



ANALYZING THE BALANCE SHEET OF CANADA'S CHARITY SECTOR



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EXECUTIVE SUMMARY

A Balance Sheet is the financial presentation of an organization's or group's Assets, Liabilities, and Net Equity. It presents a snapshot at a particular point in time, usually with a comparative to a previous point in time to identify trends playing out over a longer term. The Balance Sheet is a fundamental tool used in analyzing the strength, stability, liquidity, well-being, financial structure, and financial risk of that organization or group. Various financial ratios can be used to accomplish this.

In this report we examine the Balance Sheet of the Canadian Charitable and Foundation Sector. We present on the sector's ability to fund its near-term operating needs, continue its charitable activity over the longer term, and strengthen its impact in the community.

To obtain this insight, we look at the change in the components of the Balance Sheet over the five year period 2016 to 2021. Specifically, we comment on:

- The change in Total Assets relative to the change in Total Liabilities.
- The change in liquid assets, being Cash and Short-Term Investments.
- The change in Inventories required to operate and provide charitable services.
- The change in Long Term and Capital Investments to determine if the sector is providing services to the community or accumulating an investment portfolio.
- The change in Net Equity to determine if the Sector is accumulating assets contrary to the mandate of the non-profit sector.

Several Balance Sheet ratios are presented and discussed:

- Current Ratio, or Working Capital Ratio.
- Debt to Equity Ratio.
- Debt to Asset Ratio.
- Solvency Ratio.
- Net Working Capital.

Principle conclusions of the Report

- Overall, Canada's Charitable Sector has managed its Balance Sheet well, has focused on providing its charitable services and products to the community, and has not changed its overall operating risk profile.
- We note a decline in the Solvency Ratio (modified as Total Revenues/Total Liabilities because of the lack of reporting of Cash Flow in regulatory filings) for the Overall Sector. However, we believe this is manageable given its improvement in Net Working Capital over the past five years.
- The Charitable Sector excluding the Core Healthcare category remains in a good financial position. There has been little focus on accumulating Liabilities or Long Term assets, and these Charities remained focused on their mission statements.
- We note the improved Current Ratio suggests that this portion of Charities is relatively conservative in their financial management and risk taking. This could indicate that management of these Charities are providing less charitable products or services than they perhaps could if they retained the same risk profile they adopted five years ago.

- Small Charities remain well financed with a greater focus on providing their charitable products and services than on managing their financial position.
- The area of greatest concern for Small Charities is the decline in Investments and corresponding increase in Real Estate holdings. This needs to be monitored carefully in a period of rising inflation and interest rates.

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- May 2022: Charity Expense Reporting
- June 2022: Update on the Canadian Charitable Sector
- July 2022: Update on the Impact of COVID on Canada's Charitable Sector
- August 2022: The Canadian Donor Advised Fund (DAF) Market

UPCOMING RESEARCH REPORTS

- October 2022: Activities Outside Canada by Canadian Charities
- November 2022: The Veritas500 Report on Canada's Fastest Growing Charities
- December 2022: Employment in the Canadian Charitable Sector



Our Vision

We will participate in a thriving Canadian philanthropic sector where the most impactful charities with the highest governance standards are celebrated and supported by donor capital.

Our Mission

The Veritas Foundation aims to be Canada's authoritative source for participating in the country's charitable sector and evaluating its effectiveness and impact.



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