Understanding Nonprofit Financial Statements

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Agenda

- Nonprofit Basics
- Financial Statements Overview
- Analyzing Financial Statements

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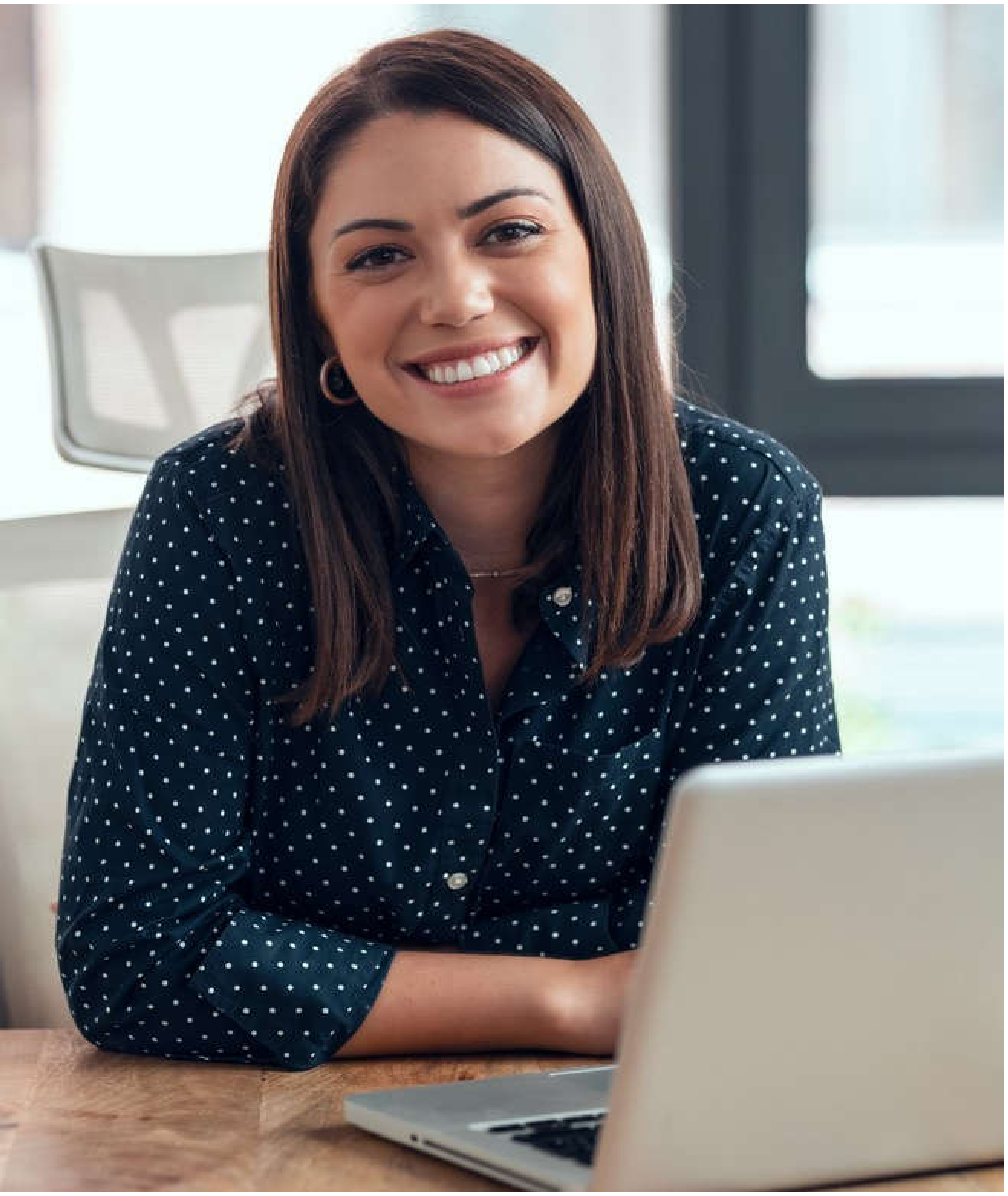

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- Outsourced accounting services: replacing the functionality of a part-time to full-time staff
- Nonprofit Organizations and Mid-Size Businesses
- Degreed, knowledgeable and professional staff
- 30+ years of proven experience
- Pittsburgh, Philadelphia, South Jersey, Eastern Maryland, and Central Texas

Nonprofit Basics

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Why we need Financial Statements

Management	→	Operational Decisions
Boards	→	Strategic Planning
Funders	→	Use of Funds
Auditors	→	GAAP Reporting

Nonprofit Basics

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Nonprofit Basics

What is GAAP?

