The Board's Guide to Money

Session #1:
Understanding Financial Statements

Using Common Ratios for Dashboards/KPIs

12:00p – 1:00p MDT | May 14, 2024

Montana Nonprofit Association

Welcome!

Adam Jespersen, MBA (he/him)
Executive Director
ajespersen@mtnonprofit.org
(406) 449.3717

Session Agenda:

12:00 – 12:10: Introductions and Course Overview

12:10 – 12:20: Balance Sheet

12:20 – 12:30: Income Statement

12:30 – 12:40: Cash Flow Statement

12:40 – 12:45: Introductions to KPIs and Ratios

12:45 – 12:55: Liquidity and Profitability

12:55 – 1:00: Ratio Analysis Template

Course Schedule:

May 14 – Understanding Financial Statements

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

May 21 – Board Systems and Reporting

1. Ratios Continued
2. Financial Systems
3. Financial Reporting

Course Schedule:

Coaching

[Organizational Development]

[Customized Templates]

[Additional Training on Concepts]

Use link in Thinkific Course to Book **FREE** Q&A or Exploratory call

After free call -- $100/hour

Course Overview:

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

Course Overview:

Nonprofit Finance Fund™

10 Finance Essentials for Social Sector Leaders

M·N·A
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				

M·N·A

Before We Begin…The Board’s Role

Fiduciary:

“A person that makes financial decisions on behalf of another party who is legally obligated to act in their best interests.”

Before We Begin…The Board’s Role

Fiduciary:

1. **Duty of Care**: Take care of the nonprofit by ensuring prudent use of all assets

2. **Duty of Loyalty**: Ensure that the nonprofit's activities and transactions are, first and foremost, advancing its mission; Recognize and disclose conflicts of interest; Make decisions that are in the best interest of the nonprofit corporation

3. **Duty of Obedience**: Ensure that the nonprofit obeys applicable laws and regulations; follows its own bylaws; and that the nonprofit adheres to its stated corporate purposes/mission.

Before We Begin…The Board’s Role

Board members are the ultimate Financial Leaders in any nonprofit organization.

Defining Financial Leadership

Financial Management

990s | Debits/Credits | Audits | Internal Controls | Policy

Defining Financial Leadership

Defining Financial Leadership

Understanding Financial Statements

The Big 3 Financial Statements

1. Balance Sheet – Statement of Financial Position
   "How are we financially, right now?"

2. Income Statement – Statement of Financial Activity
   "Where did our money come from and go last month?"

3. Cash Flow Statement
   "What did our total cash activity look like last month?"

Balance Sheet – Statement of Financial Position

		2020
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$	529,528
Accounts receivable		27,275
Grants receivable, current		135,000
Prepaid expenses		-
Total current assets		691,803
FIXED ASSETS		
Property and equipment		122,646
Less accumulated depreciation and amortization		(89,076)
Total fixed assets		33,570
OTHER ASSETS		
Refundable unemployment reserve		6,630
Grants receivable, long term, net of discount		34,300
Total other assets		40,930
Total assets	$	766,303
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$	6,567
Accrued payroll liabilities		54,453
Deferred revenue		53,862
Total current liabilities		114,882
NET ASSETS		
Without donor restrictions		376,535
With donor restrictions		274,886
Total net assets		651,421
Total liabilities and net assets	$	766,303

Shows financial "position" of an organization at a <u>single point in time</u>

It's a <u>snapshot</u> of everything an organization has and owes at one point in time.

