



**Presented By:**

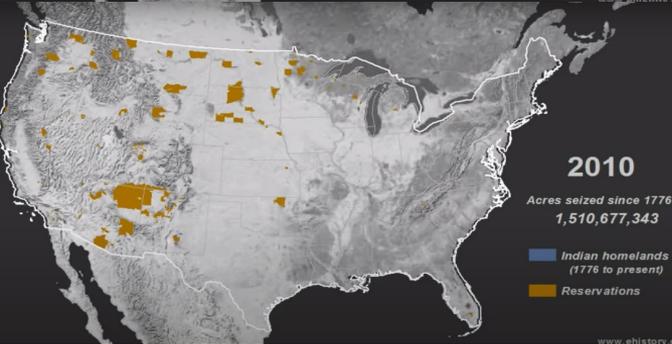
Yanira Guzmán  
Arthur Barinque



**CEN**

*Center for Excellence in Nonprofits*

# Financial Responsibilities



Native Governance Center



**CEN**

Center for Excellence in Nonprofits

# Land Acknowledgment

## Past, Present, and Future Outlook



*“We are still America. We know the rumors of our demise. We spit them out.”*

**-Joy Harjo, *An American Sunrise***

Poet Laureate, musician, playwright, and author

What Happens Here Is ...





# CEN

*Center for Excellence in Nonprofits*

**Our mission is to improve the long-term sustainability of nonprofit leaders and organizations by offering the highest quality programs, consultation, training and community-building networks.**





I

Inclusion

D

Diversity

E

Equity

A

Access

L

Liberation



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# Ice Breaker

1. What do you hope to learn today?
2. What is your biggest concern about nonprofit financials?



# Objectives

- 1** Understand basic nonprofit financial statements

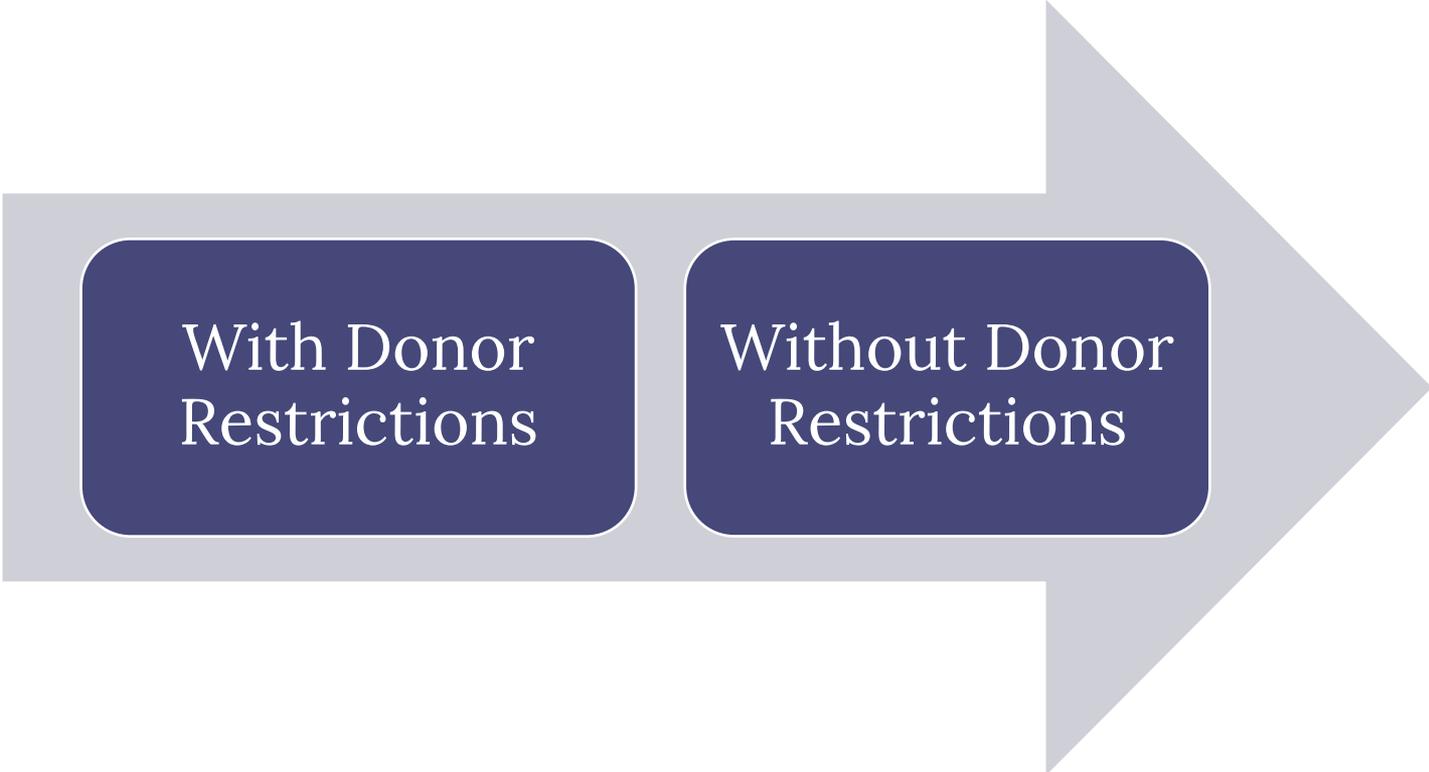
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- 2** Understand different types of nonprofit income