- Generally Accepted Accounting Principles
  - Standards, conventions, and rules that accountants follow for recording, summarizing and preparing financial statements
  - Principles constitute preferred accounting treatment

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Nonprofit Basics

GAAP requires the use of the accrual method of accounting. If you wish to have an audit done under GAAP, you must use the accrual method of accounting.

Audit Comment: *Method of Accounting – The accompanying financial statements have been prepared using the accrual method of accounting.*

Accrual Basis

- Income > Posted based on when funds are earned
- Expenses > Posted based on when expenses are incurred
  - Note: Entries can be spread over multiple periods for appropriate distribution

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Terminology

Income Statement	=	Statement of Financial Activities
Balance Sheet	=	Statement of Financial Position
Retained Earnings Equity	=	Net Asset Balance
Contribution	=	Donation
Restriction	=	Limitation on Donation

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Financial Statement Overview

Chart of Accounts

- Listing of financial statement accounts
- Designed based on reporting requirements

The chart of accounts is an organization system that should be designed to meet the needs of all users.

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Transactions make up Financial Statements

- Individual transactions reflect daily activity

  (Revenue and Expenses)

- Posted to accounts on the financial statements

  (Chart of Accounts)

Financial Statement Overview

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Statement of Financial Activities

Reflects an organization's financial performance for a specific time period

Revenue

− Expenses

Change in Net Assets

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Statement of Financial Activities

	Feb 2024	YTD
Revenue and Other Support		
4000 · Contributions	4,500	15,000
4200 · Grants & Fees	3,000	25,000
4800 · Miscellaneous Income	350	1,000
Total Revenue and Other Support	7,850	41,000
Expenses		
5000 · Payroll Expenses	2,600	23,900
5500 · Facility Expenses	500	6,000
6000 · Office Expenses	3,795	9,500
Total Expenses	6,895	39,400
Change in Net Assets	955	1,600

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Financial Statement Overview

	Feb 2024	YTD
Revenue and Other Support		
4000 · Contributions	4,500	15,000
4200 · Grants & Fees	3,000	25,000
4800 · Miscellaneous Income	350	1,000
Total Revenue and Other Support	7,850	41,000

WHAT is Revenue?

HOW and WHEN should Revenue be recognized?

Statement of Financial Activities: Revenue Classifications

Net Assets without Donor Restriction

- Contributions to be used at the organization's discretion
- Includes "Board Designated" Funds

Net Assets with Donor Restriction

- Donor imposed restriction removed by time or act
- Donor imposed restriction that requires that the initial funds must remain unspent (Endowment)

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Statement of Financial Activities: Revenue Recognition Rules

Recognized when *Earned*

- In Kind Contribution
- Conditional Contribution/Pledge
- Fee for Service

Recognize when *Notified*

- Donation
- Unconditional Pledge
- Grant

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Statement of Financial Activities: In Kind Contributions

- Nonprofit organizations may receive income in the form of goods or services, rather than cash
- Non-cash donations of goods or assets should be recorded at the fair market value of the asset as of the date the asset was contributed
- Should be recognized as revenue and expense of the nonprofit organization when received

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Statement of Financial Activities: Donated Services

Donated services may be recognized only if the services:

- Create or enhance a non-financial asset (e.g., land, building, equipment, furniture, inventory, etc.)

OR

- Require specialized skills, are provided by individuals possessing those skills, and would need to be purchased if not provided by donation

Services that meet these criteria should be recognized as revenue and expense of the nonprofit organization when received

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Statement of Financial Activities: Conditional Contribution/Pledge

- A contribution promised that is dependent on the occurrence of a *future uncertain event*
- Revenue is not recognized until the barrier is overcome or condition is substantially met / reasonably expected to be met
- A condition is *not uncertain* if it is reasonably expected to occur

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Statement of Financial Activities

Barrier = A stipulation, condition or obstacle that must be overcome, met, or that may prevent something from occurring.

