

Reading and Interpreting Nonprofit Financial Statements

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Users of NFP Financial Statements

- Donors
- Creditors
- Sponsors
 - (entities that provide funding, such as government grants or contracts)
- Rating agencies
- Regulators



Overview of the Basic Financial Statements

- **Statement of Financial Position**
- **Statement of Activities**
- **Statement of Functional Expenses**
- **Statement of Cash Flows**



Financial Ratios are Useful If...

- Calculated using reliable, accurate financial information
- Calculated consistently from period to period
- Used in comparison to benchmarks or goals
- Viewed both at a single point in time and as a trend over time
- Interpreted in the context of both internal and external factors

STATEMENT OF FINANCIAL POSITION

Save Our Charities
Consolidated Statements of Financial Position
December 31, 20X1 and 20X0

	20X1	20X0
Assets		
Cash and cash equivalents	\$ 5,821,340	\$ 3,485,916
Operating investments	723,006	641,132
Accounts receivable, net	312,216	387,200
Promises to give, net	1,990,615	897,930
Gift shop inventory, net	21,672	14,517
Prepaid expenses and other assets	290,813	355,387
Deferred bond offering costs, net	216,809	224,952
Cash restricted to building project	500,000	-
Property and equipment, net	30,810,802	30,265,057
Assets held under split-interest agreements	1,977,102	1,929,260
Beneficial interests in charitable trusts held by others	812,850	804,179
Beneficial interest in assets held by community foundation	1,094,842	1,090,505
Beneficial interests in perpetual trusts	2,595,059	2,515,201
Endowment		
Promises to give, net	336,999	372,553
Investments	47,027,131	43,378,704
Total assets	\$ 94,531,256	\$ 86,362,493
Liabilities and Net Assets		
Accounts payable	\$ 670,603	\$ 239,809
Accrued expenses and other liabilities	647,722	645,147
Deferred revenue	2,967,135	2,604,216
Line of credit	225,000	275,000
Liabilities under split-interest agreements	1,418,127	1,488,803
Capital lease obligations	69,214	86,459
Bonds and notes payable	9,788,586	9,984,720
Interest-rate swap	240,300	273,500
Total liabilities	16,026,687	15,597,654
Net Assets		
Unrestricted		
Undesignated	3,057,607	1,327,724
Board-designated operating reserve	300,000	250,000
Board-designated endowment	15,511,186	14,912,222
Invested in property and equipment, net of related debt	21,150,885	20,193,878
<i>[The above line is an optional break-out some NPOs find useful.]</i>	40,019,678	36,683,824
Temporarily restricted	15,620,141	11,630,869
Permanently restricted	22,864,750	22,450,146
Total net assets	78,504,569	70,764,839
Total liabilities and net assets	\$ 94,531,256	\$ 86,362,493



Statement of Financial Position

- See example – “Save Our Charities”
- Key Indicators:
 - Ability to manage debt
 - Ability to steward facilities
 - Appropriate liquidity
- Ratios to consider:
 - **Current Ratio** (current assets / current liabilities)
 - **Days cash on hand** (cash and current investments / daily cash requirement)
 - **Debt Ratio** (total liabilities / total unrestricted net assets)
 - **Accounts receivable aging** (AR > 90 days / total AR)
 - **Accounts payable aging** (AP > 90 days / total AP)

STATEMENT OF ACTIVITIES

Save Our Charities
Consolidated Statement of Activities
Year Ended December 31, 20X1

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Support, and Gains				
Program service fees	\$ 12,972,526	\$ -	\$ -	\$ 12,972,526
Exchange portion of membership dues	373,781	-	-	373,781
Gift shop sales	112,364	-	-	112,364
Less cost of goods sold	(59,621)	-	-	(59,621)
Net gift shop sales	52,743	-	-	52,743
Net investment return	1,173,826	3,369,715	-	4,543,541
Other revenue	101,275	-	-	101,275
Federal and state contracts and grants	256,663	-	-	256,663
Contributions	3,352,578	2,528,554	330,409	6,211,541
Donated professional services	23,555	-	-	23,555
In-kind contributions	36,280	-	-	36,280
Gross special events revenue	114,989	-	-	114,989
Less cost of direct benefits to donors	(12,601)	-	-	(12,601)
Net special events revenue	102,388	-	-	102,388
Change in value of split-interest agreements held by Save Our Charities	-	130,406	-	130,406
Distributions from and change in value of beneficial interests in assets held by others	145,649	21,209	84,195	251,053
Change in value of interest-rate swap	33,200	-	-	33,200
Net assets released from restriction pursuant to endowment spending-rate distribution formula	728,892	(728,892)	-	-
Net assets released from restrictions	1,331,720	(1,331,720)	-	-
Total revenue, support, and gains	20,685,076	3,989,272	414,604	25,088,952
Expenses and Losses				
Program services expense				
Advisory Program	13,340,967	-	-	13,340,967
Training Program	2,464,694	-	-	2,464,694
Total program expenses	15,805,661	-	-	15,805,661
Supporting services expense				
Management and general	883,593	-	-	883,593
Fundraising and development	592,859	-	-	592,859
Total supporting services expenses	1,476,452	-	-	1,476,452
Loss on uncollectable promises to give	7,109	-	-	7,109
Impairment loss on building	60,000	-	-	60,000
Total expenses and losses	17,349,222	-	-	17,349,222
Change in Net Assets	3,335,854	3,989,272	414,604	7,739,730
Net Assets, Beginning of Year	36,683,824	11,630,869	22,450,146	70,764,839
Net Assets, End of Year	\$ 40,019,678	\$ 15,620,141	\$ 22,864,750	\$ 78,504,569



