



# INTRO TO FINANCIAL STATEMENTS

**Developed for:**

Philanthropy New York

PNY Core: Financial Series



The **NONPROFIT** accounting specialists™

# PRESENTERS FROM YOUR PART-TIME CONTROLLER, LLC



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Professional services firm specializing in nonprofit financial management



8 Regional Offices



Services include accounting, reporting, data visualization, and best practices



YPTC Anywhere®: Working remotely and from regional offices nationwide



1500+ current clients



Nearly 3 decades of nonprofit expertise

# TODAY'S LEARNING OBJECTIVES/AGENDA



Understand the **basic components of the financial management** function



Define the **building blocks of financial statements**: transactions and accounts (assets, liabilities, net assets, revenue and expenses)



Explain the difference between **internal and external financial reporting**



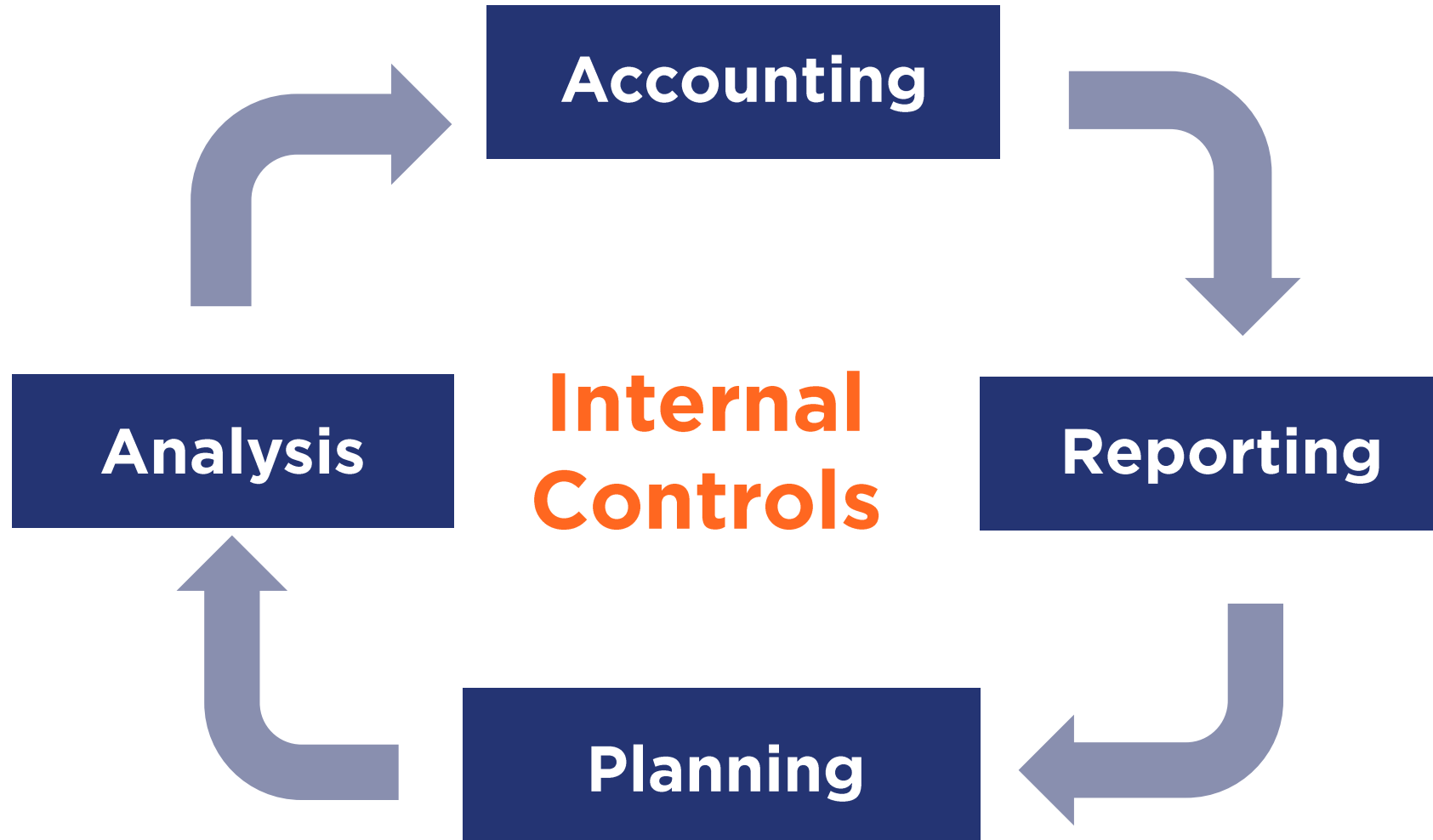
Explain the **purpose of an audit** and the audit process

