

## APPENDIX C, EXHIBIT 2B: SAMPLE SMALL MINISTRY – MODIFIED CASH

The following illustrative financial statement is taken from Appendix C, Exhibit 2B of the *Accounting and Financial Reporting Guide for Churches and Ministries* published by the Accounting Committee for Churches & Ministries. As noted in Appendix C, this example is illustrative, not prescriptive.

It also is not intended to present all required disclosures. Care should be taken to display the most meaningful presentation for each organization based on the needs of the financial statement users within the prescriptive requirements of all FASB and AICPA pronouncements.



Accounting  
Committee  
for Churches  
& Ministries

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# SMALL MINISTRY

## Statement of Assets, Liabilities, and Net Assets - Modified-Cash Basis

	December 31,	
	20X2	20X1
ASSETS:		
Cash and cash equivalents	\$ 277,123	\$ 278,269
Certificates of deposit	25,000	20,000
Property and equipment:		
Leasehold improvements	252,984	73,816
Equipment	97,954	35,555
Furniture and fixtures	23,290	8,220
	<u>374,228</u>	<u>117,591</u>
Accumulated depreciation	(53,393)	(43,139)
Net property and equipment	<u>320,835</u>	<u>74,452</u>
Deposits	2,300	2,800
Total Assets	<u>\$ 625,258</u>	<u>\$ 375,521</u>
LIABILITIES AND FUND BALANCES:		
Liabilities	\$ -	\$ -
Fund balances:		
Fund Balances Without Donor Restrictions:		
Operating	279,423	141,066
Board-designated operating reserves	25,000	20,000
Equity in property and equipment-net	320,835	74,452
	<u>625,258</u>	<u>235,518</u>
Fund Balances With Donor Restrictions:		
Restricted by purpose or time	-	140,003
Total net assets	<u>625,258</u>	<u>375,521</u>
Total Liabilities and Fund Balances	<u>\$ 625,258</u>	<u>\$ 375,521</u>

See notes to financial statements.

## SMALL MINISTRY

### Statements of Support, Revenues, and Expenses - Modified Cash Basis

	Year Ended December 31,					
	20X2			20X1		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>SUPPORT AND REVENUE:</b>						
Contributions	\$ 212,152	\$ 210,551	\$ 422,703	\$ 184,798	\$ 140,003	\$ 324,801
In-kind revenue	127,834	-	127,834	104,356	-	104,356
Special events:						
Special event revenue	336,920	-	336,920	269,809	-	269,809
Less costs of direct benefit to donors	(54,396)	-	(54,396)	(48,672)	-	(48,672)
	282,524	-	282,524	221,137	-	221,137
Other income	24	-	24	1,972	-	1,972
<b>Total Support and Revenue</b>	<b>622,534</b>	<b>210,551</b>	<b>833,085</b>	<b>512,263</b>	<b>140,003</b>	<b>652,266</b>
<b>RECLASSIFICATIONS:</b>						
Fund balances released from restrictions	350,554	(350,554)	-	-	-	-
<b>EXPENSES:</b>						
Program services:						
Medical and legal services	312,687	-	312,687	290,010	-	290,010
Education	130,285	-	130,285	46,373	-	46,373
	442,972	-	442,972	336,383	-	336,383
Supporting activities:						
General and administrative	98,352	-	98,352	109,996	-	109,996
Fundraising	42,024	-	42,024	73,525	-	73,525
	140,376	-	140,376	183,521	-	183,521
<b>Total Expenses</b>	<b>583,348</b>	<b>-</b>	<b>583,348</b>	<b>519,904</b>	<b>-</b>	<b>519,904</b>
Change in Fund Balances	389,740	(140,003)	249,737	(7,641)	140,003	132,362
Fund Balances, Beginning of Year	235,518	140,003	375,521	243,159	-	243,159
Fund Balances, End of Year	<b>\$ 625,258</b>	<b>\$ -</b>	<b>\$ 625,258</b>	<b>\$ 235,518</b>	<b>\$ 140,003</b>	<b>\$ 375,521</b>

See notes to financial statements.

## SMALL MINISTRY

### Statements of Cash Flows - Modified Cash Basis

	Year Ended December 31,	
	20X2	20X1
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in fund balances	\$ 249,737	\$ 132,362
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	10,254	8,762
Change in operating assets and liabilities:		
Deposits	500	-
Net Cash Provided by Operating Activities	<u>260,491</u>	<u>141,124</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of certificates of deposit	(5,000)	(10,000)
Purchases of property and equipment	(256,637)	-
Net Cash Used by Investing Activities	<u>(261,637)</u>	<u>(10,000)</u>
Change in Cash and Cash Equivalents	(1,146)	131,124
Cash and Cash Equivalents, Beginning of Year	<u>278,269</u>	<u>147,145</u>
Cash and Cash Equivalents, End of Year	<u>\$ 277,123</u>	<u>\$ 278,269</u>

See notes to financial statements.

