

Financial Management

A Toolkit for DVP Success

*Created for the Vital Project:
A Management Training and Technical Assistance Project for
Domestic Violence Program (DVP) grantees*

Sponsored by:

The Domestic Violence
Program



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Acknowledgements

About the Vital Project

Welcome to Vital: A Management Training and Technical Assistance Project for Domestic Violence Program (DVP) grantees. With funding from the Domestic Violence Program, we are excited to provide a full menu of customized services at no charge to your agency. The purpose of this project is to build your organization's management and operational capacity through technical assistance and professional development opportunities designed to meet the current and emerging needs of local programs. An array of exciting delivery methods are currently being offered through 2013, from custom consulting to webinars and formal class work at the University of Colorado Denver. For more information visit <http://vitalprojectcolorado.org/>

About Mission Spark and the Author

Mission Spark, LLC (www.missionspark.org) partners with philanthropy, nonprofit and social enterprise leaders to achieve transformative social change and to strengthen the social sector. They work to achieve this mission by providing results-driven consulting, training, and facilitation in Colorado. Mission Spark consultants have experience working with DVP direct service providers, state-wide funders and domestic violence service and prevention partners.

Kelleen Zubick, MFA has been a past Principal Consultant for Mission Spark. For over 18 years, Kelleen has worked in senior positions at nonprofits and state agencies. In her capacities as executive director, associate director, program director, and volunteer board member, Kelleen developed a track record of success in planning and management, resource development, financial strategy and management, developing and evaluating programming, and in building partnerships and coalitions. Her approach is collaborative and practical, with an emphasis on helping her clients accomplish tangible results. Kelleen complements her experience in the social sector with national certificates of training in nonprofit governance from *BoardSource*, and in resource development from the national *Grantsmanship Center*.

About CDHS Domestic Violence Program

The mission of the DVP is to serve as the state governmental authority on domestic violence issues by providing leadership, guidance, and awareness within government agencies as well as ensuring grant funded programs deliver optimal services to victims, ultimately promoting a Colorado free of domestic violence. DVP strives to ensure that services to victims of domestic violence and their children are readily available throughout Colorado's diverse communities. See <http://www.colorado.gov/cdhs/dvp> for more information.

Using this Toolkit

After working with DVP funded programs for nearly two years, Vital technical assistance providers noticed that they were receiving a preponderance of questions related to managing and monitoring organizational financial assets. Results of the self-assessment management capacity needs assessment survey sent to DVP-funded programs during December, 2012, also suggests that DVP funded programs are interested in learning more in particular about reading and interpreting financial statements and in learning about how to develop a basis for cost allocation.

This toolkit is designed to complement the 2014 Financial Management Webinar Series developed by Vital technical assistance partner, Barbara Paradiso, Director of the Program and Center on Domestic Violence at the School of Public Affairs, University of Colorado Denver, and which is available at www.vitalprojectcolorado.org. While this toolkit covers some of the same review of financial management core elements as well as budgeting and understanding financial statements, it is also more targeted in scope and strives to provide practical tools and worksheets that organizations can adapt as their own to strengthen their financial management practices.

This toolkit is divided into five parts:

- 1. Financial Management Building Blocks**
- 2. Strategy Keys: Financial Statements**
- 3. Financial Management Planning: Budgeting and Forecasting**
- 4. Financial Management Communication**
- 5. Resources**

Uses for this Toolkit:

- Review underlying financial concepts important to effective financial management
- Review hallmarks of a financially healthy nonprofit and how to spot and address signs of financial trouble
- Understand core principles and practices for developing and monitoring an organizational budget
- Review hallmarks of a financially healthy nonprofit and how to spot and address signs of financial trouble
- Access some key financial management tools such as cash forecasts and ratios

Introduction

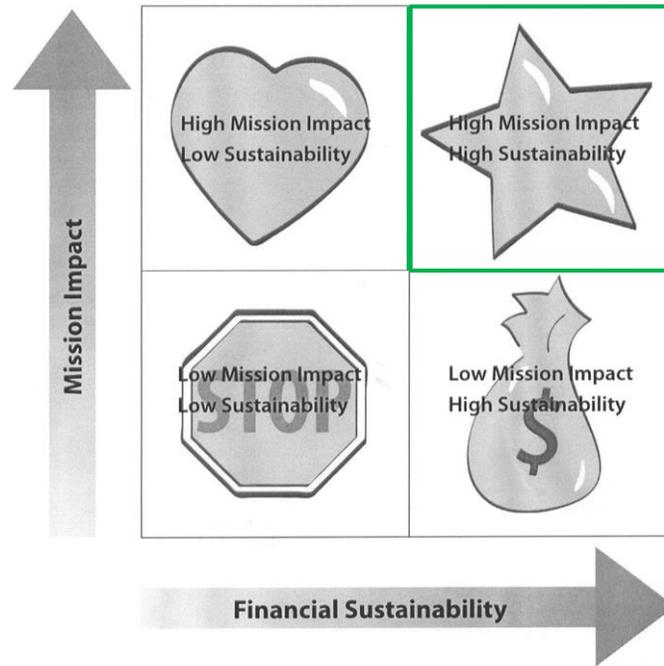
Effective nonprofit leaders, including Executive Directors, senior managers such as Chief Financial Officers, and volunteer members of the Board of Directors pay close attention to managing financial assets, since failure to manage a balance between financial revenue and expenses, as well as lack of attention to financial reporting, can result in risking the viability of the structure that supports organizational mission.

Effective financial management in nonprofits is especially important given some of the features of what it means to be a public charity, including:

- Nonprofits are organized to receive contributions from foundations, public agencies and individuals, and nonprofits are accountable to these entities for the responsible stewardship of these contributed funds;
- Poor management of public dollars can add up to poor management of public trust. Low trust may affect public donations of time and money.
- Poor financial management can reduce an organization's ability to provide services, which can negatively affect people relying on critical nonprofit services that may or may not be available.
- Because nonprofits are organized to meet mission, most organizations operate very close to breaking even and rarely have surplus resources available to recover from poor financial decisions.

