

Demystifying Financial Statements

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ATB Branch for Arts and Culture

Class Agreement

- We believe in creating a safe environment that encourages belonging, fairness and respect for every participant, facilitator, volunteer, and community member participating in our programs.
- We commit to creating a safe space for everyone by:
 - Respecting each person regardless of how they identify (including their gender, sexuality, age, religion, race, culture, beliefs, physical and neurological abilities, etc.)
 - Not interrupting others.
 - Being mindful of how much time/space we each take up in discussions.
 - Making time/space for others to speak.
 - Using "I" statements ("I feel," "I think," "I wonder," etc.).
 - Replacing criticism with questions and encouragement.
 - Respecting those who wish to listen silently.
- We commit to allowing everyone to take care of themselves by:
 - Encouraging anyone to leave the room at any time.
 - Following up on conversations with Facilitators following each session

DISCLAIMER

I am not an accountant, this presentation outlines some common characteristics about Financial Statements for Non-profits. I will try and answer your questions to the best of my ability, but am unable to give you specific accounting advice. I urge you to ask detailed questions about your organizations financials to a certified accountant.

The purpose of this workshop is to **increase your comfort** with analyzing, reviewing, and building financial statements for your organization.

LEARNING OBJECTIVES

- **Review and understand:**
 - The difference between Financials, Budgets & Bank Accounts
 - Statement of Financial Position
 - Statement of Operations
 - Cash Flow Statement
 - Language of Financials (liquidity, restricted funds, etc)
 - Some tricky financial situations for not for profits
 - In Kind
 - Capital Purchases
 - Deferred Revenue

WHAT IS THE DIFFERENCE?

FINANCIAL STATEMENTS	BUDGETS	BANK ACCOUNTS
<p>Financial statements are written records that convey the business activities and the financial performance of a company. Financial statements are often audited by government agencies, accountants, firms, etc. to ensure accuracy and for tax, financing, or investing purposes. Ex. Statement of Financial Position, Statement of Operations, Cash flow statement.</p>	<p>A budget is an estimation of revenue and expenses over a specified future period of time and is usually compiled and re-evaluated on a periodic basis. At organizations, a budget is an internal tool used by management and Boards and is often not required for reporting by external parties, granting agencies, government funders, financial institutions and sponsors.</p>	<p>A bank account is an arrangement made with a financial institution whereby one may deposit and withdraw money and in some cases be paid interest. Some accounts include checking, savings, line-of-credit, credit cards, loans, GIC, investment accounts.</p>

What is Included in Financial Statements?

- Statement of Financial Position (balance sheet)
- Statement of Operations (income statement)
- Statement of Changes in Net Assets
- Statement of Cash Flow
- Notes to Financial Statements

Statement of Financial Position

- Also known as a “balance sheet”
- Reports:
 - What we own (ASSETS)
 - What we owe (LIABILITIES)
 - What we have left (NET ASSETS)

NEW ALBERTA Theatre Co (NAT)		
STATEMENT OF FINANCIAL POSITION (Balance Sheet)		
December 31, 2017		
ASSETS		
CURRENT	2017	2016
Unrestricted Cash	76,589	67,589
Unrestricted Investment	19,654	16,578
Accounts Receivable	1,455	345
Prepaid Expense	2,094	1,344
	100,697	85,857
Long-term Restricted Assets	43,567	41,998
PROPERTY, PLANT & EQUIPMENT	12,345	10,789
	156,609	138,644
LIABILITIES AND NET ASSETS		
LIABILITIES		
CURRENT		
Accounts Payable	4,889	3,806
Deferred Rental Revenue	2,280	3,532
	7,169	7,338
Deferred Cash Contributions	43,567	41,998
Deferred Capital Contributions	2,678	5,689
	53,414	55,023
NET ASSETS		
Unrestricted	59,627	41,623
Internally Restricted Funds	43,567	41,998
	103,194	83,619
	103,194	83,619
Liabilities & Net Assets	156,609	138,644

