

11th Annual Public Private Partnership Conference



How to Read Financial Statements (And Use Them As Tools)

Presented by
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Agenda

Financial reporting basics

Appropriate financial information

How to prepare financial statements

How to read financial statements

Financial statements are a tool
for running your business

Don't hesitate to ask questions!

Terminology

Cash vs. Accrual
Assets
Liabilities
Net Assets
Revenue
Expense

Financial Reporting Basics

Appropriate information

Timely information

Effective information

Appropriate Information

Mission of the Organization

Accurate

Complete

Timely Information

By the 15 – 20th of the following month

95% correct and on time vs.

100% correct and late

How is this accomplished:

- > Staying on top of transaction processing
- > Streamlining
- > Remote/on-line access

Effective Information

What do the readers of the financial statements need?

Listen to them

Use your experience

Clear and concise

Actionable

Traditional Financial Reports

Statement of financial position

Statement of activities

Statement of cash flows

Narrative

Statement of Financial Position

Nonprofit equivalent of the
Balance Sheet

Tells you what you own (assets),
what you owe (liability) and
what you have leftover (net assets)

Statement of Financial Position

ASSETS

CURRENT ASSETS		
Cash and cash equivalents	\$ 540,052	
Promises to give	277,987	
Receivables	127,250	
Prepaid expenses	59,379	
TOTAL CURRENT ASSETS		\$ 1,004,668
INVESTMENTS		
		981,770
PROPERTY AND EQUIPMENT, at cost, less \$25,844 of accumulated depreciation and amortization		
		15,293
OTHER ASSETS		
Promises to give	494,470	
Deposits	26,053	
		520,523
TOTAL ASSETS		<u>\$ 2,522,254</u>

LIABILITIES

CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 277,769	
Deferred membership dues	453,496	
Deferred rent liability	4,532	
TOTAL CURRENT LIABILITIES		\$ 735,797

NET ASSETS

NET ASSETS		
Unrestricted	997,049	
Temporarily restricted	289,408	
Permanently restricted	500,000	
		1,786,457
TOTAL LIABILITIES AND NET ASSETS		<u>\$ 2,522,254</u>

Receivables

Receivables – primarily earned revenue

Promises to Give

- > Restricted
- > Unrestricted

Key Issues:

- > Split out long-term receivables

(don't kid yourself)

- > Allowance for bad debts

(donor's intent may not equal donor's ability)

Prepaid Expenses

Prepayments for future goods or services (meeting space deposits, etc.)

Useful in matching revenues with expenses (conferences, trade shows, etc.)

Key issues:

- > Don't forget to expense them later
- > Don't worry about the small stuff

Property and Equipment

Key Issues:

- > Establish a capitalization policy
(\$500?, \$1,000?, more?)
- > Maintain fixed asset listing on Excel
or other program
- > Use good descriptions – could save
you personal property taxes
- > Keep depreciation simple –
straight-line

Investments

Key Issues:

- > Need an investment policy
- > Don't forget unrealized gains and losses – especially in current economy!
- > Review performance monthly

Other Assets

Long-term receivables

-> Multi-year pledges

Deposits

-> Recording can help serve as a reminder

Other Assets

ASSETS

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accumulated depreciation and amortization

15,293

OTHER ASSETS

Promises to give	494,470	
Deposits	26,053	
		520,523

TOTAL ASSETS

\$ 2,522,254

Accounts Payable / Accrued Expense

Keep on top of this

Know what you owe

Consider recording estimates if
you don't have the invoice yet
(contractors, large expense reports, etc.)

Avoid surprises

Deferred Liabilities

Member dues, conference registration, etc.