Balance Sheet – Statement of Financial Position

		2020
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$	529,528
Accounts receivable		27,275
Grants receivable, current		135,000
Prepaid expenses		-
Total current assets		691,803
FIXED ASSETS		
Property and equipment		122,646
Less accumulated depreciation and amortization		(89,076)
Total fixed assets		33,570
OTHER ASSETS		
Refundable unemployment reserve		6,630
Grants receivable, long term, net of discount		34,300
Total other assets		40,930
Total assets	$	766,303
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$	6,567
Accrued payroll liabilities		54,453
Deferred revenue		53,862
Total current liabilities		114,882
NET ASSETS		
Without donor restrictions		376,535
With donor restrictions		274,886
Total net assets		651,421
Total liabilities and net assets	$	766,303

THE Accounting Equation

Assets = Liabilities + Equity

***Assets:* Everything I HAVE**

***Liabilities:* Everything I OWE**

***Equity:* What I'm WORTH**

MNA

Balance Sheet – Statement of Financial Position

		2020
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$	529,528
Accounts receivable		27,275
Grants receivable, current		135,000
Prepaid expenses		-
Total current assets		691,803
FIXED ASSETS		
Property and equipment		122,646
Less accumulated depreciation and amortization		(89,076)
Total fixed assets		33,570
OTHER ASSETS		
Refundable unemployment reserve		6,630
Grants receivable, long term, net of discount		34,300
Total other assets		40,930
Total assets	$	766,303
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$	6,567
Accrued payroll liabilities		54,453
Deferred revenue		53,862
Total current liabilities		114,882
NET ASSETS		
Without donor restrictions		376,535
With donor restrictions		274,886
Total net assets		651,421
Total liabilities and net assets	$	766,303

THE Accounting Equation

Assets = Liabilities + Equity

Balance Sheet – Statement of Financial Position

	2020
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 529,528
Accounts receivable	27,275
Grants receivable, current	135,000
Prepaid expenses	-
Total current assets	691,803
FIXED ASSETS	
Property and equipment	122,646
Less accumulated depreciation and amortization	(89,076)
Total fixed assets	33,570
OTHER ASSETS	
Refundable unemployment reserve	6,630
Grants receivable, long term, net of discount	34,300
Total other assets	40,930
Total assets	$ 766,303
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable	$ 6,567
Accrued payroll liabilities	54,453
Deferred revenue	53,862
Total current liabilities	114,882
NET ASSETS	
Without donor restrictions	376,535
With donor restrictions	274,886
Total net assets	651,421
Total liabilities and net assets	$ 766,303

THE Accounting Equation

Assets = Liabilities + ~~Equity~~

Nonprofit Equation:

Assets = Liabilities + Net Assets

MNA

Balance Sheet – Statement of Financial Position

		2020
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$	529,528
Accounts receivable		27,275
Grants receivable, current		135,000
Prepaid expenses		-
Total current assets		691,803
FIXED ASSETS		
Property and equipment		122,646
Less accumulated depreciation and amortization		(89,076)
Total fixed assets		33,570
OTHER ASSETS		
Refundable unemployment reserve		6,630
Grants receivable, long term, net of discount		34,300
Total other assets		40,930
Total assets	$	766,303
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$	6,567
Accrued payroll liabilities		54,453
Deferred revenue		53,862
Total current liabilities		114,882
NET ASSETS		
Without donor restrictions		376,535
With donor restrictions		274,886
Total net assets		651,421
Total liabilities and net assets	$	766,303

THE Accounting Equation

Assets = Liabilities + Equity

Nonprofit Equation:

Assets = Liabilities + Net Assets

Balance Sheet – Statement of Financial Position

		2020
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$	529,528
Accounts receivable		27,275
Grants receivable, current		135,000
Prepaid expenses		-
Total current assets		691,803
FIXED ASSETS		
Property and equipment		122,646
Less accumulated depreciation and amortization		(89,076)
Total fixed assets		33,570
OTHER ASSETS		
Refundable unemployment reserve		6,630
Grants receivable, long term, net of discount		34,300
Total other assets		40,930
Total assets	$	766,303
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$	6,567
Accrued payroll liabilities		54,453
Deferred revenue		53,862
Total current liabilities		114,882
NET ASSETS		
Without donor restrictions		376,535
With donor restrictions		274,886
Total net assets		651,421
Total liabilities and net assets	$	766,303

Assets:

- Listed in order of liquidity (nearness to cash)
- Current Assets = Reasonably able to be liquid within 12 months
- Receivable = Promise to Pay
- Fixed Assets =
  - Capitalized Assets (e.g. Buildings, equipment, vehicles, property)
  - Valued at historical book value AFTER depreciation
  - “Depreciation” = allocation of cost of a tangible asset over its useful life.

