

EVALUATION OF FINANCIAL REPORTING IMPLEMENTATION BASED ON ISAK 35 TO IMPROVE THE FINANCIAL PERFORMANCE OF NON-PROFIT ENTITIES

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ABSTRACT

This research aims to evaluate and implement the preparation of financial statements at the Al Ikhlas Magetan Foundation based on the Interpretation of Financial Accounting Standards (ISAK) 35. This research is a type of qualitative research. The data used uses primary data and secondary data obtained through interviews, observation, and documentation. Data analysis techniques in this research used the data analysis stages of Miles and Huberman, namely data reduction, data presentation, and drawing conclusions. The results of the research show that the financial management of the Al Ikhlas Magetan Foundation is still carried out simply. The report prepared by the Al Ikhlas Magetan Foundation is not in accordance with ISAK 35. The researcher reconstructed the financial statements of the Al Ikhlas Magetan Foundation and implemented ISAK 35 in the Foundation's 2022 financial statements which consist of a statement of financial position, a statement of comprehensive income, a report on changes in net assets, a statement of cash flow cash, and notes to financial statements.

Keywords : Financial Reports; Implementation of Financial Accounting Standarts: Nonprofit

I. INTRODUCTION

A non-profit organization is an organization that is expected to be able to provide welfare services to the community and not generate reciprocity that is profit oriented (Isviandari et al., 2019). The characteristics of non-profit organizations are different compared to business organizations. This difference is very visible in the purpose of its establishment, financial sources, organizational management, and financial reports.

It was explained that the significant difference from business and non-profit organizations lies in how the organization obtains resources intended for its operational activities (IAI, 2019). Not-for-profit organizations have their main source of funding from donor contributions and contributions from members who do not wish the organization any compensation.

A foundation is an example of a non-profit organization. Based on Law Number 16 of 2001 concerning Foundations, which was later changed to Law Number 28 of 2004 Article 1 concerning foundations, it was determined that a foundation is a legal entity that includes separate assets with specific objectives to be achieved in the social, religious and humanitarian fields and does not have members (2001).

As a sector that requires financial support from donors, the non-profit sector is currently facing challenges in terms of declining trust and funding provided by potential donors, both domestic and foreign (Islami & Achmad, 2017). This causes foundations to be required to conduct

transparency in the management of entity finances. In financial management, there is the possibility of experiencing fraud such as intentional changes in data so that people who do not understand financial reports can be easily fooled.

According to a report by the Financial Transaction Reports and Analysis Center (PPATK), the total funds that came from cases of embezzlement of foundation funds from 2013 to 2022 reached Rp. 1.7 trillion and used for purposes that should not (Sopiah, 2022). After a number of cases of misuse of foundation funds, concerns about the trust of potential donors are increasing (Kristianti & Ardian, 2022). Cases of misuse of foundation funds can be detrimental to the people who have made donations and can also damage the image of non-profit organizations in society. So that it can cause a loss of trust, especially donors, to foundations as social institutions.

Efforts to prevent misuse of foundation funds can be done through transparent financial reporting. Accurate and transparent financial reports are important to maintain public trust in foundations. Non-profit organizations need to have the ability to produce financial reports containing quality financial information (Haq, 2022). Therefore, the Indonesian Institute of Accountants (IAI) made an Interpretation of Financial Accounting Standards (ISAK) Number 35 which contains guidelines for making financial reports for non-profit organizations.

Although there has been a development of standards by the Indonesian

Institute of Accountants (IAI) in preparing financial reports for non-profit organizations, previous research has found that many non-profit organizations do not use these standards in preparing organizational financial reports. The incompatibility of financial reporting on non-profit organizations with ISAK 35 results in a lack of financial performance in these organizations, causing a lack of trust from donors in these non-profit organizations.

The Al Ikhlas Magetan Foundation is an organization that focuses on education and also has a commitment to social humanitarian activities. In carrying out the activities of the foundation there is a flow of funds provided by donors to support various activities of the foundation. based on information provided by the treasurer of the Al Ikhlas Magetan Foundation, there are several deficiencies in financial management. These deficiencies include inaccurate recording of receipts and disbursements of funds. It can be seen that financial reports are still simple and not well organized, and there is a lack of understanding of human resources in accounting.

