

# CAUT Webinar

## Analyzing University and College Financial Statements

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# Not-for-profit (NFP) organizations

## Characteristics of non-profit organizations

- Provide goods or services to society without expectation of profit
- Resources provided by contributors without expectation of gain or repayment
- Contributions often have restrictions attached that govern the manner in which they can be spent

# Fund accounting

Financial activities are organized according to restrictions within separate funds. Funds usually include:

Unrestricted funds: can be used for any purpose consistent with organization goals

Restricted funds: restricted to purchase of buildings/equipment (capital); research funds

Endowment: Funds that can only be invested  
– income is available for specified uses

# Basics: The Balance Sheet

- Presents the resources and claims against those resources
- $\text{Assets} - \text{Liabilities} = \text{Net assets}$

Assets = economic resources of the entity

Liabilities = economic obligations of the entity that will (usually) require use of assets

Net assets = unrestricted “wealth” of the entity

# Restricted fund reporting:

## Balance sheet

	General Fund	Capital Fund	Total
Cash	\$80	\$20	\$100
Investments	50	---	50
Cap. Assets	<u>----</u>	<u>\$300</u>	<u>300</u>
Total	<u>\$130</u>	<u>\$320</u>	<u>\$450</u>
Net assets	<u>\$130</u>	<u>\$320</u>	<u>\$450</u>

# Deferral method reporting: Balance sheet

Cash	\$100
Investments	50
Capital Assets	<u>300</u>
Total	<u>\$450</u>
Net assets	
Invested in capital assets	\$320
Unrestricted	<u>130</u>
	<u>\$450</u>

# Basics: The Balance Sheet

- Presents the resources and claims against those resources
- $\text{Assets} - \text{Liabilities} = \text{Net assets}$

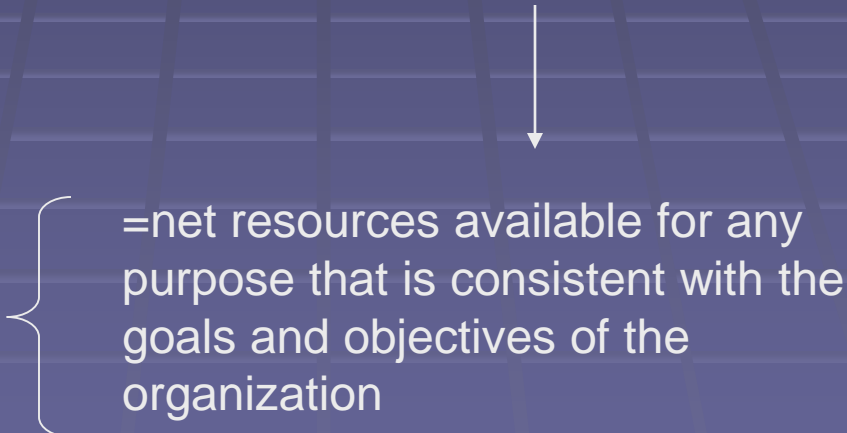


=net resources available for any purpose that is consistent with the goals and objectives of the organization

# Basics: The Balance Sheet

- Presents the resources and claims against those resources
- $\text{Assets} - \text{Liabilities} = \text{Net assets}$

Problem: some of the assets may be capital assets, which are not available for future spending



=net resources available for any purpose that is consistent with the goals and objectives of the organization



# Basics: The Balance Sheet

- Presents the resources and claims against those resources
- $\text{Assets} - \text{Liabilities} = \text{Net assets}$


Net assets-unrestricted



Net assets invested in capital assets

# Basics: Statement of Operations

- Shows the change in net assets over the period
- $\text{Revenues} - \text{Expenses} = \text{Excess}$



Revenues  
often include  
contributions,  
which may be  
restricted  
regarding  
their use

# Basics: Statement of Operations

- Shows the change in net assets over the period
- $\text{Revenues} - \text{Expenses} = \text{Excess}$

↓  
Revenues  
often include  
contributions,  
which may be  
restricted  
regarding  
their use

} Requires special accounting

# Deferral Method: The basics

- Unrestricted contributions are recorded as revenues
- Restricted contributions are initially recorded as liabilities and become revenue when the required restrictions are met and the associated expense hits the statement of operations
  - For current expenditures, when those expenditures are made
  - For capital expenditures, when those assets are amortized