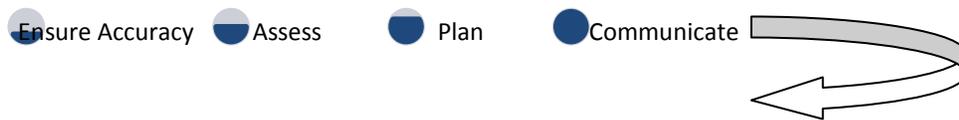
While focusing on mission impact is critical to accomplishing the aims of a DV organization, to do so without also focusing on the financial model supporting the mission may risk organizational purpose. In this sense, nonprofits are said to have a 'dual' bottom line, in that a nonprofit business is an organization driven by its community objectives *and* organized to obtain and manage financial resources necessary to accomplish those objectives. The following image shows the dual bottom line principal and illustrates the ideal meeting of mission and management as well as some of the common scenarios of when these elements are not in alignment.

Introduction



From Financial Leadership for Nonprofit Executives, Jeanne Peters & Elizabeth Shaffer

The same source provides a useful model for financial leadership which emphasizes the interdependence of infrastructure and programming. It offers a cyclical model of financial management building blocks that include ensuring accuracy, assessing, planning and communicating.



Characteristics of Financially Healthy Organizations:

- ✓ Has a thoughtful, accurate, integrated accounting system
- ✓ Has sufficient income to ensure stable programs
- ✓ Has internal source of cash or ready access to cash in times of shortfall
- ✓ Engages in realistic budget process
- ✓ Uses financial reporting to monitor fiscal health of the organization
- ✓ Retains a positive cash fund balance at the end of the year
- ✓ Has accumulated surpluses sufficient to cover occasional deficit
- ✓ Board members exercise independent judgment in reviewing organizational financial statements

Financial Management Building Blocks

Financial Management Leadership Building Blocks: Ensuring Accuracy

To strategically lead your organization, you must be able to get an accurate and comprehensive picture of your organization. When you really know what's going on, you have the basis for good management decisions. First steps include making sure you have a system set up to account for the following key underlying principles, which will be defined only as a brief review in this toolkit as the Financial Management Webinars (www.vitalprojectcolorado.org) covers these in more depth.

- Basis of Accounting—Accrual vs. Cash
- Chart of Accounts
- Classification of Net Assets
- Classification of Functional Expense
- Cost Allocation
- Capitalization & Depreciation

Basis of Accounting—Accrual vs. Cash

Cash basis reflects only cash receipts and cash disbursements within the period presented. Many start-up organizations use a cash basis of accounting, but as organizations grow they should consider switching to an accrual basis of accounting because this basis offers a more complete financial picture and is considered a “Generally Accepted Accounting Principle.”

Accrual basis reflects transactions when they happen, whether or not cash has been transferred. Under the accrual accounting method, an organization generally records income in the tax year earned, even though it may receive payment in a later year. It records expenses in the tax year incurred, whether or not it pays the expense that year.

Chart of Accounts

Your chart of accounts (COA) is the framework you use for tracking all entries into your accounting system, and is organized to track Assets, Liabilities, Net Assets, Revenue and Expenses. The first digit of the account number indicates the type of account that it is:

1XXX	Assets
2XXX	Liabilities
3XXX	Net Assets
4XXX	Revenue (contributed)
5XXX	Revenue (earned)
6XXX	Revenue (earned)
7XXX	Expenses
8XXX	Expenses
9XXX	Expenses

Financial Management Building Blocks

Using the Uniform Chart of Accounts is a good way to review some standard account names that not only tie into natural nonprofit financial activity but that also ties into the IRS Form 990 line items and other standard reporting formats such as the federal Office of Management and Budget. UCOA also seeks to promote uniform accounting practices throughout the nonprofit sector. To access more information, visit <http://nccs.urban.org/projects/ucoa.cfm>.

A few sample UCOA accounts

8100 Nonpersonnel Expenses:

8110-***	Supplies
8120-***	Donated materials & supplies
8130-***	Telephone & telecommunications
8140-***	Postage & shipping
8150-***	Mailing services
8170-***	Printing & copying
8180-***	Books, subscriptions, ref
8190-***	In-house publications

8200 Facility & equipment expenses:

8210-***	Rent, parking, other occupancy
8220-***	Utilities

It's important to remember that only information recorded with an account code from the COA will be recorded into the financial records/reports, so taking time to develop a COA appropriate to the business of your organization is time well spent. Your Chart of Accounts should be designed to capture the financial information you need to make good financial decisions, and this will only be possible if financial management tools are aligned with your COA. For example, budget line items should also tie into your chart of accounts so that a reporting tool such as "Budget to Actual" shows meaningful comparisons.

Your chart of accounts can support multiple levels of financial data so that you can get a comprehensive understanding of organizational performance. There are three levels of data gathering and reporting that accounting systems can facilitate:

- Organizational Level
- Program and Support Level (Functional Accounting)
- Program Funding Level, which captures how costs are allocated to different funding sources.

Fund accounting is a critical financial management building block because it provides the kind of information essential for:

- Reporting on the specific use of grant dollars – particularly important to the reporting of public funds
- Determining financial condition of each activity area of your organization
- Planning and budgeting; making strategic decisions based on detailed performance information
- Determining/forecasting cash flow by knowing the balances of different funding sources, in addition to the overall organizational balances.