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- 3** Discover how to interpret nonprofit financial statements

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- 4** Study other factors to consider when making financial decisions

**Let's start with the Basics!**

# Classifications of Revenue



With Donor  
Restrictions

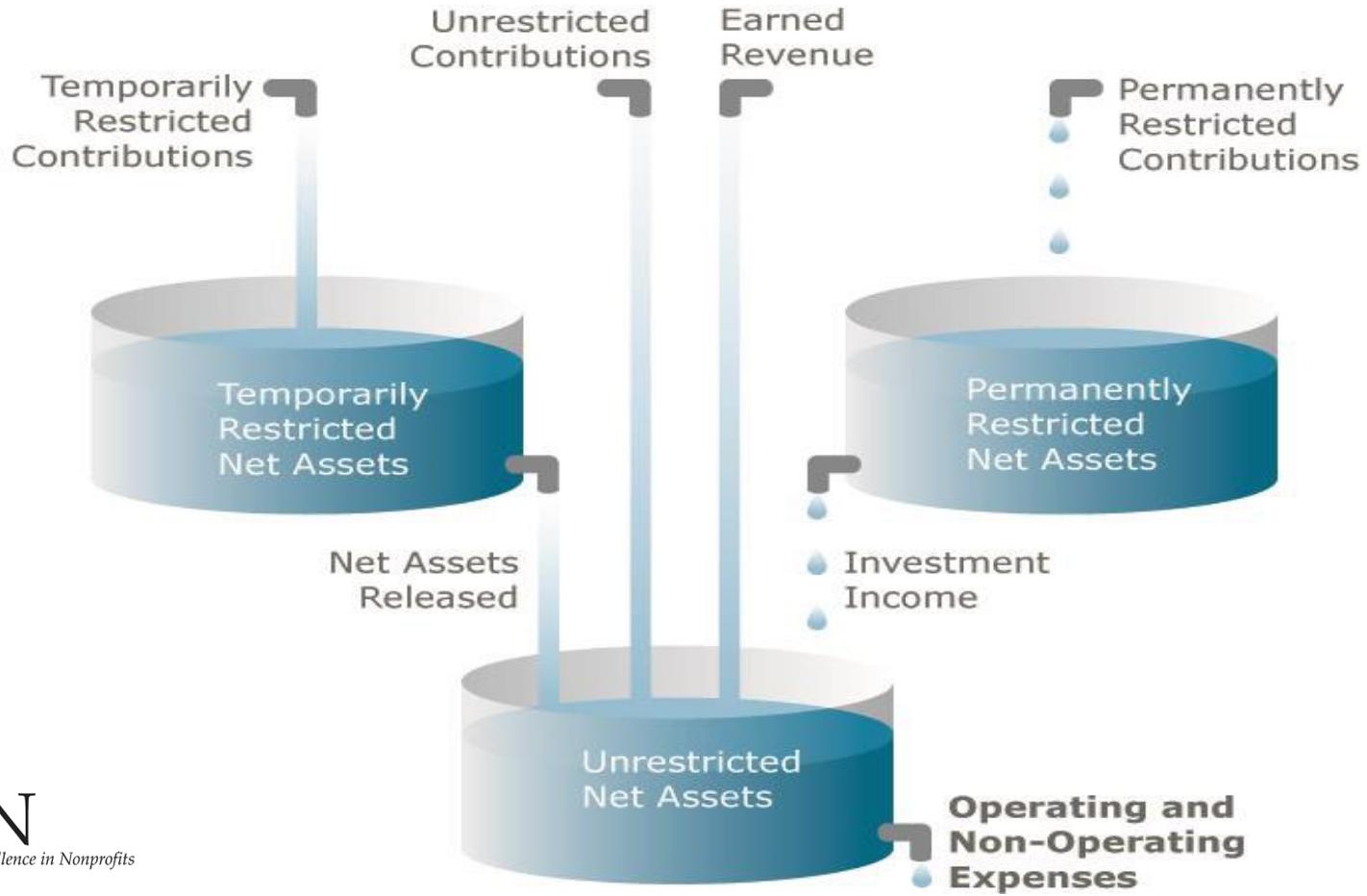
Without Donor  
Restrictions

# Classifications of Revenue per 990's



- **Unrestricted Revenue:** Cash comes in with no restrictions
- **Temporarily Restricted Revenue:** Funders restrict the use of their donations to specific programs, time periods, or locations. The funds are restricted until used for the specified restriction.
- **Permanently Restricted Revenue:** An organization's endowment. Organizations can often use the interest generated from this fund, but are unable to touch the principle.

# Classifications of Revenue



- **Cash Method:** Focused on the inflows and outflows of cash

- This is the preferred method for managing cash, but you run the risk of not knowing your liabilities (like accrued vacation).

- **Accrual Method:** Doesn't worry about cash flow and instead focuses on when **revenue is earned and when expenses were incurred**. This method is required by general accepted accounting principles (**GAAP**) and how you report your 990.

- This is the preferred method for understanding an organization's assets and liabilities

## Accrual Examples:

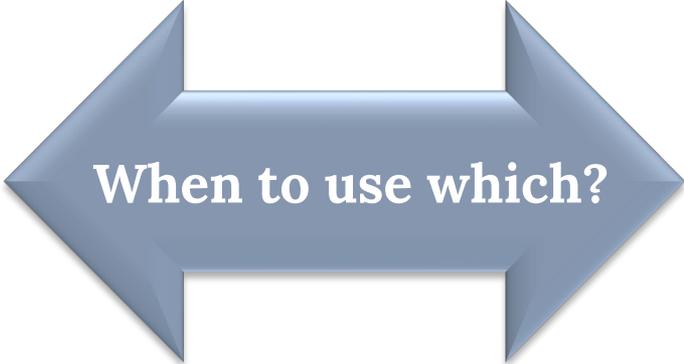
1. Your org. receives a **\$50,000** reimbursable grant. The \$50K is recognized at the time of the award, but the cash is received once proof of expense has been turned in.
2. The day you receive an award letter the money is “booked” even though you don’t receive the funds for another 90 days.
3. You **accrue your vacation expense** even though you only pay it out when it’s used or an employee leaves.