Key Features Statement of Financial Position

- Snap shot of the financial health
- Balance sheet must balance
- Must compare to a prior period to be useful
- Listed always in the order of:
 - Assets in order of liquidity*
 - Liabilities in the order of how quickly the claim matures

**Liquidity - Used to describe how easy it is to convert assets to cash. The most liquid asset, and what everything else is compared to, is cash.*

The Accounting Language

Assets	Liabilities	Net Assets
What a group owns	What a group owes	What we have left

ASSETS = LIABILITIES + NET ASSETS

Examples

Assets =	Liabilities +	Net Assets
Cash Inventory Buildings Land Equipment Accounts Receivable Investments	Accounts Payable Wages Payable Deferred Cash Deferred Capital	Retained Earnings Restricted Funds

Common Questions:

What are Restricted vs Unrestricted Funds?

What is the difference between Internally Restricted vs Externally Restricted?

What are some examples of Internal Restricted funds, vs Externally Restricted funds?

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LIABILITIES AND NET ASSETS		
LIABILITIES		
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	7,169	7,338
Deferred Cash Contributions	43,567	41,998
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	53,414	55,025
NET ASSETS		
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	103,194	83,619
Externally Restricted Funds	103,194	83,619
Liabilities + Net Assets	156,609	138,644

Questions to Ask about Statement of Financial Position

- What are the components of cash and cash equivalents?
 - Are any of these at risk of losing value?
- Who owes us the accounts receivable?
 - What is the age profile of these accounts?
 - Is there likely to be a problem in collecting these amounts?
 - Has any provision been taken for uncollectible amounts?
- What are the components of prepaid expenses? (These often arise from amounts paid for services before they are rendered, like insurance or rent.) Do we have any choice about paying in advance?
 - Has any provision been taken for uncollectible amounts?
- What are the major types of invested assets (investments) we hold?
 - Do we have an investment policy?
 - What are the prospects for future changes in value and income from these investments?
 - What are the risks associated with these types of investments?
 - Are the risks appropriate for our organization at this time?
 - What happens to these assets if we wind down the organization?
- What are the capital assets we own?
 - Where in the organization are they used?
 - How are these assets depreciated or amortized?
 - Do we have plans to replace these assets as needed?
 - Are we building a replacement fund to pay for replacements?
 - Do we have appropriate insurance on these assets in case they are damaged or lost?
- To whom do we owe accounts payable?
 - Do we pay these amounts on a timely basis, and specifically, in accordance with the payment terms that suppliers or others have specified in order to avoid further costs?
- What is the renewal date for the mortgages or loans outstanding?
 - What new interest rates can be anticipated and how do they compare to the rates we are currently paying?
 - We have a large cash balance—what are the penalties, if any, involved in paying down the mortgage?
 - Should we consider doing so, or do we have plans for the use of the cash balance in the future?
- What is included in other liabilities?
 - To whom are these owed and why?
 - When will these amounts come due, and will we have the cash resources to pay them?

*<https://www.cpacanada.ca/~media/site/business-and-accounting-resources/docs/a-guide-to-financial-statements-of-not-for-profit-organizations-questions-for-directors-to-ask-2012.pdf>

Statement of Operations

- Also known as an “Income Statement”
- Reports:
 - What we earned in operational revenue
 - What we paid in operational expenses

Key Features

- Reports over a period of time
- Shows operational revenues and expenses
- It is presented with revenue first then expenses followed by one of three outcomes,

Revenue=Expenses

Revenue>Expense=Surplus

Revenue<Expense=Deficit

Accounting Language

Revenue	Expenses
Funds earned and/or funds earned when related expenses occur	Non-capital items that your organization spends funds on

Examples

Revenue	Expenses
Memberships	Rent & maintenance
Interest	Advertising
Advertising Revenue	Contract Services
Program Fees	Insurance
Grants	Office expenses
Fundraising	Utilities
	Programs
	Staffing

