

Reading and Understanding Nonprofit Financial Statements



ZAMORA BUSINESS
ACCOUNTING, PC

ACCOUNTING & FINANCIAL SERVICES

**United Way
of Central New Mexico**

**Center for
Nonprofit
Excellence**



What does it mean to be
a nonprofit?

- A nonprofit is an organization that uses surplus revenues to achieve its goals rather than distributing them as profit or dividends.
- The mission of the organization is the main goal, however profits are key to the growth and longevity of the organization.

Your Role in Financial Oversight

- Ensure that resources are used to accomplish the mission
- Ensure financial health and that contributions are used in accordance with donor intent
- Review financial statements
- Compare financial statements to budget
- Engage independent auditors

Cash Basis vs. Accrual Basis

- **Cash Basis**
 - Revenues and expenses are not recognized until money is exchanged.
- **Accrual Basis**
 - Revenues and expenses are recognized when an obligation is made.

Unaudited vs. Audited

- **Unaudited**
 - Usually Cash Basis
 - Prepared internally or through a bookkeeper/accountant
 - Prepared more frequently (Quarterly or Monthly)
- **Audited**
 - Accrual Basis
 - Prepared by a CPA
 - Prepared yearly
 - Have an Auditor's Opinion

Financial Statements

- Statement of Activities = Income Statement = Profit (Loss)
 - Measures the revenues against the expenses
 - $\text{Revenues} - \text{Expenses} = \text{Change in Net Assets} = \text{Profit (Loss)}$
- Statement of Financial Position = Balance Sheet
 - Measures the assets against the liabilities and net assets
 - $\text{Assets} = \text{Liabilities} + \text{Net Assets}$
- Statement of Cash Flows
 - Measures the changes in cash

Statement of Activities (Unaudited Cash Basis)

- Revenues
 - Service revenues
 - Contributions
 - Grants
 - Fundraising
- Expenses
 - Program
 - Management
 - Fundraising

Things to Consider

- Trends for both revenues and expenses
- Restrictions placed on revenues by donor/grantor
- Relationship between fundraising revenues and fundraising expenses
- Key revenue sources
- Largest expense categories

Nonprofit Sample, Inc.
Income Statement
Year-to-Date, June 20XX

12 Months Ended
June 30, 2012

Income		
PROGRAM FEES	\$62,400.00	23.3%
FUNDRAISING - EVENT	\$37,525.00	14.0%
FUNDRAISING - RELIGIOUS DONATION:	\$12,826.00	4.8%
FUNDRAISING - DIRECT MAIL	\$7,724.00	2.9%
FUNDRAISING - INDIVIDUALS	\$15,365.00	5.7%
GRANTS - ABOVE \$5,000	\$125,000.00	46.6%
GRANTS - BELOW \$5,000	\$7,500.00	2.8%
TOTAL Income	\$268,340.00	100.0%
***** GROSS PROFIT		
	\$268,340.00	100.0%
Expenses		
HOURLY EARNING	\$150,000.00	55.9%
CONTRACT LABOR	\$5,000.00	1.9%
PAYROLL TAXES	\$15,375.00	5.7%
ACCOUNTING	\$3,210.00	1.2%
BANK CHARGES	\$531.43	0.2%
CREDIT CARD FEES	\$899.00	0.3%
EDUCATION	\$162.00	0.1%
DEPRECIATION	\$2,326.00	0.9%
EVENT COSTS	\$7,694.72	2.9%
DIRECT MAIL	\$2,789.57	1.0%
INSURANCE	\$10,711.65	4.0%
W/C INSURANCE	\$2,669.80	1.0%
INTEREST	\$831.30	0.3%
LEGAL & PROFESSIONAL FEES	\$165.55	0.1%
LICENSE & FEES	\$434.14	0.2%
MAINTENANCE & REPAIR	\$138.03	0.1%
MEALS & ENTERTAINMENT	\$426.89	0.2%
COMPUTER / I.T.	\$346.89	0.1%
OFFICE SUPPLIES	\$10,882.96	4.1%
POSTAGE	\$2,077.44	0.8%
RENT	\$14,400.00	5.4%
SUBSCRIPTION & DUES	\$170.00	0.1%
PROPERTY TAXES	\$10.00	0.0%
TELEPHONE	\$5,972.79	2.2%
TRAVEL	\$72.31	0.0%
UTILITIES	\$749.27	0.3%
TOTAL Expenses	\$238,046.74	88.7%
***** NET PROFIT		
	\$30,293.26	11.3%