Financial Management Building Blocks

Classification of Assets

FASB 116 & 117 requires that nonprofits track the donor's intent of their contribution, and classify those contributions as follows:

- **Unrestricted:** No conditions placed on the use of the funds. Could be used for general operating or program use.
- **Temporarily Restricted:** Funds must be spent for the purpose the donor intended only. For example, grant monies for a specific program would be limited to that program. In this case funds are released when the programmatic or time requirements for using them have been met.
- **Permanently Restricted:** The donation itself cannot be spent. Usually refers to endowment money where only the interest earned can be spent. It cannot be spent – only invested.

“Board Designated Funds” are only guidelines for unrestricted donations unless referring to dollars the board personally donated.

Functional Classification

Federal Form 990 (the nonprofit tax return) and the Statement of Financial Accounting Standards No.117 require nonprofits to report expenses by what is known as their functional classification.

There are three major functional areas for all nonprofits:

Program –

- Expenses related specifically to carrying out your mission-related work.
Examples: Salaries & benefits of staff, program supplies, and the portion of occupancy costs incurred by program activities.

Management & General (Admin) –

- Expenses not related to program or fundraising but that are essential to the organization's operations.
Examples: Salaries & benefits of finance staff, a portion of the executive director's salary & benefits, board-related costs, and the portion of occupancy costs incurred by the administrative staff. Activities such as planning, supervision, and bookkeeping tend to fall into this category.

Fundraising –

- Expenses related to soliciting contributions for the organization.
Examples: A portion of salary & benefits for any staff who participate in grantwriting, special events, cultivation and solicitation of individual or corporate donors, and the portion of occupancy costs incurred by fundraising staff.

Financial Management Building Blocks

The following illustrates how a Statement of Activities by functional classification tells a more detailed story of the organization.

Sample Organization Jan- Dec 2005

	Total	Tot Program	ESL	Life Skills	Counseling	Mgt & Gen	Fund Raising
Revenue							
Foundations	\$108,000	\$58,000	\$0	\$50,000	\$8,000	\$50,000	\$0
Corporations	\$25,000	\$25,000	\$20,000	\$5,000	\$0	\$0	\$0
Government							
Federal	\$40,000	\$40,000	\$20,000	\$20,000	\$0	\$0	\$0
State	\$2,250	\$2,250	\$0	\$2,250	\$0	\$0	\$0
Local	\$850	\$850	\$850	\$0	\$0	\$0	\$0
Individuals							
Ind Donors	\$57,000	\$0	\$0	\$0	\$0	\$44,000	\$13,000
Endowment	\$200,000	\$200,000	\$0	\$200,000	\$0	\$0	\$0
Trustees	\$2,800	\$0	\$0	\$0	\$0	\$0	\$2,800
Fees for Service	\$10,750	\$10,750	\$750	\$0	\$10,000	\$0	\$0
Total Income	\$446,850	\$336,850	\$41,600	\$277,250	\$18,000	\$94,000	\$15,800
Expenses							
Salaries	\$135,000	\$107,000	\$25,500	\$42,150	\$39,350	\$20,540	\$7,460
Taxes & Benefits	\$23,550	\$18,525	\$4,465	\$7,270	\$6,800	\$3,617	\$1,408
Rent	\$12,000	\$9,000	\$3,000	\$3,000	\$3,000	\$3,000	\$0
Supplies	\$4,500	\$3,500	\$2,500	\$500	\$500	\$500	\$500
Insurance	\$6,700	\$5,200	\$750	\$750	\$3,700	\$750	\$750
Materials	\$8,200	\$5,000	\$2,000	\$2,000	\$1,000	\$3,000	\$200
Utilities							
Gas & Electric	\$1,450	\$1,088	\$362	\$363	\$363	\$362	\$0
Telephone	\$2,800	\$1,900	\$400	\$1,000	\$500	\$700	\$200
Internet	\$500	\$300	\$100	\$100	\$100	\$100	\$100
Postage	\$2,500	\$100	\$0	\$100	\$0	\$1,000	\$1,400
Copying	\$2,950	\$2,175	\$725	\$725	\$725	\$500	\$275
Marketing	\$2,100	\$1,600	\$500	\$500	\$500	\$600	\$0
Prof Services	\$4,700	\$900	\$300	\$300	\$300	\$3,000	\$1,100
Total Expenses	\$209,150	\$156,188	\$40,592	\$58,758	\$58,838	\$37,569	\$13,393
Net Income	\$239,500	\$180,662	\$1,008	\$218,492	(\$38,838)	\$56,431	\$2,407

Cost Allocation

There are two types of costs associated with nonprofit organizations:

Direct Costs, or those, which are clearly and easily attributable to a specific program/functional classification.

Indirect Costs or Common Costs describe those which are not easily identifiable with a specific program, but which are nonetheless, necessary to the operation of the program. These costs are shared among programs and, in some cases, among functions.

Financial Management Building Blocks

Allocating common costs gives a more accurate picture of the real cost of running a program. Separate direct expenses from indirect expenses to identify the expenses needing allocation (indirect). Determine your allocation basis by determining “time factored” and/or “facility factored” expenses. Use a representative time study to determine time factored expenses such as salary and benefits, phone and supplies. Use square footage calculation for expenses such as utilities, depreciation, and location insurance.

Be consistent and document allocation basis so you can describe it to others, especially when audited or reviewed.

Capitalization and Depreciation

This accounting practice allows organizations to spread the cost of capital acquisitions across their estimated useful life. You convert one asset, cash, into another kind (furniture and equipment). The fixed assets presentation on the statement of financial position indicates the proximity of assets to complete depreciation.

My Next Steps for Improving Financial Management Building Block

Activity	By When
✓	
✓	
✓	
✓	
✓	
✓	
✓	
✓	

Strategy Keys: Financial Statements

Financial Management Leadership Building Blocks: Assessing

Overview of Financial Statements

Financial statements are documents produced by an organization that tracks and reports the organization's financial position. Financial statements will help you pinpoint the strengths and weaknesses of your organization, and as such are excellent tools for understanding your current position as well as indicators of your financial future.