## Cash Example:

1. Your org. receives a \$50,000 reimbursable grant. The cash is recognized incrementally as you receive your reimbursements.

# Cash vs. Accrual Accounting

**Cash** is used by a leader to track the cash and manage the cash flow



When to use which?

**Accrual** is usually used for your **financial statements** and reporting taxes (990)

**Make sure your board knows the difference!**

# Statement of Activities (AKA Income Statement, Profit & Loss/ P&L)

## The Statement of Activities

Tallies up all the financial events during a particular period of time. Basically shows your income and expenses.

### Shows how:

- Much revenue was generated
- Operating Expenses
- Change in Net Assets (also called the Surplus/(deficit) or Profit/(Loss))

### It does not show:

- What other money you have in the bank
- What happened in prior periods of time

# ABC Center Statement of Activities



Year Ended December 31, 2011 (\$ in thousands)

Operating Activity	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains, and Other Support <sup>1</sup>	—	—	—	—
Support <sup>2</sup>	—	—	—	—
Foundations	113	58	—	171
Government	57	—	—	57
Corporations	49	—	—	49
Individuals	248	—	—	248
Total Support	467	58	—	525
Investment Income <sup>3</sup>	7	—	—	7
Earned Income (Fees, Dues, Other) <sup>4</sup>	484	—	—	484
Net Assets Released from Restriction <sup>5</sup>	749	-749	—	—
Total Revenues, Gains, and Other Support	1,707	-691	—	1,016
<b>Operating Expenses<sup>6</sup></b>	—	—	—	—
Program Services <sup>7</sup>	1,004	—	—	1,004
Supporting Services <sup>8</sup>	—	—	—	—
Administrative	209	—	—	209
Development	49	—	—	49
Total Supporting Services	258	—	—	258
Total Expenses	1,262	—	—	1,262
Change in Net Assets <sup>9</sup>	<sup>10</sup> 445	<sup>11</sup> -691	—	<sup>12</sup> 246

Similar to your bank accounts – shows how much money you have in a given period of time.