Statement of Activities

- See example – “Save Our Charities”
- Key Indicators:
 - Revenue reliability
 - Consistent surpluses
 - Full cost coverage
- Ratios to consider:
 - **Reliance Ratios** (largest source of income / total income)
 - **Earned income ratio** (total earned income / total income)
 - **Self-sufficiency ratio** (total earned income / total expense)

STATEMENT OF FUNCTIONAL EXPENSES

[Optional – recommended but not required
unless the entity is a voluntary health and welfare organization]

Save Our Charities
Consolidated Statement of Functional Expenses
Year Ended December 31, 20X1

	Program Services			Management and General	Fundraising and Development	Cost of Goods Sold	Total
	Advisory	Training	Total				
Grants and other assistance	\$ 294,261	\$ -	\$ 294,261	\$ -	\$ -	\$ -	\$ 294,261
Salaries and wages	6,769,754	1,061,585	7,831,339	370,234	254,176	-	8,455,749
Employee benefits	1,398,503	310,865	1,709,368	99,963	26,222	-	1,835,553
Payroll taxes	541,580	84,927	626,507	29,619	19,823	-	675,949
Professional services	1,306,807	87,197	1,394,004	37,780	1,704	-	1,433,488
Accounting fees	-	-	-	40,073	-	-	40,073
Legal fees	-	7,939	7,939	-	-	-	7,939
Advertising and promotion	33,085	21,006	54,091	79,261	132,478	-	265,830
Office expenses	87,071	56,654	143,725	9,867	22,794	-	176,386
Information technology	37,858	606,535	644,393	12,399	14,653	-	671,445
Occupancy	446,601	29,799	476,400	14,918	55,427	-	546,745
Travel	170,957	18,283	189,240	149,292	-	-	338,532
Conferences, conventions and meetings	32,516	66,287	98,803	11,505	-	-	110,308
Interest	387,428	-	387,428	-	9,457	-	396,885
Insurance	198,174	12,556	210,730	5,443	1,022	-	217,195
Training and development	457,617	20,659	478,276	9,113	33,669	-	521,058
Gift shop cost of goods sold	59,621	-	59,621	-	-	-	59,621
Cost of direct benefits to donors	-	-	-	-	-	12,601	12,601
Depreciation and amortization	1,147,186	74,425	1,221,611	20,112	13,960	-	1,255,683
Bad debt expense	-	-	-	16,892	-	-	16,892
Other	31,569	5,977	37,546	2,122	7,474	-	47,142
Total expenses by function	13,400,588	2,464,694	15,865,282	908,593	592,859	12,601	17,379,335
Less expenses included with revenues on the statement of activities							
Gift shop cost of goods sold	(59,621)	-	(59,621)	-	-	-	(59,621)
Cost of direct benefits to donors	-	-	-	-	-	(12,601)	(12,601)
Investment management fees	-	-	-	(25,000)	-	-	(25,000)
Total expenses included in the expense section on the statement of activities	\$ 13,340,967	\$ 2,464,694	\$ 15,805,661	\$ 883,593	\$ 592,859	\$ -	\$ 17,282,113



Statement of Functional Expenses

- See example – “Save Our Charities”
- Ratios to consider:
 - **Personnel costs** (total wages, taxes, benefits / total expenses)
 - **Benefit cost** (total taxes, insurance, fringe / total salary and wages)
 - **Admin cost ratio** (total fundraising, general and admin / total expenses)
 - **Fundraising efficiency** (contributed income / fundraising expense)
 - **Cost per unit of service** (program expenses / units of service)

STATEMENT OF CASH FLOWS

Save Our Charities
Consolidated Statements of Cash Flows
Years Ended December 31, 20X1 and 20X0