While most organizations rely most heavily on Statement of Financial Position and Statement of Activities as their assessment tools, the following reports make up a complete set of Financial Statements:

Statement of Financial Position

- Focuses on the organization as a whole and reports your organization's financial position at a specific period and details what the organization owes and owns.
- By reporting your total assets, subtracting your total liabilities and reporting the resulting net assets, it shows what resources are available to your organization.
- Net assets should be reported in terms of unrestricted, temporarily restricted and permanently restricted assets.

Statement of Activities

- Also known of "profit and loss"
- Reports organizational activities over a period of time (typically a month or a year) and indicates if organization is operating at surplus or deficit.
- Can be compared to budgeted income and expenses to determine whether the organization is meeting its financial targets for comparable periods.

Statement of Cash Flows

- Statement of Cash Flows Reflects the same period of time as reported in the Statement of Activities
- Divides activities between three classifications:
 - Operating Activities
 - Investing Activities
 - Financing Activities

Statement of Functional Expense

- Statement of Functional Expense ties program, fundraising, and administrative expense back to totals in the Statement of Activities.

Strategy Keys: Financial Statements

Sample Statements-Statement of Financial Position

DOMESTIC ABUSE INTERVENTION SERVICES, INC.
STATEMENTS OF FINANCIAL POSITION
 December 31, 2011 (Consolidated) and 2010

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash	\$ 195,130	\$ 273,730
Cash designated for capital campaign	95,905	2,503
Unconditional promise to give	527,146	2,235
Accounts receivable	67,332	72,071
Stock	4,116	4,313
Prepaid expenses	21,227	13,329
Total current assets	910,856	368,181
Property and equipment - net	926,761	176,204
Total assets	\$ 1,837,617	\$ 544,385
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 50,540	\$ 8,328
AP - construction in progress	-	10,724
Accrued salary and related expenses	70,651	56,242
Deferred revenue	1,200	1,500
Total current liabilities	122,391	76,794
LONG-TERM LIABILITIES		
Note payable	350,000	-
Total liabilities	472,391	76,794
NET ASSETS		
Undesignated	146,389	251,701
Designated for capital campaign	95,905	2,503
Designated for property and equipment fund	576,761	176,204
Total unrestricted net assets	819,055	430,408
Temporarily restricted	546,171	37,182
Total net assets	1,365,226	467,590
Total liabilities and net assets	\$ 1,837,617	\$ 544,384

See accompanying notes.

Strategy Keys: Financial Statements

Sample Statements-Statement of Activities

DOMESTIC ABUSE INTERVENTION SERVICES, INC.
STATEMENTS OF ACTIVITIES
 Years ended December 31, 2011 (Consolidated) and 2010

	2011	2010
UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Grants	\$ 752,694	\$ 732,745
United Way of Dane County	210,247	204,534
Other contributions and events	970,584	327,294
Investment return	(625)	1,139
Other income	10,012	25
Total unrestricted support and revenue	1,942,912	1,265,737
EXPENSES		
Program services		
Shelter and support	423,923	335,099
Children services	180,970	144,345
Legal services	141,175	134,715
Crisis intervention	184,987	96,289
Outreach and education	43,457	105,220
DELTA	49,233	51,635
Total program services	1,023,745	867,303
Supporting activities		
Administrative	120,612	189,420
Development	132,899	168,475
Capital campaign	299,160	-
Total supporting activities	552,671	357,895
Total expenses	1,576,416	1,225,198
Net assets released from restrictions	22,151	4,614
Change in unrestricted net assets	388,647	45,153
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	531,140	22,433
Net assets released from restrictions	(22,151)	(4,614)
Change in temporarily restricted net assets	508,989	17,819
Change in net assets	897,636	62,972
Net assets - beginning of year	467,590	404,618
Net assets - end of year	\$ 1,365,226	\$ 467,590

Strategy Keys: Financial Statements

Sample Statements-Statements of Functional Expense

DOMESTIC ABUSE INTERVENTION SERVICES, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
 Years ended December 31, 2011 (Consolidated) and 2010

	Personnel	Operating Costs	Space Costs	Special Costs	2011 Total
Program services					
Shelter and support	\$ 243,484	\$ 49,403	\$ 70,609	\$ 60,427	\$ 423,923
Children services	169,811	6,384	4,775	-	180,970
Legal services	128,435	10,096	1,211	1,433	141,175
Crisis intervention	161,313	14,529	4,334	4,811	184,987
Outreach and education	38,507	4,950	-	-	43,457
DELTA	44,997	3,847	389	-	49,233
Total program services	786,547	89,209	81,318	66,671	1,023,745
Supporting activities					
Administrative	69,361	42,828	8,423	-	120,612
Development	54,658	78,179	62	-	132,899
Capital campaign	214,194	60,975	23,991	-	299,160
Total supporting activities	338,213	181,982	32,476	-	552,671
Total expenses	\$ 1,124,760	\$ 271,191	\$ 113,794	\$ 66,671	\$ 1,576,416
<hr/>					
	Personnel	Operating Costs	Space Costs	Special Costs	2010 Total
Program services					
Shelter and support	\$ 217,879	\$ 34,612	\$ 35,216	\$ 47,392	\$ 335,099
Children services	133,204	8,272	2,862	7	144,345
Legal services	123,461	8,442	2,449	363	134,715
Crisis intervention	78,440	14,397	2,252	1,200	96,289
Outreach and education	91,179	10,816	691	2,534	105,220
DELTA	44,810	6,538	287	-	51,635
Total program services	688,973	83,077	43,757	51,496	867,303
Supporting activities					
Administrative	142,463	39,014	7,943	-	189,420
Development	72,918	94,945	612	-	168,475
Total supporting activities	215,381	133,959	8,555	-	357,895
Total expenses	\$ 904,354	\$ 217,036	\$ 52,312	\$ 51,496	\$ 1,225,198

