

Financial Statements & Form 990

What do they say about your organization?

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Kerkering, Barberio & Co.



Introductions

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Introductions

- Topics
 - What is the primary purpose of financial statements?
 - How are users evaluating your financial statements?
 - What should you focus on when reviewing your 990?
 - What is the Board's responsibility with regard to the 990?
 - What are donors focusing on when reviewing your 990?
 - What are the similarities and difference between your financial statements and your Form 990?

Primary Purpose of a Not For Profit (NFP) Organization's Financial Statements

- Report information about the overall entity.
- Describes how the organization's assets can be used.
- Assessing financial flexibility.
- Identifying types of contributions received.
 - Variance power
- Assets Unique to NFP's.
 - Pledges receivable or promises to give
 - Split interest agreements
 - Agency liabilities

What are the users of your financial statements evaluating?

- Potential donors are looking at efficient use of funds and want to see:
 - Minimal administrative expenses
 - Amount of fund-raising efforts
 - Majority of funds used to further programs and provide services
- Potential donors want their contributions used to provide programs/services.

What are the users of your financial statements evaluating?

- Websites and donors use functional expense information to evaluate organization efficiency and some sites issue scores.
- Popular ways to evaluate financial information include the following ratios:
 - Program expenses / Total functional expenses
 - Administrative expense / Total functional expenses
 - Fund-raising expense / Total functional expenses
 - Fund-raising expense / Amounts raised or Contributions; a measure of fundraising efficiency

What are the users of your financial statements evaluating?

- Notes to the financial Statements:
 - Provides a description of the NFP's activities, programs, significant assets and liabilities, net asset classifications, and net asset releases
 - Includes specific details and information useful regarding the valuation and significant terms associated with the asset or liability
 - Net Asset disclosure should include the balance of restriction type by net asset classification

What are the users of your financial statements evaluating?

- Notes to the financial Statements (cont.):
 - Subsequent events should also be included in the notes of the financial statements.
 - Identifies significant transactions entered into after year end
 - Also includes the date through which subsequent events have been considered for disclosure.

What are the users of your financial statements evaluating?

- Notes to the financial Statements (cont.):
 - Identifies commitments and contingent liabilities not reported in the statement of financial position
 - Identifies areas representing risks to the NFP, such as concentration of asset risk, market risk, reliance on customers or vendors, etc.
 - Discloses transactions with related parties

What are the users of your financial statements evaluating?

- Common financial ratios for NFP's:
 - Adequacy of Resources
 - Defensive Interval (DI): Reflects how many months the organization could operate if no additional funds were received
 - = $\frac{\text{Cash} + \text{Marketable Securities} + \text{Receivables}}{\text{Average Monthly Expenses}}$

What are the users of your financial statements evaluating?

- Common financial ratios for NFP's:
 - Adequacy of Resources (cont.)
 - Liquid Funds Indicator: similar to the defensive interval in its use but is more conservative in removing assets with restrictions on them from the calculation. It also determines the number of months of expenses that can be covered by existing assets.
 - =
$$\frac{\text{Total Net Assets} - \text{Restricted Net Assets} - \text{Fixed Assets}}{\text{Average Monthly Expenses}}$$

What are the users of your financial statements evaluating?

- Common financial ratios for NFP's:
 - Adequacy of Resources (cont.)
 - Liquid Funds Amount: Common size value that quantifies the liquid unrestricted dollar amount that an organization has available to meet current obligations
 - = Unrestricted Net Assets – Net Fixed Assets + Mortgage and Other Notes Payable

What are the users of your financial statements evaluating?

- Common financial ratios for NFP's:
 - Adequacy of Resources (cont.)
 - Savings Indicator: The savings indicator measures the increase or decrease in the ability of an organization to add to its net assets. Values greater than one indicate an increase in savings. The savings indicator is a simple way to determine if an organization is adding to or using up its net asset base.
 - = $\frac{\text{Revenue} - \text{Expenses}}{\text{Total Expenses}}$

What are the users of your financial statements evaluating?

- Common financial ratios for NFP's:
 - Adequacy of Resources (cont.)
 - Debt Ratio: Measures the proportion of assets provided by debt. High values indicate future liquidity problems or reduced capacity for future borrowing.
= $\frac{\text{Average Total Debt}}{\text{Average Total Assets}}$

What are the users of your financial statements evaluating?

- Common financial ratios for NFP's:
 - Revenue Ratios
 - Seven revenue sources are analyzed in order to establish what proportion each of these revenue streams contributes to the organization's total revenues. These sources are:
 - Public Contributions
 - Government Grants
 - Program Service Revenues
 - Dividends and Interest

What are the users of your financial statements evaluating?

- Common financial ratios for NFP's:

- Revenue Ratios (cont.)

