

KNOW YOUR NUMBERS: YOUR GUIDE TO NONPROFIT FINANCIAL STATEMENTS



oday's Objectives

...Increase knowledge and understanding of key aspects of nonprofit financial reporting.

We'll discuss:

- Board Roles and Responsibilities specific to finances
- Reading and interpreting financial statements
- "Red flags" and warning signs
- Summary and Questions



bout Todd L'Herrou



- Graduate Certificate in Nonprofit Mgt
- Nonprofit Professional 12+ Years
- Board Member 10+ Nonprofit Boards
- Business Owner
- Multi-disciplinary Researcher



About Nonprofits First

Established by a coalition of public and private funders in 2005

- Mission: Empowering nonprofit excellence
- Vision: A community where nonprofit organizations achieve their highest level of desired impact.



Nonprofits First Programs

- Accreditation
 - ✓ 501cPRO Toolkit
- Education and Professional Development
- Membership
- Rising Leaders, Advancing Leaders
- Management Support Services
 - ✓ Financial Management and Bookkeeping Services
 - ✓ 501c Jobs Job Board
 - ✓ Funding and Development Research
 - ✓ Finance, Governance Q & A and Training
 - ✓ Nonprofit Consultants through Affiliate Membership
- Hats Off Nonprofit Awards Tuesday, October 11, 2022



Let's talk about money



"Now let's talk about money. Do we have any? How much would we like? Does anyone know where we can get some?"



Major Responsibilities of the Board

Ensure Adequate Financial Resources
Protect Assets and Provide Financial Oversight



Monprofit Boards Basic Responsibilities

Ensure Adequate Financial Resources

- It is <u>always</u> the board's responsibility to ensure an organization has the funds it needs and that it doesn't spend beyond its means.
- The full board participates in various ways
 - Contribute financially
 - ✓ Help develop, approve, and execute a fundraising plan
 - ✓ Support and participate in the organization's solicitation and fundraising efforts



Nonprofit Boards Basic Responsibilities

Protect Asses and Provide Finan al Oversight

- Review and approve budgets
- Clear understanding of the organization's financial health
- Ensure an annual audit* and 990 occurs, review and approve
- Risk management assure proper financial controls, ensure the organization is not subject to unnecessary risk

* (if applicable, based on organization size, etc.)



What are Financial Statements?

Formal written records of the organization's financial activities for a period of time, and its financial position at a specific point in time.

The statements tell a story about the financial health of an organization at a specific point in time.



Required Finan al Statements

Statement of Financial Position = Balance Sheet

Evaluate assets (what the org owns) against liabilities (what is owed) to find net assets

Net Assets = Assets – Liabilities

Statement of Activities = Income Statement = Profit & Loss (P&L)

Evaluates revenues against expenses

Revenues – Expenses = Change in Net Assets = Profit (Loss)



Supplemental Financial Statements

Statement of Functional Expenses

Reports expenses by function (e.g. program, administration, fundraising) and by the natural expense category (e.g. salaries, rent). The Statement of Functional Expenses shows where the organization spends most of its resources.

Statement of Cash Flows

Tells the amount of cash received by the organization and the source (e.g. if cash is received from Operating Activities or via debt to finance operations). The Statement of Cash Flows also shows how cash is being spent. It is a retrospective look at cash.



Recommended Supplemental Financial Statements

- Cash Projection
- Shows detail and projected balance of cash coming in and going out each month. Should be prospective – looking forward.
- Acts as a companion to the budget the budget projects what is expected to happen, the Cashflow Projection projects when it is expected to happen.
 A budget can be balanced, but the cash may not be available when needed.
- Aging Accounts Receivables (AAR)
- Shows time elapsed for unpaid invoices for goods or services provided by the organization
- Aging Accounts Payable
- Shows time elapsed for unpaid obligations for goods or services provided to the organization

STATEMENT OF FINANCIAL POSITION

(BALANCE SHEET)

Assets

- Current Assets
- Fixed Assets (real property, vehicles, equipment, etc)
- Other assets

Liabilities

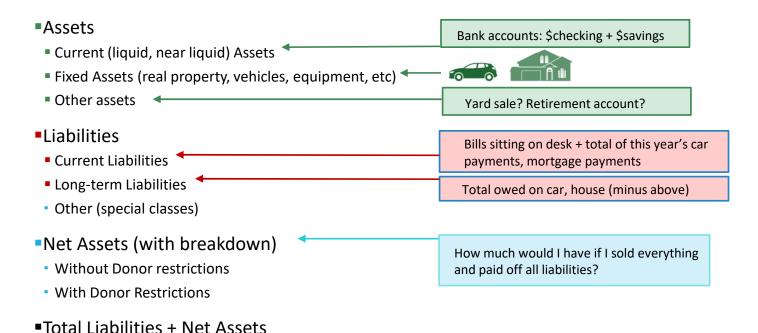
- Current Liabilities
- Long-term Liabilities
- Other (special classes)
- Net Assets (with breakdown)
- Without Donor restrictions
- With Donor Restrictions

