

# Understanding Nonprofit Financials

WORKSHOP HANDOUTS



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## Table of Contents

<b>Key Financial Statements: A Primer for Nonprofit Board Members .....</b>	<b>2</b>
<b>Sample - Statement of Activities .....</b>	<b>9</b>
<b>Sample #2 – Statement of Activities .....</b>	<b>10</b>
<b>Sample - Dashboard .....</b>	<b>11</b>
<b>Sample - 990 .....</b>	<b>12</b>
<b>Sample Balance Sheet .....</b>	<b>14</b>
<b>Sample – Statement of Financial Position.....</b>	<b>15</b>
<b>Case Study 1 .....</b>	<b>16</b>
<b>Case Study 2 .....</b>	<b>18</b>

# WELCOME TO YOUR KEY FINANCIAL STATEMENTS: A PRIMER FOR NONPROFIT BOARD MEMBERS

## INTRODUCTION

Every nonprofit board member is legally responsible for the financial oversight of the organization he or she serves. You cannot do that without a basic understanding of nonprofit financial statements. This guide is designed to introduce you to the two most important financial documents that you will encounter as a board member — the balance sheet and the income statement — thus helping you meet your fiduciary responsibility.

## WHAT ARE FINANCIAL STATEMENTS?

Financial statements are formal written records of your organization's financial activities and position and provide the information you need to identify your organization's financial strengths and weaknesses. Usually, management is responsible for creating the statements, which are typically produced monthly for the month just ended as well as for the year to date. The year-to-date statements provide valuable reference points and allow the board to see how well actual results are following projected assumptions. At year end, the year-to-date figures reflect the accumulation of the previous 12 months of transaction activities applied to the balance sheet and income statement.

## WHAT IS THE BALANCE SHEET?

The balance sheet or Statement of Financial Position has traditionally been recognized as the most important of the financial statements due to the comprehensive and illuminating information contained in it. At its simplest, it shows you what your organization owns (assets), what it owes (liabilities), and what remains (net assets) at a specific moment in time.

The balance sheet shows the value of your organization, how much of your debt is current and how much is long-term, and — with the help of ratios — much more (See ratios below).

Some people think of the balance sheet as a scale. Assets and liabilities will not balance until you put net assets on the scale.

### Terminology:

**ASSETS** are everything an organization owns and are usually listed according to how quickly they can be turned into cash (how “liquid” they are):

- Cash
- Accounts receivable — Money owed to your organization
- Promises to pay — Promised or pledged contributions
- Property, Plant, and Equipment — Fixed assets

**LIABILITIES** are everything your organization owes and are usually listed in the order they need to be repaid:

- Accounts payable — Money that your organization knows that it owes vendors and suppliers (unpaid invoices).
- Accrued liabilities — Money that your organization estimates that it owes vendors and suppliers (invoices yet to be received).
- Current portion of long-term liabilities — The portion of long-term debt that your organization must pay in the next 12 months.
- Long-term liabilities — Outstanding debt that has a due date beyond 365 days, such as a mortgage or tax-exempt bond.

# WELCOME TO YOUR KEY FINANCIAL STATEMENTS: A PRIMER FOR NONPROFIT BOARD MEMBERS

**NET ASSETS** are the difference between what your organization owns and what it owes. Net assets can be *unrestricted* as to their use or time of use. Or they may be *restricted* assets, as when a donor puts limits on their use. The restriction can either be *temporary* (if the restriction can be met either with the passage of time or by the purpose being fulfilled) or *permanent* (if the restriction never expires and cannot be removed.) As an example, the principal of many endowments is permanently restricted.



**Tip:** The *net asset balance* assists you in determining the underlying financial worth of your organization, because it is the value left after the organization's total liabilities are subtracted from its total assets. It is judicious to monitor your organization's net assets over time; a continuously rising trend for this balance sheet line often represents positive operating margins.

## WHAT IS THE INCOME STATEMENT?

The balance sheet captures a moment in time. It's like a snapshot. The income statement or Statement of Activities reflects your organization's financial activity — revenues and expenses — over time (monthly, quarterly, and annually). It's like a report card. At most nonprofits, numbers change rapidly as money comes in and bills are paid. This makes it hard to know how much money you've actually earned. The Income Statement answers that question. It tells you if revenue is going up or down and how much profit is left after deducting what it costs to operate your nonprofit. This profit can be used to grow your nonprofit or pay debt. The income statement does not tell you if your organization's financial condition is weak or strong, what you own, what you owe, and what others owe you (see the Balance Sheet).

