



# Financial Responsibilities

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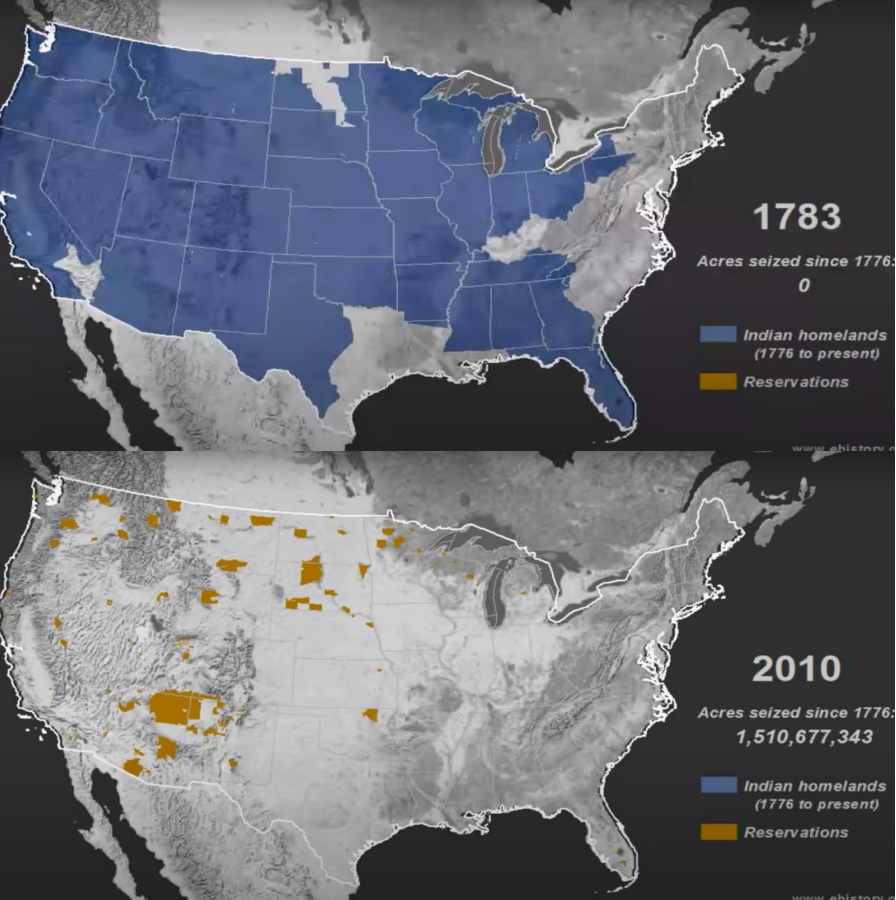


# CEN

*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.**





Native Governance Center



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# 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



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# 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

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- 2 Define nonprofit terminology

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



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# Objectives

4 Interpret nonprofit financial statements

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5 Prepare to make informed, intentional financial decisions

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# 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