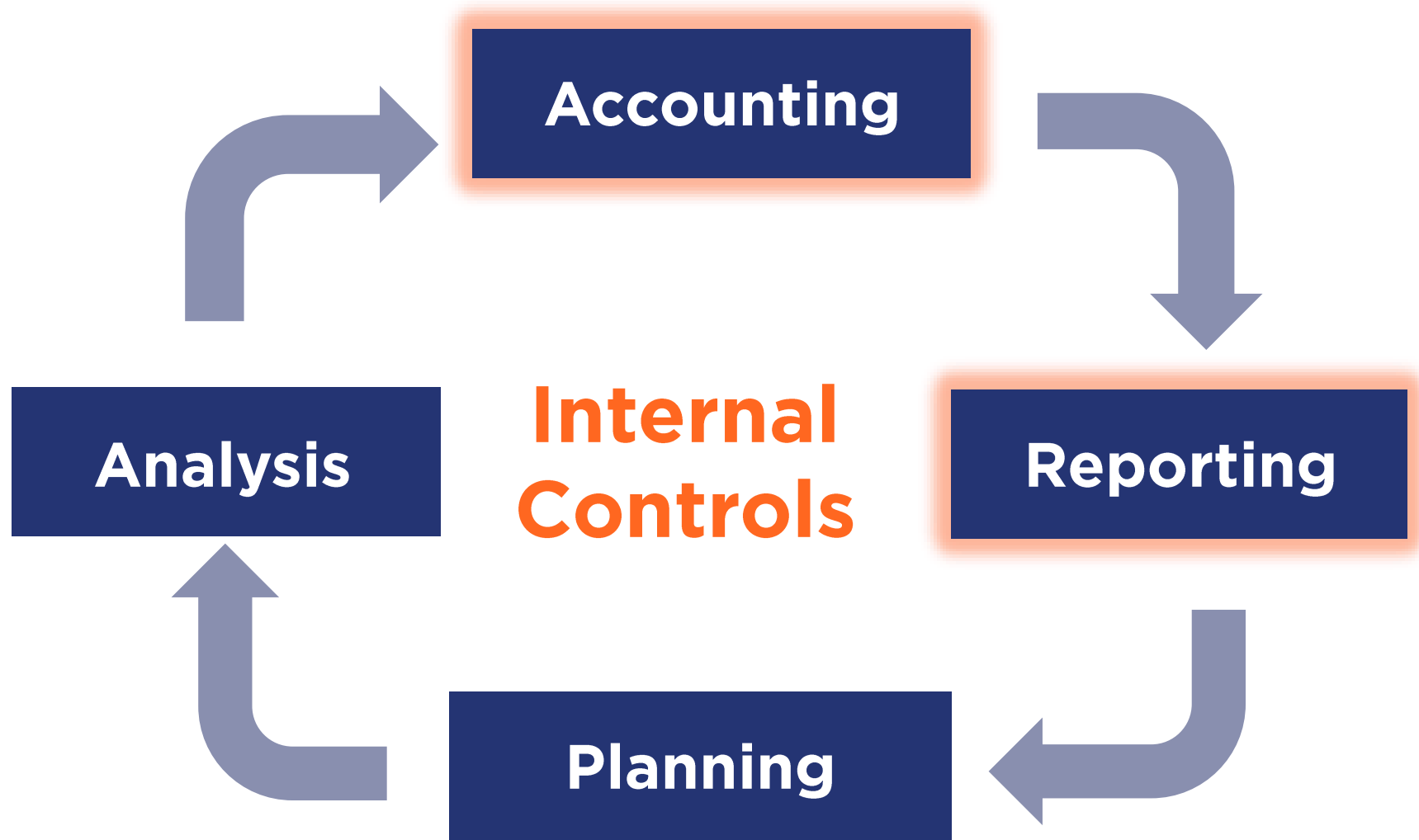


Define the **four basic parts of an organization's audited financial statements** (e.g., balance sheet, activities statement, cash flow statement, and footnotes)

