

Note 1 – Description of the Organization

Big National Charity, Inc. seeks to prevent animal suffering around the globe by helping injured animals and reintroducing them into the wild.

Note 2 – Summary of Significant Accounting Policies

Basis of presentation – The financial statements of Big National Charity, Inc. have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require Big National Charity, Inc. to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of Big National Charity, Inc.'s management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of Big National Charity, Inc. or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Measure of operations – The statements of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to Big National Charity, Inc.'s ongoing animal services and interest and dividends earned on investments. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

Cash and cash equivalents – Big National Charity, Inc.'s cash consists of cash on deposit with banks. Cash equivalents represent money market funds or short-term investments with original maturities of three months or less from the date of purchase, except for those amounts that are held in the investment portfolio which are invested for long-term purposes.

EXAMPLE CHARITY

NOTES TO FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

Concentrations of credit risk – Financial instruments that potentially subject Big National Charity, Inc. to concentrations of credit risk consist principally of cash and cash equivalents and investments. Big National Charity, Inc. maintains its cash and cash equivalents in various bank accounts that, at times, may exceed federally insured limits. Big National Charity, Inc.'s cash and cash equivalent accounts have been placed with high credit quality financial institutions. Big National Charity, Inc. has not experienced, nor does it anticipate, any losses with respect to such accounts.

Contributions receivable – Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Discount amortization is included in contribution revenue. Conditional promises to give are not included as support until the conditions are met.

As of December 31, 20XX, Big National Charity, Inc.'s contributions receivable consisted of unconditional promises to give in the amount of \$150,000 and receivables from third party processors in the amount of \$94,000, all of which are expected to be collected within one year. As of December 31, 20XX, contributions receivable consisted of unconditional promises to give in the amount of \$301,000 and receivables from third party processors in the amount of \$108,000.

Due to/from related parties – Amounts reported as due to/from related parties, included in the accompanying statements of financial position, arise principally from the collaborative activities between Big National Charity, Inc., Big National Charity, Inc. International, and Big National Charity, Inc. Canada to further the mission of the organization.

Property and equipment, net – Property and equipment are stated at cost at the date of purchase or, for donated assets, at fair value at the date of donation, less accumulated depreciation. Depreciation is calculated using the straight-line method over the lesser of the estimated useful lives of the assets or the lease term. The useful lives range from three to seven years. Big National Charity, Inc.'s policy is to capitalize renewals and betterments acquired for greater than \$5,000 and expense normal repairs and maintenance as incurred. Big National Charity, Inc.'s management periodically evaluates whether events or circumstances have occurred indicating that the carrying amount of long-lived assets may not be recovered.

Investments – Investments are reported at cost, if purchased, or at fair value, if donated. Thereafter, investments are reported at their fair values in the statements of financial position, and changes in fair value are reported as investment return in the statements of activities.

Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are based on average cost and are recorded in the statements of activities in the period in which the securities are sold. Interest is recorded when earned. Dividends are accrued as of the ex-dividend date.

Note 2 – Summary of Significant Accounting Policies (continued)

Fair value measurements – Fair value is defined as the price that would be received to sell an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset. US GAAP establishes a fair value hierarchy that prioritizes investments based on those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs). Big National Charity, Inc. groups assets at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

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| Level 1 | Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date. |
| Level 2 | Other observable inputs, either directly or indirectly, including: <ul style="list-style-type: none">• Quoted prices for similar assets/liabilities in active markets;• Quoted prices for identical or similar assets in non-active markets;• Inputs other than quoted prices that are observable for the asset/liability; and,• Inputs that are derived principally from or corroborated by other observable market data. |
| Level 3 | Unobservable inputs that cannot be corroborated by observable market data. |

Contributions – Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

EXAMPLE CHARITY

NOTES TO FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

In-kind donations – Big National Charity, Inc. received donated professional services and other advertising services of \$13,000 for the year ended December 31, 20XX. Such amounts, which are based upon information provided by third-party service providers, are recorded at their estimated fair value determined on the date of contribution and are reported as contributions in-kind and supporting services on the accompanying statements of activities and statements of functional expenses.

Several volunteers have made significant contributions of their time in furtherance of Big National Charity, Inc.'s mission. These services were not reflected in the accompanying statements of activities because they do not meet the necessary criteria for recognition under US GAAP.

Functional expenses – The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among animal services and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

Expense	Method of Allocation
Grants	Time and effort
Salaries and benefits	Time and effort
Education and awareness	Time and effort
Occupancy	Square Footage
Professional services	Full Time Equivalent
Printing	Full Time Equivalent
Information technologies	Full Time Equivalent
Travel	Time and effort
Depreciation	Square Footage
Other	Time and effort

Use of estimates – The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

BIG NATIONAL CHARITY, INC.
NOTES TO FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

Income taxes – Big National Charity, Inc. is exempt from income tax under IRC section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. Big National Charity, Inc. has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. Big National Charity, Inc. has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

Reclassifications – Certain prior year amounts have been reclassified to conform to the current year presentation.

