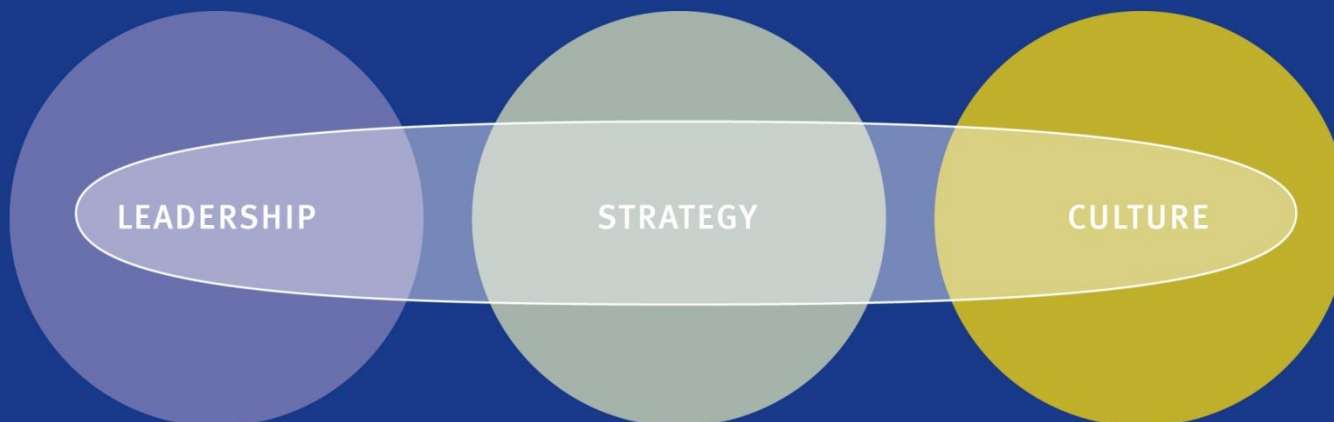


# Financial Literacy

## Reading and Understanding Financial Statements

**March 17, 2011**

Presented by Linshuang Lu  
Consultant, Praxis Consulting Group



# Audience Poll

- Who's in the room?
  - Executive Director
  - Staff
  - Board Member

## Audience Poll

- Organization budget size
  - <\$250K
  - \$250k - \$500 K
  - \$500K - \$1MM
  - \$1MM- \$5 MM
  - >\$5MM

- Improve your:
  - Ability to distinguish between different types of financial statements and accounting methods
  - Understanding of key financial concepts from the balance sheet and income statement
  - Recognition of common financial terms
  - Ability to ask critical questions about financial information

# Sources of Financial Information

Internally Prepared	Budget Projections	Planning
	YTD Actuals Year End Actuals	Monitoring & Planning
	IRS Form 990	Reporting
Externally Prepared	Audit Review Compilation	Reporting, Monitoring & Planning

# Audience Poll

- Audience Poll
- What reports do you regularly look at?

# Types of Financial Statements and Reports

## Income Statement

(Profit & Loss, Statement of Activities)



## Balance Sheet

(Statement of Financial Position)



Cashflow statement

Program Budget Detail

Accounts receivable report

Cashflow projections

....

# Accounting Methods

	Cash	Accrual
Principle	Checkbook	Matching
Financial transaction trigger	Cash	Service/product delivery
Answers this question	How much cash am I using and receiving to run my program?	Am I generating enough revenue to cover the costs of running this program?



# Income Statement (Audit)

- Other names: Profit & Loss Statement, Statement of Activities

<b>Income Statement</b>
<b>Revenue</b>
Contributions
Grants
Government
Net assets released from restrictions
<b>Total Revenue</b>
<b>Expenses</b>
Program
General & Admin
Fundraising
<b>Total Expenses</b>
<b>Change in Net Assets</b>

Other common revenue line items:

- Program service revenue
- Interest income
- Rental income
- Donations

Expenses in internal financial statements are usually grouped into **natural** categories:

- Rent & utilities
- Salaries
- Supplies

Change in net assets also known as:

