

Understanding Nonprofit Financials

Presented by: Shana Peete and Illyasha Peete

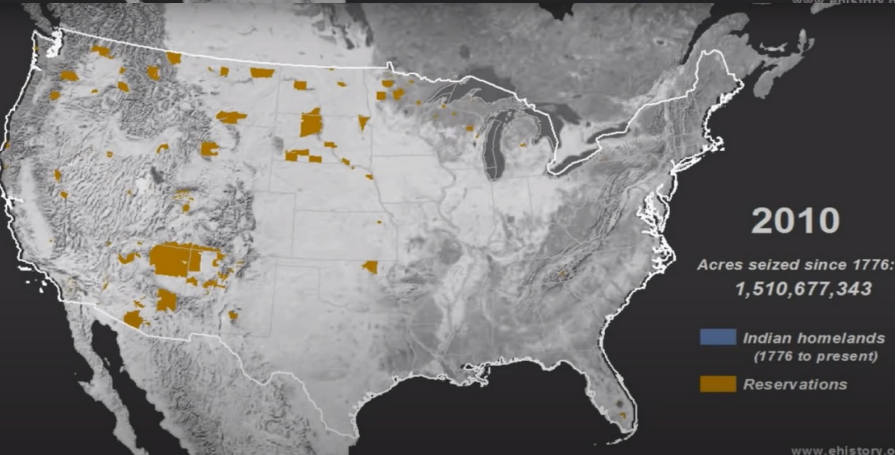
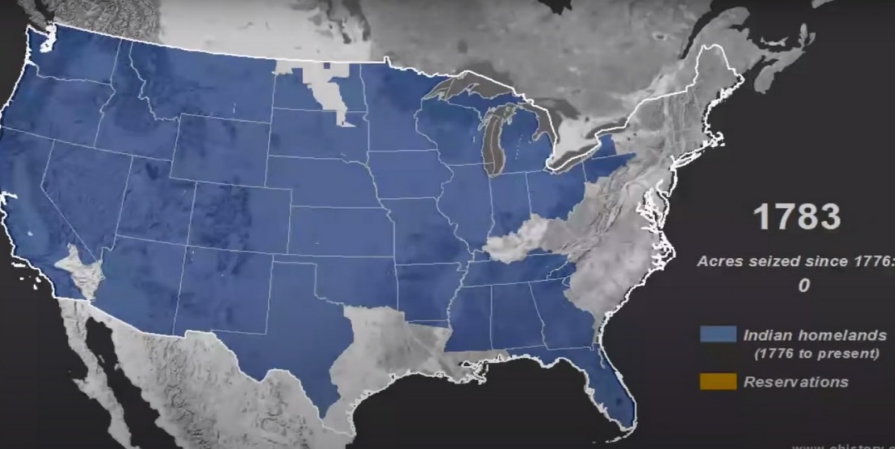


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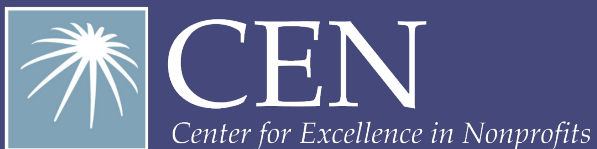
Center for Excellence in Nonprofits

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.