Strategy Keys: Financial Statements

Sample Statements-Statements of Cash Flows

DOMESTIC ABUSE INTERVENTION SERVICES, INC.
STATEMENTS OF CASH FLOWS
 Years ended December 31, 2011 (Consolidated) and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 897,636	\$ 62,972
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Contributions restricted for campaign	(761,804)	-
Amortization of discount for		
Unconditional promises to give restricted for campaign	13,000	-
Depreciation	18,790	20,879
Donated facility costs	(1,370)	-
Donated stock	(18,645)	(8,892)
Realized and unrealized (gain) loss on stock	989	(936)
(Increase) decrease in assets		
Unconditional promises to give	1,235	(2,235)
Accounts receivable	4,739	(18,472)
Prepaid expenses	(7,898)	(5,111)
Increase (decrease) in liabilities		
Accounts payable	42,212	(1,388)
Accrued salary and related expenses	14,409	681
Deferred revenue	(300)	(500)
Net cash flows from operating activities	202,993	46,998
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of donated stock	17,853	8,190
Cash designated for capital campaign	(93,402)	(2,503)
Purchases of property and equipment	(767,978)	(52,563)
Net cash flows from investing activities	(843,527)	(46,876)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for campaign	222,658	-
Proceeds from note payable	350,000	-
Payment of AP - construction in progress	(10,724)	-
Net cash cash flows from financing activities	561,934	-
Change in cash	(78,600)	122
Cash - beginning of year	273,730	273,608
Cash - end of year	\$ 195,130	\$ 273,730
SUPPLEMENTAL DISCLOSURES		
Cash paid for interest	\$ 5,250	\$ -
Noncash investing and financing activities		
Donated stock	18,645	8,892
Donated facility costs	1,370	-
Property and equipment acquisition by accounts payable - construction in progress	-	10,724

Strategy Keys: Financial Statements

Analyzing Financial Statements: What to Look For

Users of statements include governing boards, funding sources and contributors, management and employees, regulatory agencies, potential creditors and creditors, as well as beneficiaries of nonprofit services.

What users want to know:

- Is the organization financially healthy?
- Is the organization financially better off or not at the end of the year than it was at the beginning?
- How does the organization compare with others?
- Can the organization repay debt it may be taking on?
- Internal source of cash or ready access to cash in times of investment or shortfall?
- Enough cash and accounts receivable to match temporarily restricted net assets?

What to Look for in Statements of Financial Position:

- Are assets greater than liabilities? If so, the organization's net asset position will be positive. If negative, the organization is in a deficit position.
- Is the organization "building rich but cash poor"? Buildings, inventory, and uncollected receivables are important assets, but they don't pay the bills.
- Look at accounts payable to ensure bills are being paid in a timely manner
- Look at payroll liability account for accumulating amounts (no more than a month of payroll liability should be carried at a time)
- Look for correspondence between prepaid income and expenses
- If you have access to multiple years, look for trends of increase or decline of net assets
- Look to see if unrestricted net assets are at least equal to temporarily restricted net assets since those funds typically indicate a commitment to deliver programming.

Current Ratio— Current Assets /Current Liabilities

- Shows the \$dollar amount available to cover the \$dollar amount of owed liabilities
- Should be at least 1:1; higher is better
- Using sample statement above: $\$910,856/\$122,391 = 7.44$

Strategy Keys: Financial Statements

Days Cash on Hand— Cash & Short-term Investments /Daily Cash Required

- Calculation of Daily Cash: Total Expenses minus depreciation, non-cash expense, and pass-through expenses. Divide the sum by 365
- 3 months (90 Days) is a common goal
- Using sample statement above: $\$810,835/\$4,319 = 187$ days or 6 months

Principles and Practices of Nonprofit Excellence in Colorado recommends that a nonprofit should plan, establish, and maintain a financial reserve at a level determined by the organization's management and board to adequately support its operations. A recommended target for reserves is three to six months of operation expenses.

Debt Ratio— Total Liabilities /Total unrestricted net assets

- Ratio of 2:1 is comfortable, can be higher if the liability is for a productive purpose such as a building or financing for a housing project.
- Using sample statement above: $\$472,391/\$819,055 = 1:1.7$

What to Look for in Statements of Activity:

- Did annual income cover expenses?
- Is there a diverse base of support?
- What percentage of total expenses was spent on program, administrative, and fundraising activities?
- As a variance report in comparison with budget figures

Admin & Fundraising Cost Ratio— Admin + Fundraising expenses /Total Expenses

- External reviewers use this to assess effective use of funds, generally no more than 35%. Lower isn't necessarily better.
- Using sample statement above: $\$552,671/\$1,576,416 = 35\%$

Fundraising Efficiency— Total contributed income /fundraising expenses

- Cost of fundraising is dependent on the type of contributions solicited (large grants vs. small individual donors, for example). Target should be based on comparisons and analysis.
- Using sample statement above: $\$1,933,525/\$432,059 = \$4.5 : \1

Strategy Keys: Financial Statements

Reflection

What are your organization's immediate financial strengths and vulnerabilities?

-
-
-

What are your organization's long-term financial strengths and vulnerabilities?

-
-
-

My Next Steps for following Assessment through Financial Statements:

Activity	By When
✓	
✓	
✓	
✓	
✓	
✓	
✓	
✓	
✓	

Budgeting & Forecasting

Financial Management Leadership Building Blocks: Planning

What is a Budget?

A budget is a plan.