NEW ALBERTA Theatre (NAT)		
STATEMENT OF OPERATIONS (Income Statement)		
Year ended December 31, 2017		
Revenue	2017	2016
Raffle Funds	32,000	20,000
Grant Revenue	40,500	37,500
Donations	4,357	3,245
Interest Income	201	0
Memberships	1,260	3,745
Miscellaneous	110	0
Program Revenue - Concert Sales	21,456	19,765
Corporate Sponsorships* note 1	1,978	4,599
	101,853	88,854
Expenditures		
Instructor Fees	16,358	16,675
Insurance	687	567
Rehearsal Hall Fees	0	8,639
Licences and Dues	158	159
Marketing - *Note 2	1,610	1,050
Office and Administration	29,876	28,456
Professional Fees	1,650	1,590
Programs - Production Expenses	6,335	6,110
Programs - Equipment Rentals	15,141	11,149
	71,807	74,395
Excess of Revenue (Expenditures) before Amortization	30,046	14,459
Less: Amortization Expense	-1,063	-1,063
EXCESS OF REVENUE (EXPENSES)	28,984	13,397

Questions to Ask about Statement of Operations

- Who provides each category of revenue to the organization and why?
 - Are there restrictions on how these revenues are used?
- What are the costs associated with raising this kind of revenue?
 - Is the effort of raising these funds worthwhile?
 - Are there opportunities to increase revenues from this source?
- In particular, what are our fundraising expenditures as a percentage of funds raised?
 - How does this compare with similar charitable NPOs?
 - Are the fundraising costs warranted, relative to the benefits received?
 - Do we have fundraising protocols that provide guidance to management?
- Who are our competitors for these revenues? Do they represent possible collaborators?
- Have we remained true to our mission in pursuing funding for specific programs, or have we focused too much on acquiring the revenues, even if the activities funded blur our focus (so-called "mission creep")?
- Are there revenues devoted to a specific program, project or activity?
 - Do these revenues include funding to sustain the organization's overhead (so-called "core funding")?
 - If not, how is infrastructure to be funded as the program, project or activity places greater stress on it?
- How do we go about soliciting these revenues?
 - Are we adhering to board policies or standards around ethical fundraising activities?
- How secure is each source of revenue for future periods?

*<https://www.cpacanada.ca/~media/site/business-and-accounting-resources/docs/a-guide-to-financial-statements-of-not-for-profit-organizations-questions-for-directors-to-ask-2012.pdf>

Cash Flow Statement

- Gives information about:
 - Cash receipts and payments
 - Net change in cash during a period
- Helps stakeholders, management and boards understand an organization's:
 - Ability to generate future cash flows
 - Ability to pay off debt and meet obligations
 - Investing and financing activities during period
 - Cash provided (used) by operating activities, and how it differs from profit

Statement of Cash Flows		
	2017	2016
Operating Activities		
Revenue over expenses	\$ 19,160.00	\$ 14,459.00
Item not affecting cash		
Amortization	\$ 1,063.00	\$ 1,063.00
	\$ 18,097.00	\$ 13,396.00
Changes in Non-cash working capital		
Accounts receivable	\$ 876.00	\$ 2,456.00
Prepaid expenses	\$ 1,018.00	\$ 4,567.00
Deferred Revenue	\$ 388.00	\$ 12,657.00
Accounts payable & accrued Liabilities	\$ 889.00	\$ 3,806.00
	\$ 3,171.00	\$ 23,486.00
Financing Activities		
Bank Loan Repayment	\$ (12,469.00)	\$ (9,042.00)
	\$ (12,469.00)	\$ (9,042.00)
Investing Activities		
Interest Revenue	\$ 201.00	\$ -
	\$ 201.00	\$ -
INCREASE IN CASH	\$ 9,000.00	\$ 27,840.00
Cash beginning of period	\$ 67,589.00	\$ 39,749.00
Cash End of Period	\$ 76,589.00	\$ 67,589.00

Key Features

- Reports over a period of time
- Shows cash flow from three areas
 - Operating Activities (cash, amortization)
 - Investing Activities (increase or decrease in investments, purchase/sale of capital assets, contributions to reserve fund)
 - Financings Activities (payments of debts, payments of equipment)
- It is presented as a net increase of decrease in cash from previous period of time.

