The Board's Guide to Money

Session #2:
Board Reporting and Systems

Owning Your Role as Leaders

12:00p – 1:00p MST | May 21, 2024

Montana Nonprofit Association

Course Schedule:

~~April 20 – **Understanding Financial Statements**~~

1. ~~The Board's Role~~
2. ~~The Big Three~~
3. ~~Key Insights – Introduction to Ratios~~

April 27 – **Board Systems and Reporting**

1. Key Insights – Introduction to Ratios
2. Financial Reporting
3. Financial Systems

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Session Agenda:

12:00 – 12:05: Introductions and Session 1 Review

12:05 – 12:15: Ratio Analysis

12:15 – 12:25: Board Reporting

12:25 – 12:35: Managing Donor Restrictions

12:35 – 12:45: Finance Committee vs. Full Board

12:45 – 12:55: Finance Policy and Audits

12:55 – 1:00: Questions and Wrap up

Course Overview:

https://mtnonprofit.thinkific.com/courses/board-s-guide-to-money-2024

Session 1 Review

1. Balance Sheet – Statement of Financial Position

   "How are we financially, right now?"

   Assets *(Everything I have)* | Liabilities *(Everything I Owe)* |
   Net Assets *(What I'm worth)*

2. Income Statement – Statement of Financial Activity

   "Where did our money come from and go last month?"

   Revenue *(Money EARNED and CONTRIBUTED)* | Expenses *(Money OUT)*

1. Cash Flow Statement

   "What did our total cash activity look like last month?"

   Operating *(Day-to-Day)* | Investing *(Investments and Capitalized Assets)* |
   Financing *(Debt)*

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Key Ratios - Dashboards

Montana Nonprofit Association

DATE	

LIQUIDITY				
Days Cash on Hand	Cash + Cash Equivalents		0.0	Days Cash on Hand
	Total Annual Expenses			
	Total Annual Depreciation Expenses			
Formula = (Cash + Cash Equivalents)/(Total Annual Expenses - Total Depreciation Expenses)/365 Days)				
Liquid Unrestricted Net Assets (LUNA)	Unrestricted Net Assets (or Unrestricted Equity)		0.0	Days of Operating Expenses Available
	Total Fixed Assets, net of Depreciation (or Net Property & Equipment)			
	Total Debt Owed on Fixed Assets			
	Total Annual Expenses			
Formula = (Unrestricted Net Assets - (Fixed Assets - Debt Owed on Fixed Assets))/(Total Annual Expenses/365 Days)				

How many days wo
Typical Goal= 3 month
Measures JUST Cash
Goal should depend on
Stable and consistent c

Measures resource
Typical Goal= 3 month
Includes Cash AND Re
Goal should depend on
Stable and consistent c
May be higher or lowe
assets are donor restri
current assets, like rec

SOLVENCY				
Current Ratio	Current Assets		$ -	of current assets for every $1 of current liabilities
	Current Liabilities			
Formula = Current Assets/Current Liabilities				
Debt Ratio	Total Net Assets (or Total Equity)		$ -	of net assets for every $1 of total liabilities
	Total Liabilities			
Formula = Total Net Assets / Total Liabilities				

Key Ratios - Dashboards

Liquidity

A measure of how much cash and assets that can be easily converted to cash (such as short-term investments) an organization has available for use in the immediate or near future." - *Propel Nonprofits*

Two Measures:

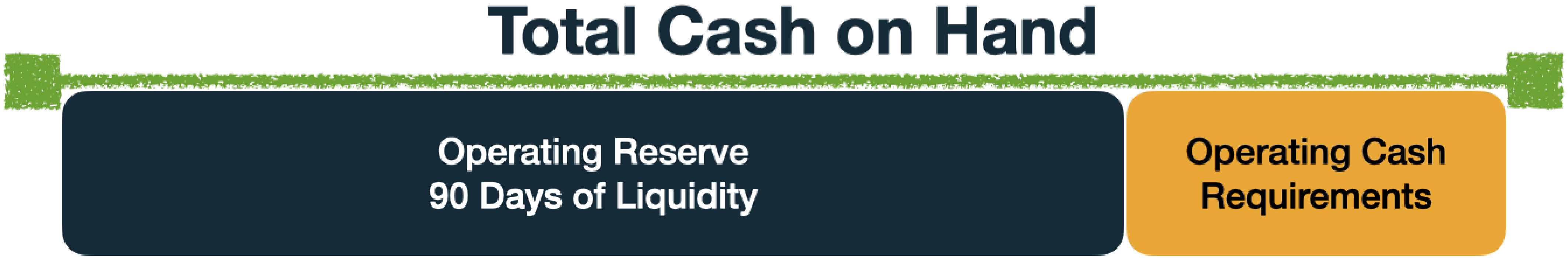
- **Days Cash on Hand**
- **Liquid Unrestricted Net Assets (LUNA)**