Because the Income Statement reflects your organization's financial activity over time, it is usually developed monthly, quarterly, and annually. Many nonprofits also create a projected income statement for the next 12 months, based on predictions.

GAAP (Generally Accepted Accounting Practices) requires that the income statement classify revenues and expenditures and be shown as unrestricted, temporarily restricted, or permanently restricted.

## Terminology

**REVENUE** is income from providing goods or services to your organization's clients, customers, members, etc. and from other earning activities, such as sales of inventory or earnings on investments. It frequently includes both earned income and income from contributions.

**CONTRIBUTIONS** are assets that have been given to your organization in the form of cash, stock, bonds, art, property, etc.

**EXPENSES** are what an organization spends to conduct its activities. Expenses on the income statement are grouped into three categories:

### Which accounting method does your organization use?

#### The cash method:

- Records revenue when it is received.
- Records expense when it is disbursed.

#### The accrual method:

- Records revenue when it is earned.
- Records expense when it is incurred.

# WELCOME TO YOUR KEY FINANCIAL STATEMENTS: A PRIMER FOR NONPROFIT BOARD MEMBERS

- Program Services — expenditures, goods, and services used in activities to fulfill the organization’s mission, such as salaries and supplies
- Management and General — expenditures on general oversight and management, such as on recording keeping and budgeting
- Fundraising — expenses incurred in the solicitation of contributions and grants

**NON-OPERATING INCOME** is revenue not related to your nonprofit’s programs or mission. The most common item is *realized* investment income — gain or loss from the sale of invested assets, such as common stock or mutual funds, that are owned by the organization.

**NET ASSETS** are the difference between what your organization owns and what it owes.

**CHANGE IN NET ASSETS** is the difference between the revenues earned and expenses incurred over a period of time, otherwise known as profit or loss.

## RATIOS

The balance sheet and income statement contain a lot of illuminating information, and while the numbers in themselves are significant, so too are ratios based on the numbers. Ratios help you identify your organization’s strengths and weaknesses.

Because nonprofits vary in size, structure, income reliability, and other financial aspects, your board, in conversation with management and your auditors, should establish a set of financial ratio standards or benchmarks that are most appropriate for your organization.

Here are five key ratios that you should understand and be able to articulate.

### Current Ratio

SOURCE: Balance sheet  
The current ratio measures your organization’s ability to meet its current financial obligations.

$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

The higher the ratio, the better off your organization is. A healthy ratio for most organizations is in the 2.0 to 4.0 range. That level indicates that the organization is financially solvent, having double to quadruple the financial means to meet its current financial obligations. A 1:1 ratio means there is no working capital.

### Quick Ratio

SOURCE: Balance sheet  
The quick ratio measures your organization’s ability to meet its short-term financial obligations with assets that can quickly be turned to cash.

$$\frac{\text{Cash} + \text{Cash Equivalents} + \text{Accounts Receivable} + \text{Unconditional Promises to Pay}}{\text{Current Liabilities}}$$

Like the current ratio, a range between 2.0 and 4.0 is considered healthy.

### Days Cash on Hand

SOURCE: Balance sheet and income statement  
This may be the most important of all ratios for board members. It measures the number of days of average cash expenses that the organization maintains.

$$\frac{\text{Cash} + \text{Short-Term Investments}}{(\text{Total Expenses} - \text{Non-Cash Expenditures})} \div 365 = \text{Days Cash on Hand from Short-Term Sources}$$

$$\frac{\text{Cash} + \text{Short-Term Investments} + \text{All Long-Term Investments}}{(\text{Total Expenses} - \text{Non-Cash Expenditures})} \div 365 = \text{Days Cash on Hand from All Sources}$$

Like the current ratio, a higher value is always preferred. The board may want to exclude restricted cash from this equation so as not to overstate the organization’s ability to meet its basic operating needs.

# WELCOME TO YOUR KEY FINANCIAL STATEMENTS: A PRIMER FOR NONPROFIT BOARD MEMBERS

## Debt-to-Equity Ratio

SOURCE: Balance sheet

The debt-to-equity ratio tells you the proportion of debt versus assets being used to support your organization. It tells you how deeply your organization is in debt and what percentage of your assets are tied up in liabilities.

$$\frac{\text{Total Liabilities}}{\text{Total Net Assets}}$$

A lower debt-to-equity ratio implies a more financially stable organization. Nonprofits with higher debt-to-equity ratios may be taking too much financial risk as debt must be repaid and the organization may not be able to make the payments.