1. How much revenue the org. generated
2. Renew from foundations, gov., etc.
3. Income from things like interest
4. Income from earned sources
5. Funds “released” from temp. restricted bucket because “restricted” activity occurred
6. Operating expense for a given time
7. Costs directly related to fulfilling the nonprofits mission
8. Activities not directly related to the purpose or mission
9. Change in net assets – also called Surplus (deficit)
10. Unrestricted asset change
11. Change in temp. restricted assets
12. Total change in net (both restricted & unrestricted) assets

# BoardSource Sample Statement of Activities



## ABC CHARITIES, INC.

Statement of Activities (Income Statement)  
For the Years Ending December 31, 2015 & 2014 (in thousands)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL 2015	TOTAL 2014	PERCENTAGE CHANGE
<b>Public Support &amp; Revenues</b>						
Net Service Revenues	43,600	10,000	--	53,600	50,000	7.2%
Contributions	9,000	--	700	9,700	9,000	7.8%
Grants	3,400	--	--	3,400	3,200	6.3%
<b>Total Support and Revenue</b>	<b>56,000</b>	<b>10,000</b>	<b>700</b>	<b>66,700</b>	<b>62,200</b>	<b>7.2%</b>
<b>Expenses</b>						
Program Services	40,600	7,000	--	47,600	45,800	3.9%
Management and General	10,190	3,000	--	13,190	12,000	9.9%
Fundraising	710	--	--	710	700	1.4%
<b>Total Expenses</b>	<b>51,500</b>	<b>10,000</b>	<b>--</b>	<b>61,500</b>	<b>58,500</b>	<b>5.1%</b>
<b>Excess of Support &amp; Revenue over Expenses</b>	<b>4,500</b>	<b>--</b>	<b>700</b>	<b>5,200</b>	<b>3,700</b>	<b>40.5%</b>
<b>Non-Operating Income (Expenses)</b>						
Gain/(Loss) on investments	1,200	--	--	1,200	1,000	20.0%
<b>Total Non-Operating Income</b>	<b>1,200</b>	<b>--</b>	<b>--</b>	<b>1,200</b>	<b>1,000</b>	<b>20.0%</b>
<b>Excess of Support &amp; Total Revenue over Expenses (Total margin)</b>	<b>5,700</b>	<b>--</b>	<b>700</b>	<b>6,400</b>	<b>4,700</b>	<b>36.2%</b>
Net Assets, Beginning of Year	59,500	4,200	1,300	65,000	62,300	4.3%
Change in net unrealized gains & losses on investments	(1,000)	--	--	(1,000)	(2,000)	-50.0%
<b>Net Assets, End of Year</b>	<b>64,200</b>	<b>4,200</b>	<b>2,000</b>	<b>70,400</b>	<b>65,000</b>	<b>8.3%</b>

No restrictions on how and/or when the net assets are used

Donor has placed restrictions on the use of the net assets that can be met over time or by purpose fulfilled

Donor has required gift to be held in perpetuity (not used); generates income that must be used according to donor's intent

Commonly includes expenses directly related to program delivery, such as salaries, supplies, purchased services

Expenditures related to oversight and administrative activities, such as record keeping and finances

Total cost of fundraising efforts

Revenue/expenses not related to mission, such as income from investments

Changes in the fair market value of investments that the organization could sell

**Operating Margin Percentage:**  
Allows you to quickly determine the organization's profitability on its core operations; the higher the value the better.