Assist in matching revenues and expenses

Key issues:

- > Member dues vs. Contributions
- > Maintain good schedules
- > Don't worry about the small stuff

Net Assets

Unrestricted

Temporarily Restricted

Permanently Restricted

Board Designation vs. Restriction

Many Excel templates are available online, like this one available from Microsoft at <http://office.microsoft.com/templates>

Use Templates As Tools

YOUR Balance Sheet

Current ratio [A/B]	-
Quick ratio [(A-C)/B]	-
Cash ratio [D/B]	-

Stated in 000s

ASSETS

% of ASSETS

Current assets		
Cash and cash equivalents [D]		-
Short-term investments		-
Accounts receivable [I]		-
Inventories [C]		-
Deferred income taxes		-
Prepaid expenses and other current assets		-
Total current assets [A]	\$ -	-

Fixed assets

Property, plant and equipment at cost		-
Less accumulated depreciation		-
Total fixed assets	\$ -	-

Other assets

Long-term cash investments		-
Equity investments		-
Deferred income taxes		-
Other assets		-
Total other assets	\$ -	-
Total assets [E]	\$ -	-

For the Period Ending [End Date]

Working capital [A-B]	\$ -
Debt-to-equity ratio [(G+H)/F]	-
Debt ratio [(G+H)/E]	-

LIABILITIES & OWNERS' EQUITY

% of ASSETS

Current liabilities		
Loans payable and current portion long-term debt [H]		-
Accounts payable and accrued expenses		-
Income taxes payable		-
Accrued retirement and profit-sharing contributions		-

Total current liabilities [B]	\$ -	-
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Other liabilities

Long-term debt [G]		-
Accrued retirement costs		-
Deferred income taxes		-
Deferred credits and other liabilities		-

Total other liabilities	\$ -	-
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Total liabilities	\$ -	-
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Total owners' equity [F]	\$ -	-
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Total liabilities + owners' equity	\$ -	-
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Statement of Activities

Nonprofit equivalent of the Income Statement

Shows how the organization performed during the period

“Change in Net Assets” is nonprofit equivalent of “Net Income”

Nonprofits are measured differently

Negative change in net assets isn't necessarily bad

Statement of Activities

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT			
Grants and contributions	\$ 1,209,176	\$ 441,269	\$ 1,650,445
Conferences	1,137,432	-	1,137,432
Publications	1,222,682	-	1,222,682
Rental income	67,943	-	67,943
Investment income	35,482	-	35,482
Miscellaneous income	5,914	-	5,914
Net assets released from restrictions:			
Satisfaction of purpose restrictions	324,615	(324,615)	-
TOTAL REVENUE AND SUPPORT	\$ 4,003,244	\$ 116,654	\$ 4,119,898
EXPENSES			
Program services:			
Research	2,125,836	-	2,125,836
Student Services	136,920	-	136,920
Government Affairs	167,976	-	167,976
Communications	261,630	-	261,630
Conferences	250,971	-	250,971
Total program services	2,943,333	-	2,943,333
Management and general	602,073	-	602,073
Fundraising	412,639	-	412,639
TOTAL EXPENSES	3,958,045	-	3,958,045
CHANGE IN NET ASSETS	45,199	116,654	161,853

Revenue Considerations

Contributions/Grants

Membership Dues

Special Events

Investment Income

Unrelated Business Income Tax (UBIT)

Contributions/Grants

Contribution Types

- > Unrestricted
- > Restricted
- > Board Designated

Investment Income

Record reinvested interest and dividends

Don't forget to record unrealized gains and losses (especially in today's economy)

Know what you have!

Unrelated Business Income Tax (UBIT)

Represents taxable income

Reportable on Form 990T

Considerations:

- > Advertising in magazines or newsletters
- > Corporate sponsorship

Cash Flow Statement

Equally important, but frequently ignored

Reconciles change in net assets to change in cash

Answers the question: “We made money - where did it go?”

Cash Flow Statement

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$	161,853	
Adjustments to reconcile change in net assets to net cash flows from operating activities			
Depreciation and amortization		5,144	
Net unrealized and realized gains on investments		(3,058)	
(Increase) decrease in operating assets			
Receivables		(107,401)	
Prepaid expenses		48,209	
Increase (decrease) in operating liabilities			
Accounts payable and accrued expenses		(127,530)	
Deferred revenue		(39,195)	
NET CASH FLOWS FROM OPERATING ACTIVITIES			\$ (61,978)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of investments		(281,871)	
Proceeds from sales of investments		450,000	
NET CASH FLOWS FROM INVESTING ACTIVITIES			<u>168,129</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Repayments on line of credit		(50,000)	
NET CASH FLOWS FROM INVESTING ACTIVITIES			<u>(50,000)</u>

NET DECREASE IN CASH			56,151
CASH, BEGINNING OF YEAR			<u>483,901</u>
CASH, END OF YEAR			<u>\$ 540,052</u>

Cash Flow Statement

The screenshot displays a financial software interface with multiple overlapping windows. The primary window shows a Profit & Loss statement for 1999 and 2000, a Balance Sheet for the same years, and a Cash Flow Statement. The Cash Flow Statement shows a net cash income of -225,741 for 2000. Other windows show detailed drivers for Profit & Loss and Balance Sheet, and a Results summary.

