



# Financial Reports

Board responsibilities regarding  
VMGA's financial health and  
sustainability

## Objectives


- Relay the information that is required in financial reports
- Describe the reports that contain the required information
- Advise the board what they should be looking for
- Provide questions that the board should be asking




## Disclaimer!

None of the volunteers who wrote or edited the information in this presentation are CPA's. We are basically self-taught from resources that appear on the last slide.

Any corrections and additional information would be welcome!

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- It's about accountability
    - To members
    - To donors
    - To the IRS who has granted VMGA tax exempt status

## Why the Statements?

- Nonprofit accounting guidelines to comply with IRS
    - Generally Accepted Accounting Principles (GAAP)
    - Set by the Financial Accounting Standards Board (FASB)
    - Goal is to show the necessary without a lot of detail that confuses
  - Reference – IRS Publication 4221-PC, *Compliance Guide for 501(c)(3) Public Charities*
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# Essential Nonprofit Financial Statements

- Four Statements
  - Statement of Financial Position
  - Statement of Cash Flows
  - Statement of Activities
  - Statement of Functional Expenses
- Show financial compliance
- Makes the organization's finances transparent
- Small nonprofit organizations have some leeway...



## Statement of Financial Position

- Probably the most important
- Overall picture of an organization's financial soundness and stability
- Cumulative finances – where we're at, at this moment, from years of work
- Assets = Liabilities + Net Assets
- MUST show funds that are donor restricted and those without donor restriction
  - 'Permanently restricted', 'temporarily restricted' not easily understood
  - 'With donor restrictions' and 'without donor restrictions' now used



## Assets & relevant questions

- Assets are listed in order of declining liquidity
- Questions about cash – Is there enough to operate? Invest some? Are funds ‘with donor restrictions’ protected?
- Merchandise inventory – Is there enough or too much? Time to replenish?
  - Items for resale MUST ***substantially support*** the tax-exempt purposes
  - If ‘unrelated’ and revenue >\$1,000, must pay Unrelated Business Income tax
- Assets held by others (CD, etc.) – How quickly can they be accessed?

# Assets

- Assets – in order of declining liquidity?
- Is there enough cash to operate? Invest some?
- Merchandise inventory – Is there enough or too much? Time to replenish?
- Can assets (CD, etc.) be quickly accessed?

CURRENT ASSETS					
	Cash				\$ 11,757.30
	Petty Cash				\$ 40.00
	Money Market Savings Account				\$ 5,541.85
	Certificate of Deposit				\$ 7,606.73
	Fundraising Inventory				\$ 1,861.00
				Total Current Assets	\$ 26,806.88



# Liabilities

- Liabilities listed with the soonest payable first
- What kinds of things are “liabilities”?
  - Sales tax owed to the state, credit card payments due...
  - Pass-through donations
  - Could note ‘board designated’ pledged donations– e.g. College sponsorship, scholarships\*

\*If announced/pledged. If not announced/pledged, the amount does not show here as, in a pinch, the association will not make the donation/payment.

## Net Assets & relevant questions

- After Liabilities are subtracted from Assets, the remainder is Net Assets
- Net Assets are divided in reports between 'without donor restrictions' and 'with donor restrictions'
- Questions to ask:
  - Are the organization's activities dominated by grant requirements?
  - Of funds 'without donor restrictions', is there enough for operations and for board designated budgeted items?

## Net Assets & relevant questions

- Are donor restricted funds protected?
- Are the organization's activities dominated by grant requirements?
- 'Without donor restrictions' - enough for operations & for board designated budgeted items?

