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[Financial Training and Consulting for Charities and Nonprofits.]

Understanding Financial Statements – Workshop Objectives

- Demystifying the Audited Financial Statements
- Measuring the Financial Health of an Organizaton
- Analyzing Financial Reports

Audited Financial Statements

- Statement of Financial Position
- Statement of Operations
- Statement of Changes in Net Assets
- Statement of Cash Flow

Statement of Financial Position

- Also known as the Balance Sheet
- This report show the total assets, liabilities and equity of an organization at a point in time

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Assets

- Assets are what the charity owns or is owed.
- Current assets are those assets that are expected to be converted to cash or used in a year or less (cash, inventory, prepaid expenses)
- Long Term Assets are those that will be converted to cash or used in more than a year (investments, building, equipment)

Cash and Cash Equivalents

- This number is not necessarily the bank balance as it could include several bank balances and short term investments
- You may want to ask what is included in cash and reason for any significant increases or decreases from the previous year

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Accounts Receivable

- Amounts owed to the organization from third parties (government contracts, fee for service sales)
- You may want to ask what in included in the accounts receivable amount and when the money is expected to be paid
- You can ask about any significant increases or decreases from the previous year

Prepaid Expenses

- Expenses paid in the current year that will be utilized in the next fiscal year. (insurance, rent)
- If the amount is significant you may want to ask what these prepaid expenses consist of

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Capital Assets

- Land, Building, Equipment
- You may want to ask about the market value of the asset and confirm they are insured.

Investments

- Investments that are planned to be held for longer than one year (endowment fund)
- You should know why there are any significant increases or decreases to the fund.

Liabilities

- Liabilities are amounts that the organization owes to others
- Shorter term liabilities are those that are payable within a year
- Long term liabilities are those that will be paid in more than one year

Accrued Payables/Accrued Liabilities

- Amounts owed to vendors but not paid at the end of the fiscal period. (Items purchased and received but invoices not paid until future months)
- If the amounts are significant, what are they and when will they be paid

Deferred Revenue

- Deferred revenue also known as deferred contributions or revenue received in advance represents revenue received and deposited in the current fiscal period for services to be delivered in a future period
- You should know what revenue has been received and for what program
- When will the funds be spent

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Capital Leases

- Capital leases represent the amount owing on leased capital items. (photocopier, computer equipment)
- You should be aware what is being leased and for how long if the number is significant

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Net Assets

- Net assets are what is left over after subtracting the liabilities from the assets
- You may see this divided into different categories (Invested in Capital Assets, Internally Restricted, Unrestricted)
- You want to see if the net assets are increasing or decreasing.

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Statement of Changes in Net Assets

- This statement provides more detail of the net asset numbers that appear on the Statement of Financial Position

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Statement of Cash Flows

- This statement details the cash flowing into and out of the organization during the year.

Notes to the Financial Statements

- Audited Financial Statements will also include notes which give more detailed information of specific items
- The items where you normally see notes include fixed assets, investments, and deferred revenue

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Ratio Analysis – Current Ratio

- Current Assets/Current Liabilities
- This is a liquidity ratio that measures whether or not the organization has enough resources to meet its short term obligations.
- Anything less than 1 would be a warning sign.

Ratio Analysis – Debt Ratio

- Total Liabilities/Total Assets
- This ratio measures the proportion of the organizations assets that are financed by debt.
- A lower ratio implies a more stable organization.
- A ratio of 1 indicates the organization would have to sell all its assets to pay off its obligations.
- A debt ratio of .5 would be considered reasonable.

Ratio Analysis – Fixed Assets

- Accumulated Amortization/Fixed Assets
- This ratio will tell you how depreciated the assets are.
- The ratio will increase as the assets are depreciated which would indicate the organization may need to reinvest in these assets to continue to deliver services.

Template for Analyzing Financial Statements

- Did the organization break even, lose money or make money?
- What are the significant sources of revenue?
- What is the business model?
- How much are government grants, donations, fees as a percentage of revenue?
- Is there a dependency on one source of funding?
- What has happened to revenue and expenses compared to the previous year?
- What is the composition of expenses?

Template for Analyzing Financial Statements - Continued

- Is there a positive balance in net assets?
- What is the current ratio?
- How old are the assets?
- Is there long term debt? If so what is it?
- Does the organization have a reserve fund policy?

Limitation on Information from Audited Financial Statements

- Audited Statements contain historical information that is financial and quantitative in nature.
- You also need future oriented information such as budgets and strategic plans in decision making.
- Decision making also requires non-financial data.
- Audited Statements do not give a complete picture on how the organization is meeting the mission.

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