



Using Financial Statements to Make Management Decisions

Presented by:

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Goals of this session

- To understand the importance of financial statement analysis and planning
- Discuss who uses financials of a nonprofit
- To understand what nonprofit financial statements look like
- Review importance of accurate financial information
- Key takeaways from financial statements
- Using financial statements to analyze the past and plan for the future - ratios



NAME	CALCULATION	WHAT IT MEANS	IF "HIGH"	IF "LOW"	POTENTIAL ACTION
Defensive Interval	Cash +Marketable Securities+ Receivables/Average Monthly Expenses	Working capital in number of months staying power.	Perceived as too rich. May discourage donors.	Cash crisis may be imminent. Mission may be delayed.	High-Accelerate mission. Low-Seek short-term financing.
Liquidity Ratio	Cash+Receivables+Inventories+ Marketable Securities/Total Liabilities	Working capital in terms of a ratio. Similar to what businesses use-reference is current operating period (year).	Non-earning assets. Lack of stewardship. Also may be perceived as too rich.	Possible mission curtailment.	High-Accelerate mission. Low-Plan funds campaign. Seek long-term financing Revise mission timetable
Current Ratio	Current Assets/Current Liabilities	Measures liquidity or ability to meet short term needs	Perceived as too rich. Lack of stewardship.	Either short-term or long-term cash crunch depending on how low.	High-Accelerate mission Low-Plan funds campaign. Seek long term financing-or refinance existing debt Revise mission timetable.
Quick (Acid) Ratio	Cash+Securities+Accounts Receivable/Current Liabilities	Measures liquidity or ability to meet short term needs-more conservative since it excludes all assets other than cash and cash equivalents	Perceived as too rich. Lack of stewardship.	Either short-term or long-term cash crunch depending on how low.	High-Accelerate mission Low-Plan funds campaign. Seek long term financing-or refinance existing debt Revise mission timetable.
Days Cash	Cash +Cash Equivalents*365/Operating expenses-depreciation	Calculates the number of days that an organization can pay its obligations without additional cash inflows	Perceived as too rich. Lack of stewardship.	Cash crisis may be imminent. Mission may be delayed.	High-Accelerate mission. Low-Seek short-term financing.



NAME	CALCULATION	WHAT IT MEANS	IF "HIGH"	IF "LOW"	POTENTIAL ACTION
Receivable Turnover	Annual Revenue and Support/Average Receivables	Calculates the number of times per year accounts receivable is collected	N/A	Collection issues, potential bad debt, potential cash flow issues	High-N/A. Low-reviewed credit terms, seek short term financing, write off of bad debt
Net Temporarily Restricted Asset	Temporarily Restricted Net Assets+Deferred Revenue/Cash and Cash Equivalents	Living within one's means.	Organization is borrowing from future.	Not accomplishing mission as quickly as financial resources would permit.	High-Plan funds campaign. Seek long-term financing. Low-Accelerate Mission.
Accounts Payable Aging	Accounts Payable / Average Monthly Expenses	How fast organization is paying its bills.	Paying bills too slowly. Possible poor credit rating. May be short of cash.	Paying bills too fast Priorities may be misdirected.	High-Seek short-term financing. Assess bill paying system. Low-Accelerate mission (goals).
Savings Indicator	Revenue -Expenses/Total Expenses	Is organization adding or depleting savings?	Operating at a profit. May discourage donors	Operating at a loss. Mission may be at risk.	High-Reassess mission & goals Low-Funds campaign. Reassess mission & goals. Scrutinize expenses.
Revenue Dependency	Revenue Source/Total Revenue	The degree to which the organization is dependent upon a particular resource.	Too much dependency on a single source.	Diversity of fund raising efforts may not match diversity of mission.	High-Development Committee needs to explore other sources. Low-Development Committee needs to explore other methods of fund raising from source.