Why is Cash Flow important

- In non-profits some organizations receive income and cash in irregular ways, sometimes grants are split up into 4 large payments, other times earned revenue (like ticket sales) may come in after expenses costs occur.
- So even if an organization has a strong net revenue each year, knowing how much cash you have will help you with your ability to do business monthly.

CAPITAL PURCHASES

Say I buy a touring van for my organization, it's a used vehicle so it was \$10,000. We believe this van will have a useful life of approximately 10 years.

YEAR 1

- I increase my "Property plant & Equipment" on my Statement of Financial Position by \$9000 which is under ASSETS
- AND
- Add \$1000 to amortization (depreciation expense) under expenses on my statement of operations

YEAR 2

- my property plant and equipment number will go down by \$1000 on my statement of financial position under assets (totaling \$8000 now for the current value of the van)
- AND
- I add \$1000 to amortization (depreciation) under expenses on my statement of operations (not \$1000 more, because it is a new year, so it is a new \$1000 expense this year)
- We continue this trend until the useful life the Van is no longer there.

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IN KIND

Note 1 - Corporate Sponsorships
 In Kind radio time with a fair market value of \$1000 from CKHT Radio
 Cash sponsorship from AB Telecom for \$970

Note 2 - Marketing
 In kind donation with a fair market value of \$1000 from CKHT Radio
 Cash expense for online advertisement purchase of \$610

Deferred Cash Contribution

Example: We have received a special project grant of \$5000 from the Heart of the City Foundation, however the event isn't for another 6 months from now.

\$5000 sits on our Statement of Financial position as Deferred Cash Contribution under LIABILITIES, as we have not EARNED this revenue yet.

Once the event has occurred this \$5000 moves to our STATEMENT OF OPERATIONS under revenue.

We can still deposit this \$5000 into a bank account, we can still budget \$5000 in grant revenue in our budget. But for accounting purposes until we have met the obligation of putting on the event, in our accounting statements it sits as a Liability until the actual event occurs.

ACTIVITY: Look through the notes below and confirm how the note will affect next year's statement of operations or financial statement, note that some items may affect multiple sheets/or line items.

1. Unlike our current season, we have secured free space for two of our three performances
2. We are taking on significantly more risk with our expansion this year and want to make sure we have adequate protection.
3. Because of the increased education programming we anticipate we will need to hire additional instructors
4. We have secured a brand new sound equipment rental agreement with AMP Sound Inc. that is sponsored by AB Telecom.
5. On top of our previous donations, we are going to implement a new donation campaign with an expanded reach.
6. An additional production was added into our season with music we have never performed before.
7. We have received a special project grant of \$5000 from the Heart of the City Foundation, however it is for an 6 months from now.
8. You have purchased a new touring van for \$10,000 with a 10 year lifecycle.
9. A radio station has donated \$1000 of free advertising for your organization.

GO TO RESOURCES

1. SERVICE ALBERTA:

"BOARD DEVELOPMENT FINANCIAL RESPONSIBILITIES OF NOT-FOR-PROFIT BOARDS"

<https://open.alberta.ca/publications/board-development-financial-responsibilities-of-not-for-profit-boards>

1. CPA CANADA:

"A GUIDE TO FINANCIAL STATEMENTS of NOT-FOR-PROFIT ORGANIZATIONS"

<https://www.cpacanada.ca/~media/site/business-and-accounting-resources/docs/a-guide-to-financial-statements-of-not-for-profit-organizations-questions-for-directors-to-ask-2012.pdf>