***Main Objective: Be Prepared for the Next Step - Reading and Analyzing Financials!***

# WHAT IS FINANCIAL MANAGEMENT?





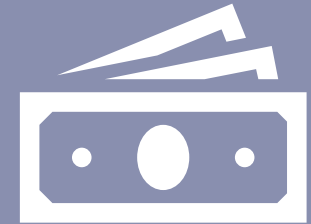
Accounting (*noun*): **The systematic recording of financial transactions of an organization.**  
(It can also include the reporting and analysis).

# CASH VS. ACCRUAL BASIS OF ACCOUNTING

## Cash Accounting

**Revenue** recorded when cash **received**

**Expenses** recorded when cash **paid**



## Accrual Accounting

**Revenue** recorded when **earned**

**Expense** recorded when **incurred**



# THE BUILDING BLOCKS OF ACCOUNTING



An accounting transaction, also called a business event, is any exchange of economic consideration that can be reasonably measured and affects the organization's financial position.



# LET'S PLAY A GAME! IS THIS A TRANSACTION?



Sell tickets to the big annual gala being held on Saturday March 4th



Sign a contract to hold the art auction (the second biggest fundraiser of the year) at the Marriott Marquis on May 1st



Today, pay for gala decorations



Receive a written pledge from a donor

# HOW DO YOU ACCOUNT FOR A PLEDGE?



**NON-RECIPROCAL?**



**NON-CONDITIONAL?**



**UNRESTRICTED?**

# THE BUILDING BLOCKS OF ACCOUNTING



# ACCOUNTS: THE BUILDING BLOCKS OF FINANCIAL STATEMENTS



An asset is an item of **economic value** that is expected to **yield a benefit** in future periods.

**WE OWN IT!**



A liability is an organization's **legal debts** or **obligations**.

WE OWE IT!





Net assets (also known as owners' equity, shareholders equity, or net worth) is the **total assets** minus the **total liabilities** of a company or individual.

$$\text{ASSETS} - \text{LIABILITY} = \text{NET WORTH}$$

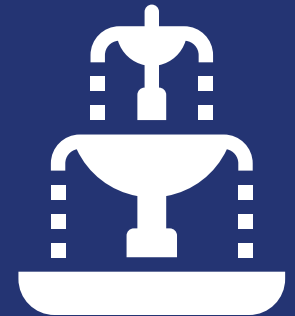
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# A PERSONAL BALANCE SHEET

<u>Assets</u>		<u>Liabilities &amp; Net Worth</u>	
		Liabilities	
Cash	\$10,000	Credit Card Debt	\$1,000
Car	12,000	Car Loan	3,000
House	<u>150,000</u>	Mortgage	<u>100,000</u>
		Total Liabilities	104,000
		Net Worth	<u>68,000</u>
TOTAL Assets	\$172,000	TOTAL Liabilities & Net Worth	\$172,000

## Revenue:

- Represents inflows that the organization **has received or is entitled to receive.**
- Results in an inflow of Assets to the organization **and an increase in Net Assets.**



An **expense** is the **cost** that a business **incurs** through its operations to earn revenue.





# TIME FOR GROUP ACTIVITY!

Post your ACCOUNTS onto the proper column of the  
Income Statement and Balance Sheet