NET ASSETS				
Without Donor Restriction				
		Undesignated Surplus		\$ 4,929.24
		Membership Dues		\$ 6,944.05
		Merchandise Sales Net (Board Restricted)		\$ 1,284.46
		Money Market Savings Account		\$ 5,541.85
		Certificate of Deposit		\$ 7,606.73
			Total Without Donor Restriction	\$ 26,306.33
With Donor Restriction				
		EMG College 2023 Scholarship Donations (Use in FY24)		\$ 500.55
			Total With Donor or Board Restrictions	\$ 500.55
			TOTAL NET ASSETS	\$ 26,806.88

# Sample SOP

ORG NAME Financial Position of	Statement of as [DATE]	Current Year			Note	Prior Year	
		Total to Date	Unrestricted				With Donor Restrictions
			Operations	Board Designated			
ASSETS							
Current Assets		50,000	25,000	15,000	10,000	A	42,000
Fixed Assets		20,000	-	20,000	-		20,750
Long Term Assets		-	-	-	-	B	
TOTAL ASSETS		70,000	25,000	35,000	10,000		62,750
LIABILITIES							
Current Liabilities		3,000	3,000	-	-		3,500
Long Term Liabilities		-	-	-	-		-
TOTAL LIABILITIES		3,000	3,000	-	-		3,500
NET ASSETS							
Without Donor Restrictions							
Undesignated		22,000	22,000	-	-		26,500
Operating reserves		15,000	-	15,000	-	C	
Property, Plant & Equip		20,000	-	-	10,000		20,750
With Donor Restrictions		10,000	-	-	10,000		12,000
TOTAL NET ASSETS		67,000	22,000	35,000	10,000		59,250
TOTAL LIABILITIES & NET ASSETS		70,000	25,000	35,000	10,000		62,750
Note A (Narrative explanation)							
Note B (Narrative explanation)							

# VMGA SOP

<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
	Cash			\$ 11,757.30
	Petty Cash			\$ 40.00
	Money Market Savings Account			\$ 5,541.85
	Fundraising Inventory			\$ 1,861.00
	Certificate of Deposit			\$ 7,606.73
			Total Current Assets	\$ 26,806.88
			<b>TOTAL ASSETS</b>	<b>\$ 26,806.88</b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>LIABILITIES</b>				\$ -
			<b>TOTAL LIABILITIES</b>	<b>\$ -</b>
<b>NET ASSETS</b>				
<b>Without Donor Restriction</b>				
	Undesignated Surplus			\$ 4,929.24
	Membership Dues			\$ 6,944.05
	Merchandise Sales Net (Board Restricted)			\$ 1,284.46
	Money Market Savings Account			\$ 5,541.85
	Certificate of Deposit			\$ 7,606.73
			Total Without Donor Restriction	\$ 26,306.33
<b>With Donor Restriction</b>				
	EMG College 2023 Scholarship Donations			\$ 500.55
			Total With Donor or Board Restrictions	\$ 500.55
			<b>TOTAL NET ASSETS</b>	<b>\$ 26,806.88</b>
			<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 26,806.88</b>

## Questions about operating cash

- Is there enough cash to cover upcoming expenses?
- Are there additional funds coming in from registrations or dues?
  - *Cannot count on donations*
- Can a withdrawal from the CD be made quickly?
- The need to see the 'cash in' and 'cash out' is why we need another report about cash, the Statement of Cash Flows

## Statement of Cash Flows (SCF)

- Provides explanations for revenue and expenses
- Shows cash in and cash out in the same time period as the Income Statement (next topic)
- Three areas:
  - Cash flows from **operating activities** (dues, donations without restrictions, sales, interest received from savings accounts, etc.)
  - Cash flows from **investing activities** (VMGA does not have any)
  - Cash flows from **financing activities** (VMGA does not have any)

# Cash Flows—what VMGA would show

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## VMGA Statement of Cash Flows for the month ended January 31, 2022 (actuals not represented)

