II of the Handbook).
- .09 Financial statements that are reported using fund accounting may follow the multi-column format whereby resources or similar groups of resources are each assigned a separate column. The multi-column format presents information about fund components together with certain totals for the organization as a whole, in accordance with this Section, to give a complete understanding of the total resources available to the organization.
- .10 Other formats may be used to report using fund accounting provided that financial information about the organization as a whole is presented in the organization's financial statements in accordance with this Section.
- .11 An organization may present its financial statements using different formats for the individual statements, as long as it does so in a way that satisfies the requirements of this Section. For example, a statement of operations and changes in net assets presented in the multi-column format may be accompanied by a statement of financial position that presents assets, liabilities and net assets in a single column without presenting each financial statement item by individual fund. The formats selected for individual statements would be based on the particular circumstances of the organization.

### **Interfund transfers and balances**

- .12 *Interfund transfers should be presented in the statement of changes in net assets.*
- .13 *The amount and purpose of interfund transfers during the reporting period should be disclosed.*
- .14 *The amounts, terms and conditions of interfund loans outstanding at the reporting date should be disclosed.*
- .15 Transfers between funds or between funds and reserves during a reporting period do not result in increases or decreases in the economic resources of the organization as a whole and therefore are reported in the statement of changes in net assets rather than in the statement of operations. Allocations of revenues and expenses between funds that are made when the organization first recognizes the revenue or expense are not considered to be transfers. Under the restricted fund method, however, unrestricted revenues would be recognized initially in the general fund and would only be allocated to restricted funds by way of interfund transfer (see CONTRIBUTIONS — REVENUE RECOGNITION, Section 4410).
- .16 Judgment would be exercised in determining the level of disclosure to provide for interfund transfers. For example, it may not be necessary to disclose individual transfers. It may be appropriate to aggregate and disclose as a single amount interfund transfers that are similar in nature.
- .17 When an organization presents its financial statements using a multi-column format, interfund loans and advances would be presented in individual funds and eliminated in the totals column of the statement of financial position. When using a single column approach, the only disclosure of interfund loans and amounts receivable would be made in notes to the financial statements.

### **STATEMENT OF FINANCIAL POSITION**

- .18 *For each financial statement item, the statement of financial position should present a total that includes all funds reported.*
- .19 *The statement of financial position should present the following:*
  - (a) (deleted)
  - (b) *net assets subject to restrictions requiring that they be maintained permanently as endowments;*
  - (c) *other restricted net assets;*
  - (d) *unrestricted net assets; and*
  - (e) *total net assets.*
- .20 The primary purpose of a statement of financial position is to present the organization's economic resources, obligations and net assets as at the reporting date. The statement of financial position, together with the other statements and the notes, provides useful information for assessing whether the organization will continue to be able to provide services, achieve its objectives and meet its obligations. This information is normally provided by grouping similar amounts not significant in themselves as financial statement items (for example, cash, capital assets, accounts payable, deferred contributions) and providing totals for all funds related to each of these financial statement items reported. The statement of financial position may also be referred to as the balance sheet.
- .21 Information about the organization's liquidity is presented by classifying current assets separately from non-current assets and current liabilities separately from non-current liabilities in accordance with CURRENT ASSETS AND CURRENT LIABILITIES, Section 1510 in Part II of the Handbook. Cash and other assets subject to external restrictions limiting their use to beyond one year from the date of the statement of financial position would be classified as non-current assets.
- .22 Net assets may also be referred to as fund balances or as accumulated surplus or deficit. Total net assets represents the organization's residual interest in its assets after deducting its liabilities. The net assets balance therefore provides information about the net resources the organization has available for carrying out its service delivery activities in the future. Restrictions on net assets may be externally or internally imposed. To fully understand the nature of the organization's net assets balance, financial statement users require information about the portions of net assets attributable to endowments, and to other external restrictions, none of which can readily be used for other purposes. Financial statement users also require information about the portions of net assets that are subject to internal restrictions.  
*(paragraph 4400.23 deleted)*

### **Disclosure of restrictions**

- .24 Restrictions on resources may be external or internal. Externally restricted resources would be presented either as deferred contributions or as part of net assets, depending on the organization's policies for accounting for contributions. Externally restricted resources are not available for use at the organization's discretion. The existence of external restrictions can have a significant effect on the organization's financial flexibility and ability to provide certain services in the future. Therefore, it is important that users be made aware of the amounts of resources subject to external restrictions and of the nature of the restrictions.
- .24A Internal restrictions can be removed by the organization and the assets can be made available for other purposes, if necessary. Therefore, it is important that users be made aware of the amounts of resources subject to internal restrictions and the nature of the restrictions.

