

Financial Statements

How to

Internally Prepared Financial Statements are generated by the organization and are often prepared by the in house bookkeeper. It can often be done through excel spreadsheets or from software such as Quickbooks, Wave, etc. This is often done for smaller nonprofits who generate \$10, 000 annual revenue.

Third party Compilation Financials are prepared by someone external to your organization, but not quite at the level of a Public Accountant. This can be an excellent strategy for nonprofits making up to \$100,000 in revenue (depending on the province and legal requirements).

Balance Sheet provides an overview of assets, liabilities, and shareholders' equity

- Also called a ***statement of financial***: nonprofits do not have equity positions, this means that any residual balances once all assets and liabilities are through is called "net assets"
- **Assets** (Cash and cash equivalents, accounts receivable, inventory, prepaid expenses, property, investments)
- **Liabilities** (Accounts payable, wages, notes payable, dividends, long-term debt)
- **Net assets**: The difference between the organization's assets and liabilities, shows how the non-profit uses its assets to support the mission
- **Permanently restricted assets**: This part of the net assets is by the donor's intent
- **Unrestricted assets**: Part of the net assets however, aren't restricted by the donor's intent

Income Statement focuses on an organization's revenues and expenses during a particular period. Once expenses are subtracted from revenues, the statement produces the net income

- Also called a ***statement of activities*** which is the equivalent of a for-profit entity's statement of income
- This allows nonprofits to report donations, grants, event revenue, and other expenses

Cash Flow Statement measures how well a company generates cash to pay its debt obligations, fund its operating expense, and fund investments

- Operating, investing, and financial activities
- Also called a ***statement of Cash Flow*** which is the equivalent of a for-profit entity's statement of cash flow. Nonprofits operate differently, however the statement will still be divided the same way, just with different account names

Statement of Functional Expenses is specific to nonprofits. The statement of functional expenses reports expenses by function (i.e. administrative fees, program, or fundraising expenses). This information is made available to the public to showcase what proportion of expenses that are related directly to the mission of the nonprofit.

Financial Statements

Why Are Financial Statements Important?

Financial statements are important because it gives an individual a direct overview of an organization's financial stance

- They provide information about revenue, expenses, debt, ability to meet financial obligations, etc.

Balance Sheets

- Balance sheets are key to an organization's function because they give you a look into an organization's assets and liabilities. This helps determine the organization's ability to pay any operating needs, debt, wages, etc.
- It is a critical piece of documentation because it keeps management informed on the financial standings of a nonprofit
 - It is important to track the performance of your company and balance sheets help you do so

Income Statements

- Income statements allow you to see the money your organization is bringing in and what it is being spent on
 - Utilizing income statements can be beneficial to the decision making that occurs in organizations. Keeping track of income can ensure that proper financial decisions are being made.
 - Ensuring your income statements are properly filled out is just as important as having them. Once taxes need to be filed and paid, income statements are a key component in doing so.

Cash Flow Statement

- Cash flow statements (CFS) allow a look into the future of what your organization could look like, which is important for determining if your nonprofit is viable
 - This statement can also help showcase whether your organization has enough liquidity to pay any expense it has
 - It's also important to keep an eye on your CFS because if there is any issue with cash handling it will be evident through this statement.
 - Can help to identify a potential problem in terms of finances and if it will become a serious issue
 - This will allow owners and management to determine a plan for future growth and projected need for further funding before it's too late

Financial Statements Checklist

- Providing documentation to your bookkeeper regarding assets and liabilities
- Report expenses (i.e receipts, wages, etc)
- Check in with your bookkeeper and ensure you aren't missing anything

Steps for Financial Statements

01

Balance Sheet

- Overview of assets, liabilities, and shareholders' equity

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02

Income Statement

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03

Cash Flow Statement

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04

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