Native Governance Center



Land Acknowledgment

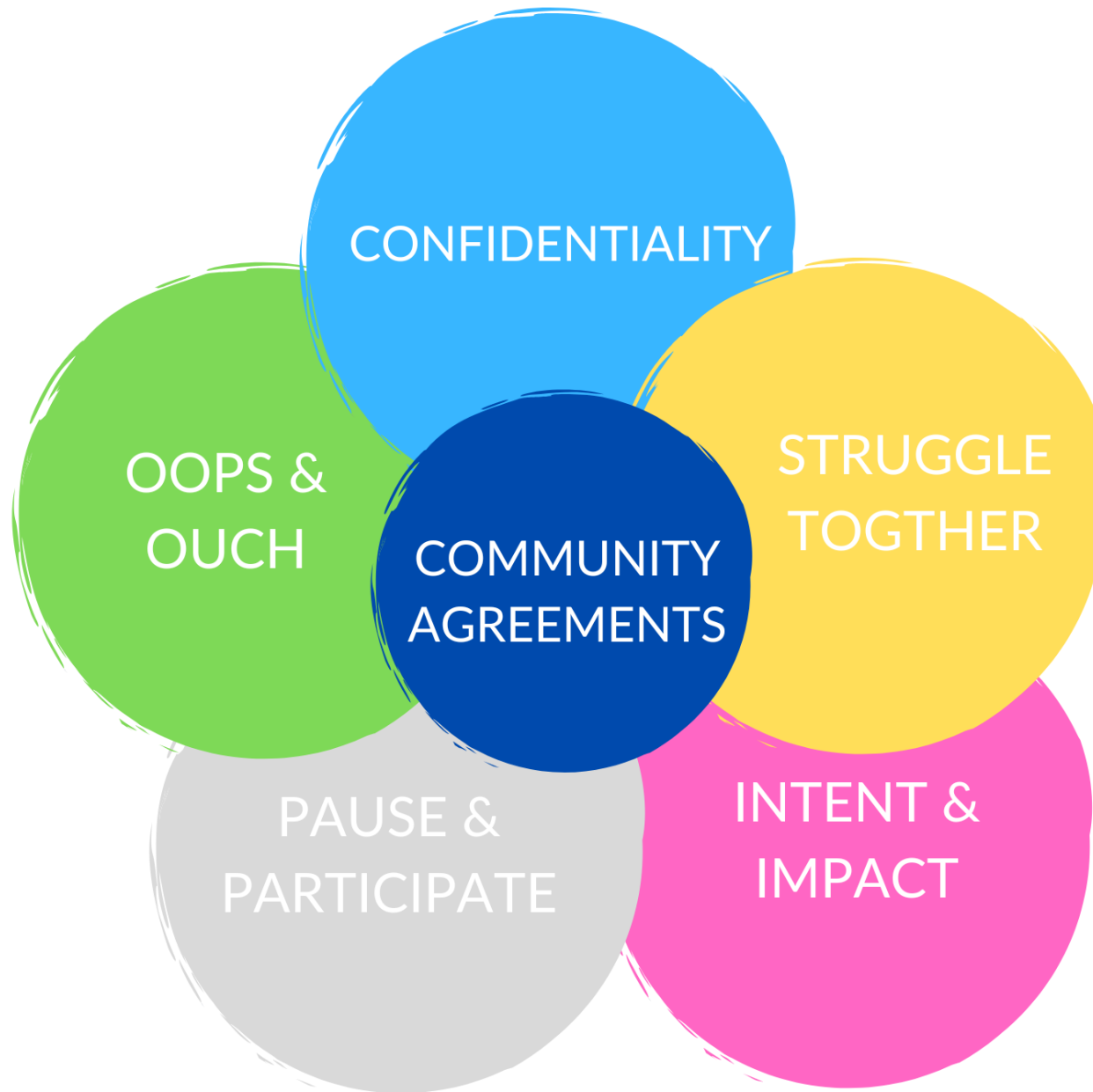
Past, Present, and Future Outlook



“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



Icebreaker

1

**Name and
Pronouns**

2

**Organization
and Position**

3

**What do you
hope to learn
today?**





I

Inclusion

D

Diversity

E

Equity

A

Access

L

Liberation



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Objectives

- 1** Understand the different types of nonprofit income

- 2** Define nonprofit terminology

- 3** Learn to set up cost accounting to more accurately track costs

Objectives

4 Interpret nonprofit financial statements

5 Prepare to make informed, intentional financial decisions

Let's start with the basics!



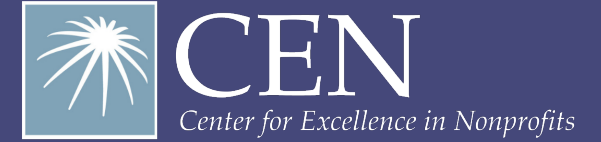
Code	Product	Price
T0001	RICE	120
T0002	PORK	100
T0003	CORN	85