- .24B Under the deferral method of accounting for contributions, one common type of internal restriction is to present net assets invested in capital assets as a component of net assets separately from the unrestricted net assets balance. Organizations that adopt this form of internal restriction consider that the internally restricted amount represents net assets that are not available for other purposes because they have been invested in capital assets. When an organization segregates the amount of net assets invested in capital assets, the organization may either present the amount as a component of net assets in the statement of financial position or disclose the amount in a note to the financial statements. Net assets invested in capital assets are generally presented as the unamortized portion of capital assets purchased with unrestricted resources, less related debt, plus the carrying amount, less related debt, of capital assets that will not be amortized. Under the restricted fund method, net assets (fund balances) invested in capital assets may also be internally restricted and generally represent the net book value of all capital assets, less related debt.
- .25 Specific requirements related to the disclosure of restrictions for organizations following the deferral method of accounting for contributions appear in paragraphs 4400.26-27. Specific requirements for organizations following the restricted fund method appear in paragraphs 4400.28-29. Organizations need not provide the disclosures set out below separately for each restriction. Judgment would be exercised in disclosing major categories of restrictions. In determining how to categorize restrictions, the organization would consider the intended use of the resources and the length of time that is likely to elapse before the restrictions are complied with.

**Disclosure of restrictions — deferral method**

- .26 *The following should be disclosed:*
- (a) *the amounts of deferred contributions attributable to each major category of external restrictions with a description of the restrictions;*
  - (b) *the amount of net assets subject to external restrictions requiring that they be maintained permanently as endowments; and*
  - (c) *the amount of net assets subject to internal restrictions and, separately, external restrictions other than those in (b) above.*
- .27 Under the deferral method of accounting for contributions, endowment contributions are accumulated in the net assets balance. Internally restricted balances are reflected as appropriations of unrestricted net assets in the net assets balance. Externally restricted contributions are accumulated in the statement of financial position as deferred contributions.

**Disclosure of restrictions — restricted fund method**

- .28 *The following should be disclosed:*
- (a) *the amount of net assets (fund balances) subject to external restrictions requiring that they be maintained permanently as endowments;*
  - (b) *the amounts of net assets (fund balances) attributable to each major category of internal restrictions and, separately, external restrictions other than those in (a) above, with a description of the restrictions; and*
  - (c) *the amounts of deferred contributions attributable to each major category of external restrictions with a description of the restrictions.*
- .29 Under the restricted fund method of accounting for contributions, endowment contributions are accumulated in the endowment fund balance. Other internally and externally restricted contributions are accumulated in the statement of financial position as part of the appropriate restricted fund balance. If there is no appropriate restricted fund, externally restricted contributions are accumulated as deferred contributions in the general fund.

**STATEMENT OF OPERATIONS**

- .30 The primary purpose of a statement of operations is to communicate information about changes in the organization's economic resources and obligations for the period. Specifically, this statement provides information about the cost of the organization's service delivery activities for the period and the extent to which these expenses were financed or funded by contributions and other revenue. The information provided in the statement of operations is useful in evaluating the organization's performance during the period, including its ability to continue to provide services, and in assessing how the organization's management has discharged its stewardship responsibilities. The statement of operations may also be referred to as the statement of revenues and expenses.
- .31 Not-for-profit organizations may classify expenses in the statement of operations by object (for example, salaries, rent, utilities), by function (for example, administrative, research, ancillary operations) or by program. Classification of expenses by function or program may be desirable when the organization operates several different programs or has different areas of interest. Classification of expenses by object can also be useful. An organization would classify its expenses in the manner that results in the most meaningful presentation in the circumstances. Whether the organization prepares its budgets by function or object would be a factor to consider in deciding which method of expense classification would be most appropriate for the organization's financial statements.
- .32 Specific requirements related to the statement of operations for organizations following the deferral method of accounting for contributions appear in paragraphs 4400.33-34. Specific requirements for organizations following the restricted fund method appear in paragraphs 4400.35-36.