## Operating Margin Percentage

SOURCE: Income Statement

Operating margin percentage is a useful ratio because it measures the organization's bottom line (before non-operating revenues) compared to its total revenues. The ratio allows you to quickly and rather accurately determine the extent of your organization's profitability on its core operations.

$$\frac{\text{Excess of Support \& Revenues Over Expenses}}{\text{Total Support \& Revenues}}$$

Higher values are preferable.

## SAMPLE BALANCE SHEET AND INCOME STATEMENT

A key challenge to understanding financial statements is recognizing the wide diversity of nonprofit organizations and the multiplicity of audiences and clientele they serve. Because of this diversity, nonprofit financial statements differ in format and appearance from one organization to the next. The following examples represent a fictional nonprofit; they are meant to be an amalgamation of several types of nonprofits operating throughout the U.S. While these fictional statements may not be precisely like the statements used by your nonprofit, all the common and essential elements are shown to enable you to relate to your organization.

See Next Page





# SAMPLE INCOME STATEMENT

## 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

$$\frac{\$5,200}{\$66,700} = 7.8\%$$

## Sample - Statement of Activities

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, government, 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 expenses 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

Year Ended December 31, 2021 (\$ in thousands)				
Operating Activity	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support				
Support <sup>2</sup>				
Foundations	113,000	58,000		171,000
Government	57,000			57,000
Corporations	49,000			49,000
Individuals	248,000			248,000
Total support	467,000	58,000		525,000
Investment income <sup>3</sup>	7,000			7,000
Earned income (Fees, Dues, Other) <sup>4</sup>	484,000			484,000
Net assets released from restriction <sup>5</sup>	749,000	-749,000		
Total revenues, gains, and other support <sup>1</sup>	1,707,000	-691,000		1,016,000

Operating Expenses <sup>6</sup>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Program services <sup>7</sup>	1,004			1,004
Support 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>	445 <sup>10</sup>	-691 <sup>11</sup>		246 <sup>12</sup>

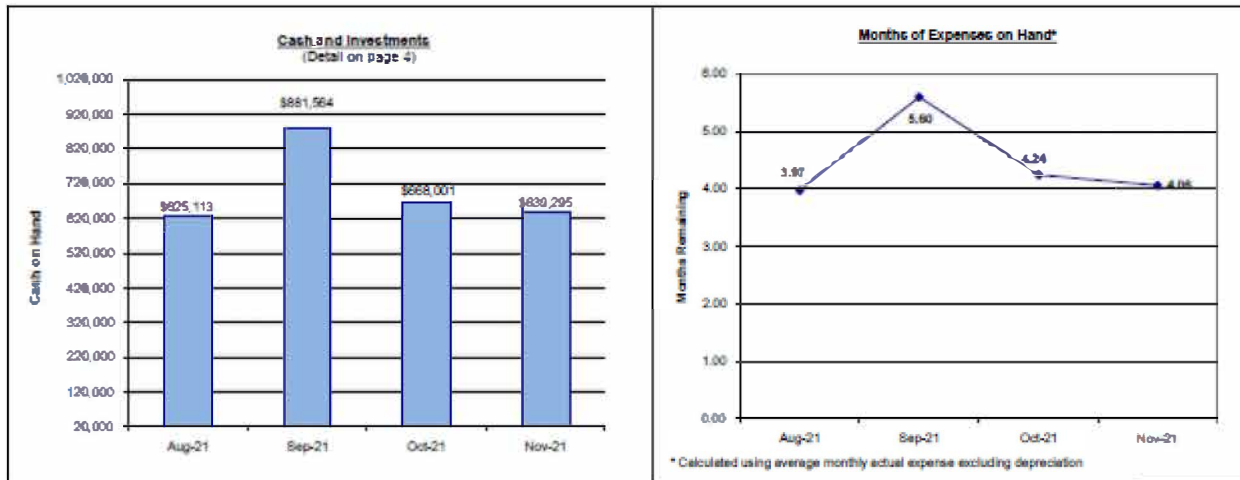


**Center for Excellence in Nonprofits  
Statement of Activities - Combined Report  
For the Period Ended December 31, 2020**