MNA

Balance Sheet – Statement of Financial Position

	2020
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 529,528
Accounts receivable	27,275
Grants receivable, current	135,000
Prepaid expenses	-
Total current assets	691,803
FIXED ASSETS	
Property and equipment	122,646
Less accumulated depreciation and amortization	(89,076)
Total fixed assets	33,570
OTHER ASSETS	
Refundable unemployment reserve	6,630
Grants receivable, long term, net of discount	34,300
Total other assets	40,930
Total assets	$ 766,303
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable	$ 6,567
Accrued payroll liabilities	54,453
Deferred revenue	53,862
Total current liabilities	114,882
NET ASSETS	
Without donor restrictions	376,535
With donor restrictions	274,886
Total net assets	651,421
Total liabilities and net assets	$ 766,303

Assets:

- Other Assets: Anything else the organization has that is NOT current (illiquid) and is NOT a Fixed Asset.
  - Endowment
  - Long-term receivable (beyond 12 months)
  - Prepaid expenses
- Asset values do NOT denote donor restrictions.

Balance Sheet – Statement of Financial Position

		2020
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$	529,528
Accounts receivable		27,275
Grants receivable, current		135,000
Prepaid expenses		-
Total current assets		691,803
FIXED ASSETS		
Property and equipment		122,646
Less accumulated depreciation and amortization		(89,076)
Total fixed assets		33,570
OTHER ASSETS		
Refundable unemployment reserve		6,630
Grants receivable, long term, net of discount		34,300
Total other assets		40,930
Total assets	$	766,303
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$	6,567
Accrued payroll liabilities		54,453
Deferred revenue		53,862
Total current liabilities		114,882
NET ASSETS		
Without donor restrictions		376,535
With donor restrictions		274,886
Total net assets		651,421
Total liabilities and net assets	$	766,303

Liabilities:

- Listed in order of maturity (when payment is due)
- Current Liabilities = Those that are due within 12 months
- Payable = Obligation to pay
- Debt = Will be split between portion due within 12 months (current) and the rest (other)
- Other Liabilities = Obligations that are not due within 12 months

M·N·A

Balance Sheet – Statement of Financial Position

		2020
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$	529,528
Accounts receivable		27,275
Grants receivable, current		135,000
Prepaid expenses		-
Total current assets		691,803
FIXED ASSETS		
Property and equipment		122,646
Less accumulated depreciation and amortization		(89,076)
Total fixed assets		33,570
OTHER ASSETS		
Refundable unemployment reserve		6,630
Grants receivable, long term, net of discount		34,300
Total other assets		40,930
Total assets	$	766,303
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$	6,567
Accrued payroll liabilities		54,453
Deferred revenue		53,862
Total current liabilities		114,882
NET ASSETS		
Without donor restrictions		376,535
With donor restrictions		274,886
Total net assets		651,421
Total liabilities and net assets	$	766,303

Net Assets:

- A calculation of the organization's net worth.
- "What's left after accounting for what you owe."
- Listed as with or without donor restriction.