Also Known as "Operating Reserve"

General Goal is 90+ Days — Depends on Spending and Revenue Volatility

So What? – How to Analyze Financial Statements

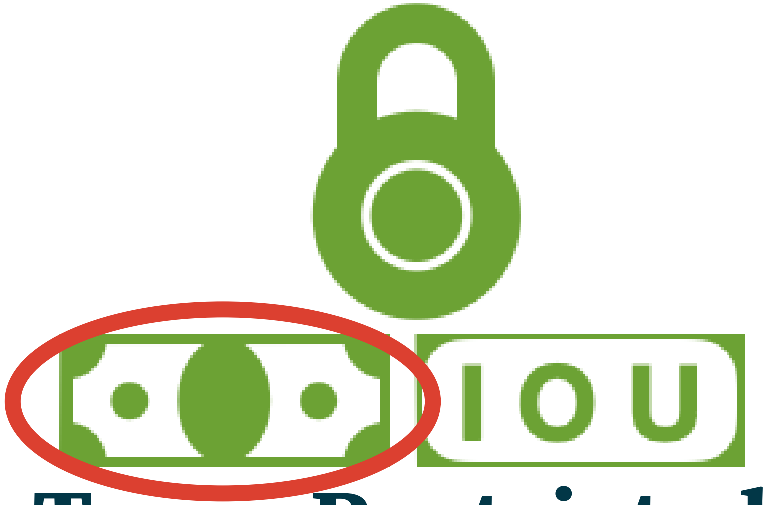
Liquidity



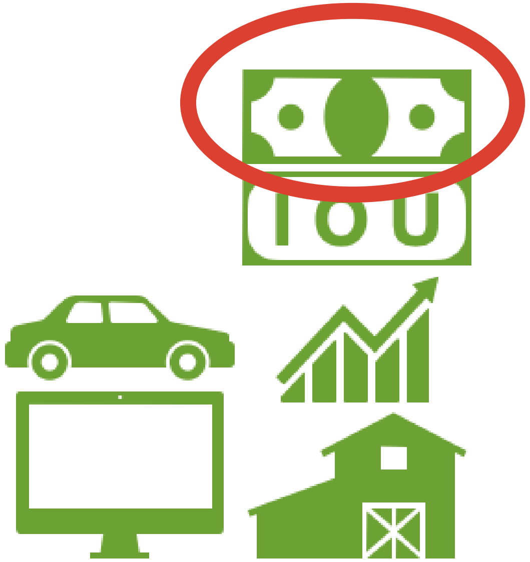
So What? – How to Analyze Financial Statements

Liquidity

Days Cash on Hand



Temp Restricted



Unrestricted

So What? – How to Analyze Financial Statements

Liquidity

Liquid Unrestricted Net Assets (LUNA)