# Restricted contributions for capital assets

Event	Asset side	Liability side
When contribution is received	Cash	Deferred capital contributions (unspent)
When asset is purchased	Cash is swapped for asset	Deferred capital contributions (unspent) transferred to unamortized deferred capital contributions
As asset is amortized	Asset is reduced, expense is recognized	Unamortized deferred capital contributions is reduced, and revenue is recognized

# Restricted contributions for capital assets

Event	Asset side	Liability side
When contribution is received	Cash	Deferred capital contributions
When asset is purchased	Cash is swapped for capital asset	Deferred capital contributions transferred to unamortized deferred capital contributions
As asset is amortized	Capital asset is reduced, expense is recognized	Unamortized deferred capital contributions is reduced, and revenue is recognized

Assets = liabilities all the time:  
No “net assets invested in  
Capital assets” are created

# “Net assets invested in capital assets” under the deferral method

Assets – Liabilities = Net assets

Net assets-unrestricted

Net assets invested in capital assets

Purchased with unrestricted funds

Purchased with restricted funds



# “Net assets invested in capital assets” under the deferral method

Assets – Liabilities = Net assets

Net assets-unrestricted

Net assets invested in capital assets

Purchased with unrestricted funds

=0. Capital assets  
purchased with  
restricted funds *usually*  
do not create net assets  
*unless.....*

{ Purchased with restricted funds



# “Net assets invested in capital assets” under the deferral method

Assets – Liabilities = Net assets

Net assets-unrestricted

Net assets invested in capital assets

Purchased with unrestricted funds

**Exception: donated land, collections and other assets that do not depreciate.**

{ Purchased with restricted funds

# “Net assets invested in capital assets” under the deferral method

Assets – Liabilities = Net assets

Net assets-unrestricted

Net assets invested in capital assets

Purchased with unrestricted funds

-goes up (down) when assets are purchased (sold)

-goes down when assets are amortized

# “Net assets invested in capital assets” under the deferral method

Assets – Liabilities = Net assets

Net assets-unrestricted

Net assets invested in capital assets

=net book value of assets purchased  
with unrestricted funds

So, statement of changes in net assets shows...