	Monthly Actual	Monthly Budget	Monthly Variance	6 Months Y-T-D Actual	6 Months Y-T-D Budget	6 Months Y-T-D Variance
<b><u>CHANGES IN UNRESTRICTED NET ASSETS:</u></b>						
Public Support:						
Donations	26,375	-	26,375	55,440	-	55,440
Grants	-	-	-	21,450	-	21,450
Total Public Support	26,375	-	26,375	76,890	-	76,890
Other Revenue:						
Membership Dues	2,500	-	2,500	9,179	-	9,179
Program Revenue	38,555	-	38,555	127,985	-	127,985
Program Scholarship Discount	(6,860)	-	(6,860)	(19,775)	-	(19,775)
Investment Income	3,065	-	3,065	5,098	-	5,098
In-kind Revenue	7,060	-	7,060	42,360	-	42,360
Total Revenue	44,320	-	44,320	164,847	-	164,847
Net Assets Released from Restrictions	25,842	-	25,842	111,379	-	111,379
Total Public Support and Other Revenue	96,537	-	96,537	353,117	-	353,117
Expenses:						
Program Services	85,815	-	(85,815)	421,867	-	(421,867)
Support Services:						
Administration	8,188	-	(8,188)	49,985	-	(49,985)
Fundraising	5,547	-	(5,547)	23,628	-	(23,628)
Total Support Services	13,734	-	(13,734)	73,613	-	(73,613)
Total Expenses	\$ 99,549	\$ -	\$ (99,549)	\$ 495,479	\$ -	\$ (495,479)
<b>Increase / (decrease) in unrestricted net assets</b>	<b>\$ (3,012)</b>	<b>\$ -</b>	<b>\$ (3,012)</b>	<b>\$ (142,363)</b>	<b>\$ -</b>	<b>\$ (142,363)</b>
<b><u>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:</u></b>						
Grants & Donations	\$ 140,000	\$ -	\$ 140,000	\$ 165,000	\$ -	\$ 165,000
Net Assets Released from Restrictions	(25,842)	-	(25,842)	(111,379)	-	(111,379)
<b>Increase / (decrease) in temporarily restricted net assets</b>	<b>\$ 114,158</b>	<b>\$ -</b>	<b>\$ 114,158</b>	<b>\$ 53,621</b>	<b>\$ -</b>	<b>\$ 53,621</b>
<b>CHANGE IN NET ASSETS Y-T-D</b>	<b>\$ 111,146</b>	<b>\$ -</b>	<b>\$ 111,146</b>	<b>\$ (88,742)</b>	<b>\$ -</b>	<b>\$ (88,742)</b>
<b>NET ASSETS AT BEGINNING OF YEAR</b>				<b>428,795</b>		
<b>NET ASSETS AT END OF PERIOD</b>				<b>\$ 340,053</b>		

## Sample – Dashboard

Center for Excellence in Nonprofits  
 Dashboard  
 For the Period Ended November 30, 2021



<u>Restricted Cash Ratio</u>		<u>Liquidity Ratios</u>		<u>Operations Ratios</u>	
Cash & Investments	\$ 639,295	<u>Current Ratio</u>		Program Service Expense	\$ 727,567
Receivables	\$ 43,365	Current Assets	\$ 758,314	Percent spent on Programs	88.5%
Total Cash, Investments, & A/R	\$ 682,660	Current and Other Liabilities	\$ 246,712	M&G Expense	\$ 65,420
Temporarily Restricted Net Assets	\$ 326,007	Current Ratio	3.07	Percent spent on M&G	8.0%
		<u>Cash Ratio</u>		Fund Development Expense	\$ 29,586
<u>Total Cash =</u>		Cash & Investments	\$ 639,295	Percent spent on FR	3.6%
TR Net Assets		Current and Other Liabilities	\$ 246,712	Total Expense	\$ 822,574
Restricted Cash Ratio	2.09	Cash Ratio	2.59	Fund Development Revenue	\$ 470,756
				Fund Development Efficiency	\$ 0.06
				(cost to raise \$1)	
<b>Benchmark:</b>		<b>Benchmark:</b>		<b>Benchmark:</b>	
A ratio below 1.0 indicates that the agency is borrowing temporarily restricted net assets for other purposes.		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).		Classify watchdog groups prior to see the following expense ratios:	
				- Program Expenses: 79% or higher	
				- M&G Expenses: 19% or lower	
				- Fund Development Expenses: 10% or lower	
				- Fund Development Efficiency: \$0.10 to raise \$1	

## Return of Organization Exempt From Income Tax

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except private foundations)

▶ Do not enter social security numbers on this form as it may be made public.  
▶ Go to [www.irs.gov/Form990](http://www.irs.gov/Form990) for instructions and the latest information.