Total Liabilities + Net Assets

Balance Sheet Period Ending June 30, 20XX

	Jun 30			
ASSETS				
Current Assets				
Checking/Savings	2,002.66			
Accounts Receivable	636,336.05			
Other Current Assets	21,934.85			
Total Current Assets	660,273.56			
Fixed Assets				
Property, Plant and Equipment	26,622.46			
Total Fixed Assets	26,622.46			
Other Assets	-88.89			
TOTAL ASSETS	686,807.13			
LIABILITIES & EQUITY				
Liabilities				
Current Liabilities	63,063.69			
Deferred Revenue	519,480.97			
Total Liabilities	582,544.66			
Equity				
Fund Balance				
Net Assets - Unrestricted	97,505.38			
Total Fund Balance	97,505.38			
Net Income	6,757.09			
Total Equity	104,262.47			
TOTAL LIABILITIES & EQUITY	686,807.13			
	-			

STATEMENT OF FINANCIAL POSITION





Statement of Financial Position

Restricted Unrestricted Assets

- Without Donor Restrictions
- Funds received free from any external restrictions and available for general use. Sometimes called general operating funds or general support.
- With Donor Restrictions
 - Time Restricted: donor-imposed restrictions that can be satisfied by the passage of a defined period of time.
 - Purpose Restricted: donor-imposed restrictions that can be satisfied by performing defined activities.
- Endowment: donor-imposed restrictions that the principal balance of the contribution will remain as an investment for the life of the organization; only the interest and investment returns may be used (can have additional restrictions on how those may be used or may be available as general operating funds).



Statement of Financial Position

Other Balance Steet Questions:

- Does the organization have sufficient liquid resources to maintain operations?
- Is the organization building/maintaining a reserve?
- What is the Current Ratio (current assets: total current liabilities)?
 Best practice ratio ranges from 2:1 to 4:1.

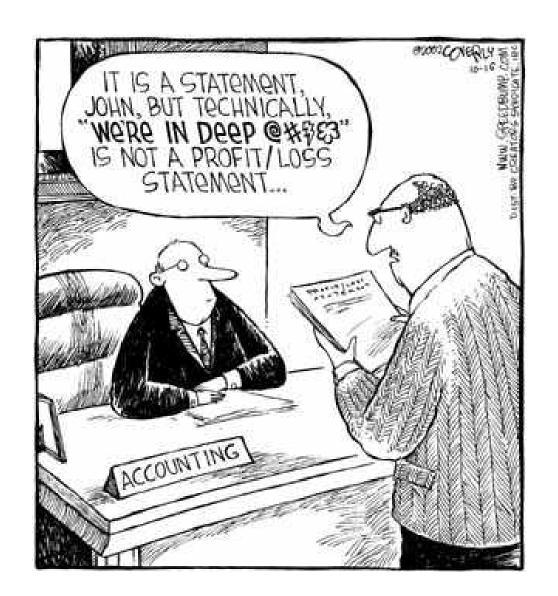
Higher ratios indicate more available resources to cover liabilities.

Total Current Assets	660,273.56
	de y
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STATEMENT OF FINANCIAL POSITION

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Profit and Loss Period Ending June 30, 20XX