Temp Restricted

Unrestricted

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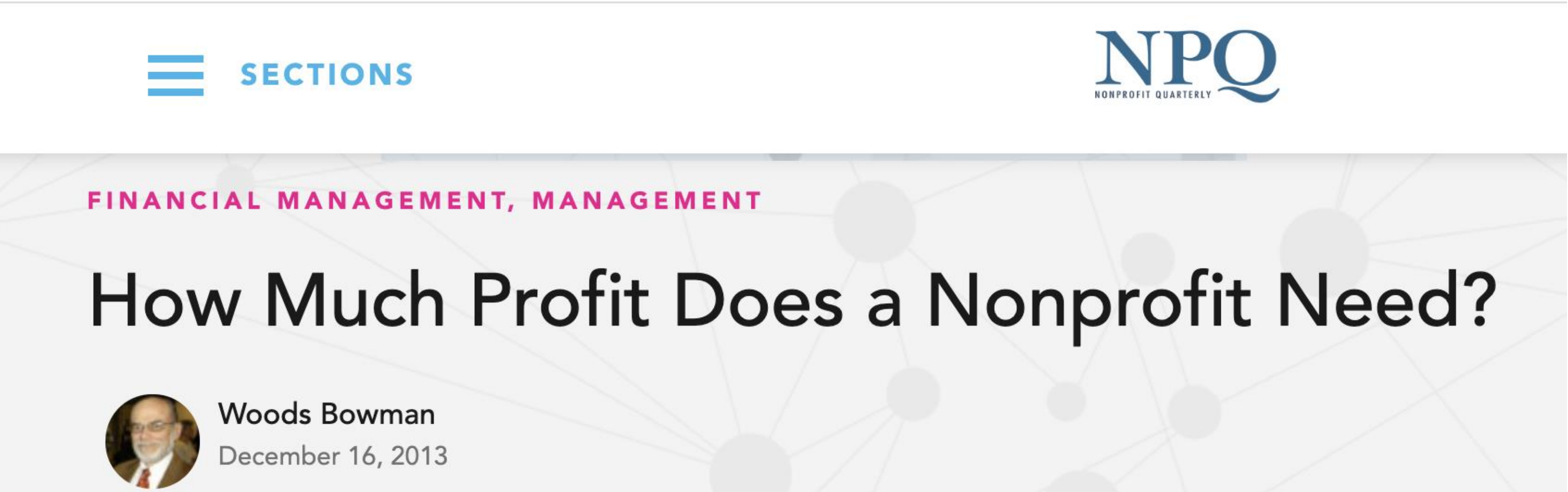
Key Ratios - Dashboards

Efficiency and Profitability


SECTIONS

NPQ
NONPROFIT QUARTERLY

FINANCIAL MANAGEMENT, MANAGEMENT

How Much Profit Does a Nonprofit Need?

Woods Bowman
December 16, 2013

https://nonprofitquarterly.org/how-much-profit-does-a-nonprofit-need/

What is the productivity of my assets?

Key Ratios - Dashboards

Other Ratios:

- **Solvency –** *Do we have enough assets to meet our "current" obligations?*
- **Debt –** *Do we have enough assets to service and pay our debts?*
- **Reliance –** *How reliant are we on one source/type of revenue? What risk is associated with that?*
- **Revenue Mix –** *How much earned vs. contributed revenue?*
- **Personnel Cost –** *What % of expenses go to personnel costs?*
- **Overhead –** *What is our "overhead" or "indirect cost rate?"*
- **Profit Margin –** *What is our profitability?*

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Key Ratios - Dashboards

Montana Nonprofit Association

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The Board's Role as Fiduciary

- Is our operation sustainable?
- Where are we and where are we headed?
- Are we too reliant on X, Y, Z funding source?
- Where are growth opportunities?
- Do we see our strategic priorities represented in the budget/financials?

The Board's Role as Fiduciary

Board Reporting

Budget Report

1. **Statement of Activities (Income Statement)**
    1. **Unrestricted Revenue, if possible**
    2. **Specified Timeframe (Monthly, Quarterly)**
    3. **Compares Actuals to**
        1. **Budget** *(How are we doing compared to the plan?)*
        2. **Prior Year Actuals** *(How are we doing compared to last year?)*

What is a Budget, truly?

Monitoring and Managing Performance

Budget Report

Clear – *Concise Chart of Accounts, clarity about where revenues and expenses fall.*

Reliable – *Accurate and complete information.*

Routine – *Consistent format, consistent timeline, consistent process.*

Management-friendly – *Right info for right stakeholders. Right details.*

Monitoring and Managing Performance

Budget Analysis

- Variances are OK!
- Not all variances are created equal.
- Know your budget story
- Key consideration is “why?”