NAME	CALCULATION	WHAT IT MEANS	IF "HIGH"	IF "LOW"	POTENTIAL ACTION
Debt	Average Total Debt/Average Total Assets	Degree of reliance upon long-term debt.	Signals future liquidity woes. May lead to complacency.	Indicates long-term stability.	High-Need to assess strategic plan and mid-to-long-term budget. Low-Possible collateral value..
Coverage	Revenue-Expenses+Depreciation+Amort./Annual Principal Payments+Reserve and Sinking Fund Requirements	Ability to reduce debt as scheduled from current resources.	No problem making mortgage payments.	Indicates difficulty reducing debt from current cash flows.	High-Ability to refinance or increase load if planning warrants. Low-Increase resources, reduce expenses, refinance.
Fundraising Efficiency	Total Contributions/Fundraising Expense	Measures the cost of procuring donations.	Generally considered good. May indicate market not adequately tapped.	Indicates inefficiency. Donors less inclined to give.	High-Explore marginal cost of increasing donations. Low-Utilize internal skills and energy. Look for alternative strategies.
Net Operating Ratio	Total Revenues-Total Expense/Total Revenues	Efficiency in terms of profitability. Similar to Savings Indicator (SI).	Perceived as too rich. Lack of stewardship.	May be unable to grow or capitalize for future.	High-Accelerate mission. Low-Plan funds campaign. Revise mission timetable.
Fundraising Expense	Fundraising Expense/Total Expenses	Proportion of expenses devoted to resource procurement.	Donors will perceive as inefficient.	Probably missing resource opportunities.	High-Utilize internal skills and energy. Look for alternative strategies. Low-Explore marginal cost of increasing donations.



NAME	CALCULATION	WHAT IT MEANS	IF "HIGH"	IF "LOW"	POTENTIAL ACTION
Management Expense	Management Expense/Total Expenses	Proportion of overhead to total expense.	Appearance of not operating like a business.	Insufficient attention to management of organization.	High-Reduce expenses. Increase resources. Low-Realize overhead is necessary to achieve mission.
Program Service Expense	Program Expense/Total Expense	Percent of total expense devoted to mission.	Encourages donations. Not enough resources devoted to management and fundraising.	Costing too much to accomplish mission.	High-Assess development activities. Assess adequacy of G&A. Low-Is mission worth the cost?
Program to Assets	Program Services Expense/Average Total Assets	Measures best use of investment.	Efficient use of assets.	Signifies a diversion of resources from the mission.	High-Consider accelerating mission by increasing capital base. Low-Check for nonproductive assets.
Return Ratio	Total Revenue/Total Assets	Measures efficiency of fundraising efforts.	Perception of good stewardship of assets.	Indicates assets may not be effectively employed.	High-Emphasize as an enhancement of image to donors. Low-Look for assets that are not contributing to mission or operations.
Cash Flow Margin	Operating Cash Flows/Operating Revenues-Expenses	Measures speed with which revenue is converted to cash.	Indicates efficiency	Possible inefficiency.	High-Consider accelerating mission. Low-Consider short-term financing.



NAME	CALCULATION	WHAT IT MEANS	IF "HIGH"	IF "LOW"	POTENTIAL ACTION
Cash Flow Return	Operating Cash Flows /Total Assets	Indicates ability of assets to generate cash.	Organization has quality assets.	Asset capitalization may extend too far into the future.	High-Accelerate mission. Diversify asset base. Low-Seek long-term financing.
Cash Flow to Liquidity	Cash+Marketable Securities+Operating Cash Flow/Current Liabilities	Measures organization's ability to pay current bills with cash or cash equivalents.	Indicates organization may have idle cash.	May signify impending cash crunch despite profitable operations.	High-Expand investment portfolio. Low-Seek short-term financing.
Cash Flow to Debt	Operating Cash Flow/Total Debt	Measures ability to pay all bills without using credit	Efficient cash management. Possibly too much idle cash.	May experience periods of cash shortages.	High-Consider long-term investments. Low-Establish line of credit for short-term needs.
Cash Flow to Growth	Operating Cash Flow/Increase in Unrestricted Net Assets	Measures growth in Unrestricted Net Assets.	Indicates the organization is funding its own future. Perception of wealth could discourage donations.	May indicate a delay in mission accomplishment	High-Consider long-term investments. Accelerate mission. Low-Revisit strategic plan.

Background



Why is it important



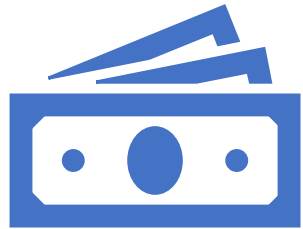
Who uses financials of a NFP?