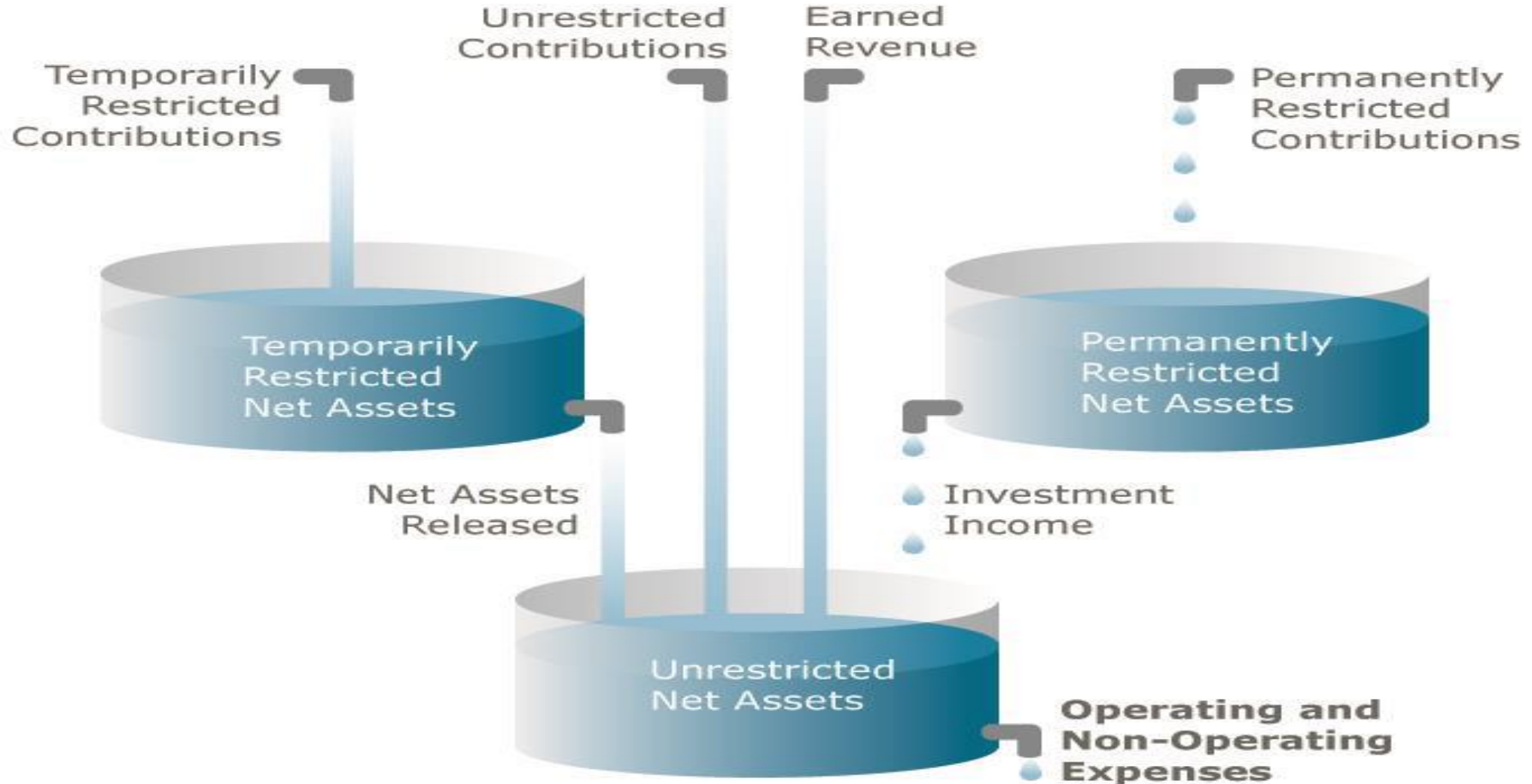
## Temporarily Restricted Revenue

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 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

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## 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

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## 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.



# 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



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# 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.

# Management and General Example

Step 1: Create a budget using Cost Centers and GL Accounts

Step 2: Code Income and Expenses to your budget

Step 3: Monitor budget to make sure coded income and expense match budget

	M&G	Fund Dev	Program
Income			
• Contributions			
• Grants			
Expense			
• Personnel			
• Non personnel			

THANK YOU FOR EATING AT T A C O   B E L L IF YOU HAVE ANY QUESTIONS OR COMMENTS PLEASE CALL LEAH AT 664 - 3664		
REG 2	ORDER	STORE 018455
3/05/05	278	14:34
2 G-BFSP		2.78
- BF		.00
+ RICE		.50

	M&G	Fund Dev	Program
Income			
• Contributions			
• Grants			
Expense			
• Personnel			
• Non personnel			\$2.78

General Ledgers

Cost Centers

# 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 <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 <sup>1</sup>	1,707	-691		1,016
Operating Expenses <sup>6</sup>				
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>

Refer to example in handouts

# BoardSource Sample Statement of Activities



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**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>
<b>Net Assets, Beginning of Year</b>	<b>59,500</b>	<b>4,200</b>	<b>1,300</b>	<b>65,000</b>	<b>62,300</b>	<b>4.3%</b>
<b>Change in net unrealized gains &amp; losses on investments</b>	<b>(1,000)</b>	<b>--</b>	<b>--</b>	<b>(1,000)</b>	<b>(2,000)</b>	<b>-50.0%</b>
<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>

