

Not-For-Profit Financial Statements

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Terminology

- Nonprofit vs. Not-for-profit
- Contributions
 - Restricted vs. Unrestricted



Purpose of Accounting

- Information system
 - Measures
 - Processes
 - Communicates information which is useful for decision makers



Fundamental Accounting Equation

$$\text{Assets} = \text{Liabilities} + \text{Owners' Equity}$$



Assets = Liabilities + Owners' Equity

- Assets - what a business owns
- Liabilities - what a business owes (i.e., the claims against the assets)
- Owners' Equity - the residual after subtracting liabilities from assets.

This model is for for-profit entities, not nonprofits.

Nonprofit Fundamental Accounting Equation

Assets = Liabilities + Net Assets

- Assets - what the nonprofit owns
(same)
- Liabilities - what the nonprofit owes
(same)
- Net Assets - the residual after
subtracting liabilities from assets
(same concept, different terminology)



Net Assets vs. Owners' Equity

Why is the residual called “Net Assets” rather than “Owners' Equity”?

- Nonprofits don't have owners.
 - For-profit - profits belong to the owners
 - Nonprofit - profits are reinvested in the mission.



Statement of Financial Position

- The fundamental accounting equation forms the basis of the ***Statement of Financial Position***, commonly known as a Balance Sheet.
 - Shows a picture of the organization's reported account balances as of a point in time, usually the end of the fiscal year.

Net Income vs. Change in Net Assets

- For-profit:

Revenue – Expenses = Net Income

- Nonprofit:

Increases in Net Assets – Decreases in Net Assets = Change in Net Assets

Change in Net Assets

- Equation forms the basis for the ***Statement of Activities*** or Income Statement.
 - Reports on the results of operations over a period of time, usually the fiscal year.
 - Change in Net Assets - increase or decrease in the residual between assets and liabilities during the period reported
 - Positive change
 - Negative change



Terminology

- Program Revenue
- Functional Expenses
- Capital Improvement vs. Expense



Financial Statements

- Basic Statements
 - Statement of Financial Position
 - Statement of Activities
 - Statement of Changes in Net Assets
 - Statement of Cash Flows
 - Notes to Financial Statements
- Supplemental Information



Statement of Financial Position

- **Assets**
 - Current assets
 - Property and equipment
 - Other noncurrent assets
- **Liabilities**
 - Current liabilities
 - Long term liabilities, usually long-term debt
- **Net Assets**
 - Permanently restricted
 - Temporarily restricted
 - Unrestricted



Statement of Activities/Changes in Net Assets

- May have only one, both or combined in one statement
- Shows changes in net assets by asset class
 - permanently restricted
 - temporarily restricted
 - unrestricted.

Increases in Net Assets

Three main categories of increases:

- Revenue – fees for program services, tuition, etc.
- Support – contributions, donations, grants, bequests, etc.
- Investment income – interest, dividends, gains/losses



Decreases in Net Assets

- Expenses - what the entity spends to carry out its operations.
 - Natural expenses
 - By natural classifications
 - Functional expenses
 - By program



Release of Restrictions

- Increases in unrestricted net assets
- Decreases in restricted net assets
- Two main types of restrictions
 - Use restrictions
 - Time restrictions



Statement of Cash Flows

- **Cash flows from operating activities**
 - Indirect versus direct method
 - Indirect shows reconciliation from change in net assets to cash flows from operating activities
 - Direct shows gross cash flows from major operating activities
- **Cash flows from investing activities**
 - Investment and Fixed assets
- **Cash flows from financing activities**
 - Debt related



Financial Statement Basics

- Responsibility of management
- Accounting principles generally accepted in the United States of America
- Governmental accounting standards



Accrual vs. Cash Basis

- Cash basis – transactions recognized when cash changes hands
 - Internal Use
 - May be compiled by CPA
- Accrual basis- transactions recognized at the time of actual economic substance
 - External Use
 - Generally compiled, reviewed or audited by CPA

Accrual Transactions

- Revenue or cost is recognized when cash is exchanged...
 - Ticket sales at the box office
 - Salaries expense
- Revenue or cost is recognized before cash is exchanged...
 - A donor submits a pledge
 - Office supplies purchased on credit
- Revenue or cost recognized after cash is exchanged...
 - Ticket sales for the upcoming season are recognized as revenue as the shows are presented
 - Insurance policy for the coming 12 months is paid for up front



Governmental Grants

- Single Audit
- State Awards
- Governmental Auditing Standards



Financial Statements

- Audit Reports
 - Basic report under GAAP and GAS
 - Report on compliance with laws, regulations, grants and contracts and on internal control over financial reporting based on audit
 - Report(s) required under Single Audit, if required as a result of expending over \$750,000 on federal programs
 - Entity should strive for unqualified or “clean” opinion



Financial Statements

- Other Auditor Communications
 - Required communications
 - As part of audit planning
 - Deficiencies in Internal Control
 - Other communications
 - Management comments



Using the Financial Statements

What can we do with the information?

- Use to understand how our nonprofit looks to outsiders (potential lenders or donors)
- Use to understand the business better
- Use to compare actual results to budget

Outsiders – What do they see?

- When borrowing money, what do the statements say to potential lenders?
 - Are we well capitalized?
 - Do we have the capacity to pay loans back?
 - Do we have assets that could be pledged as collateral?
- When asking for significant gifts or grants, what do the statements say to potential donors?
 - Steward money wisely?
 - Already have enough money, or so strapped that they'd be risking putting money into a "black hole"?



Internal users – What can they learn?

- Big numbers - give the first clue about what's important.
- Comparative data - more informative when compared across years.
- Strategy -What actions might want to start planning to make things look better?



Other Considerations

- Secretary of State Filings
- State Grants Received
- Form 990



Secretary of State Filings

- Business License
- Registration Statement of Charitable Organizations – required if charity intends to receive contributions from the public, government grants and private foundations
- Form 990 required to be submitted if charity intends to receive more than \$25,000
- Audited or reviewed financial statements requirements



Secretary of State Filings

- Financial Review required if receive more than \$200,000, but less than \$500,000, in contributions, excluding grants from government agencies or private foundations.
- Audit required if receive more than \$500,000 in contributions, excluding grants from government agencies or private foundations.
- These thresholds do **not** take into account program service revenue or other income, gains, or losses



State Grants Received

- \$50,000 threshold – based on grants received
- Must report on whether state grants were spent as intended
- Reporting options

Form 990

- 990 N - \$50,000 or less in receipts
- 990 EZ - \$200,000 or less in receipts **and** assets less than \$500,000
- 990
 - Compensation of Officers
 - Numerous Questions, including governance policies



Not-for-profit Financial Statements

Questions & Answers

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