

How to Read Nonprofit Financial Statements

Types of Financial Statements

1. *Balance Sheet* shows what the assets (things of value) and liabilities (debts) of the nonprofit were at any given point in time.
2. *Budget vs Actual* (or Statement of **Revenues and Expenses**) shows what comprised income and expenses of the operation for a given period of time, and generally whether there was a net gain or loss.

How to Read a Statement

When you read a financial statement, you should follow a systematic approach.

1. *Check the headings.* Headings will tell you what unit or organization is the subject of the report. It will tell you the type of statement provided and relevant date or period of time covered by the statement.
 - a. Balance Sheet is at a *point in time*.
 - b. Budget vs Actual shows activity for a *period of time*.
2. *Look for comparative data.*
 - a. Balance Sheet: *Find the financial position at the same time in the prior year.*
 - b. Budget vs Actual: *Find information for the same period of time in the prior year. Most recent data usually shown first. Budgeted figures or percentages may be provided for comparison.*
3. *Scan the page as a whole.* Most statements are shown on one page. Once you understand the major components of the statement, you can work more confidently on the detail in each section.

BALANCE SHEET

The Balance Sheet is usually divided into two major categories, with assets on the top and liabilities or net assets on the bottom.

- ✓ Assets are usually broken subcategories, usually by order of liquidity, current assets (cash or things that turn into cash within a year) and noncurrent assets.
- ✓ Noncurrent assets include fixed assets (property, equipment) and those assets that are neither fixed nor current (e.g. deposits made to telephone company, etc.)
- ✓ Liabilities and net assets are broken into current liabilities (debts to be paid within a year), long-term liabilities, and net assets.
- ✓ There are three classes of net assets: unrestricted, temporarily restricted and permanently restricted. These classifications inform you of any donor-imposed restrictions on the use of the assets.
- ✓ Identify various totals and subtotals. A single underline implies a subtotal, and a double underline shows a grand total.
- ✓ Assets are always show to be equal to liabilities plus net assets.

Look for the following:

1. Have current assets increased or decreased?
2. If they have changed, how does this change compare to the change in the current liabilities? (This determines how well bills can be paid.)
3. Have any major fixed assets been purchased or sold?
4. Has any debt been taken on, or old debt paid off?
5. Determine whether cash increases are from earnings or borrowings.
6. Do you notice any unusual liabilities? If so, what are they?
7. If the statement is comparative, how has the organization changed during the time period involved?

BUDGET VS ACTUAL

This statement is also divided into two major categories: revenue and expenses. Revenue is shown by type and totaled. Expenses are shown by program type and then totaled. The difference between revenue and expenses is the change in net assets. The change in net assets is also referred to as the bottom line or net income.

The BUDGET VS ACTUAL summarizes detailed information that is available by department or program, within the organization. When this statement shows a percentage, it is important to determine on what the percentage is based. Look for the 100 percent figure, usually it is total revenue or total expense.

Look for variances. Understand that the budget is a guide and that variances within single line items are normal but there should be guidelines in place for the level of variance that can occur before it the situation is brought to the finance committee for approval. Know what that policy is. Also watch the bottom line. Variances in the bottom line need to be discussed and understood.