Donor Restrictions

A challenge to understanding and communicating performance

Donor Restrictions

Nonprofits are required to report contributed income in one of two categories:

1. **Without Donor Restrictions:**
    1. *Free from external restrictions and available for general use.*

2. **With Donor Restrictions:**
    1. *Temporarily Restricted for a particular time or use*
    2. *Permanently Restricted to an endowment*

Temporary Restrictions

1. **Use:**
   1. *For a certain program or purchase*
   2. *E.g. For a new van*

2. **Time:**
   1. *For a certain period of time*
   2. *E.g. a multi-year grant*

Two accounting principles guide restrictions:

1. Restrictions are imposed by the donor when they make the gift/grant.

2. Income must be recognized in the period in which it was received, regardless of when the related expenses occur.

<u>Two accounting principles guide restrictions:</u>

Can lead to artificial surpluses and deficits in financial statements.

Monitoring and Managing Performance

Restriction Recommendations

1. Use Release Schedule to show current operating performance
    1. Operating Revenue against Operating Expenses

2. Create Classes/Departments for Restricted Funds

3. Release Restricted Funds on a schedule into "Release from Restriction" revenue line.

4. Report just an Unrestricted income statement when monitoring performance.

Monitoring and Managing Performance

Example #1

Family Advocacy Network

$60,000 grant for 3 years of programming ($20,000/year)

Monitoring and Managing Performance

Family Advocacy Network
Income Statement
For the Twelve Months Ending December 31, 20XX

INCOME	Without Donor Restrictions	With Donor Restrictions	Total
Individual Contributions	8,285		8,285
Grants	-	60,000	60,000
Net Assets Released from Restrictions	20,000	(20,000)	-
User Fees	5,250		5,250
Contract Income	3,900		3,900
Total Support & Revenue	37,435	40,000	77,435
EXPENSE			
Personnel	24,000		24,000
Program Related Materials	6,985		6,985
Rent & Utilities	4,750		4,750
Marketing	1,375		1,375
Total Expenses	37,110	-	37,110
Change in Net Assets (Surplus/Def)	$ 325	$ 40,000	$ 40,325

Monitoring and Managing Performance

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Monitoring and Managing Performance

Montana Nonprofit Association

Temporarily Restricted Fund Balance

	EXAMPLE													TOTAL	End of Month Balance
Purpose:	*Summer Programming*														
Funder Name:	***Very Good Foundation***														
Term:	*$50,000/year for 3 years (2022-2024)*														
(P)urpose or (T)ime:	*P*														
Starting Balance @ Start of Year	*50,000.00*	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**0.00**	
January - Received														0.00	
Released														0.00	0.00
February - Received														0.00	
Released														0.00	0.00
March - Received														0.00	
Released														0.00	0.00
April - Received														0.00	
Released														0.00	0.00
May - Received														0.00	
Released														0.00	0.00
June - Received	*50,000.00*													0.00	
Released	*(16,666.67)*													0.00	0.00
July - Received														0.00	
Released	*(16,666.67)*													0.00	0.00
August - Received														0.00	
Released	*(16,666.67)*													0.00	0.00
September - Received														0.00	
Released														0.00	0.00
October - Received														0.00	
Released														0.00	0.00
November - Received														0.00	
Released														0.00	0.00
December - Received														0.00	
Released														0.00	0.00
Ending Balance	*50,000.00*	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		**0.00**	