YOUR

PART-TIME

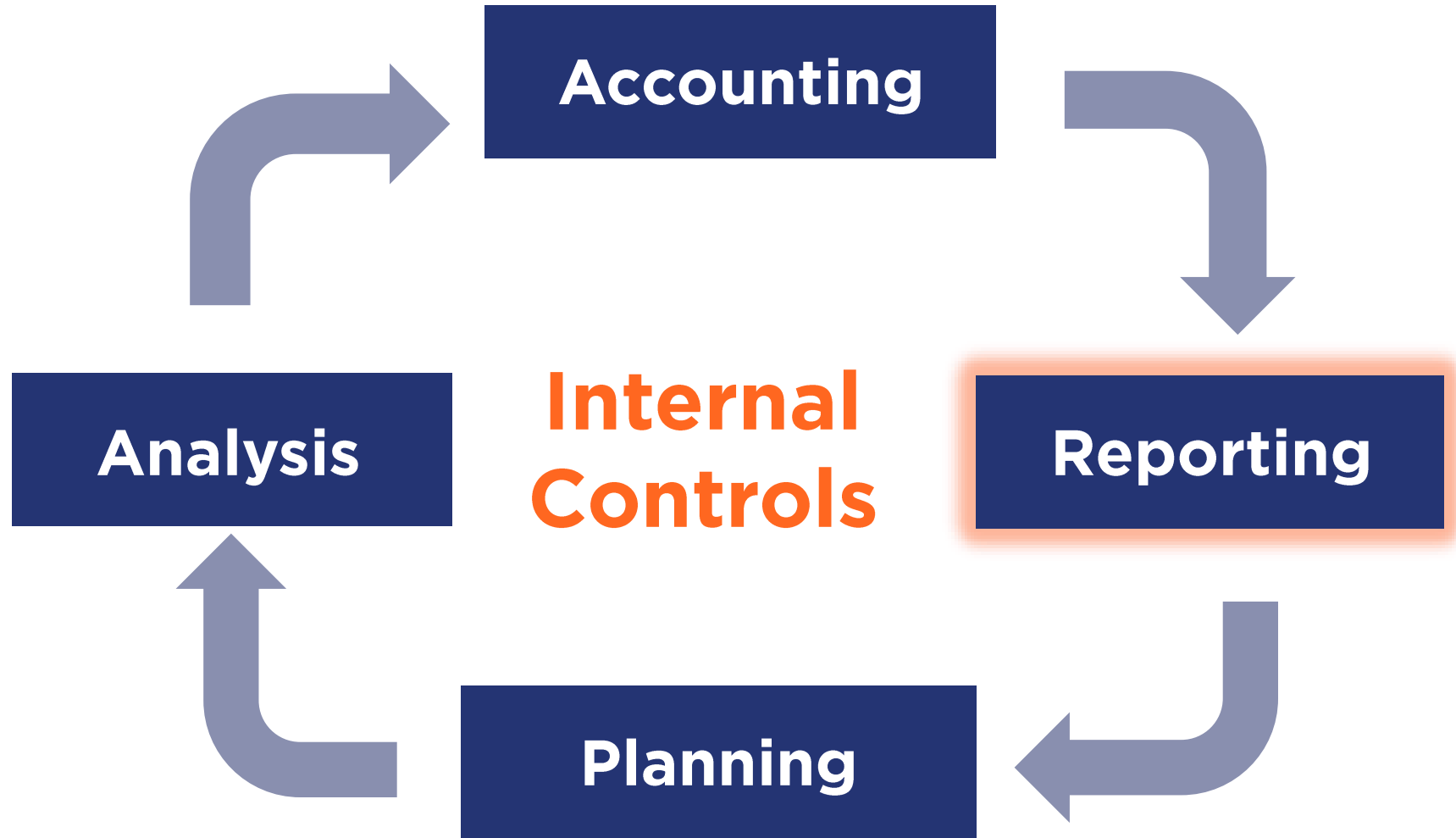
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# THE BUILDING BLOCKS OF FINANCIAL STATEMENTS