- Net Sales
 - Membership Dues
 - Special Events

$$= \frac{\text{Revenue Source}}{\text{Total Revenue}}$$

What are the users of your financial statements evaluating?

- Common financial ratios for NFP's:
 - Revenue Ratios (cont.)
 - Revenue Composition of Organization
 - Contributions and Grants: The contributions and grants ratio measures the composition of organization funds coming from these sources. Organizations can use this indicator to determine long and short-term trends in line with strategic funding goals that can change the organization revenue composition in this area.
 - =
$$\frac{\text{Revenue from Contributions and Grant}}{\text{Total Revenue}}$$

What are the users of your financial statements evaluating?

- Common financial ratios for NFP's:
 - Revenue Ratios (cont.)
 - Government Grants: The government grants ratio measures the composition of organization funds coming from government sources. Similar to the contributions and grants ratio, organizations can use this ratio to determine long and short-term trends and tie strategic goals to changing the organizational revenue composition in this area.
 - =
$$\frac{\text{Revenue from Government Grants}}{\text{Total Revenue}}$$

What are the users of your financial statements evaluating?

- Common financial ratios for NFP's:
 - Use of Resources
 - Program Service Expense: The programs service expense ratio measures the relationship of funds spent for program purposes to all expenses. This ratio has been the subject of much scrutiny including the Wise Giving Alliance of the Better Business Bureau which has set a standard of sixty five percent for this ratio.
=
$$\frac{\text{Program Service Expense}}{\text{Total Expense}}$$

NFP, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, XXXX

<u>Assets</u>	
Current Assets	
Cash and cash equivalents	\$ 400,000
Investments	800,000
Accounts receivable, net of allowance of \$10,000 for 2009 and 2008	120,000
Prepaid insurance	8,000
Grants receivable	84,000
Total current assets	<u>1,412,000</u>
Other Assets	
Land, buildings and equipment, net	2,000,000
Total other assets	<u>2,000,000</u>
Total Assets	\$ 3,412,000
<u>Liabilities and Net Assets</u>	
Current Liabilities	
Accounts payable	\$ 25,000
Accrued expenses	78,000
Note payable, current portion	115,000
Total current liabilities	218,000
Note payable, net of current portion	300,000
Total liabilities	<u>518,000</u>
Net Assets	
Unrestricted	594,000
Undesignated	2,000,000
Investment in land, buildings and equipment	300,000
Temporarily restricted	2,894,000
Total net assets	<u>2,894,000</u>
Total Liabilities and Net Assets	\$ 3,412,000

NFP, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, XXXX

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support			
Contributions - public	\$ 270,000	\$ 414,000	\$ 684,000
Contributions - United Way	150,000		150,000
Contributions - in-kind	10,000		10,000
Special events	44,000		44,000
Total support	<u>474,000</u>	<u>414,000</u>	<u>888,000</u>
Revenues			
Governmental contracts and grants	1,000,000		1,000,000
Unrealized loss on investments	(85,000)		(85,000)
Realized gain (loss) on investments	28,000		28,000
Interest and dividends	22,000		22,000
Other revenues	6,300		6,300
Total revenues	<u>971,300</u>	<u>-</u>	<u>971,300</u>
Net assets released from restrictions	315,000	(315,000)	-
Total support, revenues and releases	<u>1,760,300</u>	<u>99,000</u>	<u>1,859,300</u>
Expenses			
Program Services	2,900,000	-	2,900,000
Support Services			
Management and general	350,000		350,000
Fund raising	85,000		85,000
Total support services	435,000	-	435,000
Total expenses	<u>3,335,000</u>	<u>-</u>	<u>3,335,000</u>
Increase (decrease) in net assets	(1,574,700)	99,000	(1,475,700)
Net assets at beginning of year	4,168,700	201,000	4,369,700
Net assets at end of year	<u>\$ 2,594,000</u>	<u>\$ 300,000</u>	<u>\$ 2,894,000</u>

NFP, Inc.
6/30/XXXX
Ratio Support

Defensive Interval (Formula = (Cash + Marketable Securities + Receivables)/Average Monthly Expenses)

	<u>XXXX</u>	
Cash	400,000	
Investments	800,000	
Receivables	204,000	
Total Expenses	3,335,000	
		5

Liquid Funds Indicator (Formula = Total Net Assets-Restricted Net Assets-Fixed Assets/average monthly expenses)

	<u>XXXX</u>	
Total Net Assets	2,894,000	
TR Net Assets	300,000	
Fixed Assets	2,000,000	
Total Expenses	3,335,000	
		2

Liquid Funds Amount Formula = Unrestricted Net Assets-Net fixed assets+mortgage and other notes payable

	<u>XXXX</u>	
UR Net Assets	2,594,000	
Fixed Assets,net	2,000,000	
Note Payable	415,000	
		1,009,000

Savings Indicator Formula = Revenues - expenses / total expenses

	<u>XXXX</u>	
Revenue, gains and other support	1,859,300	
Other revenue (expense), net	-	
Expenses	3,335,000	
		(0.44)

Debt Ratio Formula = Average total debt / average total assets

	<u>XXXW</u>	<u>XXXX</u>	
Debt	650,000	415,000	
Assets	3,650,000	3,412,000	
Average Debt		532,500	
Average Assets		3,531,000	
			15.1%

What should you focus on when reviewing your 990?