**Open to Public Inspection**

**A** For the 2019 calendar year, or tax year beginning 7/01, 2019, and ending 6/30, 2020

<b>B</b> Check if applicable: <input type="checkbox"/> Address change <input type="checkbox"/> Name change <input type="checkbox"/> Initial return <input type="checkbox"/> Final return/terminated <input type="checkbox"/> Amended return <input type="checkbox"/> Application pending	<b>C</b> CENTER FOR EXCELLENCE IN NONPROFITS 330 TWIN DOLPHIN DRIVE #151 REDWOOD CITY, CA 94065-1455	<b>D</b> Employer identification number 77-0385218	<b>E</b> Telephone number 650-517-5855
<b>F</b> Name and address of principal officer: <u>LARISSA ROBIDEAUX</u> SAME AS C ABOVE		<b>G</b> Gross receipts \$ <u>1,136,072.</u>	
<b>I</b> Tax-exempt status: <input checked="" type="checkbox"/> 501(c)(3) <input type="checkbox"/> 501(c) ( ) ◀ (insert no.) <input type="checkbox"/> 4947(a)(1) or <input type="checkbox"/> 527		<b>H(a)</b> Is this a group return for subordinates? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <b>H(b)</b> Are all subordinates included? <input type="checkbox"/> Yes <input type="checkbox"/> No If "No," attach a list. (see instructions)	
<b>J</b> Website: ▶ <u>WWW.CEN.ORG</u>		<b>H(c)</b> Group exemption number ▶	
<b>K</b> Form of organization: <input checked="" type="checkbox"/> Corporation <input type="checkbox"/> Trust <input type="checkbox"/> Association <input type="checkbox"/> Other ▶		<b>L</b> Year of formation: <u>1994</u> <b>M</b> State of legal domicile: <u>CA</u>	

### Part I Summary

<b>1</b>	Briefly describe the organization's mission or most significant activities: <u>TO IMPROVE THE LONG-TERM SUSTAINABILITY OF NONPROFIT LEADERS AND ORGANIZATIONS.</u>		
<b>2</b>	Check this box <input type="checkbox"/> if the organization discontinued its operations or disposed of more than 25% of its net assets.		
<b>3</b>	Number of voting members of the governing body (Part VI, line 1a)	<b>3</b>	15
<b>4</b>	Number of independent voting members of the governing body (Part VI, line 1b)	<b>4</b>	15
<b>5</b>	Total number of individuals employed in calendar year 2019 (Part V, line 2a)	<b>5</b>	5
<b>6</b>	Total number of volunteers (estimate if necessary)	<b>6</b>	15
<b>7a</b>	Total unrelated business revenue from Part VIII, column (C), line 12	<b>7a</b>	0.
<b>7b</b>	Net unrelated business taxable income from Form 990-T, line 39	<b>7b</b>	0.
<b>8</b>	Contributions and grants (Part VIII, line 1h)	<b>Prior Year</b>	<b>Current Year</b>
<b>9</b>	Program service revenue (Part VIII, line 2g)	392,075.	987,545.
<b>10</b>	Investment income (Part VIII, column (A), lines 3, 4, and 7d)	185,402.	143,360.
<b>11</b>	Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)	623.	868.
<b>12</b>	Total revenue - add lines 8 through 11 (must equal Part VIII, column (A), line 12)	3,363.	4,299.
<b>13</b>	Grants and similar amounts paid (Part IX, column (A), lines 1-3)	581,463.	1,136,072.
<b>14</b>	Benefits paid to or for members (Part IX, column (A), line 4)	5,625.	
<b>15</b>	Salaries, other compensation, employee benefits (Part IX, column (A), lines 5-10)	444,646.	528,463.
<b>16a</b>	Professional fundraising fees (Part IX, column (A), line 11e)		
<b>b</b>	Total fundraising expenses (Part IX, column (D), line 25) ▶ <u>61,753.</u>		
<b>17</b>	Other expenses (Part IX, column (A), lines 11a-11d, 11f-24e)	220,867.	237,609.
<b>18</b>	Total expenses. Add lines 13-17 (must equal Part IX, column (A), line 25)	671,138.	766,072.
<b>19</b>	Revenue less expenses. Subtract line 18 from line 12	-89,675.	370,000.
<b>20</b>	Total assets (Part X, line 16)	<b>Beginning of Current Year</b>	<b>End of Year</b>
<b>21</b>	Total liabilities (Part X, line 26)	109,582.	561,400.
<b>22</b>	Net assets or fund balances. Subtract line 21 from line 20	50,788.	132,606.
		58,794.	428,794.

