



Understanding Nonprofit Financial Statements

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Seminar Outcomes

- To help you gain a better of understanding of the unique aspects of nonprofit financial statements
- To help evaluate how you match up with your peers & your overall organization's financial health
- To present the concept of 10 bottom lines of financial statement analysis

In General

- There are many different types of nonprofit organizations so presentations may vary based on unique circumstances of your organization
- Differences may exist between internal and external financial statements
- US Generally Accepted Accounting Principles (GAAP) apply including SFAS 116 & 117 along with other accounting industry standards

Basic Nonprofit Financial Statements According to GAAP

- The Statement of Financial Position (Balance Sheet)
- The Statement of Activities (Income Statement)
- The Statement of Cash Flows
- Notes to Financial Statements

External Auditor's Role

- Provide an 'opinion' on the US GAAP Basis Financial Statements. What does this mean?
- Report deficiencies in internal control over financial reporting. What are the auditors responsibilities?
- Report certain information to audit committees according to US Auditing Standards

Basic *Internal* Financial Statements

- May include:
 - Budget Analysis (Budget vs. Actual)
 - Departmental Cost Centers
 - Projections
 - Cash Flow Analysis
 - Analysis of Key Performance Indicators
 - Dashboard Reports

Statement of Financial Position

- The *keys* to assessing the overall financial health and managing risk:
 - Liquidity: How much cash do we have? Is our liquidity sufficient
 - Debt to Equity: sufficient cash flow to manage debt?
 - Reserves- How much?



Statement of Financial Position

- Receivables: Are they slow to collect? Aging?
- Payables: How fast are we paying our bills?
- Debt/Line of Credit: How is cash flow managed?
- Temporarily Restricted Net Assets: Do they best support core programs?
- Reserves: What is the nature? Are they suitable to the organization's needs?

Statement of Financial Position

- **Investments**
- Marketable securities and debt instruments (stocks, bonds, mutual funds)
 - Recorded at Fair Market Value based on levels of input
 - Level 1
 - Level 2
 - Level 3

Statement of Financial Position

- **Net Assets**

- *Unrestricted* – Assets which are not restricted either by donors or by law
 - Also includes board designated funds
- *Temporarily Restricted* - Usage of is limited by donor-imposed time or purpose restrictions
- *Permanently Restricted* – Assets which have been restricted by donor or law to be maintained by the organization in perpetuity
 - Endowment Funds

The Statement of Activities

- The *keys* to assessing the results of operations and sufficiency of current operating activity.
 - What is our bottom line?
 - How diverse is our revenue?
 - What are our major programs and do they align with our mission?

The Statement of Activities

- Revenue Recognition vs. Cash Collection
- Exchange Transaction vs. Contributions
- Should be presented in a manner that is useful to management and the board
- Variances should be analyzed

The Statement of Activities

- **Other Items that maybe Unique to Nonprofit Organizations**
 - In-kind or Donated Goods or Services
 - Statement of Functional Expense
 - Agency Transactions

The Statement of Cash Flows

- The *keys* to determining if cash flow is sufficient to meet current operations:
 - Is there cash flow from operations?
 - What is the nature of operating cash flows?
 - How are we investing our cash flows?
 - How are we financing operations?

The Statement of Cash Flows

- **Effect on Cash Balance from All Activities**
 - Reconciliation (bridge) from Accrual Basis Income to Cash
 - Divided among the affect to cash balances from:
 - **Operational Activities**
 - **Investing Activities** (purchase/sale of investments or assets)
 - **Financing Activities** (payments for debts)

Ratio Analysis

- **Monitoring & Evaluation of Performance**
 - Assists with evaluation of performance
 - Quantify critical relationships behind the numbers
 - Guides the formulation of strategies
 - Enables comparison to industry peers
- Ratios *assist the users* of statements to *derive meaning* from the financial results of operations.

Ratio Analysis

- Selected Ratios:
 - **Current Ratio:**
 - $\text{Current Assets} / \text{Current Liabilities}$
 - **Reserve Ratio:**
 - $\text{Unrestricted Net Assets (excluding property and equipment)} / \text{Annual Budget}$
 - **Program Efficiency Ratio:**
 - $\text{Program Expenses} / \text{Total Expenses}$
 - **Administrative Cost Ratio:**
 - $\text{Administrative Expenses} / \text{Total Expenses}$

Benchmarking

- How do you compare to your peers?
 - Make sure your peer group is comparable.
 - Key performance indicators for your industry
 - US National Rating Bureaus
 - Guidestar
 - Charity Navigator
 - BBB Wise Giving Alliance
 - Charity Watch
 - Overhead myth

10 Bottom Lines of Financial Statement Analysis

What are your current Financial Statements telling you?

Resources

- www.wegnercpas.com/non-profits/resources
- www.strongnonprofits.org
- <http://overheadmyth.com/>

Thank You!

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