

# Financial Statements: A Road Map to Your Organization



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# Agenda

- Financial Reporting
- Financial Analysis and Your Message
- Opportunities & Challenges



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# Financial Reporting – Why?

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- Nonprofits have unique financial reporting objectives (compared to for-profit entities)
- Provides information about economic resources, obligations, net resources, cash, and changes in these items
- Based on bookkeeping information



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# Financial Reporting – What?

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- Statement of Financial Position (Balance Sheet)
  - “Snapshot” of overall value of your organization at a certain point in time
- Statement of Activities (Income Statement)
  - Focuses on revenue and expense activity over a defined time period
  - Good impression of rate of revenues and spending
  - Focus on operating purpose rather than the generation of a profit
  - Flexibility in reporting results



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# Financial Reporting – What?

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- Statement of Cash Flows
  - Depicts the flow of cash in and out of the organization over a defined time period
- Statement of Functional Expenses
  - Matrix format to report expenses by both functional and natural classifications
  - Providing information as to the utilization of resources
  - Functional expense classifications:
    - Program Services
    - General & Administrative
    - Fundraising
  - Allocation methodology(ies) – management estimate
    - Consider “how” the organization allocates costs
    - How often is the methodology reviewed?



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# Financial Reporting

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Statement of Functional Expenses  
For the Year 2019**

Expense type	Program #1	Program #2	Management & General	Fundraising	Total
Salaries and benefits	\$45,000	\$93,000	\$30,000	\$10,000	\$178,000
Rent and utilities	12,000	20,000	5,000	5,000	42,000
Printing and supplies	6,000	10,000	3,000	5,000	24,000
Depreciation	5,000	8,000	2,000	1,000	16,000
<b>Total</b>	<b>\$68,000</b>	<b>\$131,000</b>	<b>\$40,000</b>	<b>\$21,000</b>	<b>\$260,000</b>

■ = NATURE    ■ = FUNCTION

Purpose/use for expense



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# Polling Question

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# Financial Analysis and Your Message

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- Analyzing current reporting
  - **Retrospective review.** Which changes are identified from the prior years? Which type of balance is being affected? Can we identify operational causes for these changes?
  - **Review prospectively.** What does your current position indicate for moving forward? Are there opportunities for investment and/or growth? Does this mean a change in strategy due to an undesirable and/or unplanned outcome?
  - **Review from an external perspective.** How do these results compare to the industry as a whole and to other organizations? What do these results say to our donors, funders, lenders, constituents, etc.?



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# Financial Analysis and Your Message

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- Questions to consider:
  - Does our organization have the means to operate in its current position for an extended period?
  - How does our organization make decisions regarding working capital?
  - What is the financial competency of our organization's leadership?
  - How are financial matters reported to our Board and how do we move forward?
  - How do issues identified in our financial statements affect decision making in the future?



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# Financial Analysis and Your Message

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- Indicators of Fiscal Health
  - Reliable and sufficient income to support programs and to cover operating expenses
  - Significant portion of resources allocated to programs
  - Healthy mix of earned income and contributed income / stable funding sources
  - Operating surplus and contingency fund/cash reserve
  - Meaningful, liquid net assets – or ready access to liquidity – to finance growth or to offset a deficit

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# Opportunities and Challenges

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- Statement of Financial Position
  - Cash – How does our cash balance compare to prior year? Is our cash position one which may be leveraged for future investments? Payment of debt? What is our liquidity position?
  - Current assets – Are there assets that may be easily converted to cash within one year (receivables, short-term investments)?
  - Current ratio less than 1?
  - Any new debt taken? Do we have the cash flow to make payments?



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# Opportunities and Challenges

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- Statement of Financial Position
  - Investments – Are we well diversified? What is our risk tolerance? How are decisions regarding investments made? Review of the annual spending policy? Analyzing our investment portfolio and related performance may provide opportunities to attract new donors
  - Sufficient reserves available for an emergency?



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# Opportunities and Challenges

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- Statement of Activities



- Revenue – How are we addressing variances between budget to actual? What benchmarks are we using? Are revenue (and expenses) increasing at consistent rates?
- Mix of restricted versus unrestricted gifts? Trends in giving?
- Are we generating operating surpluses or losses?
- Identifying the “why” may assist with planning and forecasting

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# Opportunities and Challenges

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- Statement of Activities
  - Expenses – How are we addressing variances between budget and actual? Inflation?
  - Allocation methodologies – Revenue / resources
  - Allocation methodologies – Functional expenses
  - Identifying the “why” may assist with planning and forecasting



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# Opportunities and Weaknesses

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- Opportunities in the Current Market
  - Sustainability = Business Strategy
    - Continuing to meet the needs of the community on an ongoing basis, beyond the life of specific grants or with diminishing support
    - Not only continue, but grow and develop – maximize growth potential
  - Operational performance / Outcomes / Impact
  - Key strategies to building capacity



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# Polling Question



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# Questions?

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# Contact the Presenters

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