Classifications of Revenue

- With donor restrictions
- Without donor restrictions

Classifications of Revenue per 990's



Unrestricted Revenue

Cash comes in with no restrictions

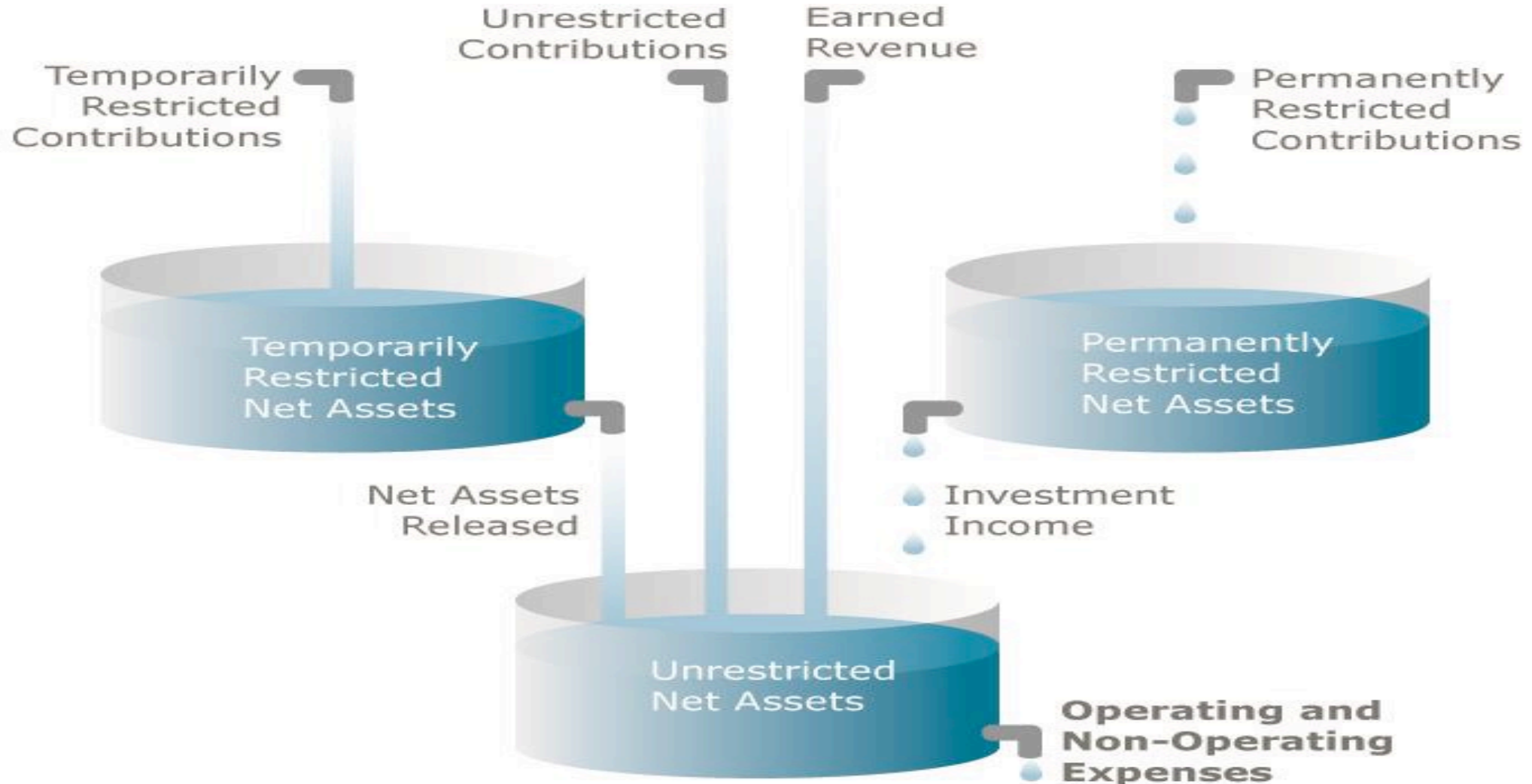
Temporarily Restricted Revenue

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 org's endowment. orgs can often use the interest generated from this fund, but are unable to touch the principle.

Classifications of Revenue



Cash vs. Accrual Accounting

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 org's assets and liabilities

Cash vs. Accrual Accounting



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 Examples:

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

Cash vs. Accrual Accounting

Which to use
when?

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



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

Make sure your board knows the difference!



Understanding Your Cost Centers and General Ledger (GL)

Cost Centers:

- Track
- Management and General (M&G)
- Fundraising
- Programs

General Ledger:

- Budgets
- Monitors Revenue
- Expense categories within cost centers



Functional Expense

Program Services

Defined as the activities that result in goods and services being distributed to beneficiaries, customers, or members that fulfill the purpose or mission for which the org exists.



Functional Expense

Management and General (M&G)

Defined as the activities including oversight, business management, general record keeping, budgeting, financing, and related administrative activities



Functional Expense

Fundraising (FR)

Defined as the activities that raise funds

- Including publicizing and conducting fundraising campaigns
- Maintaining donor lists
- Conducting special fundraising events
- Preparing and distributing fundraising materials
- Conducting other activities involving soliciting contributions from individuals, foundations, government agencies, and others.