- Measurable performance barrier - based on outcomes, milestones, or other outside requirements or events.
- Stipulations related to the purpose or outcome of the agreement and are more specific than restrictions.
- Government Funding / Cost Reimbursement Contracts - stipulations to incur eligible expenses and return or forfeit unused funds

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Statement of Financial Activities: Barrier Considerations

Per a recent FASB ASU (Accounting Standards Update)

- No longer necessary to determine the degree of certainty (likelihood) that the barrier will be met or overcome
- Only necessary that a barrier exists AND that if not met - it gives the Donor a Right of Return or Release (the Donor is entitled to a refund of the funds provided or is released from obligation to provide the funds)

Administrative requirements are NOT conditions

Uncertainty of collection for a future pledge / contribution is NOT a Condition

Statement of Financial Activities: Fees for Service

- Charges a predetermined price or fixed fee based on a specific set of criteria
- Revenue is recognized when the service is performed

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Statement of Financial Activities: Contributions

Voluntary, unconditional, nonreciprocal transfer of cash or assets to an organization

- The donor received nothing in exchange for the cash or assets
- Contributions principally include:
  - General Donations
  - Pledges
  - Grants

FASB 116 states that unconditional contributions must be recorded as revenue when the organization is notified that a promise to give has been made – not when the cash or asset is received

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Statement of Financial Activities: Pledges

A written promise to contribute cash or other assets to an entity, usually in the future. There must be sufficient evidence in the form of verifiable documentation that a promise was made.

- Short Term – Expected to be received in under a year and recognized as Unrestricted
- Long Term – Expected to be received between 1 - 5 years and recognized as Restricted for timing only

FASB 116 states that unconditional pledges must be recorded as revenue when the organization is notified that a promise to give has been made – not when the cash or asset is received

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Statement of Financial Activities: Grants

- Funds contributed by a foundation, corporation, or other funding source as a result of a grant proposal

- If a multi-year grant is awarded, FASB 116 requires recognition of the entire grant as revenue at the time the grant is awarded

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Statement of Financial Activities: Cost Reimbursement Grant

- A reimbursement grant provides funding to grant recipients
- Different scenarios on when funding is received but revenue is not recognized until earned
- Common when receiving grants from the government
- Revenue is recognized when the expenses have been incurred

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- A Refundable Advance is an advance payment of a Conditional Contribution or Grant

- If an advance payment is received, the advance payment is refundable if the Condition is not met (or is a liability to be refunded until the condition is met).

Statement of Financial Activities

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Statement of Financial Activities

	Feb 2024	YTD
Expenses		
5000 · Payroll Expenses	2,600	23,900
5500 · Facility Expenses	500	6,000
6000 · Office Expenses	3,795	9,500
Total Expenses	6,895	39,400

WHAT are Expenses?

HOW and WHEN are Expenses Recorded?

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Statement of Financial Activities: Expenses

Money spent or cost incurred in an organization's efforts to generate revenue, representing the cost of doing business

Expenses may be in the form of:

- Actual cash payments or credit card charge
- A calculated expired portion (depreciation) of an asset
- An amount taken out of earnings (such as bad debt)

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- Not-for-profit organizations are required to track expenses by account and by function.
- Functional categories include program, general and administrative and fundraising expenses.
- Most organizations have more than one program and each of these should be tracked separately.
- If an audit has been conducted, the audited statements will contain expenses on a functional level.