STATEMENT OF ACTIVITIES / P&L

ILS / T & L	Jan - Jun	Budget	\$ Over Budget	
Ordinary Income/Expense				
Income				
Contributions Income	6,311.56			
Fund Raising Income	48,396.92	42,000.00	6,396.92	
Government Revenue	398,329.46	432,521.52	-34,192.06	
Grants	10,500.00	12,236.00	-1,736.00	
Miscellaneous Income	8.36			
Total Income	463,546.30	486,757.52	-23,211.22	
Gross Profit	463,546.30	486,757.52	-23,211.22	
Expense				
1001 Personnel	230,177.98	232,181.63	-2,003.65	
1002 Travel	6,684.06	13,975.15	-7,291.09	
1003 Rent	11,842.36	11,171.58	670.78	
1004 Communication & Utilities	12,345.03	13,684.78	-1,339.75	
1005 Printing & Supplies	5,869.49	6,553.82	-684.33	
1006 Program Expense	57,645.98	51,292.75	6,353.23	
1007 Professional Fees	76,423.13	116,142.05	-39,718.92	
1008 Insurance	8,698.22	8,004.65	693.57	
1009 Repairs & Maintenance	9,212.08	4,438.27	4,773.81	
1010 Human Resources	577.50	2,111.02	-1,533.52	
1011 General & Administrative	119.68	2,824.50	-704.82	
1012 Fundraising Expenses	36,193.70	32,000.00	4,193.70	
Total Expense	455,789.21	494,380.20	-36,590.99	
Net Ordinary Income	7,757.09	-7,622.68	15,379.77	
Other Income/Expense				
Other Income				
Other Income	6,823.02	6,396.00	427.02	
Total Other Income	6,823.02	6,396.00	427.02	
Other Expense	6,823.02	6,396.00	427.02	
Net Other Income	0.00	0.00	0.00	
let Income	7,757.09	-7,622.68	15,379.77	
				

STATEMENT OF ACTIVITIES / P&L

Revenues

- Service revenues
- Contributions
- Grants
- Fundraising
- Other

Expenses

- Program
- Management
- Fundraising
- Depreciation

Change in Net Assets

(Profit vs Loss) = Revenue – Expenses

Profit and Loss Period Ending June 30, 20XX

	Jan - Jun	Budget	\$ Over Budget
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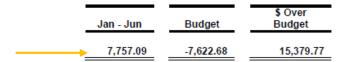
MORE ON CHANGE IN NET ASSETS

Change in Net Assets

(Profit vs Loss) = Revenue – Expenses

Net Income

Profit and Loss Period Ending June 30, 20XX

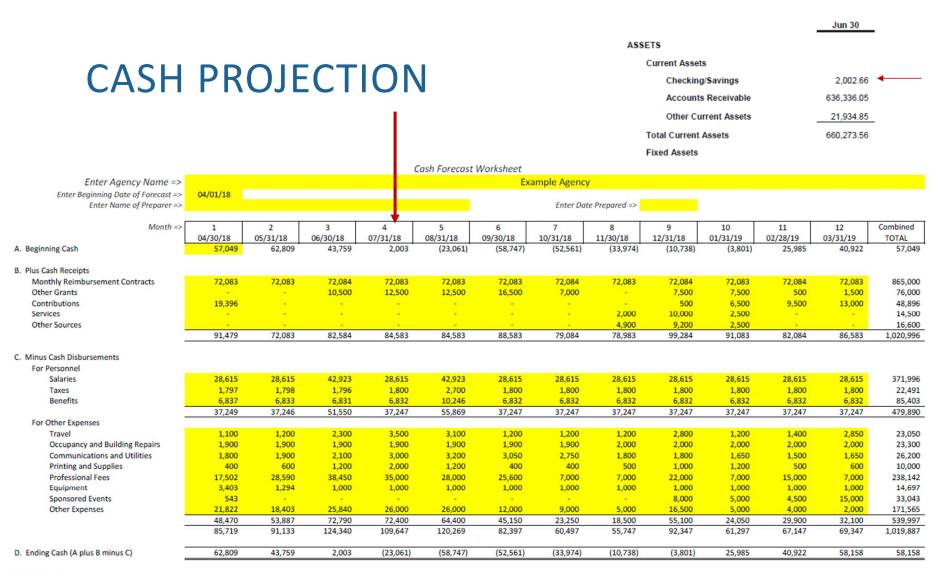


Balance Sheet Period Ending June 30, 20XX

Mismatched Change in Net Assets What does it mean, and what do you do about it?

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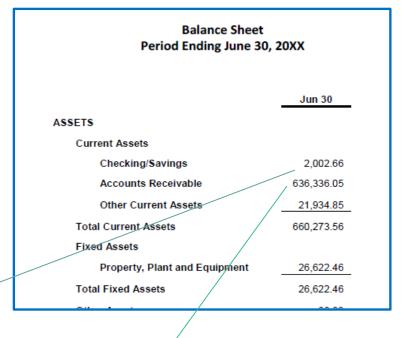


Instructions:

- * This is a CASH projection; that means enter what you actually expect to receive and pay out in each month
- * Receipts include collection of billings from prior months but do not include uncollected pledges, uncollected grant awards and uncollected billings
- * Disbursements include payment of accounts payable from prior months but do not include unpaid bills
- * Enter data in fields highlighted in yellow (everything else will be automatically calculated)
- * Attach supporting schedules detailing specifics for major items (for example, a major cash receipt)

EXAMPLES OF QUESTIONS ABOUT LINE ITEMS IN THE BALANCE SHEET

Is cash available to meet obligations?
Alternately, is excess cash properly invested in an interest-bearing account or is it sitting in a checking account?