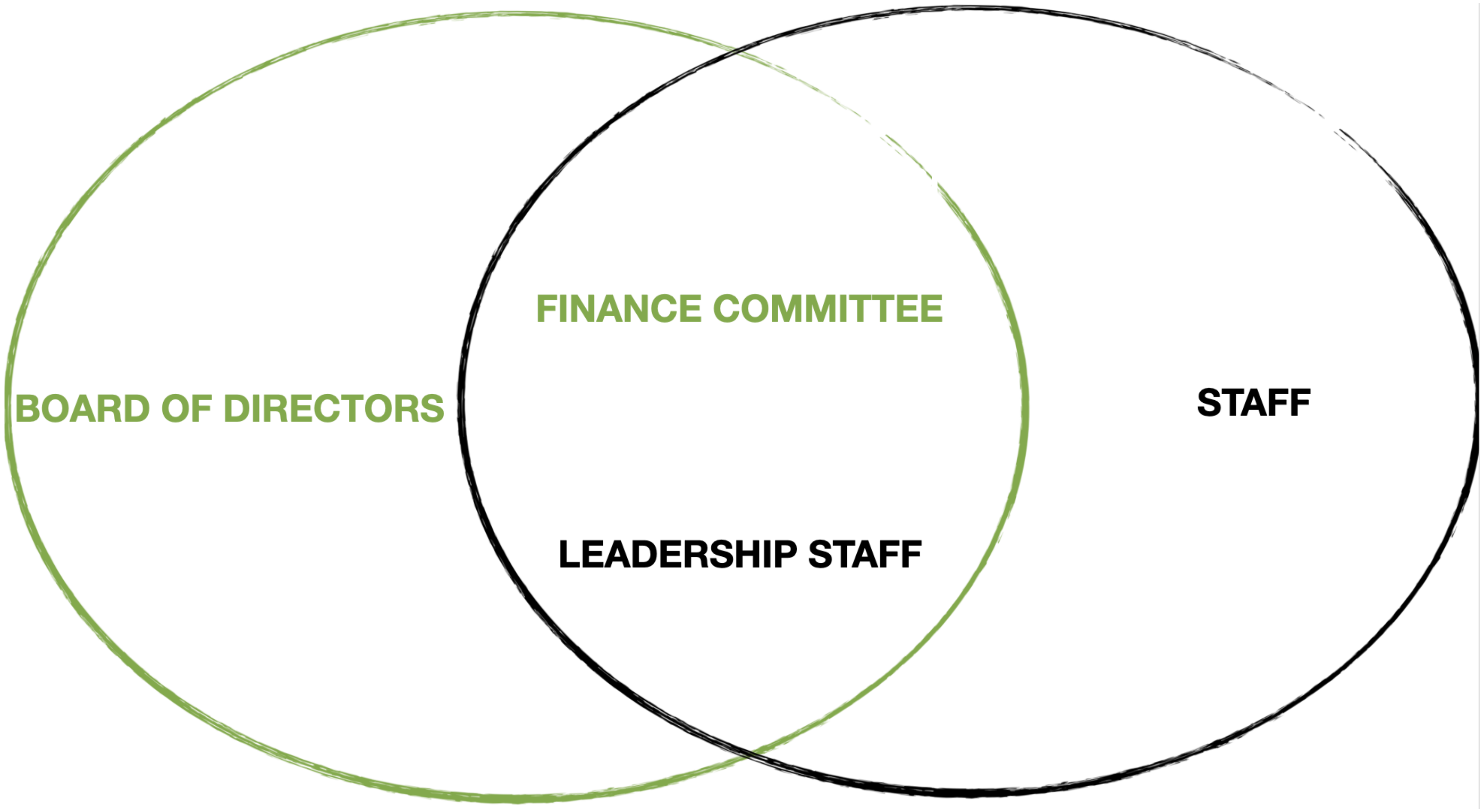
Monitoring and Managing Performance

Stakeholders

- Board of Directors (Whole)
- Finance Committee
- Leadership Staff (ED, CEO, CFO, Director)
- Staff (Program Director, Manager, Employee)

