

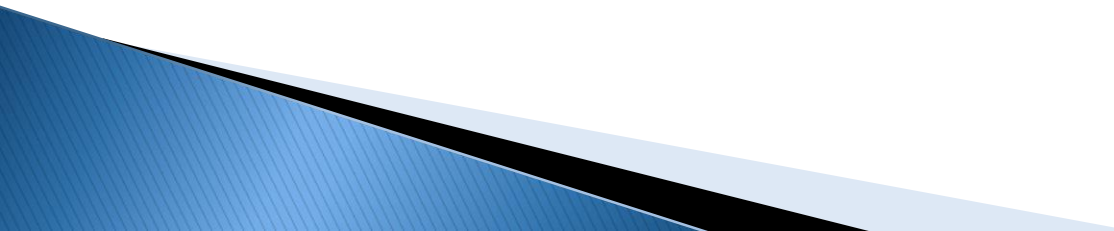
WLS Trustee Institute

Understanding Nonprofit Financial Statements

Wednesday, June 7, 2017

Fran Feuerman
WLS Chief Financial Officer
ffeuerman@wlsmail.org; 914-231-3222


TOPICS TO COVER

- ▶ Differences between Nonprofits and For-Profits
 - ▶ Role of a Nonprofit Board
 - ▶ Financial Statements
 - Balance Sheet/Statement of Financial Position
 - Income Statement/Statement of Activities
- 

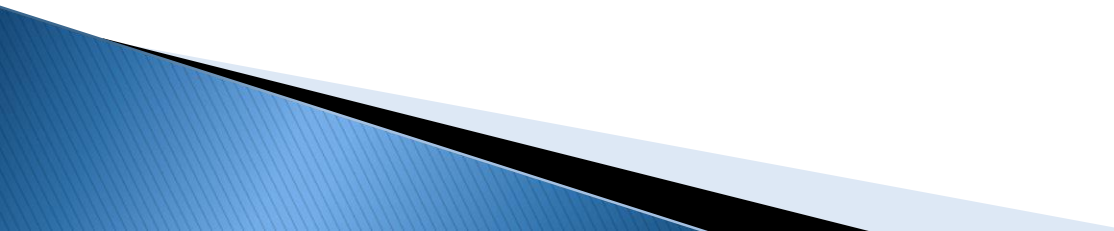
Differences between Nonprofit and For-Profit Organizations

Nonprofit	For-Profit
None	Owners/Stockholders
Provide services needed by society	Earn profits for owners/shareholders
Ensure that revenues are greater than expenses so that services can be maintained/expanded	Sell goods and/or provide services
Board of Trustees	Owners/stockholders
Exempt from paying income taxes if approved by the IRS	Subject to income taxes
Net Assets	Stockholders' equity
Grants, donor contributions, program fees, membership fees, fundraising activities, investment income	Sales of merchandise, fees for services, investment income, gain on investments

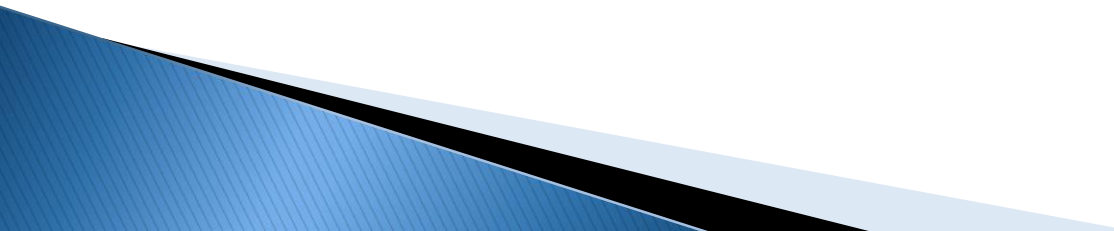
Role of a Nonprofit Board

- ▶ Overall legal responsibility for the work of the organization
 - ▶ Short-term and long-term planning
 - ▶ Hire a Director
 - ▶ Oversight of operations:
 - ensuring that systems are in place for administering and using resources effectively guarding against mis-use
 - ▶ of resources
 - ▶ Ensure the organization's financial health
- 