Financial Statements



**Let's Talk About
Financial Statements**

Statements



Basic set of financial statements:

Statement of financial position

Statement of Activities

Statement of Cash flows

Statement of Functional Expenses



Additional schedules depending on if yellow book or uniform guidance

Statement of Financial Position

- What is it
- What does it report
- Why is it important
- Key items



Statement of Financial Position

	<u>20X1</u>	<u>20X0</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 890,000	\$ 820,000
Investments	858,000	677,000
Accounts receivable, net	15,000	20,000
Promises to give-current	359,000	204,000
Prepaid expenses and other assets	170,000	158,000
Total current assets	<u>2,292,000</u>	<u>1,879,000</u>
Property and equipment, net	<u>765,000</u>	<u>743,000</u>
Other Assets		
Cash restricted to building project	250,000	100,000
Promises to give, net	625,000	650,000
Endowment investments	775,000	800,000
Total other assets	<u>1,650,000</u>	<u>1,550,000</u>
Total assets	<u>\$ 4,707,000</u>	<u>\$ 4,172,000</u>



Statement of Financial Position

Liabilities and Net Assets

Current Liabilities

Line of credit	\$ 157,000	\$ 200,000
Current maturities of long term debt	55,000	65,000
Accounts payable and accrued expenses	373,000	219,000
Deferred revenue	40,000	43,000
Total current liabilities	<u>625,000</u>	<u>527,000</u>

Long Term Liabilities

Long term debt, net of current maturities	<u>125,000</u>	<u>150,000</u>
Total liabilities	<u>750,000</u>	<u>677,000</u>



Statement of Financial Position

Net Assets

Without donor restrictions

3,340,000

3,210,000

With donor restrictions

617,000

285,000

Total net assets

3,957,000

3,495,000

Total liabilities and net assets

\$ 4,707,000

\$ 4,172,000

Key Ratios – Statement of Financial Position

- Liquidity Ratio
- Current Ratio
- Receivable Turnover
- Net Temporarily Restricted Net Asset
- Accounts Payable Aging
- Debt/Coverage



Availability and Liquidity

Availability and Liquidity	20X1	20X0
Financial assets		
Cash and cash equivalents	\$ 890,000	\$ 820,000
Investments	858,000	677,000
Accounts receivable, net	15,000	20,000
Promises to give-current	359,000	204,000
	<u>2,122,000</u>	<u>1,721,000</u>
Less amounts not available to be used within one year:		
Net assets with donor restrictions	617,000	285,000
Financial assets available to meet general expenditures within one year	<u>\$ 1,505,000</u>	<u>\$ 1,436,000</u>
Annual expenses (from statement of activities)	3,002,000	2,866,000
Expenses per month	250,167	238,833
Number of months reserve	6.02	6.01

Statement of Activities

- What is it
- What does it report
- Why is it important
- Key items



Statement of Activities

	20X1			20X0
	Without Donor Restrictions	With Donor Restrictions	Total	
Operating Revenue, Support, and Gains				
Adoption fees	\$ 1,367,000	\$ -	\$ 1,367,000	\$ 1,189,000
Education programs	850,000	-	850,000	840,000
Contributions and grants	587,000	398,000	985,000	872,000
Gross special events revenue	274,000	28,000	302,000	268,000
Less cost of direct benefits to donors	(69,000)	-	(69,000)	(57,000)
Net special event revenue	205,000	28,000	233,000	211,000
Net assets released from restrictions	94,000	(94,000)	-	-
Total operating revenue, support, and gains	3,103,000	332,000	3,435,000	3,112,000



Statement of Activities

	20X1			20X0
	Without Donor Restrictions	With Donor Restrictions	Total	
Expenses				
Program services expense	2,093,000	-	2,093,000	2,063,000
Supporting services expense				
Management and General	592,000	-	592,000	583,000
Fundraising and development	317,000	-	317,000	220,000
Total supporting services expenses	909,000	-	909,000	803,000
Total expenses	3,002,000	-	3,002,000	2,866,000
Net changes from operations	101,000	332,000	433,000	246,000
Non-operating income				
Net investment return (loss)	29,000	-	29,000	(7,000)
Change in Net Assets	130,000	332,000	462,000	239,000
Net Assets, Beginning of Year	3,210,000	285,000	3,495,000	3,256,000
Net Assets, End of Year	\$ 3,340,000	\$ 617,000	\$ 3,957,000	\$ 3,495,000