After observing the Al-Ikhlas Foundation through the foundation's management, the foundation is currently planning steps to develop charitable efforts in three areas, namely the acquisition of waqf land as educational and da'wah land, the construction of education and training buildings, and the construction of residential dormitories for students and female students of the Al-Ikhlas Islamic Boarding School. A number of planned designs are expected to

be implemented in 2023 to 2025, and are estimated to require a total fund of Rp. 2,350,000,000,-. From this, a very large contribution from donors is needed to be able to complete the planned program.

For this reason, the Al Ikhlas Magetan Foundation must prepare and compile accurate, transparent and accountable financial reports. By presenting detailed and accurate financial reports, the Al Ikhlas Magetan Foundation can strengthen trust in potential donors for the planned program so that the program can be completed before the end of 2025.

In this study, researchers tried to examine the problems faced by the Al-Ikhlas Islamic Education Foundation, which are related to the foundation's financial reporting to convince potential donors of the charity business development program. In this case, has the Al Ikhlas Magetan Foundation disclosed all activities carried out at the foundation and has made financial reports according to ISAK No. standard. 35 regarding financial reporting of non-profit organizations.

II. RESEARCH METHOD

Research Design

This type of research is qualitative research and uses descriptive methods. Qualitative research is a research method that aims to gain a deep understanding of the phenomena experienced by research subjects (Moleong, 2018, p. 6).

Data Types and Sources

The type of data used is primary data including direct interviews and secondary

data including the financial reports of the Al Ikhlas Magetan Foundation for 2022.

Data Collection Methods

The data collection method used includes unstructured interviews, but still uses a guide of questions that have been prepared so that the interview can dig up information maximally and the interview process stays on track. Documentation, the documents used are books, journals, and financial reports.

Data Analysis Methods

The data analysis method in this study uses the Miles and Huberman model. In Miles and Huberman's model, data analysis is divided into 4 (four) stages, namely collection, data reduction, data presentation, and conclusion (Sugiono, 2013).

III. RESULTS AND DISCUSSION

General description of the Al Ikhlas Magetan Foundation

The Al Ikhlas Magetan Foundation was established on January 1, 1995, the Al Ikhlas Magetan Foundation is located in Mantren Village, Karangrejo District, Magetan Regency. The Al Ikhlas Magetan Foundation has an open independent character, which means it is not under the auspices of any group or faction, but can cooperate with anyone who has the same goals, characteristics, vision and mission as the Al Ikhlas Magetan Foundation.

Financial Report of the Al Ikhlas Magetan Foundation

According to ISAK 35, there are 5 (five) elements of financial reporting in non-profit organizations, including a statement of financial position, a statement of comprehensive income, a statement of changes in net assets, a statement of cash flows, and notes to financial statements. However, the Al Ikhlas Foundation only records income and expenses in financial statements.

The financial statements of the Al Ikhlas Foundation are made according to the financial period as well as the teaching period, because the foundation is an educational-focused institution. Each institutional unit prepares a report on the use of funds or a cash report that is recorded on a cash basis. After that, the report is submitted to the treasurer of the foundation to carry out financial consolidation and prepare financial reports. However, the report for the treasurer of the foundation is still simple, only includes notes on cash receipts and disbursements.

The Al Ikhlas Magetan Foundation obtains or receives income sourced from donations, student infaq payments (SPP), as well as receipt of Student Operational Assistance (BOS) and Educational Operational Assistance (BOP). The cash disbursement of the Al Ikhlas Magetan Foundation is carried out based on the budget plan submitted by each institutional unit every month. The funds submitted will be disbursed according to the funds needed per month.

Financial Management Analysis of the Al Ikhlas Magetan Foundation

The Al Ikhlas Magetan Foundation has managed its finances well in financial management efforts. Financial management can be explained as a process or activity to process financial information in order to achieve certain goals. In managing finances there are stages, including:

1. Planning Stage

The very first stage is planning. The planning stage is carried out at the beginning and begins with estimating the income earned and expenses that will occur in the future to meet needs. The Al Ikhlas Magetan Foundation has carried out planning activities.