New Accounting Pronouncement – On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Big National Charity, Inc. has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Note 3 – Availability and Liquidity

The following represents Big National Charity's financial assets at December 31, 20XX and 20XX:

Financial assets at year end:	20XX	20XX
Cash and cash equivalents	\$ 1,740,000	\$ 920,000
Contributions receivable	244,000	409,000
Investments	1,158,000	677,000
Total financial assets	3,142,000	2,006,000
Less amounts not available to be used within one year:		
Net assets with donor restrictions	1,045,000	1,192,000
Less net assets with purpose restrictions to be met in less than a year	-	(7,000)
Board-designated funds for future use	205,000	130,000
	1,250,000	1,315,000
Financial assets available to meet general expenditures over the next twelve months	\$ 1,892,000	\$ 691,000

Big National Charity's goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately \$1.4 million). As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts and certificates of deposit. Big National Charity has a \$250,000 line of credit available to meet cash flow needs.

EXAMPLE CHARITY

NOTES TO FINANCIAL STATEMENTS

Note 4 – Investments

The following is a summary of investments at December 31, 20XX and 20XX:

	20XX	20XX
Cash and equivalents	\$ -	\$ 2,000
Equity funds	91,000	122,000
Stock index funds	598,000	310,000
Bond funds	58,000	34,000
Bond index funds	411,000	209,000
	<u>\$ 1,158,000</u>	<u>\$ 677,000</u>

As of December 31, 20XX and 20XX, all investments were considered level 1 investments.

Note 5 – Property and Equipment, Net

Property and equipment, net consisted of the following at December 31, 20XX and 20XX:

	20XX	20XX
Property and equipment	\$ 364,000	\$ 357,000
Less: accumulated depreciation	<u>(213,000)</u>	<u>(150,000)</u>
Property and equipment, net	<u>\$ 151,000</u>	<u>\$ 207,000</u>

For the years ended December 31, 20XX and 20XX, depreciation expense totaled \$63,000 and \$68,000, respectively.

BIG NATIONAL CHARITY, INC.
NOTES TO FINANCIAL STATEMENTS

Note 6 – Lease Commitments

Total rent expense incurred under operating leases totaled \$231,000 and \$229,000 for the years ended December 31, 20XX and 20XX respectively.

For years subsequent to 20XX, minimum annual future rental commitments under the lease agreements, are as follows:

<u>Fiscal Year End</u>	<u>Rental Expense</u>
20XX	\$ 302,000
20XX	310,000
20XX	318,000
20XX	<u>215,000</u>
	<u><u>\$ 1,145,000</u></u>

Deferred rent consists of the excess of the rental expenses on a straight-line basis over the payments required by the lease and is included in other liabilities in the statements of financial position. As of December 31, 20XX and 20XX, the deferred rent liability balance was \$95,000 and \$96,000, respectively.

Note 7 –Net Assets

Net assets with donor restrictions were as follows for the years ended December 31, 20XX and 20XX:

	<u>20XX</u>	<u>20XX</u>
Specific Purpose		
Animal services	\$ 1,045,000	\$ 1,185,000
Passage of Time		
Contributions receivable	<u>-</u>	<u>7,000</u>
Total	<u><u>\$ 1,045,000</u></u>	<u><u>\$ 1,192,000</u></u>

EXAMPLE CHARITY

NOTES TO FINANCIAL STATEMENTS

Note 7 –Net Assets (continued)

Net assets without donor restrictions for the years ended December 31, 20XX and 20XX are as follows:

	20XX	20XX
Undesignated	\$ 1,394,000	\$ 784,000
Board-designated net assets	205,000	130,000
	<u>\$ 1,599,000</u>	<u>\$ 914,000</u>

The Board has designated funds to be set aside for future capital purchases.

Net assets released from net assets with donor restrictions are as follows:

	20XX	20XX
Satisfaction of Purpose Restrictions		
Animal services	<u>\$ 662,000</u>	<u>\$ 325,000</u>

Note 8 – Employee Benefit Plan

The Big National Charity, Inc. has a tax-deferred 403(b) plan covering all employees. The assets are held for each employee in an individual account maintained by an investment firm. Big National Charity, Inc.'s match is 3% of each qualified employee's basic contribution. Plan contribution before non-vesting forfeiture incurred by Big National Charity, Inc. during the years ended December 31, 20XX and 20XX totaled \$22,000 and \$29,000, respectively.

Note 9 – Subsequent Events

Big National Charity, Inc. has evaluated subsequent events through April 20, 20XX, which is the date the financial statements were available to be issued. Big National Charity, Inc. is not aware of any material subsequent events.