Excess of Support + Revenue over Expenses

Total Support & Revenue

\$5,200  
\$66,700 = 7.8%

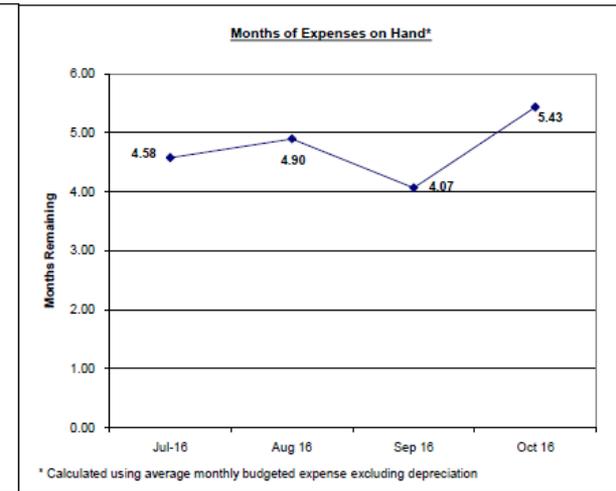
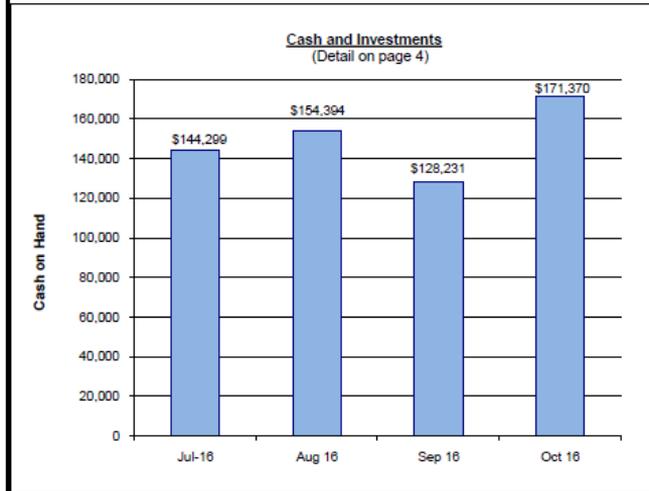


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# Other Financial Statements- Dashboard

Dashboard  
For the Period Ended October 31, 2016



<u>Restricted Cash Ratio</u>	
Cash & Investments	\$ 171,370
Receivables	\$ -
Total Cash, Investments, & A/R	\$ 171,370
Temporarily Restricted Net Assets	\$ 111,042
 Total Cash = TR Net Assets	
Restricted Cash Ratio	1.54
 <i>Benchmark:</i> A ratio below 1.0 indicates that the agency is borrowing temporarily restricted net assets for other purposes.	

<u>Liquidity Ratios</u>	
<u>Current Ratio</u>	
Current Assets	\$ 175,463
Current Liabilities	\$ 17,095
Current Ratio	10.26
 <u>Cash Ratio</u>	
Cash & Investments	\$ 171,370
Current Liabilities	\$ 17,095
Cash Ratio	10.02
 <i>Benchmark:</i> Ratios below 1.0 indicate that the agency does not have enough short-term assets/cash to cover current liabilities (debts payable within one year).	

<u>Operations Ratios</u>	
Program Service Expense	\$ 91,443
Percent spent on Programs	64.9%
M&G Expense	\$ 34,561
Percent spent on M&G	24.5%
Fund Development Expense	\$ 14,917
Percent spent on FR	10.6%
Total Expense	\$ 140,920
Fund Development Revenue	\$ 149,954
Fund Development Efficiency (cost to raise \$1)	\$ 0.10
 <i>Benchmark:</i> Charity watchdog groups prefer to see the following expense ratios: - Program Expenses: 75% or higher - M&G Expenses: 15% or lower - Fund Development Expenses: 10% or lower - Fund Development Efficiency: \$0.10 to raise \$1	

# Statement of Financial Position (AKA Balance Sheet)



The Statement of Financial Position shows the assets, financial resources, debts, & other liabilities at any given moment.

## Three basic elements of the Statement:

1. Assets

Everything the org. has or owns

2. Liabilities

Everything the org. owes

3. Net Assets

What the org. has or owns, free & clear of any liabilities

In a for-profit company, what is the total value of the company including the debt & equity

# ABC Center Statement of Financial Position



(\$ in thousands)	
	Dec 31, 2011
<b>Assets<sup>1</sup></b>	
<b>Current</b>	
Cash and Equivalents <sup>2</sup>	191
Grants & Pledges Receivable <sup>3</sup>	55
Accounts Receivable	—
Inventory	—
Prepaid Expenses	41

Other Current Assets	—
<b>Total Current Assets</b>	287
<b>Long-Term</b>	
Long-Term Investments	—
Deposits and Prepaid Rent	—
Grants & Pledges Receivable	—
Net Fixed Assets (P&E) <sup>4</sup>	760
Other Long-Term Assets	—
<b>Total Long-Term Assets</b>	760
<b>Total Assets<sup>5</sup></b>	1,047

	Dec 31, 2011
<b>Liabilities<sup>6</sup></b>	
<b>Current</b>	
Accounts Payable	57
Accrued Salaries & Benefits	—
Other Current Liabilities	—
Total Deferred Revenue	—
Short-Term Debt	—
<b>Total Current Liabilities</b>	57
<b>Long-Term</b>	
Long-Term Liabilities	—
Long-Term Debt <sup>7</sup>	114
Other Long-Term Liabilities	—
<b>Total Long-Term Liabilities</b>	114
<b>Total Liabilities<sup>8</sup></b>	171

<b>Net Assets<sup>9</sup></b>	
<b>Unrestricted</b>	
Undesignated <sup>10</sup>	11
Unrestr.—Board Designated <sup>11</sup>	—
Unrestr.—P&E <sup>12</sup>	760
<b>Total Unrestr. Net Assets<sup>13</sup></b>	771
Temp. Restricted Net Assets <sup>14</sup>	105
Perm. Restricted Net Assets	—
<b>Total Net Assets<sup>15</sup></b>	876
<b>Total Liab. &amp; Net Assets<sup>16</sup></b>	1,047

Similar to your net worth – it would include your house, car, cash, etc.

