

Understanding & Analyzing Basic Financial Statements (Nonprofits)



Goals of Workshop:

- Understand why we analyze financials
- Understand basic types of financials and their purpose:
 - Statement of Financial Position
 - Statement of Activities
 - Statement of Cash Flows
- Learn how to use key ratios to assess the financial health of the organization and make decisions

Statement of Financial Statement

- Sometimes referred to as the Balance Sheet
- Shows financial position of an organization at a particular point in time
- Presents information about the organization's resources, debts and net worth.
- $\text{Assets} = \text{Liability} + \text{Net Assets}$

Statement of Financial Statement

ASSETS

- Shown in order of liquidity or in how long it would take to convert them to cash.
- Current Assets = typical useful life < 1 year
- Fixed Asset = typical useful life > 1 year
- Depreciation: non-cash asset that reflects the decline in an assets useful life

Statement of Financial Statement

LIABILITES

- Shown in order of how close they are to maturity
- Accounts Payable: amount owed to business creditors on open accounts (utilities, suppliers, rent, etc.)
- Notes Payable: more formal, longer term debt owed to banks or other lenders
- Accrued Expenses: estimates of liabilities not paid as of the statement date
- Deferred Revenues: liabilities that have not been “used” for the purpose intended at that point in time

Statement of Financial Statement

NET ASSETS

- Difference between assets and liabilities equals net assets or net worth of the organization
 - Net Assets (Net Worth) = Assets – Liabilities
- Net assets increase or decrease based on the operating results from the fiscal year.

Statement of Financial Statement

CARALEE'S HOUSE							
STATEMENTS OF FINANCIAL POSITION							
JUNE 30, 2015 AND 2014							
						<u>2015</u>	<u>2014</u>
ASSETS						\$29,907	\$15,655
	Cash and cash equivalents					62,378	24,833
	Short-term investments					0	1,355
	Accounts receivable					6,402	8,845
	Prepaid Expenses					198,188	190,304
	Unconditional promises to give					30,000	0
	Long-term investments					64,875	13,282
	Contribution receivable-charitable lead trust					206,800	230,000
	Deposits on leased and other property					1,000	1,500
	Property and equipment					<u>648,410</u>	<u>664,342</u>
					TOTAL ASSETS	<u>\$1,247,960</u>	<u>\$1,150,116</u>
LIABILITIES							
	Accounts payable					\$0	\$3,445
	Compensation					4,284	8,245
	Refundable advances					2,132	0
	Long-term debt					<u>79,991</u>	<u>85,930</u>
					TOTAL LIABILITIES	86,407	97,620
NET ASSETS							
	Unrestricted						
	Designated for new program development					\$50,000	\$0
	Undesignated					612,599	612,499
	Temporarily restricted					492,599	435,932
	Permanently restricted					6,869	4,165
					TOTAL NET ASSETS	<u>\$1,162,067</u>	<u>\$1,052,596</u>
					TOTAL NET LIABILITIES AND ASSETS	<u>\$1,247,960</u>	<u>\$1,150,116</u>

Statement of Activities

- Also called the income statement
- Shows changes in each class of net assets – unrestricted, temporarily restricted and permanently restricted
- Shows types of support and revenue received by the organization
- Shows amounts incurred for program activities and supporting services

Statement of Activities

- Lists operations activities from beginning to end of the fiscal year
- Provides information about costs of services
- Shows how an organization utilizes its revenues and public support
- Reflects whether an organization is operating within the constraints of its financial resources

Statement of Activities

CARALEE'S HOUSE											
STATEMENT OF ACTIVITIES											
Year Ended June 30, 2015											
REVENUES, GAINS, AND OTHER					<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>			<u>Total</u>	
SUPPORT											
	Contributions										
		United Way Services			-	156,275	-			156,275	
		New men's shelter			-	46,193	-			46,193	
		Capital campaign			-	4,771	-			4,771	
		Equipment acquisition			-	30,000	-			30,000	
		Endowment			-	-	2,704			2,704	
		Other			89,736	-	-			89,736	
		Federal financial assistance			43,473	-	-			43,473	
		Program service fees			22,417	-	-			22,417	
		Investment return			5,766	497	-			6,263	
		Change in value of split-investment agreement			-	1,800	-			1,800	
		Other			2,777	-	-			2,777	
		Net assets released from restriction									
		Expiration of time restriction - United Way			146,465	(146,465)	-			-	
		Services									