Net  
assets  
invested  
in capital  
assets

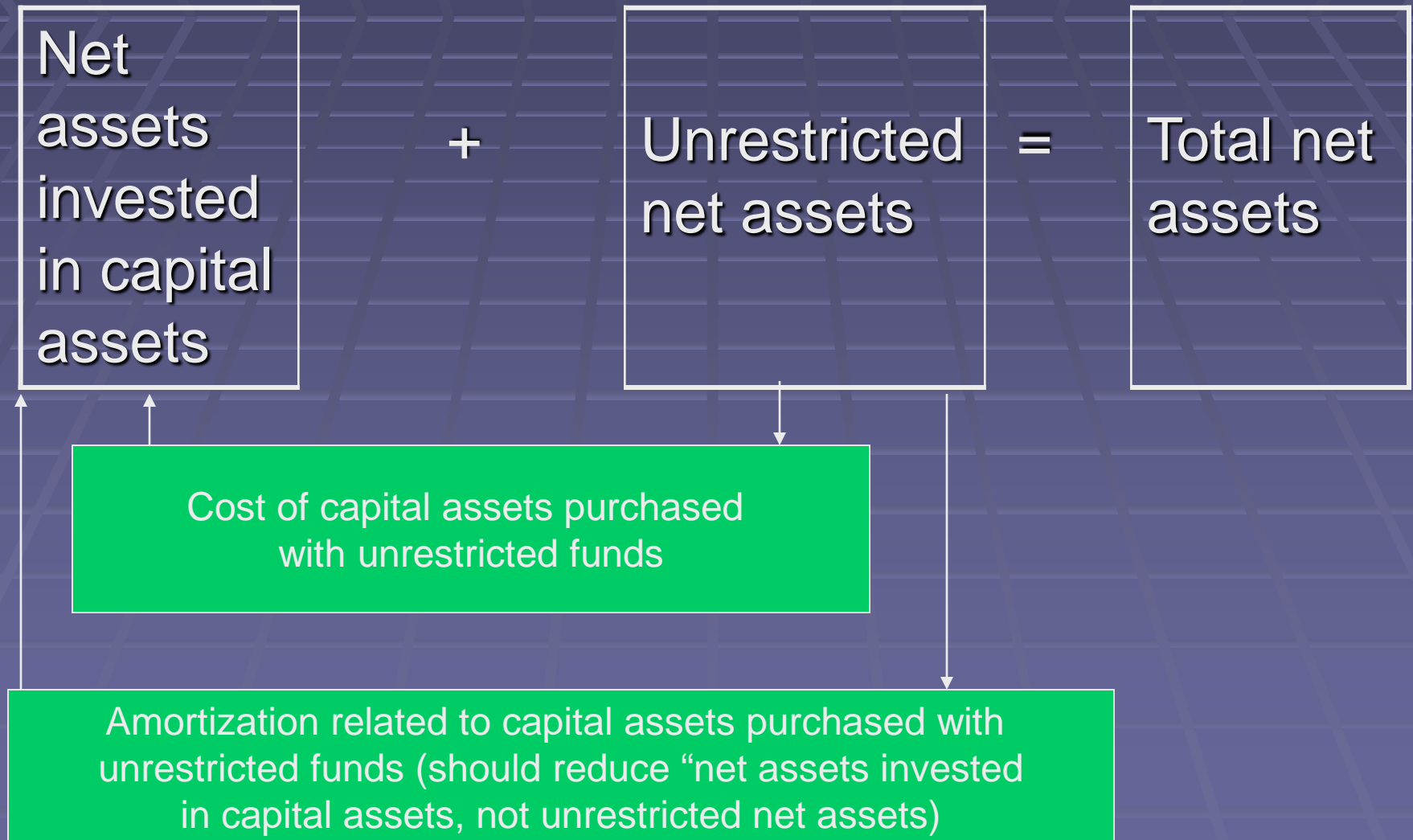
+

Unrestricted  
net assets

=

Total net  
assets

# So, statement of changes in net assets shows...



# Example

Upper Rubber Boot (URB) University begins operations on January 1. It receives \$600 in government grants, \$100 of which is unrestricted, \$200 is for capital project A and \$300 is for capital project B. Project A is completed at a cost of \$240 (the extra \$40 comes from URB's unrestricted funds) and put into operation immediately. URB pays salaries of \$50 during the year.

# URB Statement of Revenue and Expense

REVENUE	
(Unrestricted) Government grant	\$100
Amortization of deferred capital contributions (\$200/10)	<u>20</u>
	120
EXPENSES	
Salaries	50
Depreciation (\$240/10)	<u>24</u>
Excess of revenue over expense	\$46

# Statement of changes in Net Assets

	Investment in capital assets	Unrestricted	Total
Balance, Jan. 1	\$0	\$0	\$0
Excess of revenue over expense	0	46	46
Transfer to capital assets	40	-40	0
Depreciation	<u>-4</u>	<u>4</u>	<u>0</u>
Balance, Dec. 31	<u>36</u>	<u>10</u>	<u>46</u>



# Balance sheet

ASSETS		
Cash (\$600 – 240 – 50)		\$310
Capital Assets		
At cost	\$240	
Less: Depreciation	<u>(24)</u>	<u>216</u>
Total		<u><u>\$526</u></u>

# Balance sheet (continued)

LIABILITIES	
Deferred capital contributions (project B)	\$300
Unamortized deferred capital contributions*	180
NET ASSETS	
Invested in capital assets	36
Unrestricted	<u>10</u>
TOTAL	<u>\$526</u>
* Project A: $\$200 - (200/10)$	

# General approach: Cash is King

Estimate of unrestricted cash and financial investments

= Cash + financial investments

Minus Deferred capital contributions

Minus Deferred contributions, research/other

Minus Net assets restricted for endowment purposes

# URB Unrestricted Cash

We know from the narrative that Unrestricted Cash  
= Unrestricted grant (\$100) – Salaries (\$50) –  
Transfers to capital (\$40)  
=\$10

Cash	\$310
- Deferred capital contributions	-300
- Other deferred contributions/endowment	<u>0</u>
= Unrestricted Cash	<u><u>\$10</u></u>

# U Ottawa, 2016

Consolidated Financial Statements of

**UNIVERSITY OF OTTAWA**

Year ended April 30, 2016

# U Ottawa, 2016

Unrestricted cash  
and investments  
= \$148,605  
+639,873  
-241,944  
-deferred  
revenues related  
to research or  
capital (look at  
notes 9 and 10....

