



# Understanding financial statements

January 2024



# Board of directors oversight responsibility



- Management has direct responsibility for:
  - Financial statements
  - Internal control over financial reporting
  - Disclosure controls and procedures
- The board and board committees have responsibility for oversight:
  - Integrity of the company's financial statements
  - Financial reporting processes
- The board and board committees are actively involved in *reviewing* the financial statements

# What is “oversight”?

- Lead with an appropriate culture and tone
- Support management in having adequate resources
- Understand the operations well enough to understand underlying economics
- Where does oversight end and management begin?
- How much questioning is too much?
  - Listen, ask, assess, and challenge



# Financial statements generally include:

What does the statement show?	What is the statement called?		
	Corporation	Foundation	Tribal entity
What you own and owe, as of a point in time	Balance sheet	Statement of net assets	Balance sheet
Activity during a period of time	Income statement or Statement of operations	Statement of activities	Statement of revenues, expenditures, and changes in fund balance
Equity activity during a period of time	Statement of changes in shareholders' equity	Statement of changes in net assets	
Cash activity during a period of time	Statement of cash flows	Statement of cash flows	Statement of cash flows
Explanatory disclosures	Notes to the financial statements	Notes to the financial statements	Notes to the financial statements
Additional information	Schedules (optional)	Schedules (optional)	Management discussion and analysis Schedules (optional)

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# **Balance sheet**

# Balance sheets



- ➔ Balance sheet may be “classified” – current and noncurrent
  - Current: It will convert to cash within one year
  - Noncurrent: Everything else
- ➔ Amounts are generally based on “cost,” and not “fair value”
  - Cost is a cash-based measure
  - A typical exception is investment securities, which are at “fair value”

$$\text{Assets} - \text{Liabilities} = \text{Equity}$$

# Balance sheets

## Assets

- Cash and cash equivalents – what is in your bank accounts
- Receivables – amounts people owe you
- Inventories – materials held for resale or use
- Contract assets – unbilled revenues
- Deferred taxes – timing differences between IRS and accounting rules
- Investment securities – money market funds, mutual funds, equity securities, and debt securities
- Property and equipment – land, buildings, machinery, and equipment, net of depreciation

## Liabilities

- Accounts payable and accrued expenses – items payable to vendors and suppliers
- Borrowings – owed to banks and other financial institutions
- Contract liabilities and deferred revenue – amounts received from customers for services not yet rendered

## Equity

- What's left for your business and shareholders

# Meeting financial needs

## Short-term needs

Can the Company pay its liabilities as they come due?

Current Assets/  
Current Liabilities = Current Ratio

### Current Ratio

Should be greater than 1:1

1.5:1 to 2:1 is considered strong



## Long-term needs

Capital needs – Buildings, equipment, Long-term investment, Debt repayment



### Available Resources

Excess current assets  
Results of operations

### Potential Resources

Long-term financing

How much debt does the Company use to run its business?

Liabilities/Equity = Debt-to-equity ratio

### Debt-to-equity ratio

The “healthy” ratio depends on the industry

Alaska Native Corporations tend to be a bit below < 1.0

Debt-to-equity > 3.0 is considered highly leveraged in many industries



# Example Balance Sheet

Current ratio:  
 $\frac{84,452}{53,146} = 1.59$

Debt-to-equity ratio:  
 $\frac{20,620 + 51,258}{75,840} = .95$

Equity is growing

ALASKA CORPORATION			
Balance Sheets			
December 31, 2023 and 2022			
		2023	2022
<b>Assets</b>			
Current assets:			
Cash	\$	10,235	8,650
Accounts receivable, net		48,300	44,336
Contract assets		2,452	2,937
Inventories		18,342	14,978
Prepaid expenses and other current assets		5,123	4,492
<b>Total current assets</b>		<b>84,452</b>	75,393
Investment securities		22,021	14,443
Investments in unconsolidated affiliates		7,000	6,242
Goodwill, net		5,559	5,559
Property and equipment, net		64,865	62,210
<b>Total assets</b>	\$	<b>183,897</b>	163,847
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities:			
Accounts payable	\$	9,462	5,952
Accrued expenses		19,498	10,401
Contract liabilities		3,566	1,807
Current portion of notes payable		20,620	21,261
<b>Total current liabilities</b>		<b>53,146</b>	39,421
Notes payable, excluding current portion		51,258	49,815
Deferred tax liabilities		3,653	3,188
<b>Total liabilities</b>		<b>108,057</b>	92,424
Shareholders' equity:			
Contributed capital		17,624	17,624
Retained earnings		58,216	53,799
<b>Total shareholders' equity</b>		<b>75,840</b>	71,423
Commitments and contingencies			
<b>Total liabilities and shareholders' equity</b>	\$	<b>183,897</b>	163,847

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# **Income statement**

# Statements of operations

What did you earn, and what did you spend?