MNA

Balance Sheet – Statement of Financial Position

Form 990 (2020) MONTANA NONPROFIT ASSOCIATION 73-1654969 Page 11

Part X Balance Sheet

Check if Schedule O contains a response or note to any line in this Part X ☐

			(A) Beginning of year		(B) End of year
Assets	1	Cash — non-interest-bearing	264,500.	1	529,528.
	2	Savings and temporary cash investments		2	
	3	Pledges and grants receivable, net	263,910.	3	169,300.
	4	Accounts receivable, net	26,429.	4	27,275.
	5	Loans and other receivables from any current or former officer, director, trustee, key employee, creator or founder, substantial contributor, or 35% controlled entity or family member of any of these persons		5	
	6	Loans and other receivables from other disqualified persons (as defined under section 4958(f)(1)), and persons described in section 4958(c)(3)(B)		6	
	7	Notes and loans receivable, net		7	
	8	Inventories for sale or use		8	
	9	Prepaid expenses and deferred charges	5,700.	9	
	10a	Land, buildings, and equipment: cost or other basis. Complete Part VI of Schedule D — 10a 122,646.			
	b	Less: accumulated depreciation — 10b 89,076.	26,290.	10c	33,570.
	11	Investments — publicly traded securities		11	
	12	Investments — other securities. See Part IV, line 11		12	
	13	Investments — program-related. See Part IV, line 11		13	
	14	Intangible assets		14	
	15	Other assets. See Part IV, line 11	6,430.	15	6,630.
	16	**Total assets.** Add lines 1 through 15 (must equal line 33)	593,259.	16	766,303.
Liabilities	17	Accounts payable and accrued expenses	61,439.	17	61,020.
	18	Grants payable		18	
	19	Deferred revenue	72,418.	19	53,862.
	20	Tax-exempt bond liabilities		20	
	21	Escrow or custodial account liability. Complete Part IV of Schedule D		21	
	22	Loans and other payables to any current or former officer, director, trustee, key employee, creator or founder, substantial contributor, or 35% controlled entity or family member of any of these persons		22	
	23	Secured mortgages and notes payable to unrelated third parties		23	
	24	Unsecured notes and loans payable to unrelated third parties		24	
	25	Other liabilities (including federal income tax, payables to related third parties, and other liabilities not included on lines 17-24). Complete Part X of Schedule D		25	
	26	**Total liabilities.** Add lines 17 through 25	133,857.	26	114,882.
Net Assets or Fund Balances		**Organizations that follow FASB ASC 958, check here ► ☒ and complete lines 27, 28, 32, and 33.**			
	27	Net assets without donor restrictions	86,593.	27	376,535.
	28	Net assets with donor restrictions	372,809.	28	274,886.
		Organizations that do not follow FASB ASC 958, check here ► ☐ and complete lines 29 through 33.			
	29	Capital stock or trust principal, or current funds		29	
	30	Paid-in or capital surplus, or land, building, or equipment fund		30	
	31	Retained earnings, endowment, accumulated income, or other funds		31	
	32	Total net assets or fund balances	459,402.	32	651,421.
	33	Total liabilities and net assets/fund balances	593,259.	33	766,303.

BAA TEEA0111L 10/07/20 Form **990** (2020)

The Form-990

- **Part X on the full Form-990**
- **Part II on the Form 990-EZ (condensed)**

Form 990-EZ (2021) Page **2**

Part II Balance Sheets (see the instructions for Part II)

Check if the organization used Schedule O to respond to any question in this Part II ☐

		(A) Beginning of year		(B) End of year
22	Cash, savings, and investments		22	
23	Land and buildings		23	
24	Other assets (describe in Schedule O)		24	
25	**Total assets**		25	
26	**Total liabilities** (describe in Schedule O)		26	
27	**Net assets or fund balances** (line 27 of column (B) **must** agree with line 21)		27	