- Surplus/deficit
- Profit/loss
- Change in net worth

# Donor Restrictions



## Unrestricted

- No donor restrictions
- Flexible financial resources



## Temporarily Restricted

- Time restricted
- Purpose restricted



## Permanently Restricted

- Often called “endowment”
- Principal amount maintained in perpetuity
- Interest & dividends or specified drawdown amount can be used

# Income Statement (Audit)

<b>Income Statement (\$ in thousands)</b>				
<b>Revenue</b>	<b>Unrestricted</b>	<b>Temp. Restricted</b>	<b>Perm. Restricted</b>	<b>Total</b>
Contributions	\$ 1,000	\$ 500	\$ 500	\$ 2,000
Grants	\$ 1,000	\$ 1,500		\$ 2,500
Government	\$ 3,000			\$ 3,000
Net assets released from restrictions	\$ 400	\$ (400)		\$ -
<b>Total Revenue</b>	<b>\$ 5,400</b>	<b>\$ 1,600</b>	<b>\$ 500</b>	<b>\$ 7,500</b>
<b>Expenses</b>				
Program	\$ 4,800			\$ 4,800
General & Admin	\$ 700			\$ 700
Fundraising	\$ 500			\$ 500
<b>Total Expenses</b>	<b>\$ 6,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 6,000</b>
<b>Change in Net Assets</b>	<b>\$ (600)</b>	<b>\$ 1,600</b>	<b>\$ 500</b>	<b>\$ 1,500</b>

# Income Statement (Internal) Common Examples

Income Statement (\$ in thousands)	
<b>Revenue</b>	
Contributions	\$ 1,000
Grants	\$ 1,000
Government	\$ 3,000
Restricted funds	\$ 400
<b>Total Revenue</b>	\$ 5,400
<b>Expenses</b>	
Salaries	\$ 3,650
Benefits	\$ 600
Utilities	\$ 700
Medical Supplies	\$ 1,000
Depreciation	\$ 50
<b>Total Expenses</b>	\$ 6,000
<b>Profit/loss</b>	\$ (600)
<b>Other Revenue</b>	
Temp restricted (net)	\$ 1,600
Perm restricted	\$ 500
<b>Total Other Revenue</b>	\$ 2,100
<b>Total Profit &amp; Loss</b>	\$ 1,500

Unrestricted  
activity

Unrestricted  
Surplus/deficit

Restricted  
activity summary

Income Statement (\$ in thousands)	
<b>Revenue</b>	
Contributions	\$ 2,000
Grants	\$ 2,500
Government	\$ 3,000
<b>Total Revenue</b>	\$ 7,500
<b>Expenses</b>	
Salaries	\$ 3,650
Benefits	\$ 600
Utilities	\$ 700
Medical Supplies	\$ 1,000
Depreciation	\$ 50
<b>Total Expenses</b>	\$ 6,000
<b>Change in Net Assets</b>	\$ 1,500

Restricted  
and  
unrestricted  
revenue  
combined

## Audience Poll

- Type in chat box:
- What do you pay attention to when you look at an income statement?

# Income Statement: Key Indicators

<b>Multi-year Unrestricted Income Statement (\$ in thousands)</b>			
<b>Revenue</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Contributions	\$ 1,000	\$ 1,300	\$ 1,400
Grants	\$ 1,000	\$ 1,200	\$ 1,200
Government	\$ 3,000	\$ 2,800	\$ 2,700
Net assets released from restrictions	\$ 400	\$ 300	\$ 400
<b>Total Revenue</b>	<b>\$ 5,400</b>	<b>\$ 5,600</b>	<b>\$ 5,700</b>
<b>Expenses</b>			
Program	\$ 4,800	\$ 4,500	\$ 4,450
General & Admin	\$ 700	\$ 650	\$ 625
Fundraising	\$ 500	\$ 450	\$ 450
<b>Total Expenses</b>	<b>\$ 6,000</b>	<b>\$ 5,600</b>	<b>\$ 5,525</b>
<b>Change in Net Assets</b>	<b>\$ (600)</b>	<b>\$ -</b>	<b>\$ 175</b>

Are revenue sources reliable and repeatable?  
 Are they increasing or decreasing?  
 Why?