Budgeted Statement of Activities (Unaudited Cash Basis)

- The executive director usually prepares the budget and the board of directors approves it
- Use historical information to plan for future
- Underestimate revenues and overestimate expenses

Things to Consider

- Causes for revenue shortfalls and/or expense overages
- Are revenue shortfalls correlated to expense savings and vice versa
- Was budget realistic
- Look for unbudgeted items

Nonprofit Sample, Inc.
Budgeted Income Statement
Year-to-Date Variance, June 20XX

	<i>12 Months Ended June 30, 20XX</i>	<i>12 Months Ended June 30, 20XX Budget</i>	<i>Variance Fav<Unf></i>	<i>% Var</i>
Income				
PROGRAM FEES	\$62,400.00	\$120,000.00	(\$57,600.00)	-48.0%
FUNDRAISING - EVENT	\$37,525.00	\$50,000.00	(\$12,475.00)	-25.0%
FUNDRAISING - RELIGIOUS DONATIONS	\$12,826.00	\$20,000.00	(\$7,174.00)	-35.9%
FUNDRAISING - DIRECT MAIL	\$7,724.00	\$20,000.00	(\$12,276.00)	-61.4%
FUNDRAISING - INDIVIDUALS	\$15,365.00	\$7,000.00	\$8,365.00	119.5%
GRANTS - ABOVE \$5,000	\$125,000.00	\$180,000.00	(\$55,000.00)	-30.6%
GRANTS - BELOW \$5,000	\$7,500.00	\$5,000.00	\$2,500.00	50.0%
TOTAL Income	\$268,340.00	\$402,000.00	(\$133,660.00)	-33.2%
***** GROSS PROFIT	\$268,340.00	\$402,000.00	(\$133,660.00)	-33.2%
Expenses				
HOURLY EARNING	\$150,000.00	\$210,000.00	\$60,000.00	28.6%
CONTRACT LABOR	\$5,000.00	\$1,500.00	(\$3,500.00)	-233.3%
PAYROLL TAXES	\$15,375.00	\$22,500.00	\$7,125.00	31.7%
ACCOUNTING	\$3,210.00	\$8,000.00	\$4,790.00	59.9%
BANK CHARGES	\$531.43	\$0.00	(\$531.43)	#DIV/0!
CREDIT CARD FEES	\$899.00	\$1,500.00	\$601.00	40.1%
EDUCATION	\$162.00	\$1,200.00	\$1,038.00	86.5%
DEPRECIATION	\$2,326.00	\$2,500.00	\$174.00	7.0%
EVENT COSTS	\$7,694.72	\$17,000.00	\$9,305.28	54.7%
DIRECT MAIL	\$2,789.57	\$7,000.00	\$4,210.43	60.1%
INSURANCE	\$10,711.65	\$13,500.00	\$2,788.35	20.7%
W/C INSURANCE	\$2,669.80	\$3,250.00	\$580.20	17.9%
INTEREST	\$831.30	\$0.00	(\$831.30)	#DIV/0!
LEGAL & PROFESSIONAL FEES	\$165.55	\$6,500.00	\$6,334.45	97.5%
LICENSE & FEES	\$434.14	\$1,000.00	\$565.86	56.6%
MAINTENANCE & REPAIR	\$138.03	\$500.00	\$361.97	72.4%
MEALS & ENTERTAINMENT	\$426.89	\$250.00	(\$176.89)	-70.8%
COMPUTER / I.T.	\$346.89	\$3,150.00	\$2,803.11	89.0%
OFFICE SUPPLIES	\$10,882.96	\$7,600.00	(\$3,282.96)	-43.2%
POSTAGE	\$2,077.44	\$600.00	(\$1,477.44)	-246.2%
RENT	\$14,400.00	\$14,400.00	\$0.00	0.0%
SUBSCRIPTION & DUES	\$170.00	\$200.00	\$30.00	15.0%
PROPERTY TAXES	\$10.00	\$10.00	\$0.00	0.0%
TELEPHONE	\$5,972.79	\$6,000.00	\$27.21	0.5%
TRAVEL	\$72.31	\$0.00	(\$72.31)	#DIV/0!
UTILITIES	\$749.27	\$1,200.00	\$450.73	37.6%
TOTAL Expenses	\$238,046.74	\$329,360.00	\$91,313.26	27.7%
***** NET PROFIT	\$30,293.26	\$72,640.00	(\$42,346.74)	-58.3%