Income Statement – Statement of Financial Activity

January - September, 2022		
		Total
Revenue		
4000 Nonprofit Member Dues	$	115,083
Total 4100 Associate Member Dues	$	18,750
Total 4200 Discount Product Fees	$	49,100
Total 4300 Sponsorships	$	85,750
Total 4400 Conference and Training Fees	$	181,447
Total 4500 Contributed Support	$	22,408
Total Revenue	$	728,057
Expenditures		
Total 6000 Personnel Expenses	$	400,877
Total 6100 Contracted Services	$	143,605
Total 6200 Travel	$	25,188
Total 6300 Occupancy	$	22,840
Total 6400 Property and Equipment	$	9,602
Total 6514 Miscellaneous expense	$	8,944
Total 6500 Other Expenses	$	93,993
Total Expenditures	$	696,104
Net Operating Revenue	$	31,928

Shows revenues received and expenses spent over a specified period of time

YOU DECIDE your "chart of accounts" and the order in which they are listed.

MNA

Income Statement – Statement of Financial Activity

January - September, 2022	
	Total
Revenue	
4000 Nonprofit Member Dues	$ 115,083
Total 4100 Associate Member Dues	$ 18,750
Total 4200 Discount Product Fees	$ 49,100
Total 4300 Sponsorships	$ 85,750
Total 4400 Conference and Training Fees	$ 181,447
Total 4500 Contributed Support	$ 22,408
Total Revenue	$ 728,057
Expenditures	
Total 6000 Personnel Expenses	$ 400,877
Total 6100 Contracted Services	$ 143,605
Total 6200 Travel	$ 25,188
Total 6300 Occupancy	$ 22,840
Total 6400 Property and Equipment	$ 9,602
Total 6514 Miscellaneous expense	$ 8,944
Total 6500 Other Expenses	$ 93,993
Total Expenditures	$ 696,104
Net Operating Revenue	$ 31,928

Revenues:

- **Categories (“buckets”) where you typically receive money.**
- **“Earned” Revenue: Do something and get paid for it.**
  - Fee for Service
  - Gov’t Contract
- **“Contributed” Revenue: Charitable Contribution**
  - Donations
  - Special Events
  - Foundation Grants

Income Statement – Statement of Financial Activity

January - September, 2022	
	Total
Revenue	
4000 Nonprofit Member Dues	$ 115,083
Total 4100 Associate Member Dues	$ 18,750
Total 4200 Discount Product Fees	$ 49,100
Total 4300 Sponsorships	$ 85,750
Total 4400 Conference and Training Fees	$ 181,447
Total 4500 Contributed Support	$ 22,408
Total Revenue	$ 728,057
Expenditures	
Total 6000 Personnel Expenses	$ 400,877
Total 6100 Contracted Services	$ 143,605
Total 6200 Travel	$ 25,188
Total 6300 Occupancy	$ 22,840
Total 6400 Property and Equipment	$ 9,602
Total 6514 Miscellaneous expense	$ 8,944
Total 6500 Other Expenses	$ 93,993
Total Expenditures	$ 696,104
Net Operating Revenue	$ 31,928

Expenses:

- Categories ("buckets") where you typically spend money.

- Personnel: Salaries and Wages
- Travel: Fuel, Lodging, Food, Airline
- Occupancy: Mortgage INTEREST, Rent, Utilities
- Supplies: Office, Program, Donor

The categories should make sense for how you do your mission!

M N A

Income Statement – Statement of Financial Activity

January - September, 2022	
	Total
Revenue	
4000 Nonprofit Member Dues	$ 115,083
Total 4100 Associate Member Dues	$ 18,750
Total 4200 Discount Product Fees	$ 49,100
Total 4300 Sponsorships	$ 85,750
Total 4400 Conference and Training Fees	$ 181,447
Total 4500 Contributed Support	$ 22,408
Total Revenue	$ 728,057
Expenditures	
Total 6000 Personnel Expenses	$ 400,877
Total 6100 Contracted Services	$ 143,605
Total 6200 Travel	$ 25,188
Total 6300 Occupancy	$ 22,840
Total 6400 Property and Equipment	$ 9,602
Total 6514 Miscellaneous expense	$ 8,944
Total 6500 Other Expenses	$ 93,993
Total Expenditures	$ 696,104
Net Operating Revenue	$ 31,928