Statement of Activities

AKA Income Statement, Profit and Loss (P&L)



The Statement of Activities

Tallies up all the financial events during a particular time period. Basically, it 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:

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

ABC Center 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, 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 and unrestricted) assets

Year Ended December 31, 2021 (\$ in thousands)				
Operating Activity	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support				
Support ²				
Foundations	113	58		171
Government	57			57
Corporations	49			49
Individuals	248			248
Total Support	467	58		525
Investment Income ³	7			7
Earned Income (Fees, Dues, Other) ⁴	484			484
Net assets released from restriction ⁵	749	-749		
Total revenues, gains, and other support ¹	1,707	-691		1,016
Operating Expenses ⁶	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Program services ⁷	1,004			1,004
Support services ⁸				
Administrative	209			209
Development	49			49
Total supporting services	258			258
Total Expenses	1,262			1,262
Change in Net Assets ⁹	445 ¹⁰	-691 ¹¹		246 ¹²

Refer to example in handouts

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
Public Support & Revenues						
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%
Total Support and Revenue	56,000	10,000	700	66,700	62,200	7.2%
Expenses						
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%
Total Expenses	51,500	10,000	--	61,500	58,500	5.1%
Excess of Support & Revenue over Expenses	4,500	--	700	5,200	3,700	40.5%
Non-Operating Income (Expenses)						
Gain/(Loss) on investments	1,200	--	--	1,200	1,000	20.0%
Total Non-Operating Income	1,200	--	--	1,200	1,000	20.0%
Excess of Support & Total Revenue over Expenses (Total margin)	5,700	--	700	6,400	4,700	36.2%
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%
Net Assets, End of Year	64,200	4,200	2,000	70,400	65,000	8.3%

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.

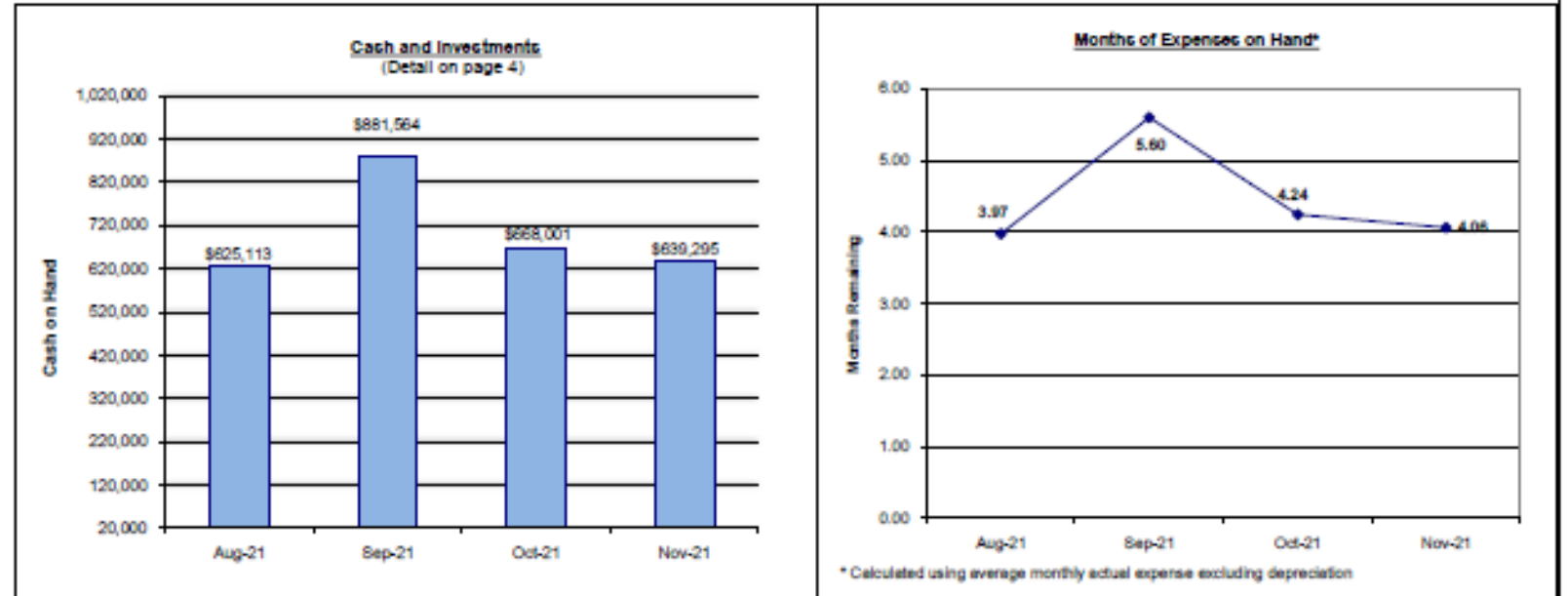
$$\frac{\text{Excess of Support + Revenue over Expenses}}{\text{Total Support \& Revenue}} = \frac{\$5,200}{\$66,700} = 7.8\%$$