# FROM ACCOUNTING TO REPORTING



## Internal

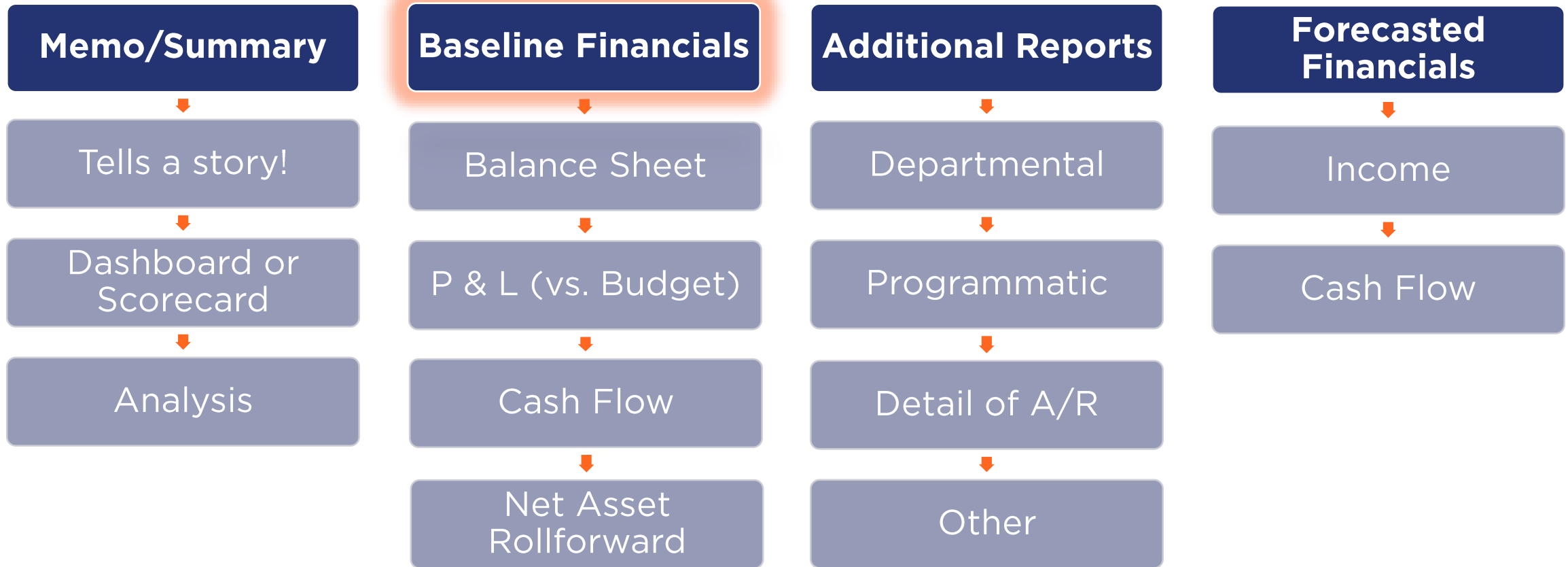
- Monthly financial reports
  - To Management
  - To Finance Committee
  - To Board
- Weekly or even daily “Flash Reports”

## External

- Annual audit
- Form 990
- Reports to other stakeholders
  - Funders
  - Bankers



# INTERNAL REPORTING: EXAMPLE FINANCIAL REPORTING PACKAGE



## Audit Purpose

The purpose of an audit is to provide an **objective independent examination of the financial statements**, which increases the value and credibility of the financial statements produced by management, **thus increase user confidence in the financial statement**, reduce investor risk.

## Audit Process

- Plan and Design an Audit Approach
- Perform Test of Controls and Substantive Test of Transactions
- Perform Analytical Procedures and Tests of Details of Balances
- Complete the Audit and Issue an Audit Report

# PARTS OF A NONPROFIT AUDIT REPORT

1

**Statement of  
Financial Position  
(Balance Sheet)**

2

**Statement of  
Activities  
(Income Statement)**

3

**Cash Flow  
Statement**

4

**Footnotes**

5

**Statement of  
Functional  
Expenses**

*Optional statement; info required*

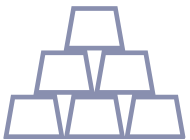
# STATEMENT OF FINANCIAL POSITION = BALANCE SHEET



Reports information at a **moment in time**



Shows **assets, liabilities, & net assets**



Net Assets in 2 Categories:  
**with donor restriction & without donor restriction**

*Provides readers with information about the financial flexibility and liquidity of the organization.*

**Assets = Liabilities + Net Assets**



# WHY DO BALANCE SHEETS BALANCE?

**Assets = Liabilities + Net Assets**

or

**Assets - Liabilities = Net Assets**  
What you own                      What you owe                      What you are worth