Bottom Line:

- Revenues minus expenses gives you "the bottom line"
- Could be called:
  - Net Operating Revenue
  - Net Income
  - Net Profit
  - Surplus/Deficit
  - Change in Net Assets

Income Statement – Statement of Financial Activity

	2020 Without Donor Restrictions	2020 With Donor Restrictions	2020 Total
REVENUE AND SUPPORT			
Nonprofit member dues	$ 131,584	$ -	$ 131,584
Affiliate member dues	21,975	-	21,975
Sponsorships	47,599	-	47,599
Discount product fees	78,015	-	78,015
Conference and training fees	154,294	-	154,294
Contributed support	214,475	571,000	785,475
Investment income, net	3	-	3
Released from restrictions	678,923	(678,923)	-
Total revenue and support	1,326,868	(107,923)	1,218,945
EXPENSES			
Program services	879,989	-	879,989
Management and general	125,933	-	125,933
Fundraising	21,004	-	21,004
Total expenses	1,026,926	-	1,026,926
CHANGE IN NET ASSETS	299,942	(107,923)	192,019
Net assets at beginning of year	76,593	382,809	459,402
NET ASSETS AT END OF YEAR	$ 376,535	$ 274,886	$ 651,421

Audited Statements:

- Will separate revenue as with or without donor restriction
- Will separate expenses as either program, management and general, and fundraising
- "Overhead rate" is the % of expenses that are non-program.

Balance Sheet – Statement of Financial Position

Part VIII Statement of Revenue

Check if Schedule O contains a response or note to any line in this Part VIII ☐

Contributions, Gifts, Grants and Other Similar Amounts		(A) Total revenue	(B) Related or exempt function revenue	(C) Unrelated business revenue	(D) Revenue excluded from tax under sections 512-514
1a Federated campaigns	1a				
b Membership dues	1b				
c Fundraising events	1c				
d Related organizations	1d				
e Government grants (contributions)	1e 239,888.				
f All other contributions, gifts, grants, and similar amounts not included above	1f 545,587.				
g Noncash contributions included in lines 1a-1f	1g				
h **Total.** Add lines 1a-1f ▸		785,475.			

Program Service Revenue	Business Code	(A)	(B)	(C)	(D)
2a TRAINING & CONFERENCE REG	611430	154,294.	154,294.		
b MEMBERSHIP DUES	611430	153,559.	153,559.		
c DISCOUNT PRODUCT FEES	611430	78,015.	78,015.		
d CONFERENCE SPONSORSHIPS	611430	47,599.	47,599.		
e					
f All other program service revenue					
g **Total.** Add lines 2a-2f ▸		433,467.			

Part IX Statement of Functional Expenses

Section 501(c)(3) and 501(c)(4) organizations must complete all columns. All other organizations must complete column (A).

Check if Schedule O contains a response or note to any line in this Part IX X

Do not include amounts reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII.	(A) Total expenses	(B) Program service expenses	(C) Management and general expenses	(D) Fundraising expenses
1 Grants and other assistance to domestic organizations and domestic governments. See Part IV, line 21	35,030.	35,030.		
2 Grants and other assistance to domestic individuals. See Part IV, line 22				
3 Grants and other assistance to foreign organizations, foreign governments, and foreign individuals. See Part IV, lines 15 and 16				
4 Benefits paid to or for members				
5 Compensation of current officers, directors, trustees, and key employees	96,339.	64,547.	26,012.	5,780.
6 Compensation not included above to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B)	0.	0.	0.	0.
7 Other salaries and wages	382,921.	326,252.	49,822.	6,847.
8 Pension plan accruals and contributions (include section 401(k) and 403(b) employer contributions)	8,006.	6,965.	808.	233.
9 Other employee benefits	38,163.	31,066.	4,700.	2,397.
10 Payroll taxes	34,778.	30,414.	3,402.	962.