Refer to example in handouts

Other Financial Statements

Dashboard

Refer to example in handouts



<u>Restricted Cash Ratio</u>	
Cash & Investments	\$ 639,295
Receivables	\$ 43,365
Total Cash, Investments, & A/R	\$ 682,660
Temporarily Restricted Net Assets	\$ 326,007
Total Cash = TR Net Assets	
Restricted Cash Ratio	2.09

Benchmark:
 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	\$ 758,314
Current and Other Liabilities	\$ 246,712
Current Ratio	3.07
<u>Cash Ratio</u>	
Cash & Investments	\$ 639,295
Current and Other Liabilities	\$ 246,712
Cash Ratio	2.59

Benchmark:
 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	\$ 727,567
Percent spent on Programs	88.5%
M&G Expense	\$ 65,420
Percent spent on M&G	8.0%
Fund Development Expense	\$ 29,586
Percent spent on FR	3.6%
Total Expense	\$ 822,574
Fund Development Revenue	\$ 470,756
Fund Development Efficiency (cost to raise \$1)	\$ 0.06

Benchmark:
 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

Other Financial Statements

990

Refer to example in handouts



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Form **990** (Rev. January 2020) OMB No. 1545-0047

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 for instructions and the latest information.

2019
Open to Public Inspection

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

B Check if applicable:
 Address change
 Name change
 Initial return
 Final return/terminated
 Amended return
 Application pending

C CENTER FOR EXCELLENCE IN NONPROFITS
330 TWIN DOLPHIN DRIVE #151
REDWOOD CITY, CA 94065-1455

D Employer identification number: 77-0385218

E Telephone number: 650-517-5855

G Gross receipts \$ 1,136,072.

F Name and address of principal officer: LARISSA ROBIDEAUX
SAME AS C ABOVE

H(a) Is this a group return for subsidiaries? Yes No
H(b) Are all subsidiaries included? If "No," attach a list. (See instructions) Yes No

I Tax-exempt status: 501(c)(3) 501(c) () (insert no.) 4947(a)(1) or 527

J Website: WWW.CEN.ORG

K Form of organization: Corporation Trust Association Other ▶

L Year of formation: 1994 **M** State of legal domicile: CA

Part I Summary

1 Briefly describe the organization's mission or most significant activities: TO IMPROVE THE LONG-TERM SUSTAINABILITY OF NONPROFIT LEADERS AND ORGANIZATIONS.

2 Check this box if the organization discontinued its operations or disposed of more than 25% of its net assets.

3 Number of voting members of the governing body (Part VI, line 1a) **3** 15

4 Number of independent voting members of the governing body (Part VI, line 1b) **4** 15

5 Total number of individuals employed in calendar year 2019 (Part V, line 2a) **5** 5

6 Total number of volunteers (estimate if necessary) **6** 15

7a Total unrelated business revenue from Part VIII, column (C), line 12 **7a** 0.

7b Net unrelated business taxable income from Form 990-T, line 39 **7b** 0.