- Initial overview
- Programs and mission statement
- Required schedules
- Tax compliance
- Governance
- Compensation
- Financial data

Board responsibility

- Best practices
 - Board should sign Conflict of Interest Statement
 - Disclose annually any interests that could give rise to conflicts
 - Policy should be in place for review procedure of 990
 - All board members should receive copy of 990 prior to filing

Board responsibility (cont.)

- Compensation of CEO, Executive Director or top management official
 - Rebuttable presumption
 - Independent persons, comparability data and contemporaneous documentation
 - Presumed to be reasonable under the excess benefit rules
- Other policies
 - Whistleblower
 - Document retention
 - Joint ventures

What are donors focusing on? = What should you focus on?

- Financial information
- Executive compensation
- Programs
- Related party transactions
- Ratios to consider
 - Program spending ratio
 - Fundraising efficiency ratio

Similarities & differences between the Financial Statements and the Form 990

- Reconciling the 990 and the Financial Statements (handout)
- Unrealized gain or loss
- In-kind for FS is not the same for 990
 - FS, includes all non-cash contributions including services
 - 990, does not include services – backed out from but revenue and expense

Schedule D

Part XI

Reconciliation of Change in Net Assets from Form 990 to Audited Financial Statements

1 Total revenue (Form 990, Part VIII, Column (A), line 12)	20,445,000
2 Total expense (Form 990, Part IXI, Column (A), line 25)	<u>13,945,000</u>
3 Excess or (Deficit) for the year	6,500,000
4 Net unrealized gains (losses) on investments	<u>2,500,000</u>
5 Donated services and use of facilities	
6 Investment expenses	
7 Prior period adjustments	
8 Other (Describe in Part XI V)	
Change in value of beneficial interest	(1,000,000)
Reported on Supporting Organization	2,000,000
Change in Value of Split Interest Agreement	25,000
Payment from affiliate eliminated for financial statements	<u>(25,000)</u>
9 Total adjustments (net). Add lines 4–8	3,500,000
10 Excess or (deficit) for the year per financial statements. Combine lines 3 and 9	<u><u>10,000,000</u></u>

Part XII

Reconciliation of Revenue per Audited Financial Statements With Revenue per Return

1 Total revenue, gains, and other support per audited financial statements:	<u>25,000,000</u>
2 Amounts included on line 1 but not on Form 990, Part VIII, line 12:	
a Net unrealized gains on investments	2,500,000
b Donated services and use of facilities	50,000
c Recoveries of prior year grants	
d Other (Describe in Part XIV)	
Change in value of beneficial interest	(1,000,000)
Special events expense included in Functional expenses for FS	12,000
Rental expenses included in Functional expenses for FS	3,000
Reported on Supporting Organization's tax return	3,000,000
Change in Value of Split Interest Agreement	<u>25,000</u>
e Add lines 2a through 2d	<u>4,590,000</u>
3 Subtract line 2e from line 1	<u>20,410,000</u>
4 Amounts included on Form 990, Part VIII, line 12, but not on line 1	
a Investment expenses not included on Form 990, Part VIII, line 7c	10,000
b Other (Describe in Part XIV)	
Payment from affiliate eliminated for financial statements	<u>25,000</u>
c Add lines 4a and 4b	<u>35,000</u>
5 Total revenue. Add lines 3 and 4c. (This should equal Form 990, Part I, line 12.)	<u><u>20,445,000</u></u>

Support and Revenue

Contribution revenue	20,850,000		
Rental income	35,000		
Special events	40,000		
Revenue of supporting organization	<u>3,000,000</u>		
	<u>23,925,000</u>	①	①± 25,000,000

Functional Expenses

Program Services	10,000,000
Management and General	2,500,000
Fundraising	<u>2,500,000</u>
	<u>15,000,000</u>

Other Revenue (Expense)

Realized gain (loss)	(500,000)
Unrealized gain (loss)	2,500,000
Investment income, net of investment expenses of 10,000	50,000
Change in Value of Split Interest Agreement	25,000
Change in value of beneficial interest	<u>(1,000,000)</u>
	<u>1,075,000</u>

Net income	10,000,000
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Part XIII

Reconciliation of Expenses per Audited Financial Statements With Expenses per Return