The Form-990

- **Part VIII and IX on the full Form-990**
- **Part I on the Form 990-EZ (condensed)**
- **Full 990 will break out program and overhead expenses. EZ will NOT.**

Part I Revenue, Expenses, and Changes in Net Assets or Fund Balances (see the instructions for Part I)

Check if the organization used Schedule O to respond to any question in this Part I ☐

Revenue	1	Contributions, gifts, grants, and similar amounts received		1
	2	Program service revenue including government fees and contracts		2
	3	Membership dues and assessments		3
	4	Investment income		4
	5a	Gross amount from sale of assets other than inventory	5a	
	b	Less: cost or other basis and sales expenses	5b	
	c	Gain or (loss) from sale of assets other than inventory (subtract line 5b from line 5a)		5c
	6	Gaming and fundraising events:		
	a	Gross income from gaming (attach Schedule G if greater than $15,000)	6a	
	b	Gross income from fundraising events (not including $ of contributions from fundraising events reported on line 1) (attach Schedule G if the sum of such gross income and contributions exceeds $15,000)	6b	
	c	Less: direct expenses from gaming and fundraising events	6c	
	d	Net income or (loss) from gaming and fundraising events (add lines 6a and 6b and subtract line 6c)		6d
	7a	Gross sales of inventory, less returns and allowances	7a	
	b	Less: cost of goods sold	7b	
	c	Gross profit or (loss) from sales of inventory (subtract line 7b from line 7a)		7c
	8	Other revenue (describe in Schedule O)		8
	9	**Total revenue.** Add lines 1, 2, 3, 4, 5c, 6d, 7c, and 8 ▸		9
Expenses	10	Grants and similar amounts paid (list in Schedule O)		10
	11	Benefits paid to or for members		11
	12	Salaries, other compensation, and employee benefits		12
	13	Professional fees and other payments to independent contractors		13
	14	Occupancy, rent, utilities, and maintenance		14
	15	Printing, publications, postage, and shipping		15
	16	Other expenses (describe in Schedule O)		16
	17	**Total expenses.** Add lines 10 through 16 ▸		17
Net Assets	18	Excess or (deficit) for the year (subtract line 17 from line 9)		18
	19	Net assets or fund balances at beginning of year (from line 27, column (A)) (must agree with end-of-year figure reported on prior year's return)		19
	20	Other changes in net assets or fund balances (explain in Schedule O)		20
	21	Net assets or fund balances at end of year. Combine lines 18 through 20 ▸		21

Balance Sheet – Statement of Financial Position

A Note About Your Chart of Accounts

- **Strive for Elegance – Simple, yet complete**
- **Keep it current**
- **When building or reviewing your chart of accounts, ask:**
  1. Is this line item absolutely **necessary to manage** our organization and make strategic decisions?
  2. Is this line item **required by outside users** of our information (e.g. funder, accrediting body, contractor)?

If the answer is no, consolidate

MNA

Cash Flow Statement

		2017 (Audited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$	59,865
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation and amortization		8,452
Unrealized gain on investments		(22)
(Increase) decrease in current assets:		
Grants receivable		(60,969)
Accounts receivable		(8,115)
Refundable unemployment reserve		(1,000)
Prepaid expenses		2,410
Increase (decrease) in current liabilities:		
Accounts payable		(5,119)
Accrued payroll liabilities		11,011
Deferred revenue		317
Net cash provided by operating activities		6,830
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets		(7,802)
Net proceeds from sale of investments		711
Net cash used by investing activities		(7,091)
CASH FLOWS USED BY FINANCING ACTIVITIES		
Advances (repayments) on line of credit		-
NET INCREASE (DECREASE) IN CASH		(261)
Cash and cash equivalents at beginning of year		32,035
CASH AND CASH EQUIVALENTS AT END OF YEAR	$	31,774

Shows cash flow into and out of the organization over a specific period of time.