**Equations must always be in **balance**.**

DramaMama Theatre Company  
Statement of Financial Position

June 30, 20X1

	6/30/20X1
<b>ASSETS</b>	
Cash	\$ 86,401
Accounts Receivable	73,500
Contributions Receivable	500,000
Prepaid Expenses	25,000
Fixed Assets, Net	3,586,375
Endowment Investments	495,000
<b>Total Assets</b>	<b>\$ 4,766,276</b>
<b>LIABILITIES AND NET ASSETS</b>	
<b>Liabilities</b>	
Accounts Payable	\$ 40,000
Accrued Expenses	30,000
Refundable Advances	10,000
Deferred Revenue	67,000
Mortgage Payable	992,973
<b>Total Liabilities</b>	<b>1,139,973</b>
<b>Net Assets</b>	
Without Donor Restrictions	3,176,303
With Donor Restrictions	450,000
<b>Total Net Assets</b>	<b>3,626,303</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 4,766,276</b>

**AS OF A MOMENT IN TIME**

**MUST BALANCE!**

**NET ASSETS IN 2 CATEGORIES**

# STATEMENT OF ACTIVITIES = INCOME STATEMENT = P & L



Shows **change in net assets for a period in time**  
in 2 Net Asset Categories and in Total



Revenue - Expenses = Change in Net Assets



Ending net assets ties to the  
Statement of Financial Position (Balance Sheet)

***Helps readers evaluate an organization's performance.***



**DramaMama Theatre Company**  
**Statements of Activities**

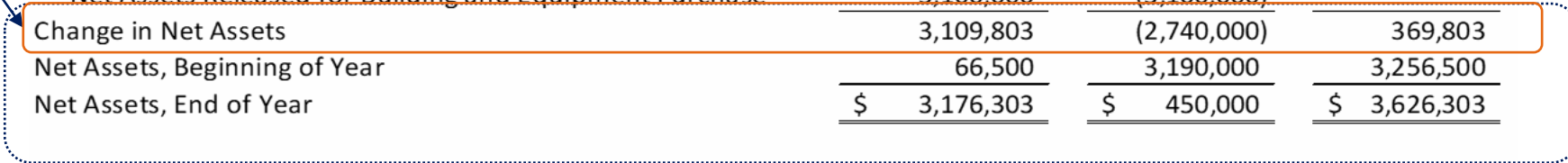
For the Year Ended June 30, 20X1

	Without Donor Restrictions	With Donor Restrictions	6/30/20X1
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>			
Contributions	\$ 150,000	\$ 520,000	\$ 670,000
Government Grants		70,000	70,000
Special Event	7,000		7,000
Ticket Sales	280,000		280,000
Education	195,000		195,000
Camps	75,000		75,000
Rental Income	35,000		35,000
Investment Return	20,000	(10,000)	10,000
Other Income	3,500		3,500
Net Assets Released from Restrictions	220,000	(220,000)	
<b>Total Revenues, Gains, and Other Support</b>	<b>985,500</b>	<b>360,000</b>	<b>1,345,500</b>
<b>EXPENSES</b>			
Productions	474,316		474,316
Education	79,893		79,893
Camps	96,375		96,375
Management and General	200,196		200,196
Fundraising	124,917		124,917
<b>Total Expenses</b>	<b>975,697</b>	<b>-</b>	<b>975,697</b>
<b>Change in Net Assets from Operations</b>	<b>9,803</b>	<b>360,000</b>	<b>369,803</b>
Contributions for Capital Campaign			
Net Assets Released for Building and Equipment Purchase	3,100,000	(3,100,000)	
<b>Change in Net Assets</b>	<b>3,109,803</b>	<b>(2,740,000)</b>	<b>369,803</b>
Net Assets, Beginning of Year	66,500	3,190,000	3,256,500
<b>Net Assets, End of Year</b>	<b>\$ 3,176,303</b>	<b>\$ 450,000</b>	<b>\$ 3,626,303</b>

**FOR A PERIOD  
IN TIME**

**ENDING NET  
ASSET BALANCES  
FLOW INTO  
BALANCE SHEET**

**CHANGE IN  
NET ASSETS  
FOR 2 NET  
ASSET  
CATEGORIES  
+ IN TOTAL**



## Excerpt STATEMENT OF ACTIVITIES

Change in Net Assets	3,109,803	(2,740,000)	369,803
Net Assets, Beginning of Year	66,500	3,190,000	3,256,500
Net Assets, End of Year	\$ 3,176,303	\$ 450,000	\$ 3,626,303