	Prior Year	Current Year
8 Contributions and grants (Part VIII, line 1h).....	392,075.	987,545.
9 Program service revenue (Part VIII, line 2g).....	185,402.	143,360.
10 Investment income (Part VIII, column (A), lines 3, 4, and 7d).....	623.	868.
11 Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e).....	3,363.	4,299.
12 Total revenue - add lines 8 through 11 (must equal Part VIII, column (A), line 12)....	581,463.	1,136,072.
13 Grants and similar amounts paid (Part IX, column (A), lines 1-3).....	5,625.	
14 Benefits paid to or for members (Part IX, column (A), line 4).....		
15 Salaries, other compensation, employee benefits (Part IX, column (A), lines 5-10)....	444,646.	528,463.
16a Professional fundraising fees (Part IX, column (A), line 11e).....		
b Total fundraising expenses (Part IX, column (D), line 25) ▶ 61,753.		
17 Other expenses (Part IX, column (A), lines 11a-11d, 11f-24e).....	220,867.	237,609.
18 Total expenses. Add lines 13-17 (must equal Part IX, column (A), line 25).....	671,138.	766,072.
19 Revenue less expenses. Subtract line 18 from line 12.....	-89,675.	370,000.
20 Total assets (Part X, line 16).....	Beginning of Current Year 109,582.	End of Year 561,400.
21 Total liabilities (Part X, line 26).....	50,788.	132,606.
22 Net assets or fund balances. Subtract line 21 from line 20.....	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.

Sign Here
 Signature of officer: LARISSA ROBIDEAUX, EXECUTIVE DIRECTOR
 Date: 5/17/2021

Paid Preparer Use Only
 Print/preparer's name: PETER MEDINA, EA
 Date: 5/17/2021
 Check if PTN self-employed P01809278
 Firm's name: MAZE & ASSOCIATES
 Firm's address: 3478 BUSKIRK AVE STE 215 PLEASANT HILL, CA 94523
 Firm's EIN: 94-2590179
 Phone no.: 925-930-0902

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

BAA For Paperwork Reduction Act Notice, see the separate instructions. TEEA0101L 01/01/20 Form 990 (2019)



Understand your Liquidity

How many months of cash do we have?

Formula:

Example:

Cash and Equivalents (2)

Average Monthly Expenses

Cash and Equivalents (\$191,000)

Average Monthly Expenses (\$105,166)

= 1.8 months of cash

What are unrestricted “liquid” net assets?



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Statement of Financial Position

AKA Balance Sheet

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

Three basic elements of the Statement:

Assets

- Everything the org has or owns

Liabilities

- Everything the org owes

Net Assets

- What the org has or owns, free and clear of any liabilities

In a for-profit company, this is the total value of the company including the debt and equity.

ABC Center Statement of Financial Position



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, and 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)

ABC Center Statement of Financial Position December 31, 2021	
Assets ¹	
Current Assets	
Cash and Equivalents ²	191,000
Grants & Pledges Receivable ³	55,000
Accounts Receivable	-
Inventory	-
Prepaid Expenses	41,000
Other Current Assets	-
Total Current Assets	287,000
Long-Term Assets	
Long-Term Investments	-
Deposits and Prepaid Rent	-
Grants & Pledges Receivable	-
Net Fixed Assets (P&E) ⁴	760,000
Other Long-Term Assets	-
Total Long-Term Assets	760,000
Total Assets⁵	1,047,000

Liabilities ⁶	
Current Liabilities	
Accounts Payable	57,000
Accrued Salaries & Benefits	-
Other Current Liabilities	-
Total Deferred Revenue	-
Short-Term Debt	-
Total Current Liabilities	57,000
Long-Term Liabilities	
Long-Term Liabilities	-
Long-Term Debt ⁷	114,000
Other Long-Term Liabilities	-
Total Long-Term Liabilities	114,000
Total Liabilities⁸	171,000

Net Assets ⁹	
Unrestricted	
Undesignated ¹⁰	11,000
Unrestr. – Board Designated ¹¹	-
Unrestr. – P&E ¹²	760,000
Total Unrestr. Net Assets¹³	771,000
Temp. Restricted Net Assets ¹⁴	105,000
Perm. Restricted Net Assets	-
Total Net Assets¹⁵	876,000
Total Liabilities & Net Assets¹⁶	1,047,000

Refer to example in handouts

ABC Center Statement of Financial Position



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Example 2

ABC Center Statement of Financial Position December 31, 2021	
Assets¹	
Current Assets	
Cash and Equivalents ²	191,000
Grants & Pledges Receivable ³	55,000
Accounts Receivable	-
Inventory	-
Prepaid Expenses	41,000
Other Current Assets	-
Total Current Assets	287,000
Long-Term Assets	
Long-Term Investments	-
Deposits and Prepaid Rent	-
Grants & Pledges Receivable	-
Net Fixed Assets (P&E) ⁴	760,000
Other Long-Term Assets	-
Total Long-Term Assets	760,000
Total Assets⁵	1,047,000