Audited Statement of Activities

- Accrual Basis
- Includes Statement of Functional Expenses
 - Program
 - Management
 - Fundraising
- Auditor uses expertise to make assumptions

Things to Consider

- Look for differences from Cash Basis to Accrual
- Auditor's Opinion
 - Unqualified
 - Qualified
 - Adverse
- Method(s) used to allocate expenses between program, management, and fundraising
- Review auditor's report

Nonprofit Sample, Inc.
STATEMENT OF ACTIVITIES
For The Year Ended June 30, 20XX

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
State Contract	\$68,850.00	\$0.00	\$68,850.00
Grants	\$129,700.00	\$2,800.00	\$132,500.00
Special Events, net of \$7694.72 of related expenses	\$29,830.28	\$0.00	\$29,830.28
Contributions	\$35,915.00	\$0.00	\$35,915.00
TOTAL SUPPORT AND REVENUE	\$264,295.28	\$2,800.00	\$267,095.28
EXPENSES			
Program Services	\$125,489.10	\$0.00	\$125,489.10
Management and General	\$53,337.56	\$0.00	\$53,337.56
Fundraising	\$53,050.36	\$0.00	\$53,050.36
TOTAL EXPENSES	\$231,877.02	\$0.00	\$231,877.02
CHANGE IN NET ASSETS	\$32,418.26	\$2,800.00	\$35,218.26
NET ASSETS, BEGINNING OF YEAR	(\$3,725.86)	\$0.00	(\$3,725.86)
NET ASSETS, END OF YEAR	\$28,692.40	\$2,800.00	\$31,492.40

Nonprofit Sample, Inc.
Statement of Functional Expenses
For The Year Ended June 30, 20XX

	Program	Management &	Fundraising	Total
	Services	General		
Salaries and Wages	\$85,833.33	\$34,166.67	\$35,000.00	\$155,000.00
Rent	\$7,974.19	\$3,174.19	\$3,251.61	\$14,400.00
Employment Taxes	\$8,514.11	\$3,389.11	\$3,471.77	\$15,375.00
Utilities	\$3,722.43	\$1,481.74	\$1,517.88	\$6,722.06
Insurance Expense	\$8,254.65	\$3,285.83	\$3,365.97	\$14,906.45
Office Supplies and Expense	\$8,317.99	\$2,079.50	\$3,465.84	\$13,863.31
Professional Fees		\$3,375.55		\$3,375.55
Depreciations Expense	\$1,163.00	\$1,163.00		\$2,326.00
Interest Expense	\$460.34	\$183.24	\$187.71	\$831.30
Repairs and Maintenance	\$138.03			\$138.03
Fundraising			\$2,789.57	\$2,789.57
Travel Expenses	\$72.31			\$72.31
Postage	\$1,038.72	\$1,038.72		\$2,077.44
	<u>\$125,489.10</u>	<u>\$53,337.56</u>	<u>\$53,050.36</u>	<u>\$231,877.02</u>

Statement of Financial Position (Cash Basis Unaudited)

- **Assets**
 - Cash
 - Equipment
 - (Accumulated depreciation)
- **Liabilities**
 - Payroll taxes
 - Loans
- **Equity**
 - Fund balance
 - Year-to-date earnings

Things to Consider

- **Current Ratio = Current Assets/Current Liabilities**
 - The higher the ratio the better the capability to pay back debts
- **Trends in Cash and Liabilities**
 - Is the organization able to function without the use of debt?
- **The Age/State of Equipment**
 - Are there major replacements that are going to be needed?