## STATEMENT OF FINANCIAL POSITION

		6/30/20X1
<b>ASSETS</b>		
Cash	\$	86,401
Accounts Receivable		73,500
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Accounts Payable	\$	40,000
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<b>Total Net Assets</b>		<b>3,626,303</b>
<b>Total Liabilities and Net Assets</b>	<b>\$</b>	<b>4,766,276</b>

**Net Assets, End of Year from the Statement of Activities flows through to Net Assets on the Statement of Financial Position**

# STATEMENT OF CASH FLOWS



Shows **change in cash** for the **period** and the amount of **cash** at the end of the period.



Reasons for differences between changes in net assets and changes in cash



Direct or indirect method can be used

*Helps reader identify major cash inflows and outflows.*

# STATEMENT OF CASH FLOWS CATEGORIES

## Investing activities

Cash flows from purchasing or disposing of **fixed assets** or **investments**.

## Financing activities

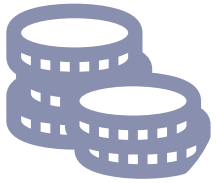
Cash flows from borrowing or repaying **loans**.  
Includes contributions restricted for long-term purposes.

## Operating activities

All other transactions; usually related to operations.

*Helps readers understand WHY cash increased or decreased.*

# STATEMENT OF FUNCTIONAL EXPENSES



Expenses by **nature** (type) and **function** (program, M&G, and fundraising)



Most common way nonprofits present this information.



Many funders consider percentage of program expense to total expense

*Helps reader to understand how nonprofits are spending their money.*

**BY NATURE**

**DramaMama Theatre Company**  
**Statement of Functional Expenses**  
**For the Year Ended June 30, 20X1**

**BY FUNCTION**

	Program Services				Support Services		6/30/20X1 Total
	Productions	Education	Camps	Program Total	Management and General	Fundraising	
Salaries	\$ 151,850	\$ 25,575	\$ 25,575	\$ 203,000	\$ 93,500	\$ 68,500	\$ 365,000
Payroll Taxes	15,185	2,558	2,557	20,300	9,350	6,850	36,500
Employee Benefits	22,778	3,836	3,836	30,450	14,025	10,275	54,750
<b>Total Personnel Costs</b>	<b>189,813</b>	<b>31,969</b>	<b>31,968</b>	<b>253,750</b>	<b>116,875</b>	<b>85,625</b>	<b>456,250</b>
Insurance	12,031	1,797	1,797	15,625	4,687	4,688	25,000
Marketing	40,000	10,000	10,000	60,000	35,000	5,000	100,000
Office Supplies	14,438	2,156	2,156	18,750	5,625	5,625	30,000
Postage	8,000	2,500		10,500	11,250	1,250	23,000
Production Costs	64,000	2,000	1,000	67,000			67,000
Professional Services	51,253	7,655	7,655	66,563	19,968	19,969	106,500
Repairs and Maintenance	15,963	3,756	2,817	22,536	798	141	23,475
Scholarships			25,000	25,000			25,000
Staff Development	2,080	350	350	2,780	1,282	938	5,000
Telephone and Internet	2,648	395	395	3,438	1,031	1,031	5,500
Miscellaneous	500		250	750			750
Utilities	27,200	6,400	4,800	38,400	1,360	240	40,000
Interest Expense	28,965	6,815	5,112	40,892	1,449	256	42,597
Depreciation	17,425	4,100	3,075	24,600	871	154	25,625
<b>Total Expenses</b>	<b>\$ 474,316</b>	<b>\$ 79,893</b>	<b>\$ 96,375</b>	<b>\$ 650,584</b>	<b>\$ 200,196</b>	<b>\$ 124,917</b>	<b>\$ 975,697</b>

**Footnotes** refer to **additional information** provided in a company's financial statements. It reports the **details and additional information** that are left out of the main reporting documents.



## Audit Report







# TIME FOR GROUP ACTIVITY!

## AUDIT SCAVENGER HUNT

From your audit report, find the items listed.

YOUR

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# QUESTIONS?



# PRESENTERS FROM YOUR PART-TIME CONTROLLER, LLC



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