**Statement of operations — deferral method**

- .33 *The statement of operations should present*
- (a) *for each financial statement item, a total that includes all funds reported; and*
  - (b) *total excess or deficiency of revenues and gains over expenses and losses for the period.*
- .34 The statement of operations would present similar items of revenue and similar items of expense grouped together in meaningful categories as financial statement items. Under the deferral method of accounting for contributions, total excess of revenues over expenses for all funds reports the change in the organization's unrestricted resources in the period. When an organization following the deferral method reports using a method of fund accounting other than the restricted fund method, the total for all funds related to each financial statement item presented in the statement of operations would be reported together with the total excess of revenues over expenses for all funds.
- Statement of operations — restricted fund method**
- .35 *The statement of operations should present the following for the period:*
- (a) *the total for each financial statement item recognized in the general fund;*
  - (b) *the total for each financial statement item recognized in the restricted funds, other than the endowment fund;*
  - (c) *the total for each financial statement item recognized in the endowment fund; and*
  - (d) *excess or deficiency of revenues and gains over expenses and losses for each of the general fund, restricted funds other than the endowment fund and the endowment fund.*
- .36 The statement of operations would present similar items of revenue and similar items of expense grouped together in meaningful categories as financial statement items. Under the restricted fund method of accounting for contributions, the general fund presents all revenues and expenses related to unrestricted resources. The total excess of revenues over expenses in the general fund reports the change in the organization's unrestricted resources in the period. The restricted funds present revenues and expenses related to restricted resources. Endowment contributions are presented in the endowment fund. In order to understand the impact of operations for the period on the organization's financial position, financial statement readers require information about operations related to each of the general fund, the restricted funds and the endowment fund. In addition, it may be desirable to present totals that include all the funds reported for each financial statement item in the statement of operation.
- Presentation of revenues and expenses**
- .37 *Revenues and expenses should be recognized and presented at their gross amounts when an organization is acting as a principal in transactions.*
- .38 Information about an organization's total gross revenues and expenses is necessary for users to understand fully the organization's operations. When an organization has expenses and revenues from the provision of goods or services, acting as a principal in the transactions involved, it recognizes the expenses and the revenues on a gross basis. When an organization is not acting as a principal in the transactions, it has earned the equivalent of a commission or fee, or received the equivalent of a contribution, and recognizes only the net amount received.  
 (paragraphs 4400.39-.40 deleted)
- STATEMENT OF CHANGES IN NET ASSETS**
- .41 *The statement of changes in net assets should present changes in the following for the period:*
- (a) *(deleted)*
  - (b) *net assets subject to restrictions requiring that they be maintained permanently as endowments;*
  - (c) *internally restricted net assets and, separately, externally restricted net assets other than those in (b);*
  - (d) *unrestricted net assets; and*
  - (e) *total net assets.*
- (paragraph 4400.42 deleted)*
- .43 The statement of changes in net assets may be referred to as the statement of changes in fund balances when the organization uses fund accounting in its financial statements. Total net assets represents the organization's residual interest in its assets after deducting its liabilities. The net assets balance therefore provides information about the net resources the organization has available for carrying out its service delivery activities in the future. To fully understand the nature of the organization's financial activities in the period, financial statement users require information about changes in the portions of net assets attributable to endowments and to other external and internal restrictions as well as those revenues, expenses, gains and losses that have not been included in the statement of operations. The statement of changes in net assets provides this information and shows the extent to which the organization's operations and other revenues, expenses, gains and losses that have not been included in the statement of operations have resulted in an accumulation or depletion of net assets.
- .43A Consistent with the guidance provided in paragraph 4400.43, the amount of remeasurements and other items arising from defined benefit plans is required to be presented as a separately identified line item in the statement of changes in net assets (see REPORTING EMPLOYEE FUTURE BENEFITS BY NOT-FOR-PROFIT ORGANIZATIONS, Section 3463).

.43B Consistent with Section 4449.47, in an acquisition of a not-for-profit organization, the difference between the fair value of the consideration transferred and the net assets acquired is recognized and presented separately in the statement of changes in net assets.

.44 The statement of changes in net assets may be combined with the statement of operations.

(paragraph 4400.45 deleted)

### **STATEMENT OF CASH FLOWS**

.46 *The statement of cash flows should be prepared in accordance with CASH FLOW STATEMENTS, Section 1540 in Part II of the Handbook.*

(paragraph 4400.47 deleted)

.48 The information provided in the statement of cash flows helps financial statement users evaluate how management has discharged its stewardship responsibilities over the resources with which it has been entrusted.

.49 Certain resource providers to a not-for-profit organization may be particularly interested in the statement of cash flows because it shows cash received in the period and how it was used. Resource providers may look to the statement of cash flows in determining whether the cash provided to the organization was used in the manner that the resource provider intended. This statement could form the basis for supplementary schedules or reports prepared to meet resource providers' needs.

