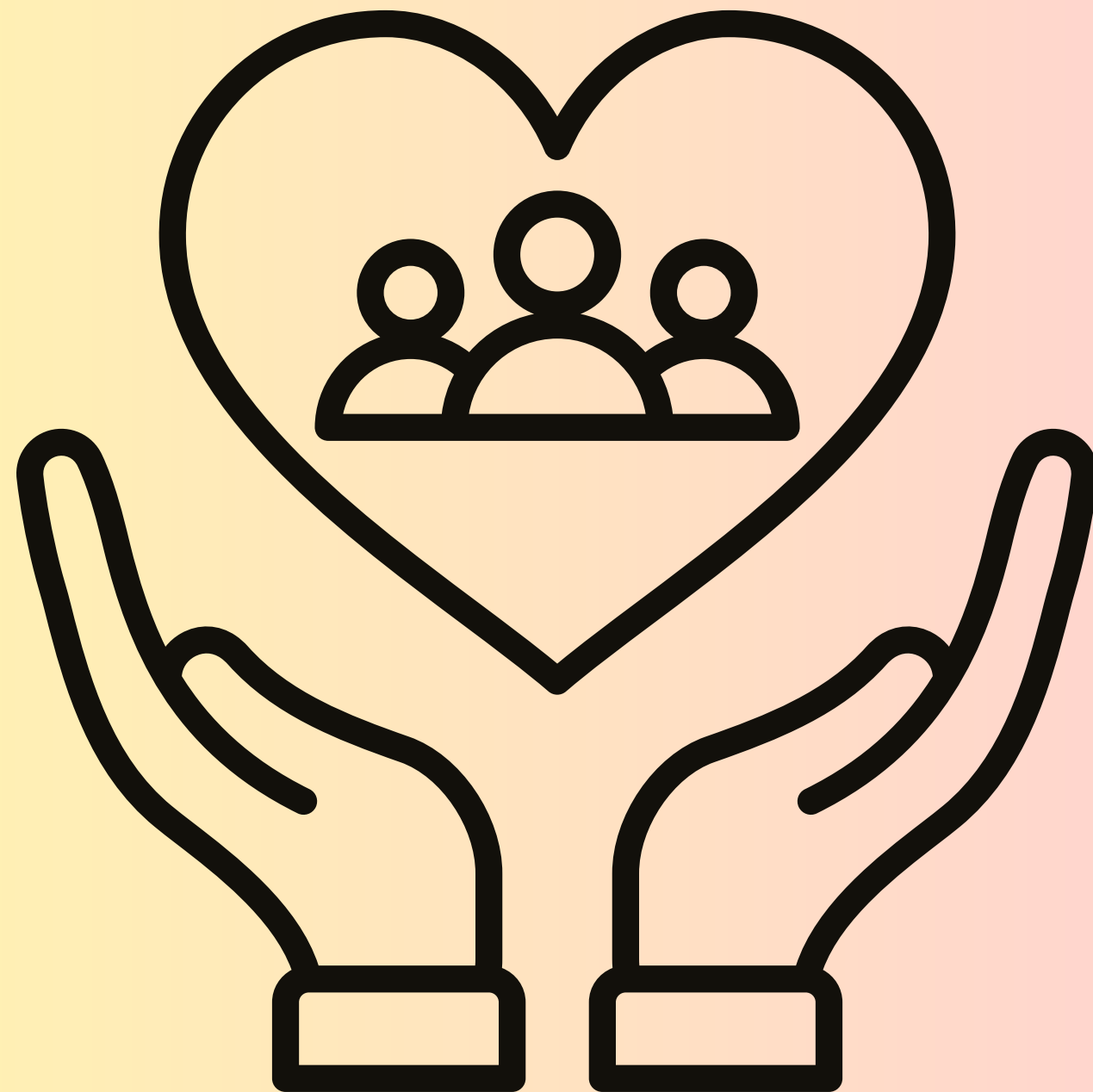


Understanding Your Financial Statements

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Financial Documents Every Organization Needs

Statement of Financial Position (Balance Sheet)

- Snapshot of the financial health of your organization.

Statement of Activities (Profit and Loss)

- Summary of Revenue and Expenses by Category

Statement of Cash Flows

- Reconciliation of cash balance over a period of time to measure the flow, sources, and uses of cash

Notes to the Financial Statement

- Provides context and additional information regarding line items on above statements.

Budget(s)

- An Operating Budget serves as a guide to assess current financial health and plan for the future. This document is your guiding light for fiscal responsibility. Other budgets can be useful when planning programs, capital campaigns, or writing grant proposals.