Key Documents for Board Members

- ▶ Annual budget
 - ▶ Balance Sheet/Statement of Financial Position
 - ▶ Income Statement/Statement of Activities
- 

Financial Statements – The Basics

- ▶ Accuracy and consistency
 - ▶ Timely availability
 - ▶ Understandable in relation to the organization's overall activities
- 

Statement of Financial Position/Balance Sheet

What is it?

- ▶ Snapshot of the organization's overall financial situation
- ▶ Illustrates the organization's assets, obligations/liabilities, and net assets as of a specific date
- ▶ Facilitates understanding of current operations and what future operations might entail

$$\text{Assets} - \text{Liabilities} = \text{Net Assets}$$

Statement of Financial Position

	<u>4/30/2017</u>	<u>12/31/2016</u>	<u>YTD Change</u>	<u>YTD % Change</u>
Assets				
Current Assets				
Cash & Cash Equivalents	3,300,008	3,691,561	(391,553)	-10.6%
Unconditional Promises to Give	593,208	280,522	312,686	111.5%
Accounts Receivable	151,396	72,116	79,281	109.9%
Prepaid Expenses	808,075	701,656	106,418	15.2%
Total Current Assets	<u>4,852,688</u>	<u>4,745,855</u>	<u>106,832</u>	<u>2.3%</u>
Long-term Assets				
Property & Equipment	<u>847,793</u>	<u>912,638</u>	<u>(64,846)</u>	<u>-7.1%</u>
Total Property & Equipment	<u>847,793</u>	<u>912,638</u>	<u>(64,846)</u>	<u>-7.1%</u>
Total Long-term Assets	<u>847,793</u>	<u>912,638</u>	<u>(64,846)</u>	<u>-7.1%</u>
Total Assets	<u>5,700,480</u>	<u>5,658,494</u>	<u>41,987</u>	<u>0.7%</u>
Liabilities				
Short-term Liabilities				
Accounts Payable	570,326	470,537	99,788	21.2%
Deferred Revenue	<u>480,464</u>	<u>646,284</u>	<u>(165,820)</u>	<u>-25.7%</u>
Total Short-term Liabilities	<u>1,050,790</u>	<u>1,116,821</u>	<u>(66,031)</u>	<u>-5.9%</u>
Long-term Liabilities				
Capital Lease Obligations	0	0	0	0.0%
Deferred Rent	243,377	146,026	97,351	66.7%
Post-Retirement Benefits Payable	<u>4,023,673</u>	<u>4,023,673</u>	<u>0</u>	<u>0.0%</u>
Total Long-term Liabilities	<u>4,267,050</u>	<u>4,169,699</u>	<u>97,351</u>	<u>2.3%</u>
Total Liabilities	<u>5,317,840</u>	<u>5,286,520</u>	<u>31,320</u>	<u>0.6%</u>
Net Assets				
	<u>382,640</u>	<u>371,973</u>	<u>10,667</u>	<u>2.9%</u>
Total Net Assets	<u>382,640</u>	<u>371,973</u>	<u>10,667</u>	<u>2.9%</u>
Total Liabilities and Net Assets	<u>5,700,480</u>	<u>5,658,494</u>	<u>41,987</u>	<u>0.7%</u>

Statement of Financial Position – Detail

▶ ASSETS:

- Shows what the organization has/owns
 - *Current Assets* – assets that are currently cash and assets that will be available as cash in the near future
 - Cash: money in bank accounts, petty cash
 - Receivables:
 - Unconditional Promises
 - Accounts Receivable
 - Prepaid Expenses

Statement of Financial Position – Detail (continued)

▶ ASSETS:

- *Long-term Assets* – assets that won't be converted to cash in the near term
- *Long-term Pledges*
- *Capital Assets* (land, buildings, leasehold improvements, furniture & equipment)