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

**Refer to example in handouts**

# Other Financial Statements

## Dashboard

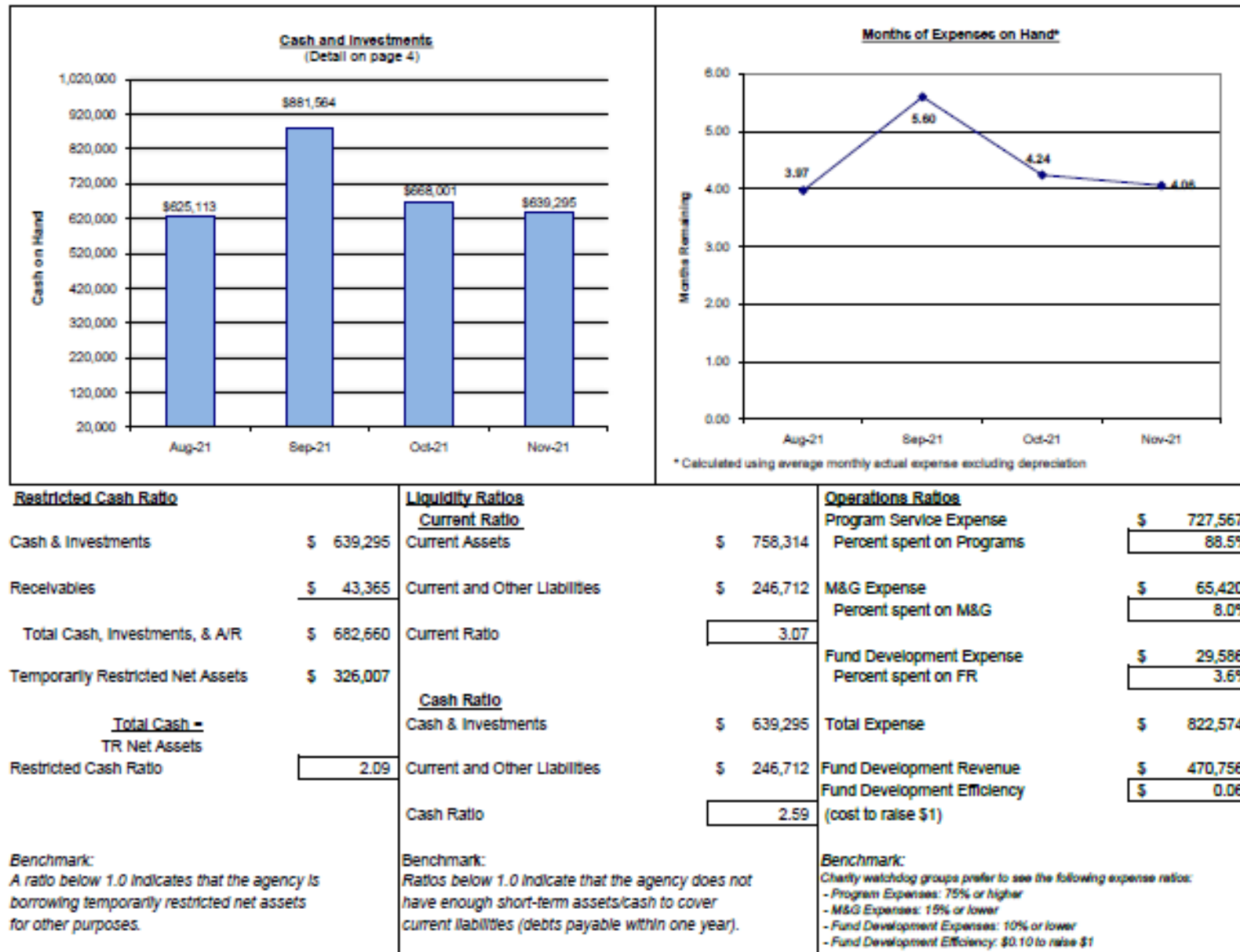
Refer to example in handouts



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



# Other Financial Statements

990

Refer to example in handouts



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Form **990**  
(Rev. January 2020)  
Department of the Treasury  
Internal Revenue Service

**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.

OMB No. 1545-0047  
**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? ☐ Yes ☒ No  
If "No," attach a list (see instructions)

**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.

**Activities & Governance**

**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.

**Revenue**

**8** Contributions and grants (Part VIII, line 1h) **392,075.** **Prior Year** **987,545.** **Current Year**

**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.**

**Expenses**

**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) **444,646.** **528,463.**

**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 11a) **61,753.**

**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.**

**Net Assets or Fund Balances**

**20** Total assets (Part X, line 16) **109,582.** **Beginning of Current Year** **561,400.** **End of Year**

**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**  
Type or print name and title

**Paid Preparer Use Only**

Print/Type preparer's name **PETER MEDINA, EA** Date **5/17/2021** Check ☐ if self-employed **PTIN** **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:

$$\frac{\text{Cash and Equivalents (2)}}{\text{Average Monthly Expenses}}$$

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

What are unrestricted “liquid” net assets?