Are our expenses reasonable?

Did we cover over costs?

# Balance Sheet (Audit)

<b>Balance Sheet (\$ in thousands)</b>		
<b>Assets</b>	FYE 2010	FYE 2009
Cash	\$800	\$250
Receivables	\$1,750	\$750
Buildings and equipment	\$450	\$500
Investments	\$750	\$250
<b>Total Assets</b>	<b>\$3,750</b>	<b>\$1,750</b>
<b>Liabilities</b>		
Payables	\$400	\$100
Deferred revenue	\$200	\$250
Debt	\$250	\$0
<b>Total Liabilities</b>	<b>\$850</b>	<b>\$350</b>
<b>Net Assets</b>		
Unrestricted	\$50	\$650
Temp Restricted	\$2,350	\$750
Perm Restricted	\$500	\$0
<b>Total Net Assets</b>	<b>\$2,900</b>	<b>\$1,400</b>
<b>Total Net Assets &amp; Liabilities</b>	<b>\$3,750</b>	<b>\$1,750</b>

Assets: What you own

Liabilities: What you owe

Net Assets:  
 Net worth  
 Equity  
 "Home equity"  
 Assets less liabilities

# Balance Sheet (Internal)

<b>Balance Sheet (\$ in thousands)</b>	
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Buildings and equipment	\$450
Investments	\$750
<b>Total Assets</b>	<b>\$3,750</b>
<b>Liabilities</b>	
Payables	\$400
Deferred revenue	\$200
Debt	\$250
<b>Total Liabilities</b>	<b>\$850</b>
<b>Equity</b>	
Retained earnings	\$2,900

<b>Balance Sheet (\$ in thousands)</b>	
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<b>Total Liabilities</b>	<b>\$850</b>
<b>Equity</b>	
Unrestricted	\$50
Temp Restricted	\$2,350
Perm Restricted	\$500
<b>Total Equity</b>	<b>\$2,900</b>

“Net assets”  
 section may  
 look different



## Audience Poll

- Type in chat box:
- What do you pay attention to when you look at the balance sheet?

# What to look for?

<b>Balance Sheet (\$ in thousands)</b>		
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Is there enough cash?  
 How many months of cash do I have?

Can we fulfill our obligations to others?

What financial resources do I have to run my organization?

# Liquidity Ratios

## Months of cash

$$\frac{\text{Cash balance}}{\text{Monthly operating expenses}}$$

$$\frac{\$800,000}{\$5,950,000/12} = 1.6 \text{ months of cash (2010)}$$

$$\frac{\$250,000}{\$5,550,000/12} = 0.54 \text{ months of cash (2009)}$$

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Investments	\$750	\$250
<b>Total Assets</b>	<b>\$3,750</b>	<b>\$1,750</b>

- Can use unrestricted cash for more conservative estimate
- Does not reflect:
  - Cash attributable to debt, extending payables or deferred revenue
  - Receivables that may become cash in the near future

# Liquidity Ratios

## Months of working capital

$$\frac{\text{Current assets} - \text{current liabilities}}{\text{Monthly operating expenses}}$$

- Current assets: Cash, receivables
- Current liabilities: Payables, deferred revenue, short-term debt

$$\frac{(\$800K + \$1.75 MM) - (\$400K + \$200K + \$250K)}{\$5.95MM/12}$$

= 3.4 months (2010)