Nonprofit Sample, Inc.
Balance Sheet
June 20XX

ASSETS		
Current Assets		
CHECKING	2,258.17	
SAVINGS	207.53	
TOTAL Current Assets		2,465.70
Fixed Assets		
COMPUTERS	2,406.90	
SERVER & NETWORK	7,200.00	
PHONE SYSTEM	2,651.67	
FURNITURE & EQUIPMENT	7,860.00	
CAR	15,000.00	
ACCUMULATED DEPRECIATION	(15,258.94)	
TOTAL Fixed Assets		19,859.63
Other Assets		
ABQ-CF ENDOWMENT FUND	13,000.00	
SECURITY DEPOSITS	1,200.00	
TOTAL Other Assets		14,200.00
TOTAL ASSETS		<u>36,525.33</u>
LIABILITIES		
Current Liabilities		
CREDIT CARD	682.05	
F.I.C.A PAYABLE	810.29	
STATE W/H PAYABLE	349.60	
FEDERAL W/H PAYABLE	523.31	
SUTA TAX PAYABLE	768.36	
TOTAL Current Liabilities		3,133.61
Long-Term Liabilities		
CAR LOAN	6,824.32	
TOTAL Long-Term Liabilities		6,824.32
TOTAL LIABILITIES		<u>9,957.93</u>
EQUITY		
FUND BALANCE	(3,725.86)	
Year-to-Date Earnings	30,293.26	
TOTAL EQUITY		<u>26,567.40</u>
TOTAL LIABILITIES & EQUITY		<u>36,525.33</u>

Audited Statement of Financial Position

- Accrual Basis
- Includes breakdown of net assets
 - Unrestricted
 - Temporarily restricted (specific use only)
 - Permanently restricted (principal can never be used)

Things to Consider

- Differences between Cash Basis and Accrual
 - Assets and/or liabilities not listed or changed from Cash Basis

Nonprofit Sample, Inc.
Statement of Financial Position
June 20XX

ASSETS

Current Assets

CHECKING	\$2,258.17
SAVINGS	\$207.53
ACCOUNTS RECEIVABLE	\$6,450.00

TOTAL Current Assets \$8,915.70

FURNITURE AND EQUIPMENT NET OF ACCUMULATED	\$19,859.63
BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS	\$13,000.00
SECURITY DEPOSITS	\$1,200.00
TOTAL ASSETS	<u>\$42,975.33</u>

LIABILITIES AND NET ASSETS

Current Liabilities

ACCOUNTS PAYABLE	\$4,658.61
Long-Term Liabilities	
CAR LOAN	\$6,824.32

TOTAL LIABILITIES **\$11,482.93**

NET ASSETS

UNRESTRICTED	\$15,692.40
TEMPORARILY RESTRICTED	\$2,800.00
PERMANENTLY RESTRICTED	\$13,000.00

TOTAL NET ASSETS **\$31,492.40**

TOTAL LIABILITIES & NET ASSETS **\$42,975.33**

Statement of Cash Flows

- Cash flows separated by activities
 - Operating activities
 - Investing activities
 - Financing activities
- Shows “where the money went”
- Usually prepared by auditor

Nonprofit Sample, Inc.
Statement of Cash Flows
June 20XX

CASH FLOWS FROM OPERATING ACTIVITIES	
CASH RECEIVED FROM STATE CONTRACT	\$62,400.00
CASH RECEIVED FROM CONTRIBUTIONS	\$205,940.00
CASH PAID TO EMPLOYEES AND SUPPLIERS	<u>(\$238,046.74)</u>
NET CASH FROM OPERATING ACTIVITIES	\$30,293.26
CASH FLOWS FROM INVESTING ACTIVITIES	
PURCHASE OF EQUIPMENT	<u>(\$7,200.00)</u>
NET CASH FROM INVESTING ACTIVITIES	(\$7,200.00)
CASH FLOWS FROM FINANCING ACTIVITIES	
PAYMENTS ON CREDIT CARD	(\$19,850.00)
PAYMENTS ON CAR LOAN	<u>(\$3,936.00)</u>
NET CASH FROM FINANCING ACTIVITIES	(\$23,786.00)
INCREASE (DECREASE) IN CASH	(\$692.74)
CASH AT BEGINNING OF YEAR	\$3,158.44
CASH AT END OF YEAR	\$2,465.70

Review Sample Financial Statements in Groups

- Group 1 – Review Income Statement
- Group 2 – Review Budgeted Income Statement
- Group 3 – Review Audited Statements of Activities and Functional Expenses and compare to Cash Basis Income Statement
- Group 4 – Review Statement of Financial Position and compare to Cash Basis Balance Sheet
- Group 5 – Review Statement of Cash Flows and Compare to Audited Statements of Activities, Functional Expenses and Financial Position

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