1. All types of assets
2. Actual cash & things like bonds, money market mutual funds, & other short-term investments
3. Grants awarded that have not been received
4. Property & equipment
5. All assets combined
6. All types of liabilities
7. Loans
8. All liabilities combined
9. What the org. has or owns, free & clear of liabilities
10. Undesignated net assets usually comprises cash, receivables, & investments available for operations
11. Unrestricted funds that have been “restricted” by board
12. Unrestricted property & equipment
13. Total of unrestricted net assets
14. Assets restricted for a certain purpose
15. Total of unrestricted & restricted net assets
16. Total net assets + total liabilities (876+171=1,047)

(P&E) Property & Equipment

# Understand your Liquidity



## Example 1:

- How many months of cash do we have?

$$\frac{\text{Cash and Equivalents (2)}}{\text{Average Monthly Expenses}} \quad \frac{\text{Cash and Equivalents } (\$191,000)}{\text{Average Monthly Expenses } (\$105,166)} = 1.8 \text{ months of cash}$$

What are unrestricted “liquid” net assets?

# ABC Center Statement of Financial Position



(\$ in thousands)	
	Dec 31, 2011
<b>Assets<sup>1</sup></b>	
<b>Current</b>	
Cash and Equivalents <sup>2</sup>	191
Grants & Pledges Receivable <sup>3</sup>	55
Accounts Receivable	—
Inventory	—
Prepaid Expenses	41

Other Current Assets	—
<b>Total Current Assets</b>	287
<b>Long-Term</b>	
Long-Term Investments	—
Deposits and Prepaid Rent	—
Grants & Pledges Receivable	—
Net Fixed Assets (P&E) <sup>4</sup>	760
Other Long-Term Assets	—
<b>Total Long-Term Assets</b>	760
<b>Total Assets<sup>5</sup></b>	1,047

	Dec 31, 2011
<b>Liabilities<sup>6</sup></b>	
<b>Current</b>	
Accounts Payable	57
Accrued Salaries & Benefits	—
Other Current Liabilities	—
Total Deferred Revenue	—
Short-Term Debt	—
<b>Total Current Liabilities</b>	57
<b>Long-Term</b>	
Long-Term Liabilities	—
Long-Term Debt <sup>7</sup>	114
Other Long-Term Liabilities	—
<b>Total Long-Term Liabilities</b>	114
<b>Total Liabilities<sup>8</sup></b>	171

<b>Net Assets<sup>9</sup></b>	
<b>Unrestricted</b>	
Undesignated <sup>10</sup>	11
Unrestr.—Board Designated <sup>11</sup>	—
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Perm. Restricted Net Assets	—
<b>Total Net Assets<sup>15</sup></b>	876
<b>Total Liab. &amp; Net Assets<sup>16</sup></b>	1,047

(P&E) Property & Equipment

## Example 2:

What are unrestricted “liquid” net assets?

	ABC Center
<b>Total Unrestricted Net Assets (13)</b>	\$771,000
- Unrestricted – Board Designated (11)	\$0
- Unrestricted – P&E (12)	\$760,000
<b>= Unrestricted Liquid Net Assets</b>	\$11,000



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# BoardSource Sample Balance Sheet