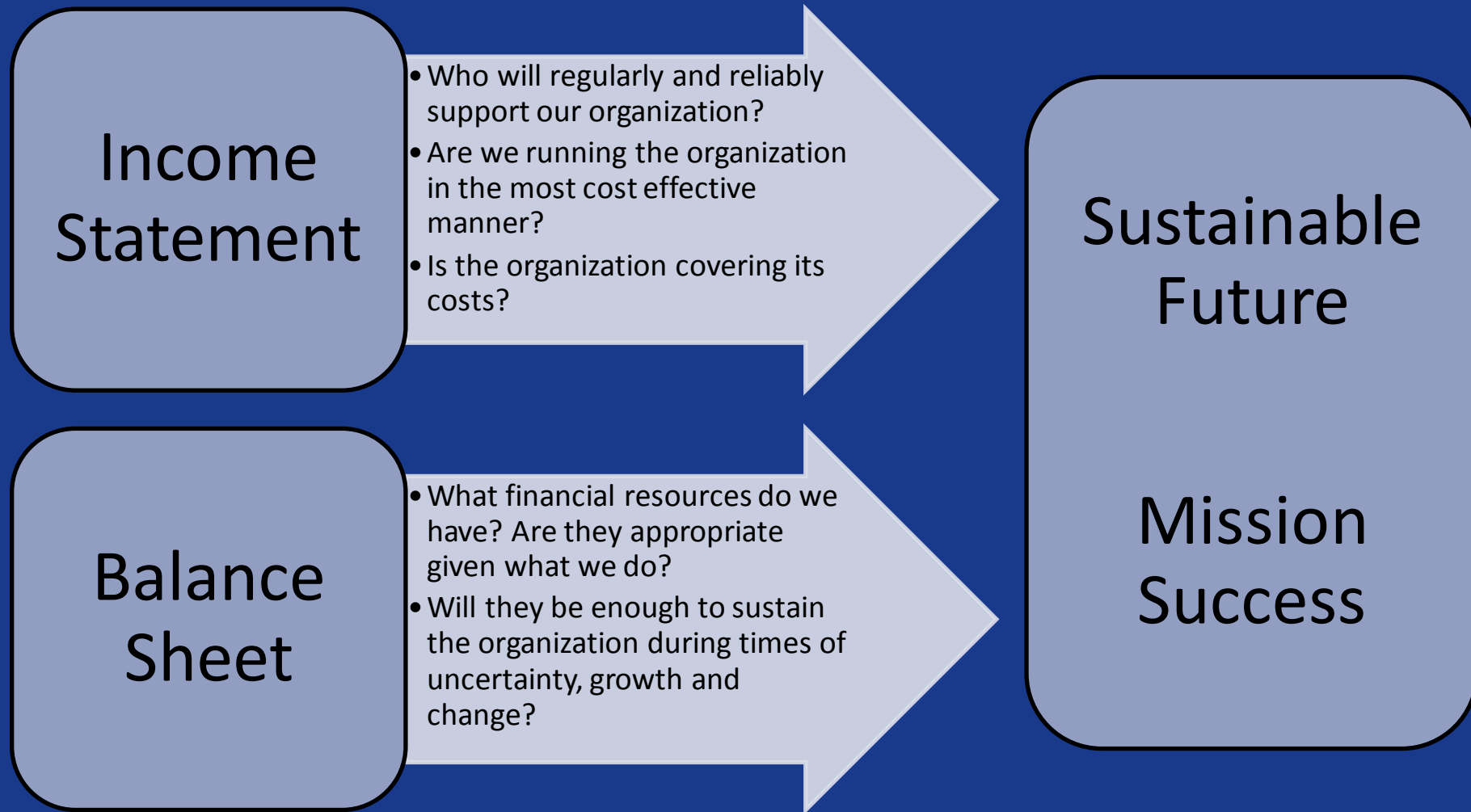
- Can use unrestricted current assets for more conservative estimate

$$\frac{(\$200K) - (\$400K + \$200K + \$250K)}{\$5.95MM/12}$$

= -1.3 months (2010)

Balance Sheet (\$ in thousands)		
Assets	FYE 2010	FYE 2009
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Buildings and equipment	\$450	\$500
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# The Bottom Line



# Praxis Consulting Group

To learn more about us, please visit  
our website at [praxisCG.com](http://praxisCG.com)

Linshuang Lu

Consultant

8506 Germantown Ave

Philadelphia, PA 19118

267.283.1115

[linshuang@praxisCG.com](mailto:linshuang@praxisCG.com)

Praxis Consulting Group assists organizations in developing high performing workplaces by aligning organizational leadership, strategy and culture.