### Part II Signature Block

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

<b>Sign Here</b>	Signature of officer <u>LARISSA ROBIDEAUX</u> Type or print name and title	Date EXECUTIVE DIRECTOR
<b>Paid Preparer Use Only</b>	Print/Type preparer's name PETER MEDINA, EA	Preparer's signature 
	Firm's name ▶ <u>MAZE &amp; ASSOCIATES</u> Firm's address ▶ <u>3478 BUSKIRK AVE STE 215 PLEASANT HILL, CA 94523</u>	Date <u>5/17/2021</u>
		Check <input type="checkbox"/> if self-employed PTIN <u>P01809278</u> Firm's EIN ▶ <u>94-2590179</u> Phone no. <u>925-930-0902</u>

May the IRS discuss this return with the preparer shown above? (see instructions)  Yes  No

Part III Statement of Program Service Accomplishments

Check if Schedule O contains a response or note to any line in this Part III. [X]

1 Briefly describe the organization's mission:

TO IMPROVE THE LONG-TERM SUSTAINABILITY OF NONPROFIT LEADERS AND ORGANIZATIONS BY OFFERING THE HIGHEST QUALITY PROGRAMS, CONSULTATION, TRAINING AND COMMUNITY-BUILDING NETWORKS.

2 Did the organization undertake any significant program services during the year which were not listed on the prior Form 990 or 990-EZ? [ ] Yes [X] No

3 Did the organization cease conducting, or make significant changes in how it conducts, any program services? [X] Yes [ ] No

SEE SCHEDULE O

4 Describe the organization's program service accomplishments for each of its three largest program services, as measured by expenses. Section 501(c)(3) and 501(c)(4) organizations are required to report the amount of grants and allocations to others, the total expenses, and revenue, if any, for each program service reported.

4a (Code: ) (Expenses \$ 140,989. including grants of \$ ) (Revenue \$ 26,575.) LEADER'S INSTITUTE - EIGHT-MONTH LONG INTENSIVE LEADERSHIP DEVELOPMENT OPPORTUNITY FOR 15-18 NONPROFIT EXECUTIVE DIRECTORS/CEOS. MEET ON A MONTHLY BASIS TO PARTICIPATE IN FULL DAY, HIGH-IMPACT PROFESSIONAL DEVELOPMENT SESSIONS.

4b (Code: ) (Expenses \$ 95,417. including grants of \$ ) (Revenue \$ 20,207.) NONPROFIT WORKSHOPS - SERIES OF WORKSHOPS ON NONPROFIT MANAGEMENT.

4c (Code: ) (Expenses \$ 86,767. including grants of \$ ) (Revenue \$ 34,915.) NONPROFIT BOOTCAMP - CREATING A PIPELINE OF QUALIFIED CANDIDATES TO TAKE ON LEADERSHIP ROLES. PROVIDE EMERGING LEADERS WITH PRACTICAL TOOLS TO BECOME OUR SECTOR'S FUTURE LEADERS 13-WEEK AND 3-DAY INTENSIVE NONPROFIT LEADERSHIP CERTIFICATION PROGRAM.

4d Other program services (Describe on Schedule O.) SEE SCHEDULE O (Expenses \$ 259,076. including grants of \$ ) (Revenue \$ 43,851.)

4e Total program service expenses 582,249.