# **SMALL MINISTRY**

## **Notes to Financial Statements**

December 31, 20X2 and 20X1

### **1. NATURE OF ORGANIZATION**

Sample Small Ministry (the Organization) was organized in South Carolina in 2000 for the purpose of providing families in need in the community with necessary medical, dental, and vision services as well as providing job training and tutoring assistance for all members of the family.

The Organization is exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code and comparable state law, and contributions to it are tax-deductible within the limitations prescribed by the code. The Organization has been classified as a publicly supported organization which is not a private foundation under Section 509(a) of the code.

### **2. SIGNIFICANT ACCOUNTING POLICIES**

The Organization maintains its accounts and prepares its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Accordingly, revenues and the related assets are recorded when received rather than when earned and certain expenses are recognized when paid rather than when the obligations are incurred. Modifications to the cash basis of accounting include recording fixed assets with depreciation and deposits. Additionally, gifts-in-kind have been recorded in the accompanying statements of support, revenue, and expenses – modified cash basis.

### **ESTIMATES**

The preparation of financial statements, in conformity with the modified cash basis of accounting, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

### **CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of checking and savings accounts with an original maturity of less than three months. At times, amounts in these accounts exceed federal deposit insurance limits. The Organization has not experienced any losses on these accounts, and management believes it is not exposed to any significant credit risk on cash and cash equivalents. At December 31, 20X2 and 20X1, the Organization's cash balances exceeded federally insured limits by \$52,123 and \$48,269, respectively.

## PROPERTY AND EQUIPMENT AND DEPRECIATION

Items capitalized as property and equipment are reported at cost. Donated items are reported at their fair market value on the date of the gift. The capitalization policy is \$1,000. Depreciation is computed on a straight-line method over the estimated useful lives of the related assets ranging from three to 10 years. Depreciation is allocated to the various underlying program services and supporting activities. Depreciable lives by type of asset are:

Leasehold improvements	10 years
Equipment	3-5 years
Furniture and fixtures	5 years

## CLASSES OF FUND BALANCES

The financial statements report amounts separately by class of fund balances:

*Fund balances without donor restrictions* are those currently available for use in the ministries under the direction of the board, operating reserves established by the board, and those resources invested in property and equipment.

*Fund balances with donor restrictions* are those stipulated by donors for specific operating purposes or those not currently available for use until commitments regarding their use have been fulfilled. The balance as of December 31, 20X1 was related to expansion of education services.

## PUBLIC SUPPORT, REVENUE, AND RECLASSIFICATIONS

Support is reported when contributions are made. Gifts of cash and other assets are reported as support with donor restrictions if they are received with donor stipulations that limit the use of the donated amounts. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, fund balances with donor restrictions are reclassified to fund balances without donor restrictions and reported in the statements of support, revenues, and expenses – modified cash basis as fund balances released from restrictions. Revenue is reported when received.

The Organization reports gifts of property and equipment as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Volunteers contribute significant amounts of time to program services, administration, and fundraising activities; however, the financial statements do not reflect the value of the contributed services because they do not meet recognition criteria prescribed by the modified cash basis of accounting. The Organization records donated professional services at the respective fair value of the services received. Noncash donations are recorded at fair market value when they are received. The following represents donated professional services and materials received during the years ended December 31, 20X2 and 20X1.

Dental equipment	\$ 25,366	\$ -
Contributed legal services	35,898	24,658
Contributed medical, dental, and vision services	66,570	79,698
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	\$ 127,834	\$ 104,356
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### FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various program services and supporting activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the program services and supporting activities benefited. These expenses include depreciation, facilities operations, and other expenses. Depreciation is allocated based on square footage and the programmatic purpose of the asset being depreciated. Costs of other categories were allocated based on the programmatic purpose of the employees directly affected by the expense.

### ADVERTISING

The Organization expenses all advertising costs when incurred. Advertising expense is used to promote the services offered by the Organization and was \$6,402 and \$13,038 for the years ended December 31, 20X2 and 20X1, respectively.

