

Understanding Financial Statements – Questions to Ask

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Financial Statements

1. Statement of financial position (balance sheet)
2. Statement of operations (income statement)
3. Statement of changes in net assets
4. Statement of cash flows
5. Notes to the financial statements
6. Supplementary schedules (optional)

Statement of Financial Position

- Provides a snapshot of the organization at its fiscal year-end.
- The categories are:
 - Assets
 - Liabilities
 - Net assets (assets minus liabilities)
- The assets and liabilities are further divided into current and non-current components, depending on whether they will be settled within the next fiscal year or not.
- Net Assets – generally sub-grouped into different funds.

Statement of Financial Position

Questions to ask

1. Is there excess cash not needed for immediate operations?
2. Do we have an investment policy?
3. What is the composition of capital assets?
4. Are government remittances liabilities current?

Statement of Operations

- The statement of operations shows the results for the fiscal year-end.
- Non-cash items like accruals and amortization are generally included; therefore, bottom line is not necessarily reflective of the net cash that came in or went out.

Statement of Operations

Questions to ask

1. Can we explain the variances in net results to budget, and can we also explain the variances between the net results and prior years' actual results?
2. Do we rely heavily on a source of funding? Is there any "economic dependence"?
3. What is included in general and administration expenses?

Statement of Changes in Net Assets

- May be broken down as follows:
 - **Invested in capital assets**
 - Already spent on property and equipment and therefore not available.
 - Equal to the original cost of the property and equipment less accumulated amortization and related debt, if any.
 - **Externally restricted**
 - May only be used for a specific purpose and is restricted by the donor or funder.
 - A subcategory is the endowment fund, which is generally held in perpetuity.
 - **Internally restricted**
 - Set aside internally for a certain purpose; spending generally requires Board approval.
 - **Unrestricted**
 - Available for general use.

Statement of Changes in Net Assets

Questions to ask

1. Is there a contingency fund, and how is the target amount determined?
2. A contingency fund can go beyond just amounts set aside for a “rainy day”. (i.e. capital fund).
3. The Board should have documented directions/guidelines as to the use of unrestricted funds or internally restricted funds.

Statement of Cash Flows

- The cash flow statement is a relatively new required statement in NPO financial statements.
- The purpose is to show the change in the cash balance from the beginning to the end of the year.
- Certain items are presented separately that are not otherwise shown on the previous two statements.
- Aims to highlight non-cash and cash transactions.

Statement of Cash Flows

Questions to ask

1. Were there any non-cash purchases?
2. Were there any donations in-kind?

Notes to the Financial Statements

- The notes provide information on what accounting policies were used to prepare the financial statements and additional detail on certain financial information.
- Example notes:
 - Nature of operations
 - Significant accounting policies
 - Depreciation rates
 - Lease commitments

Supplementary Schedules

- Supplementary schedules are not required but may be useful to provide further details of expenditures or programs.
- A question to ask would be, do we want a schedule as part of our financial statements?
- Could provide details in respect of individual programs.
- Could provide budget to actual details.

Financial Statements

- Financial statements are meant to provide useful information to you so be confident in questioning items and make sure you include information that you think is important.
- We are required to report certain items as required by Canadian accounting standards, but we are flexible and open on additional information that is relevant to your organization.

Questions?

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