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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 <sup>1</sup>	
<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>

Liabilities <sup>6</sup>	
<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>

Net Assets <sup>9</sup>	
<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>

Refer to example in handouts

# Board Source Sample Balance Sheet

Refer to example in  
handouts



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

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

**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

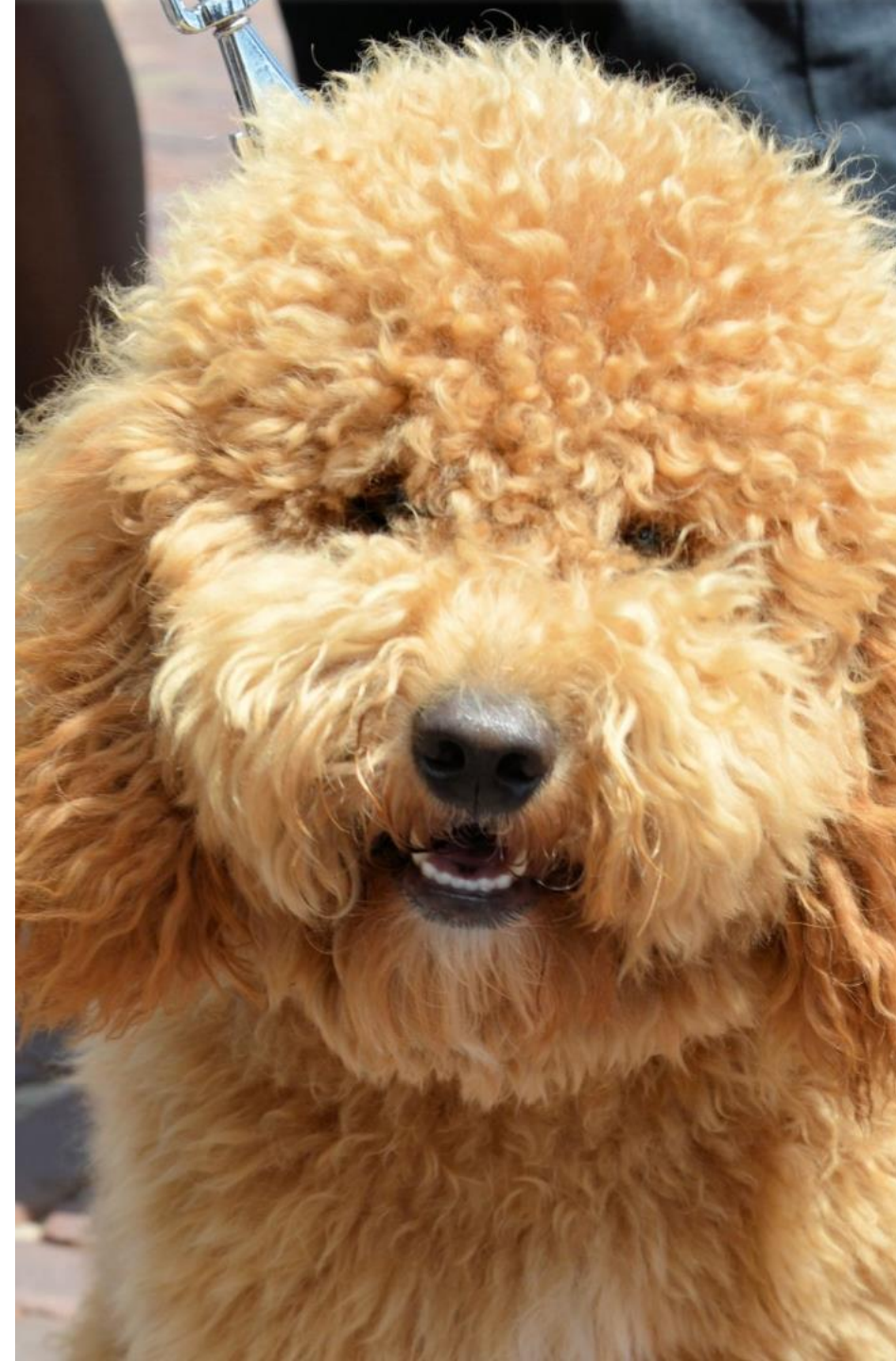
**Presenting Challenge:** Upon the recent death of the founder (and sole staff member), he left the org a large bequest. The board is striving to be fiscally responsible. The agency was faced with finding new leadership because the board does not have time to run the org.