Liabilities⁶	
Current Liabilities	
Accounts Payable	57,000
Accrued Salaries & Benefits	-
Other Current Liabilities	-
Total Deferred Revenue	-
Short-Term Debt	-
Total Current Liabilities	57,000
Long-Term Liabilities	
Long-Term Liabilities	-
Long-Term Debt ⁷	114,000
Other Long-Term Liabilities	-
Total Long-Term Liabilities	114,000
Total Liabilities⁸	171,000

Net Assets⁹	
Unrestricted	
Undesignated ²⁰	11,000
Unrestr. – Board Designated ²¹	-
Unrestr. – P&E ¹²	760,000
Total Unrestr. Net Assets¹³	771,000
Temp. Restricted Net Assets ¹⁴	105,000
Perm. Restricted Net Assets	-
Total Net Assets¹⁵	876,000
Total Liabilities & Net Assets¹⁶	1,047,000

	ABC Center
Total Unrestricted Net Assets¹³	\$771,000
- Unrestricted – Board Designated ¹¹	\$ 0
- Unrestricted – P&E ¹²	\$760,000
= Unrestricted Liquid Net Assets	\$ 11,000

Board Source Sample Balance Sheet

Refer to example in
handouts

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
Current Assets		
Cash	1,200	2,000
Investments — Short Term	6,500	5,400
Total Cash and Cash Equivalents	7,700	7,400
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
Total Current Assets	22,800	23,300
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
Property, Plant & Equipment		
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
Total PP&E	34,700	30,700
Less: Accumulated Depreciation	(18,000)	(15,000)
Net PP&E (book value)	16,700	15,700
Total Assets	113,100	107,600
Liabilities (WHAT THE ORGANIZATION OWES)		
Current Liabilities		
Accounts Payable	6,000	4,500
Current Retirement on L/T Debt	1,500	1,400
Total Current Liabilities	7,500	5,900
Long-Term Debt	64,800	66,200
Other Long-Term Liabilities	2,000	2,100
Total Long-Term Liabilities	66,800	68,300
Total Liabilities	74,300	74,200
Net Assets (THE DIFFERENCE BETWEEN WHAT IS OWNED AND OWED)		
Unrestricted	32,600	27,900
Temporarily Restricted	4,200	4,200
Permanently Restricted	2,000	1,300
Total Net Assets	38,800	33,400
Total Liabilities & Net Assets	113,100	107,600

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:
Cash + Cash Equivalent (\$7,700)
+ Accounts Receivable (\$9,200)
+ Unconditional Promises to Pay (\$5,000)
= Current Assets (\$21,900)
Current Liabilities (\$7,500)
= 2.9

Current ratio:
Current assets (\$22,800)
Current liabilities (\$7,500)
= 3.0

Debt-to-Equity Ratio:
Total liabilities (\$74,300)
Total unrestricted net assets (\$32,600)
= 2.3

Case Study 1

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

- 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 org and its new leader?**



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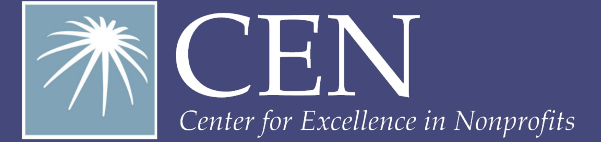