<b>Operating Activities</b>	
Net income from dues, registrations, sales receipts, interest	\$1525.75
(purchase of merchandise )	(\$480.00)
<b>Net cash provided (used) by operating activities</b>	<b>\$1045.75</b>
<b>Investing Activities</b>	<b>\$0.00</b>
<b>Financing Activities</b>	<b>\$0.00</b>
<b>Net increase in cash</b>	<b>\$1045.75</b>
<b>Cash at the beginning of the month</b>	<b>\$3,829.32</b>
<b>Cash at the end of the month</b>	<b>\$4,875.07</b>

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## Statement of Activities

- Transaction details, and how transactions support programs, over a period
- VMGA's ***Statement of Financial Activities to Budget*** provides this information in a manner desired by VMGA's board
- Funds in – operating costs = money available to continue operations
- Shows the type of revenue or expense
  - 'With donor restrictions' and 'without donor restrictions'
  - Categories are 'program expenses' and supporting ('administration' and 'fund raising')
- Use term 'gross receipts' rather than 'sales'

# VMGA Statement of Activities

			Without Donor Restriction	With Donor Restrictions	Total
<b>REVENUE</b>					
	Membership Dues Net		\$ 1,133.79	\$ -	\$ 1,133.79
	Merchandise Sales Net (With Board-Designated Restrict		\$ 1,284.46	\$ -	\$ 1,284.46
	Interest Income		\$ 0.46	\$ -	\$ 0.46
	Education Events/Programs		\$ -	\$ -	\$ -
	EMG College Scholarship Donations		\$ -	\$ 97.60	\$ 97.60
	<b>TOTAL REVENUE</b>		<b>\$ 2,418.71</b>	<b>\$ 97.60</b>	<b>\$ 2,516.31</b>
<b>EXPENSES</b>					
	Administration		\$ 749.60	\$ -	\$ 749.60
	Fund Raising		\$ 481.64	\$ -	\$ 481.64
	Program Support		\$ 5,488.69	\$ -	\$ 5,488.69
	<b>TOTAL EXPENSES</b>		<b>\$ 6,719.93</b>	<b>\$ -</b>	<b>\$ 6,719.93</b>
	<b>NET REVENUE (CHANGE IN NET ASSETS)</b>				<b>\$ (4,203.62)</b>

## Statement of Functional Expenses

- Shows expenses broken down by programs to look at costs of administration and fundraising
- Board can ask:
  - How are resources are being used?
  - Are about 75% of resources spent on ***programs?***
- As a small non-profit, rarely can we split Admin and Fundraising costs by individual programs so we can use NOTES on Activities Statement to reflect where this may occur
- Information is also used for filing 990 and VA Retail Sales and Use Tax Certificate of Exemption

# Functional Expenses by Program

Program	Admin	Fundraising	Total
State Fair	volunteer	n/a	0.00
Education Events	volunteer	n/a	0.00
Net receipts to Endowment	volunteer	497.53	497.53

Notes about any expenses attributable to Admin or Fundraising can be made on the Statement of Activities

## Review - Nonprofit Financial Statements

- Four Statements
  - Statement of Financial Position
  - Statement of Cash Flows
  - Statement of Activities
  - Statement of Functional Expenses
- Questions to ask about reports
- Comfort level?

# Resources

Nonprofit Accounting Basics (Greater Washington Society of CPAs Education Foundation) - <https://www.nonprofitaccountingbasics.org/>

Accounting Coach - <https://www.accountingcoach.com/nonprofit-accounting/explanation>

IRS Publication 4221-PC, *Compliance Guide for 501(c)(3) Public Charities* - <https://www.irs.gov/pub/irs-pdf/p4221pc.pdf>

IRS Charities and Nonprofits - <https://www.irs.gov/charities-and-nonprofits>. Scroll to bottom for publications and courses.

Virginia Nonprofit Organizations - Retail Sales and Use Tax Exemptions for Nonprofit Organizations - <https://www.tax.virginia.gov/nonprofit-organizations>

Virginia Charitable Solicitation - <https://www.vdacs.virginia.gov/food-charitable-solicitation.shtml>