(paragraph 4400.50 deleted)

.51 Cash flows from operations include all cash receipts and disbursements resulting from the main, ongoing service delivery activities of an organization and exclude cash flows from financing and investing activities. Cash receipts from operations include unrestricted contributions, restricted contributions that are to be used for operations and other revenues arising from the organization's ordinary activities, such as fees for services, proceeds on the sale of goods and unrestricted investment income. Cash disbursements for operations would comprise expenditures made by the organization in carrying out its service delivery activities.

.52 Components of cash flows from financing activities would include cash contributed that is restricted for the purpose of acquiring capital assets and cash contributed for endowment. Cash receipts and disbursements related to the assumption and repayment of debt would also be presented as components of cash flows from financing activities. Components of cash flows from investing activities would include the acquisition of capital assets, the purchase of investments, and the proceeds on disposal of major categories of assets, such as capital assets and investments.

.53 An organization following the restricted fund method of accounting for contributions that presents its statement of cash flows using the indirect method, reconciles the excess of revenues over expenses for the general fund and any restricted funds of an operating nature to cash flows from operations.

### **EFFECTIVE DATE AND TRANSITION**

.54 Except as specified in paragraph 4400.55, this Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2012. Earlier application is permitted.

.55 Paragraph 4400.43A, issued in December 2013, applies to annual financial statements relating to fiscal years beginning on or after January 1, 2014. Earlier application is permitted.

### **ILLUSTRATIVE EXAMPLES**

This material is illustrative only.

These examples illustrate how the accounting treatment specified in this Section might be applied in particular situations. Matters of principle relating to particular situations should be decided in the context of this Section. Other disclosures and methods of presentation not illustrated may also comply with this Section.

#### **Reporting revenues and expenses gross versus net**

The following examples illustrate how revenues and expenses should be reported. The determination of whether to report the revenues and expenses on a gross or net basis depends on the relative facts and circumstances and requires significant judgment. The assessment in the following examples illustrate those judgments in the given fact pattern based on the assumed facts; however, judgments will vary in different fact patterns.

#### **Example 1 — Funded development**

A not-for-profit organization receives funding to undertake a specific research project. The organization contracts with a scientist to perform the research. The organization would not have undertaken the research project had the funds not been made available.

*Evaluation:* Although the organization would not have undertaken the research project without the availability of the funding, the organization acts as the principal in contracting with the scientist. It specifies the details of the research to be carried out by the scientist, and has discretion in selecting the scientist and in establishing the price to be paid. Thus, the organization concludes that the expenses incurred are obligations of the organization, the organization recognizes the expenses in the statement of operations, and the related funding is recognized as revenue.

The evaluation would be the same if the reporting organization has an employee who is seconded to a second organization to work under their direction and the reporting organization is reimbursed for all of the costs related to that

employee. As the reporting organization is the employer, they would report their employee-related costs as expenses and would report the reimbursement of their costs as revenues.

**Example 2 — Direct fundraising activities**

A not-for-profit organization engages in a number of fundraising activities, including a fundraising telethon, a telephone campaign, a direct mail campaign, special events and a lottery. The organization uses an outside fundraising consultant to conduct the telethon and uses the organization's own staff and volunteers in the telethon and the other activities. Funds solicited in each of the activities are raised in the name of the organization.

*Evaluation:* Even though the organization uses an outside fundraising consultant to conduct the telethon, the organization is the principal in the relationship with the donors as the funds are raised in its name. The organization has discretion in selecting the outside fundraiser, in establishing the fees to be paid and in determining the specifications of the telethon. The organization also has the credit risk if donors to the telethon do not pay according to their pledge. Thus, the organization recognizes the gross amounts fundraised in each of the activities as revenue of the organization, and the total expenses of each activity, including the fees charged by any outside party, as expenses of the organization.

**Example 3 — Fundraising conducted by others**

A not-for-profit organization is given the net proceeds from an event held by others to benefit the organization without having any control over, or responsibility for, the gross amounts of revenues or expenses involved.

*Evaluation:* The organization is not the principal in the fundraising event as it was not involved in organizing the event and did not bear any risks in connection with it. The amount received by the organization is a donation from the organizers of the event. Neither the gross revenues nor the gross expenses of the event are recognized in the organization's financial statements. The net proceeds received are recognized as a contribution. Disclosure of gross revenues and expenses is not required.

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