## ABC CHARITIES, INC. Statements of Financial Position (Balance Sheet) At December 31, 2015 and 2014 (in thousands)

Assets (WHAT THE ORGANIZATION OWNS)	December 2015	December 2014
<b>Current Assets</b>		
Cash	1,200	2,000
Investments — Short Term	6,500	5,400
<b>Total Cash and Cash Equivalents</b>	<b>7,700</b>	<b>7,400</b>
Gross Accounts Receivable	12,000	12,800
Less: Allowance for Doubtful Accounts	(2,800)	(2,600)
Net Patient Receivables	9,200	10,200
Unconditional Promises To Pay	5,000	5,000
Inventory	500	400
Prepaid Expenses	400	300
Other Current Assets	900	700
<b>Total Current Assets</b>	<b>22,800</b>	<b>23,300</b>
Long-Term Investments — Unrestricted	62,300	55,000
Trusted Investments	10,000	12,200
Deferred Financing Costs	1,300	1,400
Other Noncurrent Assets	73,600	68,600
<b>Property, Plant &amp; Equipment</b>		
Land and Land Improvements	2,000	2,000
Buildings	20,000	18,000
Leasehold Improvements	700	700
Equipment and Fixtures	10,500	9,000
Construction in Progress	1,500	1,000
<b>Total PP&amp;E</b>	<b>34,700</b>	<b>30,700</b>
Less: Accumulated Depreciation	(18,000)	(15,000)
Net PP&E (book value)	16,700	15,700
<b>Total Assets</b>	<b>113,100</b>	<b>107,600</b>
<b>Liabilities (WHAT THE ORGANIZATION OWES)</b>		
<b>Current Liabilities</b>		
Accounts Payable	6,000	4,500
Current Retirement on LT Debt	1,500	1,400
<b>Total Current Liabilities</b>	<b>7,500</b>	<b>5,900</b>
Long-Term Debt	64,800	66,200
Other Long-Term Liabilities	2,000	2,100
<b>Total Long-Term Liabilities</b>	<b>66,800</b>	<b>68,300</b>
<b>Total Liabilities</b>	<b>74,300</b>	<b>74,200</b>
<b>Net Assets (DIFFERENCE BETWEEN WHAT IS OWNED AND OWED)</b>		
Unrestricted	32,600	27,900
Temporarily Restricted	4,200	4,200
Permanently Restricted	2,000	1,300
<b>Total Net Assets</b>	<b>38,800</b>	<b>33,400</b>
<b>Total Liabilities &amp; Net Assets</b>	<b>113,100</b>	<b>107,600</b>

Anything easily convertible into cash

an allowance for receivables that may not be collected

Contributions that have been promised to the organization without any conditions that have to be met

Assets that were donated or purchased with the hope that they will generate income

The portion of long-term debt that your organization must pay within 12 months

Outstanding debt that has a due date beyond 265 days

No donor restrictions on how and when the asset can be used

Tip: This number assists you in determining the underlying value of the organization. A continuously rising trend represents positive operating margin.

Donor restrictions that can be met over time

Donor restrictions that will never expire

Quick ratio:  
Cash + Cash Equivalent (\$7,700)  
+  
Accounts Receivable (\$9,200)  
+  
Unconditional Promises to Pay (\$5,000)  
+  
Current Liabilities (\$7,500)  
= 2.3

Current ratio:  
Current assets  
/  
Current liabilities  
= 3.0

Debt-to-Equity Ratio:  
Total liabilities  
/  
Total unrestricted net assets  
= 2.3

# Case Study 1



**Client Profile:** A no-kill shelter & adoption agency for dogs whose mission is to alleviate the suffering of stray, abandoned, unwanted, & feral dogs in Anywhere County that offers:

- Low cost spay, neuter & microchipping
- Training on how to care for dogs

**Presenting Challenge:** After the recent death, the founder (& only staff member), left the organization a large bequest. The board is striving to be fiscally responsible. The agency was faced with finding new leadership, because the board does not have time to run the organization.

- 2012 - Last year with unpaid founder
- 2013 - Hired first post-founder paid ED (& some additional staff)
- 2014 – **What is the current status of the organization and its new leader?**

# Case Study 1

1. How is the executive director performing in the role?
2. What is going well, what needs improvement?
3. As a board member, how would you suggest they proceed?



# Case Study 1

		Year		
Statement of Activities		2012	2013	2014
<b>Revenue</b>				
	Contributions, Gifts, Grants, and other similar amounts	\$439,150	\$1,893,339	
	Program Services Revenue		\$597	\$257,368
	Other Revenue	\$21	\$858	\$2,972
	<b>Total Revenue</b>	<b>\$439,171</b>	<b>\$1,894,794</b>	<b>\$260,340</b>
<b>Expenses</b>				
	Payroll	\$603	\$109,508	\$410,011
	Non Payroll	\$330,038	\$282,911	\$526,458
	<b>Total Expense</b>	<b>\$330,641</b>	<b>\$392,419</b>	<b>\$936,469</b>
	<b>NET SURPLUS/(DEFICIT)</b>	<b>\$108,530</b>	<b>\$1,502,375</b>	<b>-\$676,129</b>