- For receiving & spending specific amounts of money
- In specific cost categories
- To get specific things done
- Within a period of time
- With monitoring mechanisms built into the process

Budgets are management tools constructed within your organizational context, and they should:

- Match your accounting structure to facilitate monitoring (budget v. actual reports)
- Utilize the same chart of accounts
- Utilize the same functional classifications (Program, Mgt. & General, Fundraising)
- Utilize the Same classification of contributions (Unrestricted, Temporarily Restricted, Permanently Restricted)

Major Components of a Budget

- Assumptions about market place (e.g. inflation rate, increase/decrease in clients, etc.)
- Assumptions about income (e.g. projected grants, increases/decreases in service revenues, etc.)
- Assumptions about expenses
- Process/decisions about how to allocate shared costs across functional areas
- The budget spreadsheet with Income-Expenses
- Not every program has to have a positive bottom line but the overall agency should have one.
- A written budget narrative describing the above

Sample Budget Template

The sample budget template below represents a general layout that should be customized to represent your nonprofit business model. One useful way to identify which line items you should use is to print out a “summary” Statement of Activities by functional classification and then enter those headings to customize the template. After you have worked out our budget numbers, you will want to enter your budget into your accounting software so that you can run “budget to actual” variance reports.

Budgeting & Forecasting

For the period of:	Program				Supporting		
	Total	Program A	Program B	Program C	Program D	Fundraising	General/ Admin.
Income/Support							
Cash	\$	\$	\$	\$	\$	\$	\$
Government							
Foundations							
Trustee Contribution							
Individual Donors							
Earned Income							
Interest Income							
Total Income							
In-kind							
Total Income/Support							
Expenses							
Salaries							
Payroll Taxes							
Health Benefits							
Other Benefits							
Total Personnel Expenses							
Audit/Account. Fees							
Equipment Lease							
Insurance							
Training/Ed.-Staff							
Promotional Expense							
Consultant Fees							
Program Activities							
Supplies							
Office Equip./Repair							
Postage							
Telecommunications							
Occupancy							
Public Relations							
Utilities							
Technology							
Total Expenses							
TOTAL Surplus/(Deficit)							

Budgeting & Forecasting

Sample Budget Narrative

The narrative is a helpful tool to communicate to both internal and external audiences about the assumptions and research that stand behind your budget numbers. If your intended audience is an investor, it can also be prudent to include any large variances between a proposed budget and the Statement of Activities that you will most likely have to submit as part of the application process, and explain why a line item is projected to be different in the future.

First Year – 10/1/13 – 6/30/14

Personal Services

- A. .10 FTE Executive Director for nine months. This position provides leadership direction and day to day supervision to manage staff and community coordination for our domestic violence and sexual assault program. The Executive Director reports to the Board of Directors. This position is the public face for our organization and does fundraising and messaging for our services. The total cost requested is: \$3,600 the first year and \$4,800 in year two.
- B. .50 FTE Victim Advocate for nine months. This position provides direct advocacy support to victims of domestic violence, sexual assault and stalking and the non-offending family and friends. Direct Victim Advocates also provide follow up, safety planning, one-on-one support, group support and referral services. The total cost requested is \$12,750 the first year and \$17,000 in year two.
- C. Fringe Benefits are calculated at 25% of cost of salary. \$4,088 is the total amount requested in the first year and \$5,450 in year two.

Travel

- A. 2 Staff travel for training to the hub city of Anchorage for advocacy training. The total cost of travel requested is \$1,120 in both years.
- B. Training travel for staff to be determined (TBD). The amount requested is \$3,880 in the first year and \$3,800 in year two.

Total travel for the two years is \$10,000.

Facilities

- A. We are requesting money in the facilities budget for our business fax line and telephone line used for crisis calls. Total amount requested is \$1,500 for each of both years.

Commodities

- A. We request \$800 for basic office supplies, pens, paper, desk set-up and \$500 for program supplies in the first year. We request \$300 for office supplies in the second year.

Equipment

- A. In this first year we need to do some basic set-up of the office and require three new computers for the Executive Director and the Advocates.

Budgeting & Forecasting

- B. We will need a phone set-up with four to six handsets.
- C. We will also need a copier/fax/scanner
- D. We will also need a camera for documenting injuries. The total cost we are requesting is \$7,812 for year one and \$3,000 for year two when we will continue with set-up.

Other Contractual

- A. Professional Services – We anticipate that we will need some consultation with set up of our program and will contract 15 hours at a total cost of \$500 for each of both years.
- B. Training/Registration Fees – We request \$7,000 for training registration for the Executive Director and the Victim Advocate for each of both years.
- C. Printing and Advertising – We will print some literature and posters to advertise our services to the community at a total cost of \$2,000 for year one and \$1,000 for year two.

The Budgeting Process

Step 1: Create a Plan

- Start your process 3-6 months before the beginning of your next fiscal year.
- Set up a timeline, deliverables & responsibilities for staff to submit plans with budget numbers, and for Board Treasurer or appropriate committee to review final drafts in preparation for submittal to the full board.
- Communicate plan to staff and board.

Step 2: Review Existing Programs & Staff

- Map your organization. What are your existing programs by activity and staffing.
- Get buy-in from rest of staff that picture is correct and effective for current levels of service.
- Identify and document any gaps in program efforts or staffing that is within your purview to address.

Step 3: Identify Goals and Priorities

- Discuss your Map and the coming year's priorities, goals & objectives.
- Consult your strategic plan
- Review current achievements and financial performance.
- Analyze organizational capacity
- Plan programs: Continue at same level? Increase or cut back?
- Develop outputs and outcomes
- Plan supporting admin/operational activities

Step 4: Budget Income First

- Identify realistic, probable income projections; be conservative in your estimates
- As necessary have 'temperature-taking' discussions with our funders; are they inclined to fund at the levels you are projecting? Have their guidelines changed? Or have there been any issues with your reporting for a current grant contract?