Statement of Financial Position – Detail (continued)

▶ LIABILITIES:

- Shows what the organization owes
 - *Short Term (Current) Liabilities* – obligations which must be met in the near term
 - Payables – recognizes expenses on the income statement for which the organization has not yet paid cash (including payroll-related payables)
 - Deferred Revenue – monies received before they are earned

Statement of Financial Position – Detail (continued)

▶ LIABILITIES:

- *Long-Term Liabilities* – obligations which must be met in the long-term future
 - Capital Lease obligations
 - Deferred Rent
 - Post-retirement Benefits

Statement of Financial Position – Detail (continued)

- ▶ *What to look for/questions to ask:*
 - What are the organization's assets?
 - How liquid are the assets?
 - Any restrictions on use of the assets (donor-imposed)?
 - What is the ratio of Current Assets to Current Liabilities?
 - Increase/decrease in Net Assets from previous year?
 - What items are included in Accounts Receivable? Accounts Payable?

Statement of Activities / Income Statement – Detail

What is it?

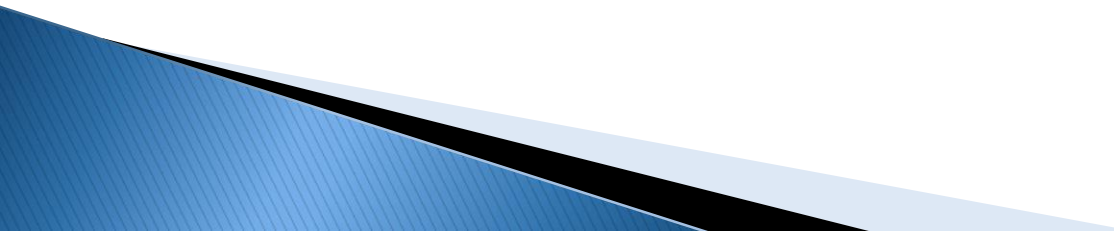
- ▶ Representation of the organization's income and expenditures over a certain period of time
 - What has happened during the period
 - What revenues have come in and from what sources
 - What monies have been spent
 - Resulting surplus or deficit