Statement of Financial Position (Balance Sheet)

Assets

What you own. (Cash, investments, accounts receivable, prepaid expenses, fixed assets)

- Order of liquidity (how quickly the asset could be converted to cash)
 - **Current:** Available for use within this annual cycle (cash, receivables, prepaid expenses)
 - **Long-term:** Would not be available for immediate conversion to cash (property, equipment, restricted cash)

Liabilities

What you owe. (Current and future obligations – outstanding debt)

- Current Liabilities: Accounts payable and current debt obligations (i.e., credit cards, tax liabilities, etc. due within this fiscal year)
- Long term liabilities: Extended term debts (i.e., mortgages, line of credit, long-term loans)

Equity (Net Assets)

Difference between total assets and total liabilities

- Can include assets that have board-designated restrictions
- Includes temporarily and permanently restricted funds
 - **Temporarily restricted:** Donor places restriction for a specific purpose, time period, or program. Will be considered “released from restriction” once those stipulations are met.
 - **Permanently restricted:** Amounts to be held in perpetuity; typically, earnings from the principal can be used for operations.
- Net assets increase or decrease based on operations as reflected in Profit & Loss statement

Statement of Financial Position (Balance Sheet): Things to Consider

- **Liquidity:** Do you have positive working capital? (current assets minus current liabilities)
- **Days in Cash:** How long can you operate with current cash balance, meeting all obligations, without bringing in any additional resources? This helps you to see and anticipate potential cash flow issues before they occur. At minimum, you should have 3-6 months cash on hand; for stronger sustainability, 6-12 months.
- **Days in Accounts Receivable:** How long is it taking you to collect cash owed? Is this having a negative affect on your cash flow? If your days in A/R is higher than your days in cash, you will likely have cash flow problems in the very near future. A strong understanding of donor/grant pay cycles helps you to plan better.
- **Trends in Net Assets:** Consistent and continuous increase means you are operating efficiently and healthily. Also typically means better cash flow and liquidity. Continuous decrease means you are operating outside your means and need to make necessary adjustments, by finding ways to either increase income or decrease expenses.

Statement of Activity (Profit and Loss)

- **Revenue: Sources of Income**
 - **Contributed Revenue:** Income from donations, grants, fundraising efforts, etc.
 - **Earned Revenue:** Income from fees for services, programs, product sales, etc.
 - **Assets released from Restriction:** Used to indicated when funding stipulations have been met, and restrictions are released
- **Expenses: Uses of Income**
- **Statement of Functional Expenses (Audit and/or 990) - Detailed breakdown of expenses according to function**
 - Program expenses
 - General administrative expenses
 - Fundraising expenses

Statement of Activity (Profit and Loss): Things to Consider

- **Program Analysis:** When conducting programs, it's important to report on them financially to see whether the program is profitable, break even, or operating at a loss. When assessing profitability, it's important to consider direct costs (supplies, marketing, contracted help, etc.) and indirect costs (overhead costs). This analysis can help you evaluate the efficacy of the program.
 - Consider total revenue less total expenses of each program
 - Create realistic budgets for each program area
- **Revenue sources:** Are they renewable sources of support or one-time? Is the program sustainable long-term?
- **Cost per Unit of service:** How much does it cost to serve each individual program participant? This is very important for fee-based services to ensure you are charging the correct amount for the service.
- **Fundraising Event Profitability:** Total raised minus total expenses associated with the event. Fundraising events should generate at least 3 times the related expenses.
- **Program Service Percentage:** Understand how much of your total operating budget is spent on programs, as opposed to general administrative costs.

Cash Flow Statement

- **Reconciles your cash balance over a specific period of time.**
- **Measures the flow of operating and investment funds to understand sources and uses of cash.**
- **Considers three types of activities:**
 - Operating activities – revenue less expenses
 - Investing Activities – includes acquiring/disposing of fixed assets as well as equity investments
 - Financing Activities – includes the acquisition and/or servicing of debt (i.e. loans, mortgages)
- **Helps you anticipate gaps in cash flow and plan accordingly.**

Cash Flow Statement: Things to Consider

- Throughout the year, but especially when budget planning, take time to observe trends in YoY activity. Observe several years (particularly when there are large fluctuations in funding).
 - Are expenses trending upward or downward? Is there an explanation for sudden or drastic increases in expenses? Are these one-time increases or long-term increases that should be accounted for in budget planning?
 - Is Earned Revenue trending up or down? How will changes in Earned Revenue affect net income? Are there programs that will begin or end in the near future and how will those changes affect earned revenue?
 - What are your recognizable trends in donations? Are you too reliant on a particular source of contributed income? Are your fundraising strategies effective in retaining current donors and reaching new audiences?
 - Understanding Trends helps you make more informed decisions in budget planning, timing fundraising appeals, programming, etc.

Notes to Financial Statement

- **Typically, disclosures are made in three categories:**
 - Summary of Significant Accounting Policies
 - Additional detail is required for the reader to be fully aware of the nature of the amounts in the financial statements—details about specific assets, liabilities, revenue, expenses, and gains and losses.
 - Other information - litigation, claims and assessments, subsequent events, and other information management believes the reader needs in order to understand the financial statements fully.
- **Any questions or thoughts that may arise from viewing the financial statements may be addressed, clarified, or put into context within the Notes section.**