	20X1	20X0
Reconciliation of Change in Net Assets to Net Cash from (used for) Operating Activities		
Change in net assets	\$ 7,739,730	\$ 682,324
Adjustments to reconcile change in net assets to net cash from (used for) operating activities		
Depreciation and amortization	1,247,540	1,189,909
Amortization of discount on promises to give	(6,889)	(7,924)
Amortization of bond issuance costs	8,143	8,143
Realized and unrealized (gain) loss on operating investments	19,606	(490)
Impairment loss – building	60,000	-
(Gain) loss on sale of property and equipment	-	(990)
Contributed property and equipment capitalized	-	(53,000)
Loss on uncollectable promises to give	7,109	434,243
Contributions received under split-interest agreements	-	(28,486)
Contributions restricted to building project	(500,000)	-
Contributions restricted to endowment	(330,409)	(1,857,667)
Change in value of split-interest agreements held by SOC	(130,406)	(51,472)
Change in beneficial interests in assets held by others	(92,866)	(75,870)
Endowment net investment (return) loss	(4,556,061)	(43,269)
Change in value of interest rate swap	(33,200)	(37,900)
Changes in operating assets and liabilities		
Accounts receivable, net	74,984	(40,644)
Promises to give, net	(726,942)	716,652
Gift shop inventory, net	(7,155)	3,427
Prepaid expenses and other assets	64,574	(38,072)
Accounts payable	(14,575)	(96,082)
Accrued expenses and other liabilities	2,575	13,817
Deferred revenue	362,919	54,095
Net Cash from (used for) Operating Activities	<u>\$ 3,188,677</u>	<u>\$ 770,744</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for		
Interest	\$ 408,371	\$ 460,624
Unrelated business income taxes [if any]	-	-
	<u>\$ 408,371</u>	<u>\$ 460,624</u>
Supplemental Disclosure of Non-cash Investing and Financing Activity		
Accounts payable for property and equipment	\$ 445,369	\$ -
Equipment financed through capital lease arrangement	-	94,700
	<u>\$ 445,369</u>	<u>\$ 94,700</u>



Statement of Cash Flows

- See example – “Save Our Charities”
- Key indicators:
 - Consistent Surpluses
 - Full cost coverage

Considerations for Internal Reporting



Report Title	Preparer	Reviewer	Intended Users	Frequency
Financial statements (unaudited)	Controller	CFO	Applicable staff, board	Monthly
Five-year revenue trending report	CFO	Controller	Applicable staff, board	Quarterly
Cash flow forecast	CFO	Controller	Applicable staff, board	Quarterly
Dashboard	Controller	Treasurer	Applicable staff, board	Quarterly
Budget-to-actual - overall	CFO	Treasurer	Applicable staff, board	Monthly
Budget-to-actual - departmental	Controller	CFO	Department heads	Monthly
Budget-to-actual - by program	Controller	CFO	Program managers	Monthly
Special events summary	Accounting clerk	Controller	Development team, board	Monthly
Major gifts by type	Controller	CFO	Development team, board	Monthly
Outstanding Checks List	Accounting clerk	Controller	Accounting staff	Monthly
Outstanding Receivables	Accounting clerk	Controller	Development staff	Monthly
Contributions by Donor	Accounting clerk	Controller	Development staff	Monthly



Highlights for Board Reporting

- **Monthly**
 - Financial statements
 - Budget-to-actual
 - Special events summary
 - Major gifts by type
- **Quarterly**
 - Five-year revenue trending report
 - Cash flow forecast



Considerations for the Board Packet

- **Customize a report to highlight the items that matter the most**
- **Provide a script or handout along with the statements to explain the information**



Do We Need an Audit?

- Federally required if NFP receives more than \$750,000 in Federal grants
- Sometimes required by other funding sources, such as private foundations
- Sometimes required by lenders
- May be requested by a Board member



What is an Audit?

- Auditor obtains a high, but not absolute, level of assurance about whether the financial statements are free from material misstatements
- CPA performs the following:
 - Obtains an understanding of internal controls, possibly testing the effectiveness of internal controls
 - Assesses the accounting principles used and significant estimates
 - Evaluates the overall financial statement presentation
 - Verifies balances and transactions with third parties
 - Procedures to obtain reasonable assurance that the financial statements are free from material misstatement



What is an Audit?

- Financial statements are the responsibility of management, but CPA may assist in drafting the financial statements
- CPA reports material weaknesses or significant deficiencies in internal control to management or audit committee



What is a Review?

- CPA obtains limited assurance that there are no material modifications that should be made to the financial statements
- CPA performs the following:
 - Inquiries of management
 - Analytical procedures
 - Assesses the accounting principles used and significant estimates
 - Evaluates the overall financial statement presentation



What is a Review?

- Financial statements are the responsibility of management, but CPA may assist in drafting the financial statements
- Communications on internal control are not required, but may be done if matters come to the CPA's attention



What is a Compilation?

- CPA does not obtain or provide any assurance that there are no material modifications that should be made to the financial statements
- CPA performs the following:
 - Presents the client's financial data in the form of financial statements
 - Takes common sense look at the accounting system to decide whether the client needs other accounting services, such as adjusting the accounting records
 - Reads the financial statement and considers whether they are appropriate in form and free from obvious material errors



What is a Compilation?

- Financial statements are the responsibility of management, but CPA may assist in drafting the financial statements
- Communications on internal control are not required, but may be done if matters come to the CPA's attention



Thank You!

Q & A

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