Budgeting & Forecasting

Step 5: Develop Expense Projections

- Determine costs by program and support functions in line with income projections
- Allocate indirect/shared costs.
- Ideal—determine month/timeframe when costs will hit.
- Review monthly cash flow—identify gaps—plan ahead to accommodate gaps.

Step 6: Balance Expenses to Projections

- Revisit your income projections and your expense projections until you arrive at a realistic budget with a positive balance
- Not-for-profit is a tax status and it does not mean *No Profit* or *For Loss*

Step 7: Secure Board-Approved Budget

- Make sure your board understands your budget.
- Get their approval before the start of the next fiscal year.
- Remember all budget changes will require board approval. (Avoid revising unless you are required to do so by law, e.g. city governments.)

Step 8: Enter Budget

- Enter approved budget into accounting software so that you can generate variance reports as means of measuring performance against budget.

Cash Flow Projection

The Cash Flow Projection Worksheet is one of the most useful financial tools. It is your budget-in-action, and if done carefully, will provide a month by month forecast of cash availability and need. This tool will help you monitor your operations and prepare for cash shortfalls. It provides you with data with which you can make strategic decisions/revisions. Even *Principles and Practices for Excellence in Colorado Nonprofits* calls out the importance of organizations using cash forecasts, and it includes this practice under "financial responsibilities":

In order to facilitate smooth fiscal operations, a nonprofit should project, monitor, and make adjustment to cash flow as needed to ensure appropriate cash flow.

Components of a cash forecast:

- Beginning cash available (should tie into statement of activities and bank balance for that same period)
- Revenue sources as they are expected to be received
- Expenses as they are expected to be paid. Avoid the temptation to divide annual expense by 12 as this will not provide any insight into natural expense patterns in an annual cycle.
- Other payments required (equipment, principle on debt)
- Ending cash available (starting cash, net cash flow, ending cash)

Update the following template to start your cash flow projection practice!

Budgeting & Forecasting

Month:	Jan	Feb	March	April	May	June	July	August	September	October	November	December	Year total
Cash on Hand (beginning cash)	0	0	0	0	0	0	0	0	0	0	0	0	0
RECEIPTS from Support													
Grants - confirmed													0
Grants - anticipated													0
Individual contributions													0
Special events													0
Funds released from restricted													0
RECEIPTS from Revenue													
Fees at time of service													0
Accounts receivable collection													0
Rent/facility use													0
Ticket sales													0
Contract services													0
RECEIPTS from other sources													
Loan/Line of credit proceeds													0
TOTAL RECEIPTS	0	0	0	0	0	0	0	0	0	0	0	0	0
DISBURSEMENTS for Operations													
Payroll													0
Payroll taxes													0
Benefits and staff exp													0
TOTAL STAFFING	0	0	0	0	0	0	0	0	0	0	0	0	0
Rent													0
Utilities													0
Maintenance, repair													0
TOTAL OCCUPANCY	0	0	0	0	0	0	0	0	0	0	0	0	0
Office exp (phone, postage, supplies)													0
Printing and marketing													0
Equipment leases													0
Insurance													0
TOTAL OTHER OPERATING	0	0	0	0	0	0	0	0	0	0	0	0	0
Legal													0
Accounting & audit													0
TOTAL PROFESSIONAL SERVICES	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL PROGRAM RELATED	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL OPERATING DISBURSEMENTS	0	0	0	0	0	0	0	0	0	0	0	0	0
DISBURSEMENTS for Financing													
Mortgage payments													0
Loan payments													0
Payments on past due obligations													0
DISBURSEMENTS for Capital Expenses													
TOTAL DISBURSEMENTS	0	0	0	0	0	0	0	0	0	0	0	0	0
NET CASH FOR THE PERIOD	0	0	0	0	0	0	0	0	0	0	0	0	0
ENDING CASH	0	0	0	0	0	0	0	0	0	0	0	0	0

Ways to address cash shortfalls:

- ✓ Postpone fixed asset additions
- ✓ Negotiate payment terms
- ✓ Postpone new programs / personnel/ furlough/hrs reduction
- ✓ Contractor vs. salaried employee
- ✓ Reduce operating expenses/ benefits
- ✓ Alter fundraising schedule
- ✓ Increase earned revenue/ fundraising
- ✓ Access Line of credit

Budgeting & Forecasting

My Next Steps for Financial Planning

Activity	By When
✓	
✓	
✓	
✓	
✓	
✓	
✓	
✓	

Financial Management Communications

Financial Management Leadership Building Blocks: Communicating

As stated in *Financial Leadership for Nonprofit Executives*, the financial leadership model's elements are both interdependent and cyclical: "Without accurate data, one cannot assess financial health. Without quality assessment, one cannot set meaningful goals. Without shared and feasible goals, communicating about progress is unengaging, etc." Decisions made year-round draw on the skills presented by this model.

Clearly communicating the organization's progress toward its financial goals enables the executive director, board members, and staff to anticipate and prepare for financial challenges, revise plans, and avoid uninformed decisions that could lead the organization to crisis. Contributors to the organization also appreciate knowing the financial health of the organization and that the organization is a careful steward of its public resources. Primary tools for communicating financial progress include the organization's financial statements, the IRS Form 990, and the organization's annual report if such a report is developed by the organization.

In general, there are five audiences that need to be informed of your financial status. It is helpful to think about how best to match the message to the audience.

- Staff
- Board
- Funders
- Constituents, including beneficiaries and partners
- IRS/regulators.

Matching message to audience is important; for example, program managers may need to see a lot of detail, including what of allocated program funds remain available, while donors may be more interested in the percentage of funds supporting programs as well as the seeing a net balance on the statement of financial position.