- 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

## 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

			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
		<b>Total revenue</b>	<b>\$439,171</b>	<b>\$1,894,794</b>	<b>\$260,340</b>
	Expenses				
		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			2020	2021	2022
	Assets				
		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>
	Liabilities				
		Current		\$418	\$24,910
		Long-Term			
		<b>Total Liabilities</b>	<b>\$0</b>	<b>\$418</b>	<b>\$24,910</b>
	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
		<b>Total liabilities and net assets/fund balances</b>	<b>\$230,610</b>	<b>\$1,733,403</b>	<b>\$1,076,308</b>

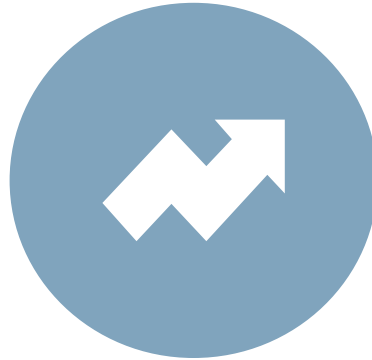
Refer to example in handouts



# Finance as a Strategy



Patterns



Dual Bottom Line

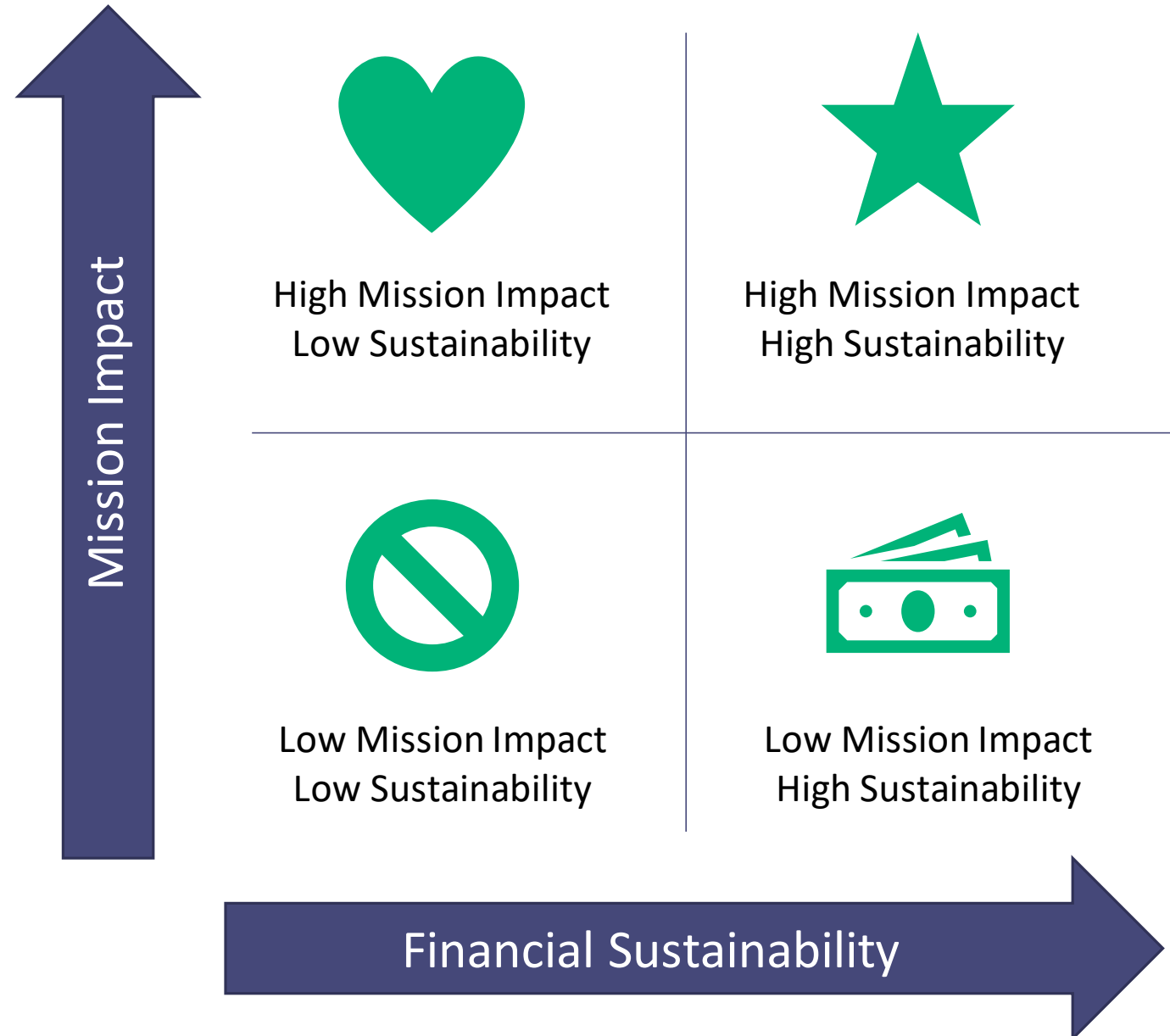


Overhead



**CEN**  
*Center for Excellence in Nonprofits*

# 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

t h a n k y o u