2. Implementation Stage

In this stage, there is implementation of the financial plan that has been prepared for the period of one year ahead. At the implementation stage it involves all members of the foundation to contribute. The financial management of the foundation is managed by a treasurer and assisted by financial staff with the knowledge of the management so that the management can run well.

3. Administration Stage

Activities carried out in carrying out administration are recording every transaction that occurs within 1 (one) year. The task of recording transactions that occur in the foundation is the treasurer and assisted by financial staff. From the results of recording every existing transaction will be reported by the treasurer in the form of financial reports.

4. Reporting Stage

The reporting stage is an activity of conveying information to interested parties or superiors as evidence of accountability. The Al Ikhlas Magetan Foundation routinely makes monthly financial reports every month and reports them to the Chairman of the Foundation at the board meeting. The treasurer also reports the realization of the foundation's activities that have been running along with the budget issued, so that the foundation's reporting has been carried out quite well.

5. Accountability Stage

The Al Ikhlas Foundation does not apply the principle of accountability. The Al Ikhlas Magetan Foundation has never published regarding the financial condition of the foundation

Conformity of the Financial Statements of the Al Ikhlas Magetan Foundation with the Financial Statements According to ISAK 35

The Al Ikhlas Magetan Foundation only records financial reports related to income and expenses that occur within the foundation. The financial statements of the Al Ikhlas Foundation are made based on the cash books of each educational unit including the cash books of RA Al Ikhlas, SDIT Al Ikhlas, and SMPIT Al Ikhlas.

Table 1. Financial Report of the Al Ikhlas Magetan Foundation

Al Ikhlas Magetan Foundation		
Financial statements		
2022 period		
Information	Debit	Credit
Beginning Balance for 2022	Rp 10,750,000	
Donations	Rp 110,000,000	
Student Infaq	Rp 1,386,000,000	
BOS funds	Rp 630,500,000	
BOP funds	Rp 90,000,000	
Foundation Debt	Rp 51,450,000	
Member Receivables		Rp 2,750,000
Employee salary		Rp 1,395,000,000
Operating costs		Rp 598,000,000
Meal cost		Rp 49,600,000
Electricity, Water and Telephone Costs		Rp 54,450,000
Training Fees		Rp 44,500,000
Purchase ATK		Rp 54,130,000
Transportation costs		Rp 19,160,000
Miscellaneous expense		Rp 27,500,000
Total Revenue in 2022	Rp 2,278,700,000	
Total Spending in 2022		Rp 2,245,090,000
End of Year Balance 2022	Rp 33,610,000	

Source: Financial Report of the Al Ikhlas Magetan Foundation

The Al Ikhlas Magetan Foundation in making financial reports has not implemented ISAK 35. As a non-profit organization, the Al Ikhlas Magetan Foundation in making financial reports must be guided by ISAK 35. After being identified, then the presentation of the reconstruction of the Al Ikhlas Magetan foundation's financial reports. The following is the application of financial reports based on ISAK 35 which includes 5 (five) components.

1. Statement of Financial Position

Table 2 Report on the Financial Position of the Al Ikhlas Magetan Foundation

Al Ikhlas Magetan Foundation		
Statement of Financial Position		
Per 31 Desember 2022		
	Notes	2022
ASSET		
CURRENT ASSETS		
Cash and bank	3	Rp 33,610,000
Other receivables	4	Rp 2,750,000
Total Current Assets		Rp 36,360,000
NON-CURRENT ASSETS		
Fixed assets	5	Rp 1,834,988,000
Total Non-Current Assets		Rp 1,834,988,000
TOTAL ASSETS		Rp 1,871,348,000
LIABILITIES		
LONG TERM LIABILITIES		
Long-term debt	6	Rp 90,150,000
Total Long Term Liabilities		Rp 90,150,000
TOTAL LIABILITIES		Rp 90,150,000
NET ASSETS		
No Restrictions (<i>without restrictions**</i>)		Rp 1,781,198,000
TOTAL LIABILITIES AND TOTAL NET ASSETS		Rp 1,871,348,000

Source: ISAK 35, data is processed

In the financial position report of the Al Ikhlas Foundation, the foundation's assets are divided into three components, namely cash and banks, accounts receivable, and fixed assets. Cash and banks listed in the report are the total net assets owned by the foundation at the end of 2022. Receivables recorded are the total receivables from members of the foundation at the end of 2022. Meanwhile, fixed assets listed include the total value of assets in the form of land and buildings owned by the foundation.