Recommended Reports

Management teams and boards of directors are responsible for tracking the overall financial condition and health of the organization, so they should receive comprehensive financial information. Monthly or quarterly review of the following documents should include:

1. Statement of Financial Position
2. Statement of Activities against budget (showing variances)
3. Functional Income and Expenses
4. Restricted Funds Detail
5. Updated Cash Flow

Most of these reports have already been reviewed in this toolkit. Both the executive director and the board of directors should be assessing the organization's management of restricted funds to ensure that these funds do not inadvertently get misappropriated. Two common ways that nonprofits get in trouble with restricted funds is "borrowing" these funds to cover unallowable costs with the intention to "repay" when unrestricted funds become available and even raising more restricted funds than an organization has the capacity to spend.

Financial Management Communications

A quick way to check if your organization is using restricted funds appropriately is to look at the Statement of Financial Position and compare cash and receivables payable and the total restricted net assets reported. If you don't have as much cash on hand as restricted assets, then the organization may have spent funds in an unapproved way and could end up with insufficient funds to meet its commitment to funders. "Release" is the financial term for meeting the commitments made to a funder, and each month as funds are spent appropriately, they are released from restriction to cover appropriate expenses. Nonprofits should actually budget the release of its restricted funds. In doing so, it can monitor whether it is releasing funds as it planned to do. Noticing if it is not releasing funds as it had planned could shine light on whether a program is meeting its target metrics, allowing for some proactive course corrections as necessary. A Restricted Funds Detail table can provide better insight than a cash/restricted asset comparison. Per the sample below, releases for Funder B are on target but Funder C releases have not been made despite budgeted projections. This and assessing why Funder A releases are behind schedule will help this organization understand and course correct for some programmatic or bookkeeping errors.

Sample DV Agency Restricted Funds Detail as of (DATE)

Funder	Purpose	Beginning Balance	Released this month	Remaining Balance	Variance to Plan
Funder A	Support Groups	\$60,000	\$5,000	\$45,000	(20%)
Funder B	Support Groups	\$30,000	\$3,000	\$18,000	0
Funder C	Hotline Support	\$25,000	0	\$25,000	40%
Total		\$115,000	\$8,000	\$88,000	20%

Annual Reports

An annual report that includes a financial summary sends a message of accountability to your stakeholders, while also being a great way to raise the visibility of our mission and organization's efforts. Typically, annual reports include an 'annual financial report,' or a condensed version of year-end Statement of Activities and Statement of Financial Position. This high level representation usually includes the following summarized information:

Annual Financial Report for the Year Ending _____

Total Contributions
Total Fundraising Events-net
Total Foundation grants
Total Government grants and contracts
(Total Income)

Total Program Name
Total Program Name
Total Management & General
Total Fundraising
(Total expenses)

Financial Management Communications

Operating Surplus (Deficit)

Beginning Reserves

Ending Reserves

Assets

Cash and Investments

Contracts and grants receivable

Property and equipment (net)

TOTAL ASSETS

Liabilities and Net Assets

Short-term liabilities

Note payable

TOTAL LIABILITIES

Unrestricted net assets

Temporarily restricted net assets

Permanently restricted net assets

TOTAL NET ASSETS

Total Liabilities and Net Assets

Simple graphics also work well in annual reports. A common pie chart is one that shows the reader how resources are allocated across core programs and activities (functional expense). Typically such a graphic allows really to quickly see the percentage for revenue dedicated to program as well as to organizational support.

IRS Form 990

In its *Principles & Practices for Nonprofit Excellence in Colorado*, the Colorado Nonprofit Association recommends that all board members receive appropriate training on how to read and understand nonprofit financial statements and be actively engaged in reviewing financial statements, and providing fiscal oversight. Further, it recommends that a nonprofit's chief executive officer, chief financial officer (or equivalent), board, and audit committee should thoroughly review and approve Form 990 "to ensure the organization's filings are accurate, complete, and filed on time with the IRS."

Accurate and complete information is important because the Form 990 is a public document which is readily accessible for viewing via the Internet or inspection at the organization's principal office. It is a legal requirement that nonprofits filing IRS 990 tax return forms. For detailed information, visit the site below:

<http://www.irs.gov/Charities-&-Non-Profits/Form-990-Resources-and-Tools-for-Exempt-Organizations>

Financial Management Communications

My Next Steps for Financial Management Communications

Activity	By When
✓	
✓	
✓	
✓	
✓	
✓	
✓	
✓	

Financial Management Resources

Resources

Books, Articles, and Reports

Financial Leadership for Nonprofit Executives, Jeanne Bell and Elizabeth Schaffer, CompassPoint Nonprofit Services, 2005.

A Guide for Colorado Nonprofit Organizations, First Ed. Karen Leaffer ed., CLE in Colorado, Inc. Suppl 2013.

Principles & Practices for Nonprofit Excellence in Colorado, 2nd ed., Colorado Nonprofit Association

A Desktop Guide for Nonprofit Directors, Officers, and Advisors, Jack Siege. John Wiley & Sons, Inc., Hoboken, NJ 2006

Nonprofit Financial Planning Made Easy, Jody Blazek. Wiley & Sons, Inc., Hoboken, NJ 2008

Financial Ratios in the Analytical Review of Charitable Organizations, Janet S. Greenlee and David Bukovinsky, Ohio CPA Journal (January-March 1998).

Websites

www.vitalprojectcolorado.org (Financial Management Webinar and other DV Management Resources)

www.coloradononprofits.org/help-desk-resources/principles-practices/

<http://www.irs.gov/Charities-&-Non-Profits/Form-990-Resources-and-Tools-for-Exempt-Organizations>

RE Audit Thresholds: <http://www.councilofnonprofits.org/nonprofit-audit-guide/federal-law-audit-requirements>

www.360financialliteracy.org

<http://nccs.urban.org/projects/ucoa.cfm>

www.irs.gov (Publication 946/"How to Depreciate")

Notes