Statement of Financial Activities

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Statement of Financial Activities: Statement of Functional Expenses

Classifies expenses into functional categories

- Program Services - fulfill the mission of the organization
- Support Services - anything that isn't program services (Fundraising and Administrative)

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Statement of Financial Activities: Class Tracking

- Class = a program
- Produces a Statement of Financial Activity for each program
- Subclasses can be used to organize groupings of classes
- Provides Net Asset Balances report for each program

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Class List

Support Service

Administrative

Fundraising

Programs

HeadStart

Arts Program

Statement of Financial Activities

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Statement of Financial Activities

Statement of Activity by Class

	Administrative	Fundraising	Programs	TOTAL
Revenue and Other Support				
4000 · Contributions	-	9,000	6,000	15,000
4200 · Grants & Fees	-	-	25,000	25,000
4800 · Miscellaneous Income	1,000	-	-	1,000
Total Revenue and Other Support	1,000	9,000	31,000	41,000
Expenses				
5000 · Payroll Expenses	6,500	4,000	13,400	23,900
5500 · Facility Expenses	3,500	2,500	-	6,000
6000 · Office Expenses	5,000	1,250	3,250	9,500
Total Expenses	15,000	7,750	16,650	39,400
Change in Net Assets	(14,000)	1,250	14,350	1,600

= Statement of Functional Expenses

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Statement of Financial Activities: Customer / Job Tracking

Used in addition to, not instead of, Class tracking

- Customers = Revenue Classification
- Jobs = Funding Sources
- Classes = Programs

- A nonprofit with multiple funding sources needs to track expenditures across multiple programs
- Tracks activity that crosses fiscal years
- Net Asset Balance for each fund

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Job List

Net Assets without Donor Restriction

General – No Restriction

Allegheny County

Net Assets with Donor Restriction

McCune

Heinz

Statement of Financial Activities

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Statement of Financial Activities

Statement of Activity by Job (aka Funder)

	General Funds	County	Grant	TOTAL
Revenue and Other Support				
4000 · Contributions	15,000			15,000
4200 · Grants & Fees		15,000	10,000	25,000
4800 · Miscellaneous Income	1,000			1,000
Total Revenue and Other Support	16,000	15,000	10,000	41,000
Expenses				
5000 · Payroll Expenses	5,675	12,500	5,725	23,900
5500 · Facility Expenses	3,500	2,500	-	6,000
6000 · Office Expenses	8,500	-	1,000	9,500
Total Expenses	17,675	15,000	6,725	39,400
Change in Net Assets	(1,675)	-	3,275	1,600

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Statement of Financial Activities

	Feb 2024	YTD
Revenue and Other Support		
4000 · Contributions	4,500	15,000
4200 · Grants & Fees	3,000	25,000
4800 · Miscellaneous Income	350	1,000
Total Revenue and Other Support	7,850	41,000
Expenses		
5000 · Payroll Expenses	2,600	23,900
5500 · Facility Expenses	500	6,000
6000 · Office Expenses	3,795	9,500
Total Expenses	6,895	39,400
Change in Net Assets	955	1,600

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	Feb 2024	YTD
Change in Net Assets	955	1,600

- Change in Net Assets = “Bottom Line”
- What happens to the Change in Net Assets?
- Where does it go?

Statement of Financial Activities

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Statement of Financial Position

	Feb 29, 2024
Assets	
1000 · Cash	150,000
1200 · Accounts Receivable	10,000
1400 · Prepaid Expenses	3,795
1700 · Fixed Assets	45,000
1800 · Accumulated Depreciation	(25,000)
Total Assets	183,795
Liabilities	
2000 · Accounts Payable	30,500
2300 · Payroll Liabilities	500
2400 · Accrued Liabilities	10,000
2600 · Refundable Advances	46,000
2700 · Long Term Loans	75,000
Total Liabilities	162,000
Net Assets	
3900 · Net Assets	20,195
Change in Net Assets	1,600
Total Net Assets	21,795
Total Liab and Net Assets	183,795

Change in Net Assets is reflected in the Net Asset Balance on the Statement of Financial Position

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Statement of Financial Position

Total Net Assets reflect an organization's cumulative financial positon at any given point in time.