Monitoring and Managing Performance

Stakeholders



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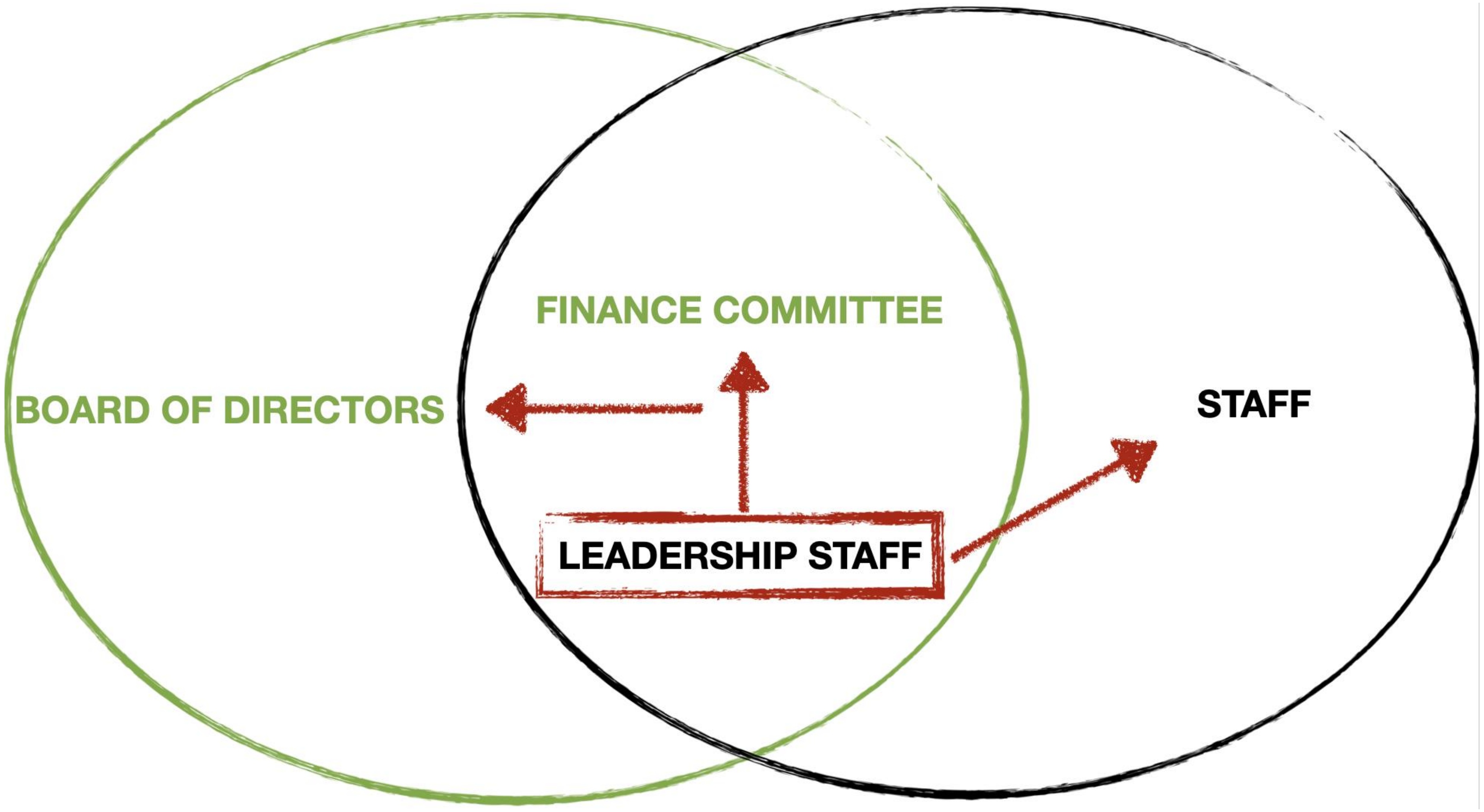
Stakeholders



Monitoring and Managing Performance

Finance Committee

- Provide Financial Oversight to the Organization
- Represent the Board on Financial Matters
- Communicate Financial Matters to the Full Board
- Execute Financial Policy
- Be a Resource for Staff

Do the heavy lifting and be a support for staff

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Monitoring and Managing Performance

Finance Committee

Proposed Calendar

Monitoring and Managing Performance

Let Purpose Drive Content

- **Compliance:** *Approve the Budget, File the 990, complete an Audit*
- **Evaluation:** *Financial Review. Is the program working?*
- **Planning:** *Where are opportunities?*
- **Action:** *We need to do something!*

Monitoring and Managing Performance

Finance Policy

- **Internal Controls:** *Handling Cash/Checks | Reviewing Statements*
- **Establish Authorities:** *Position, not person*
- **Capitalization:** *Assets above what value get capitalized and depreciated?*
- **Reporting:** *Staff process and procedure for Board reporting*
- **Asset/Cash Management**
  - *Cash Balances (Liquidity, Working Capital)*
  - *Operating Reserve ("Rainy Day Fund")*
  - *Line of Credit*
  - *Credit Card*

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Monitoring and Managing Performance

A Note about Audits

- No state requirement for an audit in Montana
- >$1M in Gov't grants/year triggers "Single Audit"
- Considered best practice for budgets >$500k/year
- Audit vs. Review | Every year vs. Every other year
- Usually costs >$15K

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Thank you for what you do!

Adam Jespersen, MBA (he/him)
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(406) 449.3717

Feel free to reach out when the time is right.