Statement of Activities/Income Statement

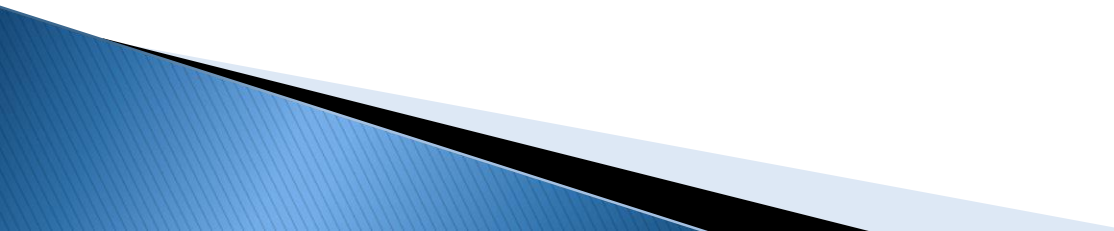
	Current Period 4/30/2017	Current Period Budget	Current Period Budget Variance	Current Year Actual	YTD Budget	YTD Budget Variance	Total Budget
Revenue							
Grants State	186,083	186,083	0	744,361	744,333	28	2,233,000
Grants County	83,333	83,333	0	333,333	333,333	0	1,000,000
Member Technology Fees	231,662	225,892	5,770	913,356	903,567	9,790	2,710,700
Fund Raising & Contributions	12,210	16,917	(4,707)	15,646	43,667	(28,020)	119,000
Interest	652	400	252	1,974	1,600	374	4,800
WEBS & Other	3,500	3,442	58	14,048	13,767	281	41,300
Restricted Grants	23,367	23,375	(8)	93,789	93,500	289	280,500
Restricted Other	0	417	(417)	0	1,667	(1,667)	5,000
Total Revenue	540,807	539,858	949	2,116,508	2,135,433	(18,925)	6,394,300
Expenditures							
Salaries	182,921	199,025	16,104	763,604	796,100	32,496	2,388,300
Fringe Benefits	97,838	95,758	(2,080)	372,543	383,034	10,490	1,149,100
Professional Fees	1,456	2,175	719	4,801	8,700	3,899	26,100
Equipment	402	18,183	17,781	15,082	72,733	57,652	218,200
Library Materials	58,736	57,088	(1,649)	215,240	228,350	13,110	685,050
Rent and Utilities	24,338	27,925	3,587	114,810	111,700	(3,110)	335,100
Repairs and Maintenance	32,912	34,975	2,063	142,976	139,900	(3,076)	419,700
Supplies	1,001	2,500	1,499	7,343	10,900	3,557	30,900
Telephone and Internet	26,063	30,733	4,670	106,076	122,933	16,858	368,800
Printing and Postage	6,894	5,275	(1,619)	13,588	21,100	7,512	63,300
Bibliographic Fees	5,122	5,833	711	26,071	23,333	(2,737)	70,000
Professional Development	2,476	4,425	1,949	33,965	17,700	(16,265)	53,100
Travel	3,092	3,179	87	8,771	12,717	3,946	38,150
Memberships	766	1,408	643	8,376	5,633	(2,743)	16,900
Contractual Services	11,386	17,425	6,040	61,860	57,700	(4,160)	185,100
Delivery Service	38,875	32,792	(6,083)	132,134	131,167	(968)	393,500
Special Events	4,462	8,000	3,538	6,673	8,000	1,327	12,000
Insurance	641	1,917	1,276	5,816	7,667	1,851	23,000
Interest	0	0	0	0	0	0	500
Miscellaneous	175	1,158	983	1,267	4,633	3,366	13,900
Total Expenditures	499,556	549,775	50,219	2,040,995	2,164,000	123,005	6,490,700
Net Revenue Before Depreciation	41,251	(9,917)	51,167	75,513	(28,567)	104,080	(96,400)
Non-Cash Activity							
Depreciation	16,211	0	(16,211)	64,846	0	(64,846)	0
Total Non-Cash Activity	16,211	0	(16,211)	64,846	0	(64,846)	0
Net Revenue	25,039	(9,917)	34,956	10,667	(28,567)	39,234	(96,400)

Statement of Activities / Income Statement – Detail

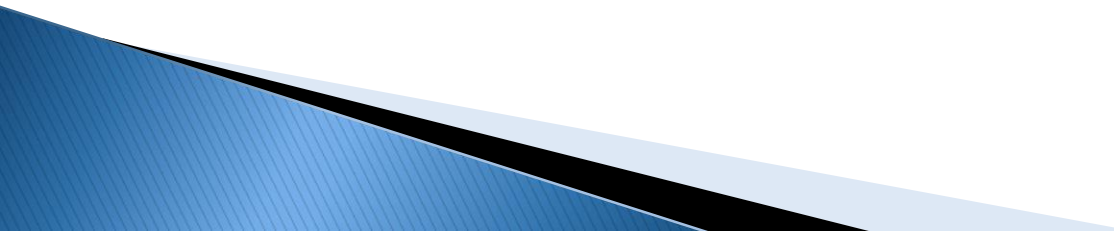
What is important about it?