Assets

– Liabilities

Total Net Assets / Net Worth

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Statement of Financial Position

	Feb 29, 2024
Assets	
1000 · Cash	150,000
1200 · Accounts Receivable	10,000
1400 · Prepaid Expenses	3,795
1700 · Fixed Assets	45,000
1800 · Accumulated Depreciation	(25,000)
Total Assets	183,795

Any item of value owned by the nonprofit that *could be* converted to cash

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Statement of Financial Position

	Feb 29, 2024
Liabilities	
2000 · Accounts Payable	30,500
2300 · Payroll Liabilities	500
2400 · Accrued Liabilities	10,000
2600 · Refundable Advances	46,000
2700 · Long Term Loans	75,000
Total Liabilities	162,000

Any obligation that *could* result in the loss of an asset

Statement of Financial Position

	Feb 29, 2024
Net Assets	
3900 · Net Assets	20,195
Change in Net Assets	1,600
Total Net Assets	21,795
Total Liab and Net Assets	183,795

Net Assets are the "Equity" of an organization. They represent the unspent or overspent balance of funds provided.

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Statement of Financial Position

QuickBooks

Assets	
Cash	150,000
Other Assets	13,795
Fixed Asset	20,000
Total Assets	183,795
Liabilities	
Payables	31,000
Other Liabilities	56,000
Loans	75,000
Total Liabilities	162,000
Net Assets	
3900 · Net Assets	20,195
Change in Net Assets	1,600
Total Net Assets	21,795
Total Liab and Net Assets	183,795

Audit Report

Assets	
Cash	150,000
Other Assets	13,795
Fixed Assets	20,000
Total Assets	183,795
Liabilities	
Payables	31,000
Other Liabilities	56,000
Loans	75,000
Total Liabilities	162,000
Net Assets	
Net Assets without Restriction	1,350
Net Assets with Restriction	20,445
Total Net Assets	21,795
Total Liab and Net Assets	183,795

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What is the purpose of the Report?

- Track over or under spending
- Monitor Restricted funds
- FASB Disclosure Requirement

Net Asset Balances

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Statement of Financial Position

QuickBooks

Net Assets without Donor Restriction	
Admin	1,350
Allegheny Cty Contract	0
	1,350
Net Assets with Donor Restriction	
Pittsburgh Foundation	15,745
Heinz	4,700
	20,445
Total Net Assets	21,795

Audit Report

Net Assets	
Net Assets without Donor Restriction	1,350
Net Assets with Donor Restriction	20,445
Total Net Assets	21,795

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Analyzing Financial Statements

Analyzing financial statements help us report financial performance, evaluate financial resources, measure organizational, and monitor financial trends.

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Current Ratio

Does the organization have enough assets to meet its current liabilities?

$$\frac{\text{Current Assets} - \text{Restricted Cash}}{\text{Current Liabilities}}$$

- The higher the ratio, the more liquid the organization. Generally, a healthy organization will have a current ratio of at least 1.
- You may need to consider increasing liquidity by moving some funds to higher yielding accounts that are still liquid (ready to use). It's good to reevaluate your asset mix, especially when interest rates change.
- Make sure the accounts listed as current assets are collectible.

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Restricted Asset Ratio

Are you borrowing from the future or from net assets intended for use in future periods?

$$\frac{\text{Cash + Accounts Receivable}}{\text{Net Assets with Donor Restriction}}$$

- If this ratio is below one, the organization is borrowing from the future and doesn't have the money to perform promised actions.

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Cash on Hand

How many days can the organization pay for expenses without receiving additional revenue?

$$\frac{\text{Total Checking / Savings}}{\text{(Total YTD Expenses – YTD Depreciation) / YTD Days}}$$

- Organizations typically strive to maintain at least 90 – 180 days cash on hand. The high end is 2 years of budget. The low end is enough to cover 1 month of budget.

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Functional Expense Allocation

What percentage of my expenses are spent on achieving the organization's mission?

$$\frac{\text{Program Service Exp.}}{\text{Total Expenses}} \text{ vs. } \frac{\text{Fundraising Exp.}}{\text{Total Expenses}} \text{ vs. } \frac{\text{Admin Exp.}}{\text{Total Expenses}}$$

- Reasonable allocation of organizational resources:
  - 70 – 80% programs
  - 15 – 20% administration
  - 5 – 10% fundraising.
- Highly subjective. Compare your organization to others similar in size and purpose.