**Operating revenues**



**Expenses**

- Direct costs of operations
- General and administrative expenses



**Other income and expense**

- Investment income
- Other



**Income taxes**



**Net income (loss)     *the “bottom line”***



**Stay focused on gross profit and the bottom line!**

# Example Income statement

ALASKA CORPORATION			
Statements of Income			
Years ended December 31, 2023 and 2022			
		2023	2022
<b>Revenue and gains:</b>			
Contracting revenue	\$	153,652	133,626
Lease income		36,045	22,124
Gain on disposal of property and equipment		1,265	2,417
<b>Total revenue and gains</b>		<b>190,962</b>	<b>158,167</b>
<b>Expenses:</b>			
Direct costs		156,252	119,876
General and administrative expenses		16,065	19,268
Depreciation and amortization		12,152	10,185
<b>Total expenses</b>		<b>184,469</b>	<b>149,329</b>
<b>Operating income</b>		<b>6,493</b>	<b>8,838</b>
<b>Other income (expense):</b>			
Realized and unrealized gains (losses) on investments		5,210	(1,200)
Interest and dividend income		1,256	1,256
Interest expense		(2,400)	(4,130)
Other income (expense)		(2,542)	(3,505)
<b>Total other income (expense), net</b>		<b>1,524</b>	<b>(7,579)</b>
<b>Income before income taxes</b>		<b>8,017</b>	<b>1,259</b>
<b>Income taxes</b>		<b>1,000</b>	<b>1,588</b>
<b>Net income (loss)</b>	\$	<b>7,017</b>	<b>(329)</b>

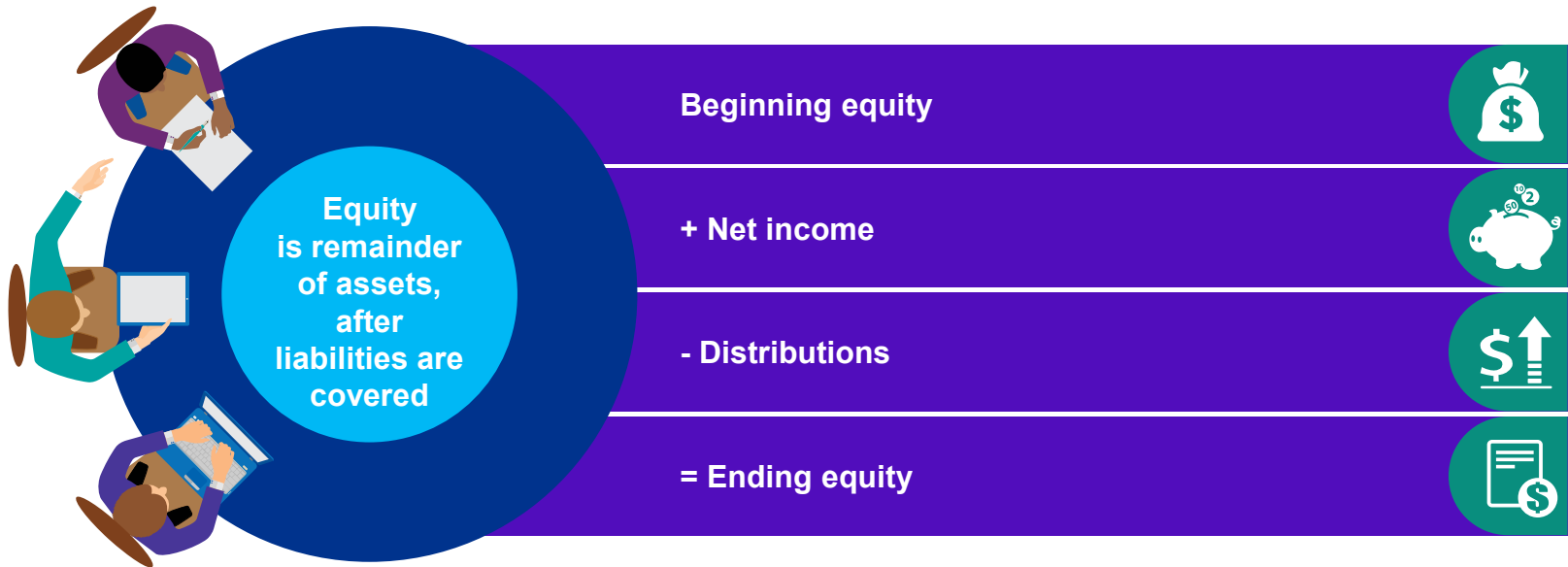
Profit ratio:  
6,493/  
190,962 = 3%

The Bottom Line

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# **Changes in equity**

# Statements of changes in shareholders' equity



Does not equate to cash or spendable resources

Does not equate to the fair value of the company

- Historical cost presumption
- Fair value principles

In a healthy organization, equity is growing!