Case Study 1

Questions

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

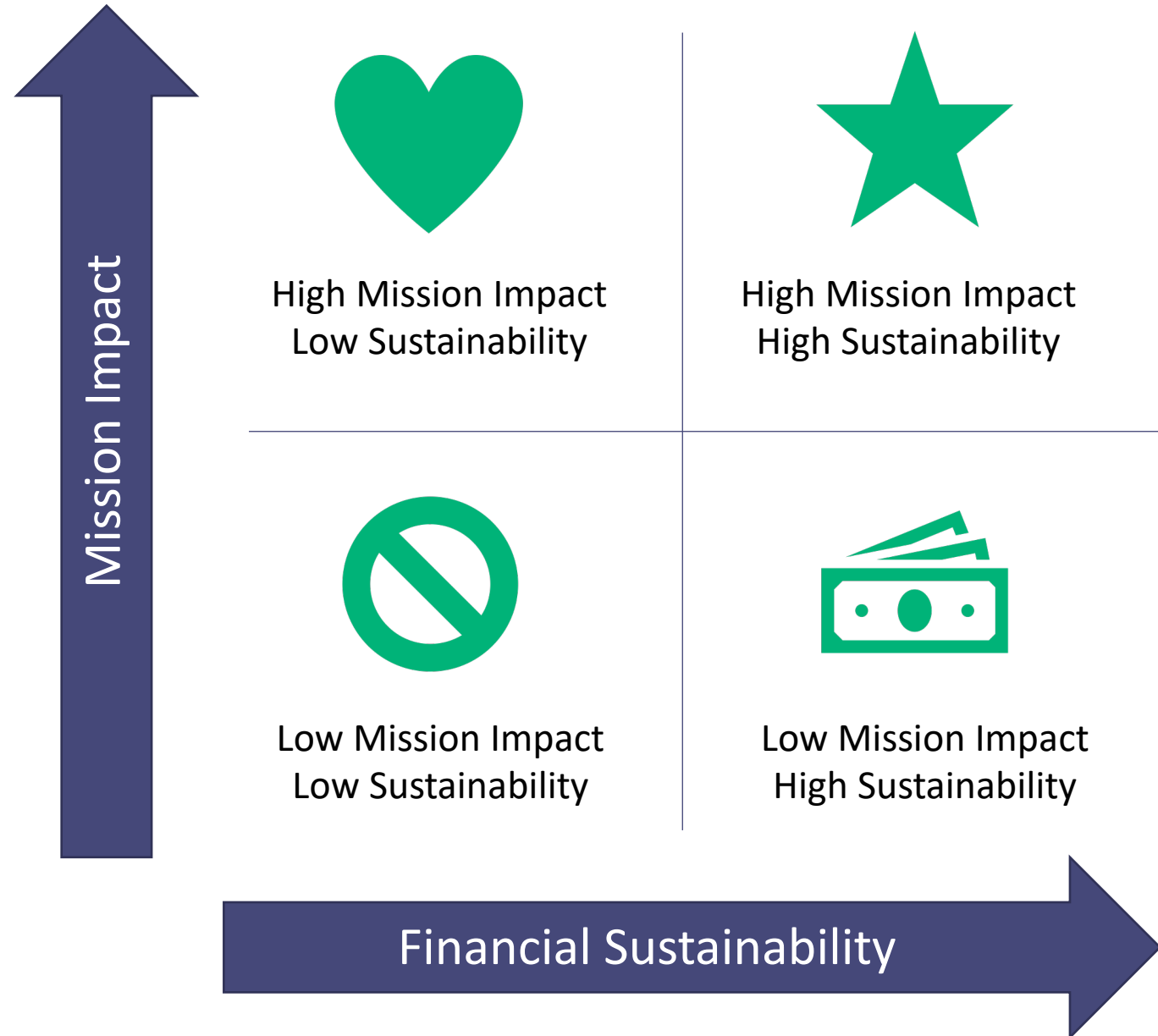


		Year		
Statement of Activities		2020	2021	2022
Revenue				
	Contributions, gifts, grants, and other similar amounts	\$439,150	\$1,893,339	
	Program services revenue		\$597	\$257,368
	Other revenue	\$21	\$858	\$2,972
	Total revenue	\$439,171	\$1,894,794	\$260,340
Expenses				
	Payroll	\$603	\$109,508	\$410,011
	Non-Payroll	\$330,038	\$282,911	\$526,458
	Total Expense	\$330,641	\$392,419	\$936,469
	NET SURPLUS/DEFICIT	\$108,530	\$1,502,375	-\$676,129

		Year		
Balance Sheet		2020	2021	2022
Assets				
	Current	\$230,610	\$1,733,403	\$1,076,308
	Long-Term			
	Total Assets	\$230,610	\$1,733,403	\$1,076,308
Liabilities				
	Current		\$418	\$24,910
	Long-Term			
	Total Liabilities	\$0	\$418	\$24,910
Net Assets				
	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
	Total liabilities and net assets/fund balances	\$230,610	\$1,733,403	\$1,076,308

Refer to example in handouts

Dual Bottom-Line Matrix



Operations Ratio (Overhead)



Expense	Benchmark	Formula
Program	75% or Higher	Total Program Expense ÷ Total Expense
M&G	15% or Lower	Total M&G Expense ÷ Total Expense
Fund Development	10% or Lower	Total Fund Dev. Expense ÷ Total Expense
Fund Development Efficiency	\$0.10 to Raise \$1	Total Fund Dev. Expense ÷ Fund Dev. Revenue

The Nonprofit Starvation Cycle

A vicious cycle





Takeaways