## UNIVERSITY OF OTTAWA

### Consolidated Statement of Financial Position

April 30, 2016, with comparative information for 2015  
(In thousands of dollars)

	2016	2015
<b>Assets</b>		
Current assets:		
Cash and short-term investments (note 3)	\$ 148,605	\$ 131,219
Accounts receivable (note 4)	91,468	79,481
Inventories and other	13,734	12,369
	<u>253,807</u>	<u>223,069</u>
Long-term investments (note 5)	639,873	693,274
Employee future benefits (note 6)	57,395	146,468
Capital assets (note 7)	1,715,783	1,666,491
	<u>\$ 2,666,858</u>	<u>\$ 2,729,302</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued liabilities (note 8)	\$ 88,247	\$ 89,095
Deferred revenue (note 9)	278,045	233,448
Current portion of long-term debt (note 11)	1,324	1,246
	<u>367,616</u>	<u>323,789</u>
Deferred contributions related to capital assets (note 10)	364,500	341,692
Long-term debt (note 11)	168,149	169,473
	<u>900,265</u>	<u>834,954</u>
Net assets:		
Unrestricted	1,815	3,795
Internally restricted - employee future benefits	57,395	146,468
Internally restricted - other (note 12)	241,496	291,265
Sinking fund (note 11)	34,412	36,239
Endowments (note 13)	241,944	254,780
Invested in capital assets (note 14)	1,189,531	1,161,801
	<u>1,766,593</u>	<u>1,894,348</u>
Commitments and contingent liabilities (note 19)		
	<u>\$ 2,666,858</u>	<u>\$ 2,729,302</u>

Unrestricted cash  
and investments  
= \$148,605  
+639,873  
-241,944  
-211,770  
-34,149

### 9. Deferred revenue:

Deferred revenue represents unexpended amounts which are subject to externally imposed restrictions. Changes in the deferred revenue balance are as follows:

	2016	2015
Balance, beginning of year	\$ 233,448	\$ 244,856
Contributions received during the year	552,495	522,965
Recognized as revenue	(503,879)	(528,198)
Transfer to deferred contributions related to capital assets	(4,019)	(6,175)
<b>Balance, end of year</b>	<b>\$ 278,045</b>	<b>\$ 233,448</b>

The balance consists of the following:

	2016	2015
Operating	\$ 32,126	\$ 29,429
Sponsored research and trust	211,770	174,012
Capital	34,149	30,007
<b>Total</b>	<b>\$ 278,045</b>	<b>\$ 233,448</b>

10. Deferred contributions related to capital assets:

Deferred contributions related to capital assets represent the unamortized amount of restricted donations and grants used for the purchase of capital assets. The changes in the deferred contributions balance for the period are as follows:

	2016	2015
Balance, beginning of year	\$ 341,692	\$ 339,031
Transfer from deferred revenue	4,019	6,175
Contributions received during the year	34,812	15,492
Contributions in-kind received during the year	7,903	4,072
	46,734	25,739
Recognized as revenue:		
Research grants	(12,778)	(12,379)
Capital grants	(8,303)	(8,166)
Donations	(2,845)	(2,533)
	(23,926)	(23,078)
Balance, end of year	\$ 364,500	\$ 341,692

This note talks about deferred contributions related to capital assets. This is the value of assets that have been purchased with restricted funds and are being amortized. It is not related to cash and investments on hand now, so has no effect on our calculation of unrestricted cash and investments.



## Unrestricted cash and investments

= Cash	\$148,605
+investments	639,873
- Net assets endowed	(241,944)
-deferred revenues: sponsored research and trust	(211,770)
<u>-deferred revenues: capital</u>	<u>(34,149)</u>
	<u>\$300,615</u>