		Year		
Balance Sheet		2012	2013	2014
<b>Assets</b>				
	Current	\$230,610	\$1,733,403	\$1,076,308
	Long-Term			
	<b>Total Assets</b>	<b>\$230,610</b>	<b>\$1,733,403</b>	<b>\$1,076,308</b>
<b>Liabilities</b>				
	Current		\$418	\$24,910
	Long-Term			
	<b>Total Liabilities</b>	<b>\$0</b>	<b>\$418</b>	<b>\$24,910</b>
<b>Net Assets</b>				
	Unrestricted net assets			
	Temporarily restricted net assets			
	Permanently restricted net assets			
	Total Net assets or fund balances	\$230,610	\$1,732,985	\$1,051,398
	<b>Total liabilities and net assets/fund balances</b>	<b>\$230,610</b>	<b>\$1,733,403</b>	<b>\$1,076,308</b>
	*mistake on their 990			

# Case Study 2



**Client Profile:** Bay Area's leading provider of trusted, individualized educational services for children & adults with autism spectrum disorders.

**Mission:** To help children & adults with autism or other developmental disabilities maximize their potential in a dignified, positive learning environment.

**Presenting Challenge:** This organization is a great provider of services for children with autism disorders. They receive their funding from the State of California for all children's services under a fee for service contract. Recently the board has recognized a growing need for adult educational services; however, this is not covered by the state. In addition, the organization rents a decommissioned school on a year-to year contract basis that the district will not extend. Creating constant fear of having to move.

**Where would you start?**

# Case Study 2

1. If you were a board member, how would you vote to proceed?
2. What are some creative solutions to solve the challenges?

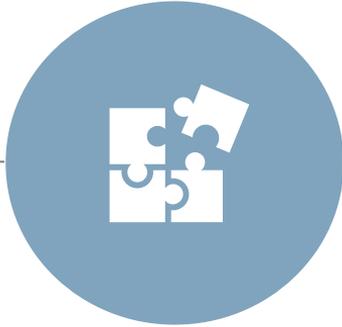


# Case Study 2

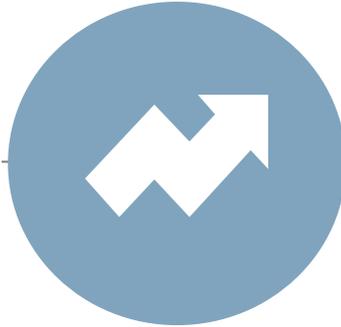
		Year	
Statement of Activities		2012	2013
<b>Revenue</b>			
	Contributions, Gifts, Grants, and other similar amounts	\$335,268	\$463,976
	Program Services Revenue	\$5,316,917	\$5,729,626
	Other Revenue	\$286,931	\$150,607
	<b>Total Revenue</b>	<b>\$5,939,116</b>	<b>\$6,344,209</b>
<b>Expenses</b>			
	Payroll	\$3,496,416	\$3,554,060
	Non Payroll	\$2,236,224	\$2,261,343
	<b>Total Expense</b>	<b>\$5,732,640</b>	<b>\$5,815,403</b>
	<b>NET SURPLUS/(DEFICIT)</b>	<b>\$206,476</b>	<b>\$528,806</b>

		Year	
Balance Sheet		2012	2013
<b>Assets</b>			
	Current	\$4,178,254	\$4,908,392
	Long-Term		
	<b>Total Assets</b>	<b>\$4,178,254</b>	<b>\$4,908,392</b>
<b>Liabilities</b>			
	Current	\$339,689	\$313,270
	Long-Term		
	<b>Total Liabilities</b>	<b>\$339,689</b>	<b>\$313,270</b>
<b>Net Assets</b>			
	Unrestricted net assets	\$3,838,565	\$4,581,883
	Temporarily restricted net assets		\$13,239
	Permanently restricted net assets		
	<b>Total Net assets or fund balances</b>	<b>\$3,838,565</b>	<b>\$4,595,122</b>
	<b>Total liabilities and net assets/fund balances</b>	<b>\$4,178,254</b>	<b>\$4,908,392</b>

# Finance as a Strategy



Patterns



Dual  
Bottom  
Line



Overhead



# Takeaways

## Upcoming CEN Programs

Visit our Learning Calendar  
at [CEN.org](https://cen.org) to view  
full calendar, details and  
registration information

**March 1**

Developing a Thriving Board

**March 2**

Fundamentals of Financial Wellbeing

**March 15 & 17**

CEN's IDEAL Program for Nonprofit  
Professionals

**March 24**

Board Chair Essentials



## Stay Connected with Us!

Be sure to view CEN's  
monthly newsletter for  
news, resources, and  
upcoming programs and  
events



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