# Example Statement of changes in equity

ALASKA CORPORATION					
Statements of Changes in Shareholders' Equity					
Years ended December 31, 2023 and 2022					
		Common stock	Contributed capital	Retained earnings	Total
Balance, December 31, 2021	\$	—	17,624	56,285	73,909
Net income (loss)		—	—	(329)	(329)
Contributions to Trust		—	—	(2,000)	(2,000)
Special distribution to shareholders		—	—	(157)	(157)
Balance, December 31, 2022		—	17,624	53,799	71,423
Net income		—	—	7,017	7,017
Contributions to Trust		—	—	(2,600)	(2,600)
Balance, December 31, 2023	\$	—	17,624	58,216	75,840

Is equity growing?

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# **Statement of cash flows**



# Cash flow – Sources and uses

Where did cash come from, and how was it spent?

## Cash inflows

### Operating

Customers  
7(j) revenue  
Interest and dividends  
Sale of investments

### Investing

Sale of fixed assets  
Sale of business

### Financing

Borrowing of debt  
Net borrowing on line of credit

## Cash outflows

Suppliers and employees  
Interest  
Taxes  
Purchase of investments

Purchase of fixed assets  
Purchase of business

Repayment of debt  
Distributions to shareholders

## Noncash activities

Disclose items that generated assets or liabilities without cash activity. For example, buying a building with a mortgage loan.

# Example Cash Flow Statement

Is operating cash  
flow positive?

ALASKA CORPORATION			
Statements of Cash Flows			
Years ended December 31, 2023 and 2022			
		2023	2022
<b>Cash flows from operating activities:</b>			
Net income (loss)	\$	7,017	(329)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization		1,967	1,200
Deferred income taxes		465	5
Realized and unrealized losses (gains) on investments		(6,400)	(1,677)
Change in assets and liabilities that provided (used) cash:			
Accounts receivable		(3,964)	2,677
Contract assets		485	(2,931)
Inventories		(3,364)	433
Prepaid expenses and other current assets		(631)	52
Accounts payable		3,510	(1,210)
Accrued expenses		9,097	945
Contract liabilities		1,759	(57)
Net cash provided by (used in) operating activities		9,941	(892)
<b>Cash flows from investing activities:</b>			
Proceeds from sale of investments		7,158	14,274
Purchases of investments		(2,457)	(6,052)
Investment in unconsolidated affiliates		(998)	(951)
Proceeds from sale of property and equipment		3,452	343
Purchases of property and equipment		(259)	(2,942)
Net cash provided by investing activities		6,896	4,672
<b>Cash flows from financing activities:</b>			
Proceeds from long-term debt		—	2,388
Principal payments on long-term debt		(12,652)	(977)
Contributions made to Trust		(2,600)	(2,000)
Distribution to shareholders		—	(157)
Net cash used in financing activities		(15,252)	(3,134)
Increase in cash		1,585	646
Cash, beginning of year		8,650	8,004
Cash, end of year	\$	10,235	8,650
<b>Supplemental disclosures of cash flow information:</b>			
Cash paid during the year for income taxes	\$	213	242
Cash paid during the year for interest		2,450	4,137
<b>Supplemental schedule of noncash investing and financing activities:</b>			
Long-term debt issued in the acquisition of property and equipment	\$	4,300	—

**05**

# **Notes to financial statements**

# Notes to financial statements

Explain the methods used to prepare the financial statements

Describe significant accounting policies used

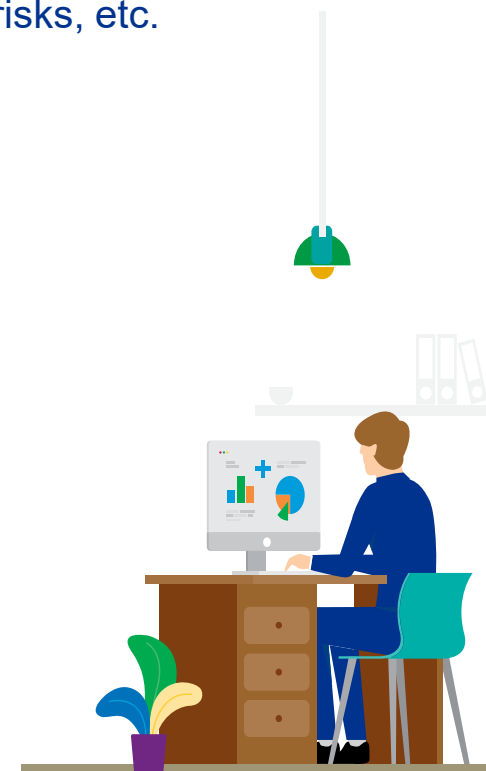
Provide additional detail about amounts on balance sheets and income statements

Provide information about commitments, contingencies, litigation, risks, etc.

## (8) Property and Equipment

Following is a summary of property and equipment at December 31:

	<u>2023</u>	<u>2022</u>
Furniture and equipment	\$ 6,143	6,050
Buildings and leasehold improvements	54,932	50,408
Land and land improvements	11,455	10,252
Vehicles	1,490	1,433
Construction work-in-progress	1,640	2,265
Less accumulated depreciation	<u>(10,795)</u>	<u>(8,198)</u>
Net property and equipment	<u>64,865</u>	<u>62,210</u>





# Thank you

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