Statement of Activities

		Restrictions Satisfied by charitable lead trust receipts	25,000	(25,000)	-	-
		Restrictions satisfied by payment	<u>11,878</u>	<u>(11,878)</u>	<u>-</u>	<u>-</u>
		TOTAL REVENUES, GAINS AND OTHER SUPPORT	347,512	56,193	2,704	406,409
EXPENSES						
		Program services				
		Women and children	134,051	-	-	134,051
		Men	94,231	-	-	94,231
		Supporting services				
		Management and general	55,629	-	-	55,629
		Fundraising	<u>13,541</u>	<u>-</u>	<u>-</u>	<u>13,541</u>
		TOTAL EXPENSES	<u>297,452</u>	<u>-</u>	<u>-</u>	<u>297,452</u>
		CHANGE IN ASSETS	50,060	56,193	2,704	108,957
		NET ASSETS AT BEGINNING OF YEAR	<u>612,499</u>	<u>435,932</u>	<u>4,165</u>	<u>1,052,596</u>
		NET ASSETS AT END OF YEAR	<u>662,599</u>	<u>492,125</u>	<u>6,869</u>	<u>1,161,553</u>

Statement of Cash Flows

Operating:

- Grants, fees & contributions
- Program expenses, supplies and payroll

Investing:

- Sale of property, maturity of investments
- Purchase of property

Financing:

- Short or long term loans
- Payments on debt, mortgage payment

Statement of Cash Flows

CARALEE'S HOUSE										
STATEMENT OF CASH FLOWS										
Year Ended June 30, 2015 and 2014										
CASH FLOWS FROM OPERATING ACTIVITIES										
							<u>2015</u>	<u>2014</u>		
Increase in net assets							\$ 108,957	\$ 461,356		
Adjustments to reconcile change in net assets to net cash provided by operating activities:										
Depreciation							23,812	14,787		
Amortization of discount on split-interest agreement							(1,800)	-		
Donated vehicle included in contributions							-	(837)		
Unrealized gains on investments							(3,256)	(192)		
(Increase) decrease in operating assets:										
Accounts receivable							1,355	(677)		
Prepaid expenses							2,443	(1,169)		
Unrestricted unconditional promises to give							5,748	(2,874)		
United Way Services funding for the next fiscal year							19,682	(5,563)		
Contributions receivable - charitable lead trust							25,000	(230,000)		
Increase (decrease) in operating liabilities:										
Accounts payable							(3,445)	300		
Compensation							(3,861)	354		
Refundable Advances							2,132	-		
Contributions restricted for long-term purposes:										

Notes to the Financial Statements

- Provide information about the nature of an organization's work
- Summarize significant accounting policies
- Provide an explanation of amounts shown on the face of a financial
- Discuss concentrations of risk, commitments and contingencies, related party transactions, and other significant terms

Ratios & What They Mean

- **Current Ratio:** Ability to pay current liabilities as they mature (higher numbers are better)
- **Quick Ratio:** Ability to pay current debt with only cash and cash equivalents (higher numbers are better)
- **Debt to Equity Ratio:** Indicates the balance between equity and debt (what you have and what you owe)
 - The greater the number, the “more leveraged” the organization is

Ratios & What They Mean

- **Program Services to Expense:** Balance spent on mission in relation to total expenses (higher number is better)
- **G&A to Total Expense:** Relationship between overhead expenses to total expenses (varies depending on activities among similar entities lower is better)
- **Total Expense to Total Revenues & Support:** Ratios less than 1 but closer to 1.0 indicate a fairly healthy financial picture

Ratios & How Get Them

Working Capital = Total Current Assets/Total Current Liabilities

Quick Ratio = Cash & Cash Equivalent /
Total Current Liabilities

Debt/Equity Ratio = Total Liabilities/Total Net Assets

Ratios & How Get Them

Program Services to Total Expenses = Program Services /
Total Expenses

G&A to Total Expenses = General & Administrative Expenses /
Total Expenses

Total Expenses to Total Support Revenue = Total Expenses / Total
Support and Revenue

Questions?