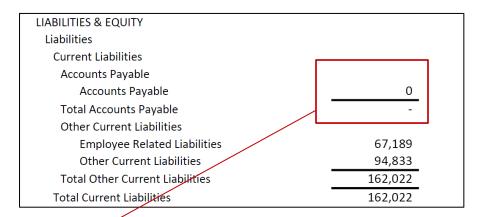


Review aged Accounts
Receivables to verify that the
Accounts Receivables is turning
over.

RED FLAG – Accounts Receivables over 90 days old.

EXAMPLES OF QUESTIONS ABOUT LINE ITEMS IN THE BALANCE SHEET

Review Aged Accounts
Payable to ensure
liabilities are being paid
on time.



RED FLAG — No Accounts Payable?

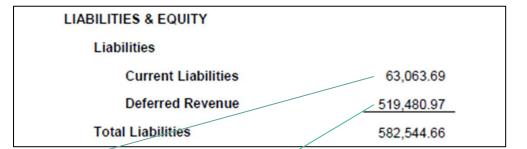
RED FLAG – Accounts Payables over 30 days old.

	LIABILITIES & EQUITY		
	Liabilities		
	Current Liabilities		
	Accounts Payable		
	Accounts Payable	1,884,427	1,872,521
+	Total Accounts Payable	1,884,427	
	Other Current Liabilities		
	Employee Related Liabilities	587,933	591,642
	Other Current Liabilities	843,792	848,983
	Total Other Current Liabilities	1,431,725	1,440,625
	Total Current Liabilities	3,316,152	4,753,771
L	Laws Tame Highlities		

EXAMPLES OF QUESTIONS ABOUT LINE ITEMS IN THE BALANCE SHEET

What is included in current liabilities?
Is it high or low compared to total revenue and current cash?

What is Deferred Revenue? Funds received in advance for an exchange transaction are recorded as deferred revenue until the exchange transaction takes place.

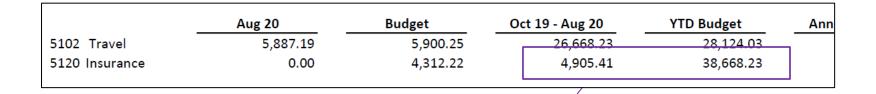




Income & Expense Budget Performance Review

- Obtain explanation for variances based on established guidelines
 - Revenue Significant Under Budget Variances
 - Expenses Significant Over Budget Variances
 - Expenses Significant Budget Variances for large expense items (e.g. Salaries)
- Scan reports for inconsistencies
- Look for unbudgeted items

Example of Detailed Review Income and Expense Budget Performance Report



Year to Date Expenses after 11 Months \$4,905 but YTD Budget is \$38,668



Red flag items:

Are financial statements sent in advance of board meetings (enough time to review)?

Is the Change in Net Assets positive or negative?

Does the organization have a positive net asset balance?

Do the Statements of Activities and Position reconcile to one and her?

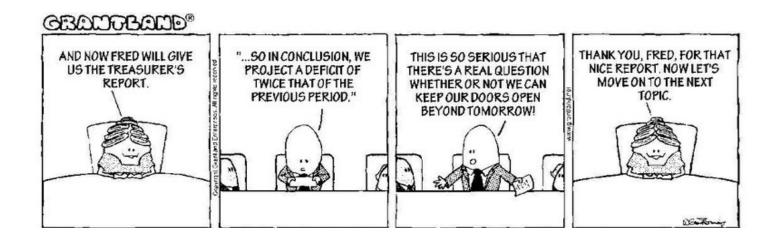
Are line it with same \$ amount) being carried over across witiple years?

Do grant-fund programs require external fundraising to be even?

Are there recognissues regarding shortage of cash?

Is depreciation being corded on ongoing basis?

EVER BEEN HERE?





What can you do?

- Read the financial statements with an inquisitive mind and an eye towards fulfilling any fiduciary responsibility you have.
- Be attentive and ASK QUESTIONS. One month with a deficit isn't a red flag, but questions must be asked when financial reports are presented with unfavorable variances and deficits at meeting after meeting.
- ASK QUESTIONS when financial indicators change, such as dips in cash flow or increases in liabilities.
- ASK QUESTIONS about funding changes.
- REVIEW a P&L by program regularly.

THE WALL STREET JOURNAL.



"We're in good shape. Nobody understands our financial statement."

THANK YOU!



Todd L'Herrou *tlherrou@nonprofitsfirst.org*