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Review

- Nonprofit Basics
- Financial statements of a Nonprofit
- Analyzing Financial Statements

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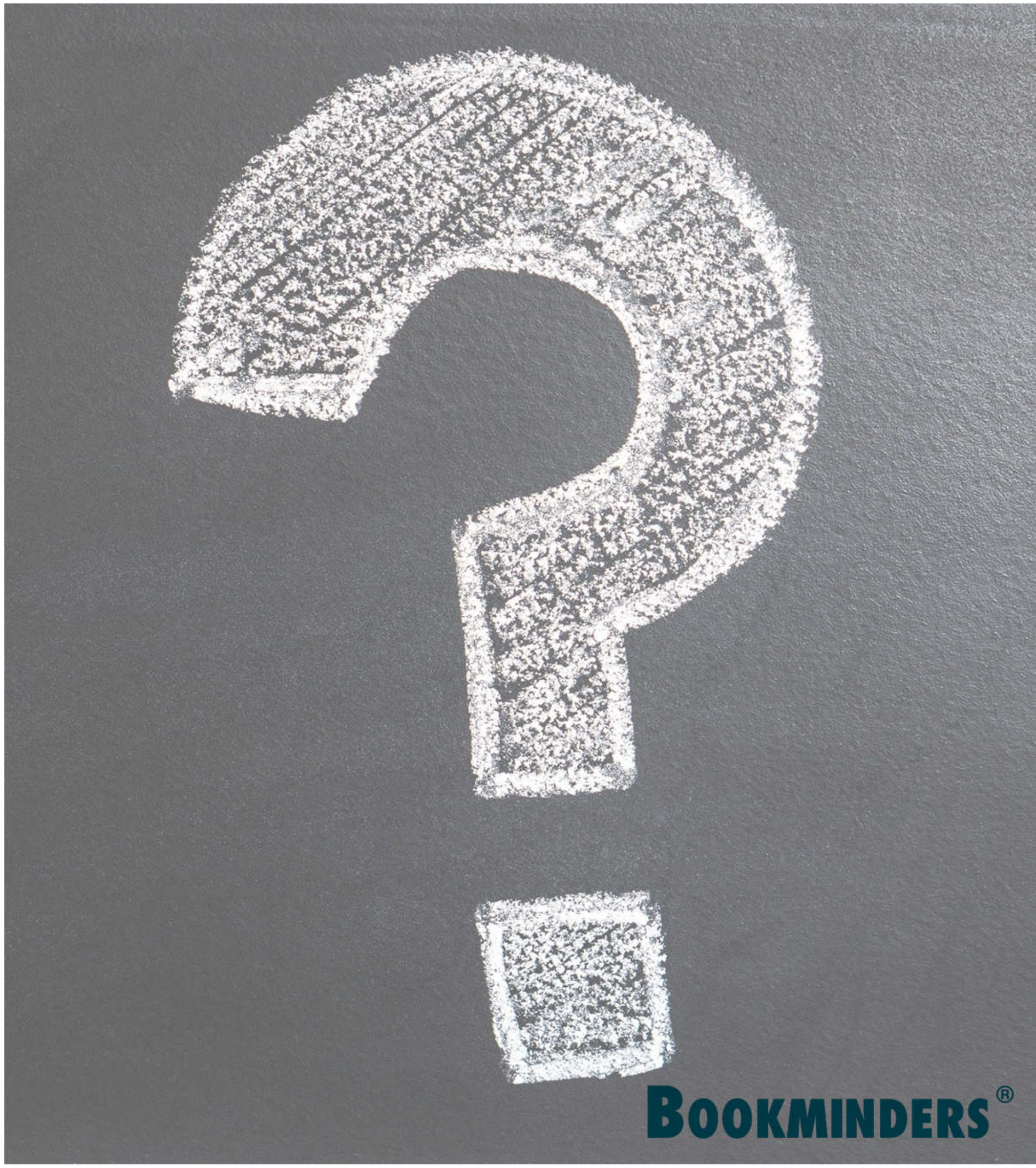
Your Questions



Bookminders Review Processes

- QA team reviews year-end package
- Year-end package sent to auditors includes:
  - QuickBooks file
  - Year-end reports exported to Excel
  - Bank Reconciliations
  - Grant letters, investment statements, and other supporting schedules
  - Executive Summary and Income Statement Analysis

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Thanks for attending!

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