Liabilities recorded in the statement of financial position reflect the total liabilities of the foundation that have not been settled at the end of 2022. The foundation obtains funding in the form of

long-term debt which is used for the operations of each unit within the foundation. The Al Ikhlas Magetan Foundation does not have limited net assets from resource providers. Net assets without restrictions are obtained from total net assets minus total liabilities at the end of 2022.

2. Comprehensive Income Report

Table 3 Comprehensive Income Statement of the Al Ikhlas Foundation

AL-IKHLAS FOUNDATION Comprehensive Income Report As of December 31, 2023			
	Notes	2022	
WITHOUT LIMITATIONS FROM RESOURCE PROVIDERS			
INCOME			
Donations	7	Rp	110,000,000
Services	7	Rp	1,386,000,000
Other income	7	Rp	720,500,000
TOTAL INCOME		Rp	2,216,500,000
EXPENSE			
Salary	8	Rp	1,395,000,000
Operating Expenses	8	Rp	598,000,000
Feeding Load	8	Rp	49,600,000
Electricity, Water and Telephone Expenses	8	Rp	54,450,000
Training Load	8	Rp	44,500,000
Transportation Expenses	8	Rp	19,160,000
Other Expenses	8	Rp	27,500,000
TOTAL EXPENSE		Rp	2,188,210,000
Surplus (Deficit)		Rp	28,290,000

Source: ISAK 35, data is processed

In the comprehensive income report of the Al Ikhlas Magetan Foundation, income without restrictions from resource providers is divided into 3 (three) sources, namely donations, income from services, and income from other sources. Recorded donation revenue reflects the total donations received from donors through community fundraising.

Income from services is obtained from the total income received from tuition

fees, which is infaq received from students. Income from other sources that was recorded came from the total income received from BOS funds and BOP funds provided by the government. The recorded expenses reflect the total expenses used by the Al Ikhlas Magetan Foundation to fund needs and operations

3. Report of Changes in Net Assets

Table 4 Report of Changes in Net Assets of the Al Ikhlas Foundation

Al Ikhlas Magetan Foundation Report of Changes in Net Assets As of December 31, 2022	
	2022
UNLIMITED NET ASSETS FROM RESOURCE PROVIDER	
Beginning balance	Rp 1,752,908,000
Current year surplus	Rp 28,290,000
Total Net Assets	Rp 1,781,198,000

Source: ISAK 35, data is processed

In the report on changes in net assets, the Al Ikhlas Magetan Foundation provides an explanation of changes that have occurred in net assets and classifies them by type. The Al Ikhlas Magetan Foundation only has net assets without restrictions from resource providers. The report on changes in net assets provides information regarding the surplus or deficit in net assets that occurred in a certain period.

4. Statement of Cash Flows

Table 5 Statement of Cash Flows of the Al Ikhlas Magetan Foundation

Al Ikhlas Magetan Foundation Cash Flow Report As of December 31, 2023	
	2022
OPERATIONAL ACTIVITIES	
Cash from service revenue	Rp 1,386,000,000
Cash from Resource Providers	Rp 110,000,000
Others Income	Rp 720,500,000
Cash from members accounts receivable	Rp 2,750,000
Cash paid to employees	Rp 1,395,000,000
Cash for operational costs	Rp 598,000,000
Cash for student meal expenses	Rp 49,600,000
Cash for electricity, water, and telp	Rp 54,450,000
Cash for training costs	Rp 44,500,000
Cash for transportation costs	Rp 19,160,000
Cash for other expenses	Rp 27,500,000
Net cash from operating activities	Rp 25,540,000
INVESTMENT ACTIVITIES	
Purchase of equipment	Rp 54,130,000
Net cash used in investing activities	Rp 54,130,000
FUNDING ACTIVITIES	
Long-term debt	Rp 51,450,000
Net cash used in financing activities	Rp 51,450,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	Rp 22,860,000
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	Rp 10,750,000
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	Rp 33,610,000

Source: ISAK 35, data is processed

The statements of cash flows have been prepared using the direct method. In the report, there are 3 (three) activities included, namely operating activities, investing activities, and financing activities. Cash flow from the foundation's operating activities includes cash changes that occur during 2022, including cash receipts from service revenues, resource providers, other receipts, as well as expenses incurred by the foundation for operations.