- ▶ Shows sources of funding, how closely expenses are monitored, and whether or not programs are sustainable
 - ▶ Best viewed in the context of the annual budget
 - ▶ Should be understood in the context of the organization's history and external environment
- 

Statement of Activities/ Income Statement – Detail

- ▶ Income
 - State revenues
 - County revenues
 - Member fees
 - Restricted grants
 - Other earned revenue
- 

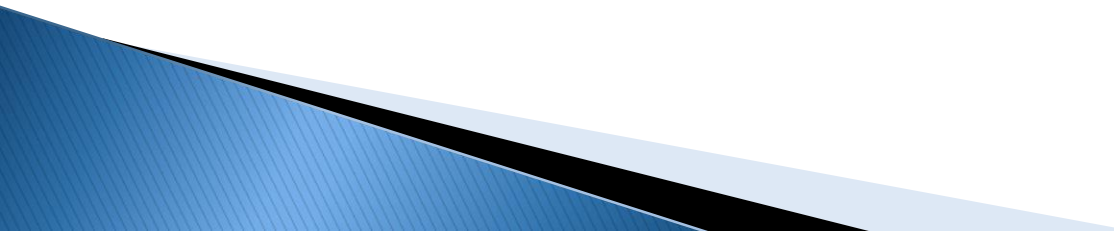
Statement of Activities/ Income Statement – Detail

- ▶ Expenses
 - Personnel
 - Other Than Personnel
 - Depreciation
- 

Statement of Activities/ Income Statement – Detail

- ▶ *What to look for/questions to ask:*

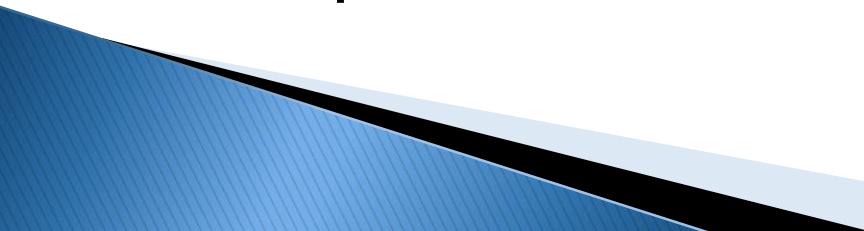
REVENUES:

- Is income greater than expenses?
 - Are revenues trending up or down?
 - How secure are the funding sources?
 - How diverse are the funding sources?
- 

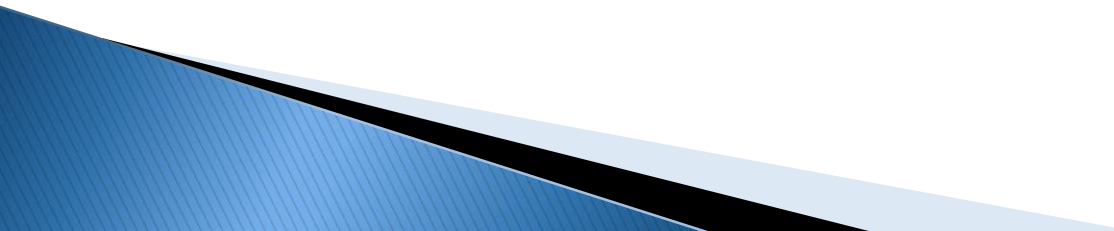
Statement of Activities / Income Statement – Detail

- ▶ *What to look for/questions to ask:*

EXPENSES:

- Do the expenses relate to the mission and programs?
 - Are there expenses that were not budgeted?
 - Are costs for programs, admin and/or fundraising appropriate in relation to the overall budget?
 - Is the organization current in paying its expenses?
- 

Other Questions to Consider

- ▶ Does the financial information make sense?
 - ▶ Is financial information timely?
 - ▶ Is the organization financially solid right now?
 - ▶ Unfamiliar vendors?
 - ▶ Trends of note in revenues or expenses?
 - ▶ Is the organization well-managed?
- 

Resources

- ▶ *Nonprofit Accounting Basics*, Greater Washington Society of CPAs Educational Foundation, Washington, DC
 - ▶ *Financial Reports* and *Balancing the Mission Checkbook*, Nonprofits Assistance Fund, Minneapolis, MN
 - ▶ *Reading and Understanding Nonprofit Financial Statements*, Center for Nonprofit Excellence, United Way of Central New Mexico
 - ▶ *Interpreting Financial Statements*, Social Venture Partners Boulder County, Boulder, CO
- 