1 Total expenses and losses per audited financial statements:	<u>15,000,000</u>
2 Amounts included on line 1 but not on Form 990, Part IX, line 25:	
a Donated services and use of facilities	50,000
b Prior year adjustments	
c Losses reported on Form 990, Part IX, line 25	
d Other (Describe in Part XIV)	
Special events expense included in Revenue for TR	12,000
Rental expenses included in Revenue for TR	3,000
Reported on Supporting Organization's tax return	<u>1,000,000</u>
e Add lines 2a through 2d	<u>1,065,000</u>
3 Subtract line 2e from line 1	<u>13,935,000</u>
4 Amounts included on Form 990, Part IX, line 25, but not on line 1	
a Investment expenses not included on Form 990, Part VIII, line 7c	10,000
b Other (Describe in Part XIV)	
Add lines 4a and 4b	<u>10,000</u>
5 Total expenses. Add lines 3 and 4c. (This should equal Form 990, Part I, line 18.)	<u><u>13,945,000</u></u>

Part XI Reconciliation of Change in Net Assets from Form 990 to Audited Financial Statements			
1	Total revenue (Form 990, Part VIII, column (A), line 12)	1	20,445,000 TR
2	Total expenses (Form 990, Part IX, column (A), line 25)	2	13,945,000 TR
3	Excess or (deficit) for the year. Subtract line 2 from line 1	3	6,500,000
4	Net unrealized gains (losses) on investments	4	2,500,000
5	Donated services and use of facilities	5	
6	Investment expenses	6	
7	Prior period adjustments	7	
8	Other (Describe in Part XIV.)	8	1,000,000
9	Total adjustments (net). Add lines 4 through 8	9	3,500,000
10	Excess or (deficit) for the year per audited financial statements. Combine lines 3 and 9	10	10,000,000 FS

Part XII Reconciliation of Revenue per Audited Financial Statements With Revenue per Return			
1	Total revenue, gains, and other support per audited financial statements	1	25,000,000
2	Amounts included on line 1 but not on Form 990, Part VIII, line 12:		
a	Net unrealized gains on investments	2a	2,500,000
b	Donated services and use of facilities	2b	50,000
c	Recoveries of prior year grants	2c	
d	Other (Describe in Part XIV.)	2d	2,040,000
e	Add lines 2a through 2d	2e	4,590,000
3	Subtract line 2e from line 1	3	20,410,000
4	Amounts included on Form 990, Part VII, line 12, but not on line 1:		
a	Investment expenses not included on Form 990, Part VII, line 7b	4a	10,000
b	Other (Describe in Part XIV.)	4b	25,000
c	Add lines 4a and 4b	4c	35,000
5	Total revenue. Add lines 3 and 4c. (This must equal Form 990, Part I, line 12.)	5	20,445,000 TR

Part XIII Reconciliation of Expenses per Audited Financial Statements With Expenses per Return			
1	Total expenses and losses per audited financial statements	1	15,000,000 FS
2	Amounts included on line 1 but not on Form 990, Part IX, line 25:		
a	Donated services and use of facilities	2a	50,000
b	Prior year adjustments	2b	
c	Other losses	2c	
d	Other (Describe in Part XIV.)	2d	1,015,000
e	Add lines 2a through 2d	2e	1,065,000
3	Subtract line 2e from line 1	3	13,935,000
4	Amounts included on Form 990, Part IX, line 25, but not on line 1:		
a	Investment expenses not included on Form 990, Part VIII, line 7b	4a	10,000
b	Other (Describe in Part XIV.)	4b	
c	Add lines 4a and 4b	4c	10,000
5	Total expenses. Add lines 3 and 4c. (This must equal Form 990, Part I, line 18.)	5	13,945,000 TR

Part XIV Supplemental Information

Complete this part to provide the descriptions required for Part II, lines 3, 5, and 9; Part III, lines 1a and 4; Part IV, lines 1b and 2b; Part V, line 4; Part X, line 2; Part XI, line 8; Part XII, lines 2d and 4b; and Part XIII, lines 2d and 4b. Also complete this part to provide any additional information.

Part XI, line 8

Change in value of beneficial interest (1,000,000)

Reported on Supporting Organization's tax return 2,000,000

Change in Value of Split Interest Agreement 25,000

Payment from affiliate eliminated for financial statements (25,000)

Part XII, line 2d

Change in value of beneficial interest (1,000,000)

Part XIV Supplemental Information (continued)

Special events expense Included in Functional expenses for FS 12,000

Rental expenses Included in Functional expenses for FS 3,000

Reported on Supporting Organization's tax return 3,000,000 FS

Change in Value of Split Interest Agreement 25,000 FS

Part XII, line 4b

Payment from affiliate eliminated for financial statements 25,000

Part XIII, line 2d

Special events expense Included in Revenue for TR 12,000 FS

Rental expenses Included in Revenue for TR 3,000

Reported on Supporting Organization's tax return 1,000,000



Questions





Thank You!