## Sample – Statement of Financial Position

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

<b>ABC Center Statement of Financial Position December 31, 2021</b>	
<b>Assets<sup>1</sup></b>	
<b>Current Assets</b>	
Cash and Equivalents <sup>2</sup>	191,000
Grants & Pledges Receivable <sup>3</sup>	55,000
Accounts Receivable	-
Inventory	-
Prepaid Expenses	41,000
Other Current Assets	-
<b>Total Current Assets</b>	<b>287,000</b>
<b>Long-Term Assets</b>	
Long-Term Investments	-
Deposits and Prepaid Rent	-
Grants & Pledges Receivable	-
Net Fixed Assets (P&E) <sup>4</sup>	760,000
Other Long-Term Assets	-
<b>Total Long-Term Assets</b>	<b>760,000</b>
<b>Total Assets<sup>5</sup></b>	<b>1,047,000</b>
<b>Liabilities<sup>6</sup></b>	
<b>Current Liabilities</b>	
Accounts Payable	57,000
Accrued Salaries & Benefits	-
Other Current Liabilities	-
Total Deferred Revenue	-
Short-Term Debt	-
<b>Total Current Liabilities</b>	<b>57,000</b>
<b>Long-Term Liabilities</b>	
Long-Term Liabilities	-
Long-Term Debt <sup>7</sup>	114,000
Other Long-Term Liabilities	-
<b>Total Long-Term Liabilities</b>	<b>114,000</b>
<b>Total Liabilities<sup>8</sup></b>	<b>171,000</b>
<b>Net Assets<sup>9</sup></b>	
<b>Unrestricted</b>	
Undesignated <sup>10</sup>	11,000
Unrestr. – Board Designated <sup>11</sup>	-
Unrestr. – P&E <sup>12</sup>	760,000
<b>Total Unrestr. Net Assets<sup>13</sup></b>	<b>771,000</b>
Temp. Restricted Net Assets <sup>14</sup>	105,000
Perm. Restricted Net Assets	-
<b>Total Net Assets<sup>15</sup></b>	<b>876,000</b>
<b>Total Liabilities &amp; Net Assets<sup>16</sup></b>	<b>1,047,000</b>

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



# SAMPLE BALANCE SHEET

## Financial Statements Explained

**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)
<b>Net Patient Receivables</b>	<b>9,200</b>	<b>10,200</b>
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)
<b>Net PP&amp;E (book value)</b>	<b>16,700</b>	<b>15,700</b>
<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 L/T 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 365 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 margins.

Donor restrictions that can be met over time

Donor restrictions that will never expire

Quick ratio:

$$\begin{aligned} &\text{Cash + Cash Equivalent} \\ &\quad (\$7,700) \\ &+ \\ &\quad \text{Accounts Receivable} \\ &\quad (\$7,200) \\ &+ \\ &\quad \text{Unconditional Promises to Pay} \\ &\quad (\$5,000) \\ &\div \\ &\quad \text{Current Liabilities} \\ &\quad (\$7,500) \\ &= \\ &\frac{\$7,700 + \$7,200 + \$5,000}{\$7,500} = 2.9 \end{aligned}$$

Current ratio:

$$\frac{\text{Current assets}}{\text{Current liabilities}} = \frac{\$22,800}{\$7,500} = 3.0$$

Debt-to-Equity Ratio:

$$\frac{\text{Total liabilities}}{\text{Total unrestricted net assets}} = \frac{\$74,300}{\$32,600} = 2.3$$

## Case Study 1

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

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

**Presenting Challenge:** Upon the recent death of the founder (and sole staff member), he 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. 2018 - Last year with unpaid founder

- 2020 - Last year with unpaid founder
- 2021 - Hired first post-founder, paid ED (and some additional staff)
- 2022 – **What is the current status of the organization and its new leader?**

		Year		
Statement of Activities		2020	2021	2022
	<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		
<b>Balance Sheet</b>		2020	2021	2022
	<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 990			

## Case Study 2

**Client Profile:** The Bay Area’s leading provider of trusted individualized educational services for children and adults with autism spectrum disorders.

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

**Presenting Challenge:** This organization is a great provider of services for children with autism spectrum disorders. They receive their funding from the state of CA for all their children’s services under a fee for service contract. Recently the board has recognized a growing need for adult education services. However, this is not covered by the state. In addition, the organization rents a decommissioned school on a year to year basis and the district will not enter into a longer agreement. The organization is in constant fear having to move.

			Year	
Statement of Activities			2020	2021
	<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		2020	2021
	<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		
	Total net assets or fund balances		
	<b>Total liabilities and net assets/fund balances</b>	<b>\$3,838,565</b>	<b>\$4,595,122</b>
	*mistake on 990	<b>\$4,178,254</b>	<b>\$4,908,392</b>





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