Key Ratios – Statement of Activities

- Revenue Dependency
- Fundraising Efficiency/Expense
- Net Operating Ratio

Statement of Functional Expenses

- What is it
- What does it report
- Why is it important



Statement of Functional Expenses

	Program Services	Management and General	Fundraising and Development	20X1	20X0
Salaries and wages	\$ 1,110,000	\$ 342,000	\$ 183,000	\$ 1,635,000	\$ 1,708,000
Animal food and supplies	362,000	-	-	362,000	340,000
Employee benefits	170,000	51,000	28,000	249,000	256,000
Payroll taxes and fees	85,000	27,000	14,000	126,000	127,000
Professional services	20,000	49,000	50,000	119,000	40,000
Grants	100,000	-	-	100,000	80,000
Printing and postage	36,000	28,000	9,000	73,000	52,000
Occupancy	53,000	10,000	4,000	67,000	58,000
Advertising and public awareness	35,000	28,000	-	63,000	11,000
Depreciation	47,000	8,000	3,000	58,000	55,000
Travel	34,000	10,000	6,000	50,000	43,000
Information technology	4,000	22,000	16,000	42,000	43,000
Insurance	23,000	6,000	3,000	32,000	27,000
Interest	10,000	2,000	1,000	13,000	15,000
Other	4,000	9,000	-	13,000	11,000
Total expenses by function	<u>\$ 2,093,000</u>	<u>\$ 592,000</u>	<u>\$ 317,000</u>	<u>\$ 3,002,000</u>	<u>\$ 2,866,000</u>



Key Ratios – Statement of Functional Expenses

- Program Service Expense
- Management Expense
- Fundraising Expense
- Natural Classification vs. Total analysis



Statement of Functional Expenses

	Program Services	Management and General	Fundraising and Development	20X1	20X0
Salaries and wages	\$ 1,110,000	\$ 342,000	\$ 183,000	\$ 1,635,000	\$ 1,708,000
Animal food and supplies	362,000	-	-	362,000	340,000
Employee benefits	170,000	51,000	28,000	249,000	256,000
Payroll taxes and fees	85,000	27,000	14,000	126,000	127,000
Professional services	20,000	49,000	50,000	119,000	40,000
Grants	100,000	-	-	100,000	80,000
Printing and postage	36,000	28,000	9,000	73,000	52,000
Occupancy	53,000	10,000	4,000	67,000	58,000
Advertising and public awareness	35,000	28,000	-	63,000	11,000
Depreciation	47,000	8,000	3,000	58,000	55,000
Travel	34,000	10,000	6,000	50,000	43,000
Information technology	4,000	22,000	16,000	42,000	43,000
Insurance	23,000	6,000	3,000	32,000	27,000
Interest	10,000	2,000	1,000	13,000	15,000
Other	4,000	9,000	-	13,000	11,000
Total expenses by function	\$ 2,093,000	\$ 592,000	\$ 317,000	\$ 3,002,000	\$ 2,866,000

Percentage of total expense

70%

20%

10%

Statement of Cash Flows

- What is it
- What does it report
- Why is it important
- Key items

Statement of Cash Flows

	<u>20X1</u>	<u>20X0</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 462,000	\$ 239,000
Adjustments to reconcile change in net assets to net cash from (used for) operating activities		
Depreciation	58,000	(55,000)
Realized and unrealized (gain) loss on investments	(83,000)	10,000
(Increase) decrease in assets		
Accounts receivable, net	5,000	3,000
Promises to give	(130,000)	(104,000)
Prepaid expenses and other assets	(12,000)	(141,000)
Increase (decrease) in assets		
Accounts payable and accrued expenses	154,000	25,000
Deferred revenue	(3,000)	5,000
Net Cash from (used for) Operating Activities	<u>\$ 451,000</u>	<u>\$ (18,000)</u>

Statement of Cash Flows

	<u>20X1</u>	<u>20X0</u>
Cash Flows from Investing Activities		
Purchases of investments	(233,000)	(180,000)
Proceeds from sales of investments	160,000	32,000
Purchases of property and equipment	(80,000)	(30,000)
Net Cash used for Investing Activities	<u>(153,000)</u>	<u>(178,000)</u>
Cash Flows from Financing Activities		
Borrowings under line of credit	154,000	(54,000)
Repayments under line of credit	(197,000)	200,000
Repayments on long term debt	(35,000)	(30,000)
Net Cash from (used for) Financing Activities	<u>(78,000)</u>	<u>116,000</u>
Net Change in Cash, Cash Equivalents, and Restricted Cash	220,000	(80,000)
Cash, Cash Equivalents, and Restricted Cash, Beginning of Year	<u>920,000</u>	<u>1,000,000</u>
Cash, Cash Equivalents, and Restricted Cash, End of Year	<u>\$ 1,140,000</u>	<u>\$ 920,000</u>

Key Ratios – Statement of Cash Flows

- Cash Flow Margin
- Cash Flow Return
- Cash Flow to Liquidity
- Cash Flow to Debt
- Cash Flow to Growth



Additional Internal Reports

- Budget vs actual
- Fundraising ROI
- Donor activity and growth
- Employee satisfaction and retention

Takeaways

- Importance of accurate financial information
- Regularly use financials and internal reports to analyze
- Use results from analysis to plan for the future
- Ensure all parties understand their role in the preparation and analysis of financial statements