Cash flows from investing activities include cash receipts and payments related to investing activities. In 2022, expenses related to the investment activities of the foundation, namely the purchase of ATK. Cash flows from financing activities include cash receipts and disbursements related to foundation funding. In 2022, the foundation will receive funding from banks.

5. Notes to Financial Statements

Notes to the financial statements include additional information made in the financial statements as well as policies applied to the preparation of financial reports. The following is a note to the financial statements of the Al Ikhlas Magetan Foundation for 2022.

Al Ikhlas Magetan Foundation

Notes to Financial Statements

As at and for the year ended 31 December
2022

1. GENERAL

The Al Ikhlas Magetan Foundation was established on January 1, 1995, the Al Ikhlas Magetan Foundation is located in Mantren Village, Karangrejo District, Magetan Regency. The Al Ikhlas Magetan Foundation has an open independent character, which means it is not under the auspices of any group or faction, but can cooperate with anyone who has the same goals, characteristics, vision and mission as the Al Ikhlas Magetan Foundation. The Al Ikhlas Magetan Foundation has several institutional units, namely PGI-RA Al

Ikhlas, SDIT Al Ikhlas, SMPIT Al Ikhlas, and Islamic boarding school.

2. SUMMARY OF IMPORTANT ACCOUNTING POLICIES

Financial reports that have been prepared in accordance with ISAK No. 35 regarding the presentation of financial statements of non-profit oriented entities.

Rupiah is used as the currency in reports and is the working currency for the Foundation.

3. CASH AND BANK

Foundation Cash and Bank balances as of December 31, 2022 are as follows:

Cash	Rp	7,550,000
Bank	<u>Rp</u>	<u>26,060,000</u>
Total	Rp	33,610,000

4. RECEIVABLES

Receivables are funds and property rights of foundations that are in other parties. The foundation has receivables from employees of Rp 2,750,000.

5. FIXED ASSETS

The foundation has fixed assets in the form of land and buildings with a value of Rp 1,834,988,000.

6. PAYABLE

The Al Ikhlas Magetan Foundation received financing from the Bank of Rp 51,450,000 to meet operational needs.

7. INCOME

Donations	Rp	110,000,000
Student Infaq	Rp	1,386,000,000
Other income:		
BOS Funds	Rp	630,500,000
BOP Funds	<u>Rp</u>	<u>90,000,000</u>
Total	Rp	2,216,500,000

8. EXPENSE

Details of the use of foundation funds consist of:

Employee salary	Rp	1,395,000,000
Operating costs	Rp	598,000,000
Meal cost	Rp	49,600,000
Electricity, Water and Telephone Costs	Rp	54,450,000
Training Fees	Rp	44,500,000
Purchase ATK	Rp	54,130,000
Transportation costs	Rp	19,160,000
Miscellaneous expense	<u>Rp</u>	<u>27,500,000</u>
Total	Rp	2,242,340,000

The details of receiving foundation funds consist of:

IV. CONCLUSION

Financial management can be divided into several stages, including the planning stage, the implementation stage, the administration stage, the reporting stage, and the accountability stage. The Al Ikhlas Magetan Foundation in managing finances is still carried out in a simple way, but in its financial management it has implemented 5 (five) stages of financial management.

In preparing financial reports, the Al Ikhlas Magetan Foundation has not implemented the components in ISAK 35. The financial reports prepared by the foundation only include information on receipts and expenditures. The reason is the lack of understanding and outreach regarding ISAK 35 by the human resources

of the Al Ikhlas Magetan Foundation. As a result, the foundation has not implemented accountability in financial management. Therefore, the financial condition of the foundation has not been disclosed to the public.

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