### 3. LIQUIDITY AND FINANCIAL ASSETS AVAILABLE

The following reflects the Organization's financial assets as of the statement of financial position sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date:

	December 31,	
	20X2	20X1
	<hr/>	<hr/>
Financial assets:		
Cash and cash equivalents	\$ 277,123	\$ 278,269
Certificates of deposit	25,000	20,000
	<hr/>	<hr/>
	302,123	298,269
Less those not available for general expenditure within one year:		
Board-designated reserves	25,000	20,000
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Financial assets available to meet cash needs for general expenditures within one year	\$ 277,123	\$ 278,269
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As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization had no restricted fund balances as of

December 31, 20X2. Average monthly expenses are \$50,000. The \$277,123 of available assets results in approximately five months of operating capital.

#### 4. OPERATING LEASE

The Organization leases space in a building for its activities. Monthly rental payments are \$3,583, including common-area maintenance of \$390 with annual increases per the lease agreement. The lease term is five years with the option for renewal at the end of the lease term. Total rent paid on this lease was \$42,996 and \$21,498 for the years ended December 31, 20X2 and 20X1, respectively. Future minimum lease payments are as follows:

<u>December 31,</u>	
20X3	\$ 74,320
20X4	76,715
20X5	45,505
20X6	47,900
20X7	23,950
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	\$ 268,390
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#### 5. NATURAL CLASSIFICATION OF EXPENSES

The following tables reflect the natural classification of expenses:



## Year Ended December 31, 20X2

	Medical and	Education	Total	General &	Fundraising	Cost of Direct	Total Expense
	Legal Services		Program Expense	Administrative		Benefits to Donors	
Salaries and benefits	\$ 75,423	\$ 41,507	\$ 116,930	\$ 43,951	\$ 12,856	\$ -	\$ 173,737
Office expenses	22,346	11,354	33,700	22,699	4,320	-	60,719
Occupancy expenses	36,544	13,987	50,531	23,664	986	-	75,181
Client services	162,216	52,996	215,212	-	-	-	215,212
Cost of direct benefits to donors	-	-	-	-	-	54,396	54,396
Special event expenses	-	-	-	-	20,325	-	20,325
Training	4,344	4,120	8,464	1,265	1,325	-	11,054
Depreciation	4,102	3,076	7,178	3,076	-	-	10,254
Other expenses	7,712	3,245	10,957	3,697	2,212	-	16,866
Total expenses by function	312,687	130,285	442,972	98,352	42,024	54,396	637,744
Less expenses included with revenues on the statement of activities							
Cost of direct benefits to donors	-	-	-	-	-	(54,396)	(54,396)
Total expenses included in the expense section on the statement of activities	\$ 312,687	\$ 130,285	\$ 442,972	\$ 98,352	\$ 42,024	\$ -	\$ 583,348

## Year Ended December 31, 20X1

	Medical and	Education	Total	General &	Fundraising	Cost of Direct	Total Expense
	Legal Services		Program Expense	Administrative		Benefits to Donors	
Salaries and benefits	\$ 110,881	\$ 26,305	\$ 137,186	\$ 52,765	\$ 10,326	\$ -	\$ 200,277
Office expenses	21,368	5,504	26,872	18,335	3,645	-	48,852
Occupancy expenses	21,145	5,698	26,843	16,554	814	-	44,211
Client services	104,396	4,663	109,059	-	-	-	109,059
Cost of direct benefits to donors	-	-	-	-	-	48,672	48,672
Special event expenses	-	-	-	6,497	49,354	-	55,851
Training	23,146	675	23,821	325	3,245	-	27,391
Depreciation	3,505	2,629	6,134	2,628	-	-	8,762
Other expenses	5,569	899	6,468	12,892	6,141	-	25,501
Total expenses by function	290,010	46,373	336,383	109,996	73,525	48,672	568,576
Less expenses included with revenues on the statement of activities							
Cost of direct benefits to donors	-	-	-	-	-	(48,672)	(48,672)
Total expenses included in the expense section on the statement of activities	\$ 290,010	\$ 46,373	\$ 336,383	\$ 109,996	\$ 73,525	\$ -	\$ 519,904

## **6. EMPLOYEE BENEFITS**

### **403(B) RETIREMENT PLAN**

The Organization sponsors a tax-deferred retirement plan pursuant to Section 403(b) of the Internal Revenue Code to provide retirement benefits for all eligible employees. Participating employees may voluntarily contribute up to limits provided by the Internal Revenue Service regulations. Annual contributions are made by the Organization equivalent to 6% of the covered payroll of the participants. Expenses related to this plan were \$76,842 and \$67,173 during 20X2 and 20X1, respectively.

## **7. SUBSEQUENT EVENTS**

Subsequent events have been evaluated through April 30, 20X3, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.