	1999	2000
Revenue	3,150,000	3,500,000
COGS	2,240,000	2,450,000
Gross Profit	910,000	1,050,000

	1999	2000
Cash & Equiv		
Acc Receivable	431,506	671,233
Inventory	908,444	1,033,696
Other CA		
Current Assets	1,339,950	1,704,929
Fixed Assets - Net	750,000	850,000
Investments		
Other NCA		
Non Curr Assets	750,000	850,000
Total Assets	2,089,950	2,554,929
Short Term Debt	176,118	501,974
Accounts Payable	429,000	402,855
Other CL		

	2000	2001
Revenue	3,150,000	3,500,000
COGS	2,240,000	2,450,000
EBIT	910,000	1,050,000
Overheads	654,000	674,999
EBITDA	256,000	375,001
Interest Expense	75,500	116,590
Profit Before Tax	180,400	258,411
Taxes		93,028
Net Profit		165,383
Dividends		
Adjustments		
Chng Ret Earning		165,383
Cash Flow		-325,741
Borrowed Funds		1,401,859
Net Cash Income		-225,741
Debt to Equity		1.87
ROCE %		17.43
Valuation		

Driver	Value
Rev. Growth %	11.11
COGS %	70.00
Price Change %	
Overheads %	19.29

Percentage	Value
Effect Interest %	9.41
Effect Tax %	36.00

Driver	Value
Days Receivable	70.00
Days Inventory	154.00
Days Payable	60.02
P/E Multiple	

Result	Value
Gross Margin %	30.00
Profitability %	10.71
Net Profit/Sales	4.73
Interest Cover	3.22
Working Cap %	37.20
Current Ratio	1.88
Total Liab/Equity	2.41
Equity/T Assets	29.36
Activity	1.63
Cash Flow	-325,741
Borrowed Funds	1,401,859
Net Cash Income	-225,741
Debt to Equity	1.87
ROCE %	17.43
Valuation	

Specialized software programs can help you "goal seek" and consider "what if" scenarios.

Questions



J. Scott Denlinger, CPA, is the Director in charge of the CBIZ MHM Outsourced Services practice and has more than 20 years experience in accounting, tax and auditing.

Mr. Denlinger designs and manages outsourced CFO and accounting engagements serving both for-profit and nonprofit organizations. He also performs CFO duties for several organizations, assisting in the preparation of internal financial statements and presentation to their Boards. With his extensive auditing experience, Mr. Denlinger is able to assist our outsourcing clients in preparing for their year-end audits. Combining his communication skills and ability to translate difficult accounting concepts into laymen's terms, as well as his penchant for teaching, Mr. Denlinger is frequently asked to lead seminars and workshops by various organizations on a broad range of financial management and reporting topics. He is a member of the MACPA Government and Nonprofit Conference Committee and serves on the Board of Family and Children Services of Central Maryland.

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Anna M. Hofmeister, CPA, is the partner in charge of Tate & Tryon's Outsourcing Services practice and has more than 20 years of experience serving nonprofit organizations.

In her role as an interim or permanent CFO, Ms. Hofmeister frequently presents to finance committees and boards of directors on topics such as financial results; key performance indicators; cash flow projections; budgets and financial projections; streamlining business operations; internal control design and documentation; aligning chart of accounts & financial statements to conform with strategic objectives; cost allocations; and federal and private grant accounting requirements. Anna is a frequent speaker on nonprofit accounting and financial management topics and has presented at ASAE's Finance, HR, and Business Operations Conference and the GWSCPA Not for Profit Organization Symposium. She has also written several articles published in ASAE's Dollars & Cents newsletter including "Core Competencies of a Finance and Business Operations Professional" and "Mastering Functional Expense Allocations."

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