Is different than the income statement for 2 reasons:

1. **Accrual Accounting**
2. **Non-Operating Uses of Cash**

Cash Flow Statement

Accrual Accounting:

The general idea is that economic events are recognized by matching revenues to expenses (the matching principle) at the time in which the transaction occurs rather than when payment is made or received. - Investopedia

Cash Flow Statement

Accrual Accounting:

Example: Adam provides 1 hour of service to Good Nonprofit in **January** ($100 in revenue). MNA bills Good Nonprofit for this service, and Good Nonprofit pays MNA in **March**.

Adam provides one hour of service ($30 in expense). MNA pays Adam for this service in **February**.

Cash Flow Statement

Accrual Accounting:

Cash Basis

	January	February	March
Revenue			$100
Expense		($30)	
Net Income	$0	($30)	$100

Accrual Basis

	January	February	March
Revenue	$100		
Expense	($30)		
Net Income	$70		

Cash Flow Statement

Non-Operating Uses of Cash

Budgeted Expenses
Investments
Equipment
Maintenance
Technology
Debt

MNA

Cash Flow Statement

Think Sources and Uses
NOT Revenue and Expense

Sources and Uses
(Most Broadly)

- **Operating Activities:** Normal operations (most activity)
- **Investing Activities:** Buying Stocks (use), cashing out stocks (source)
- **Financing Activities:** Drawing on LOC (source), paying the mortgage (use)

Cash Flow Statement

Two Types of Cash Flow Statements (Both use OIF)

- **Direct:** Add up cash in and cash out in each category
- **Indirect:** Start with Net Income and adjust for non-cash revenues and expenses.

Cash Flow Statement

Direct

ABC Co Ltd.
Statement of Cash Flows
For the Year Ended December 31, 2018

	$
Cash flows from Operating Activities	
Cash received from customers	126,860
Cash paid to suppliers	(69,600)
Cash paid to employees	(25,300)
Cash paid to landlord	(8,520)
Cash paid for interest	(2,400)
Cash paid for tax	(3,840)
Others	(1,624)
Total Cash flows from Operating Activities	**15,576**
Cash from Investing Activities	
Purchased Equipment	(9,142)
Total Cash from Investing Activities	**(9,142)**
Cash from Financing Activities	
Paid back principal of loan	(10,000)
Total Cash from Financing Activities	**(10,000)**
Net Cash Flows	**(3,566)**
Beginning cash balance	14,862
Ending Cash balance	**11,296**

Indirect

		2017 (Audited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$	59,865
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation and amortization		8,452
Unrealized gain on investments		(22)
(Increase) decrease in current assets:		
Grants receivable		(60,969)
Accounts receivable		(8,115)
Refundable unemployment reserve		(1,000)
Prepaid expenses		2,410
Increase (decrease) in current liabilities:		
Accounts payable		(5,119)
Accrued payroll liabilities		11,011
Deferred revenue		317
Net cash provided by operating activities		6,830
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets		(7,802)
Net proceeds from sale of investments		711
Net cash used by investing activities		(7,091)
CASH FLOWS USED BY FINANCING ACTIVITIES		
Advances (repayments) on line of credit		-
NET INCREASE (DECREASE) IN CASH		(261)
Cash and cash equivalents at beginning of year		32,035
CASH AND CASH EQUIVALENTS AT END OF YEAR	$	31,774

So What? – How to Analyze Financial Statements

Montana Nonprofit Association

DATE

LIQUIDITY

Measure	Component	Input	Result	Description
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

Measure	Component	Input	Result	Description
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				

So What? – How to Analyze Financial Statements

Why is this Important?

- High level snapshot of financial health – with context
- Benchmarks performance to peers and to yourself over time.
- Keeps leaders focused on high-level concepts and decisions.

So What? – How to Analyze Financial Statements

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:

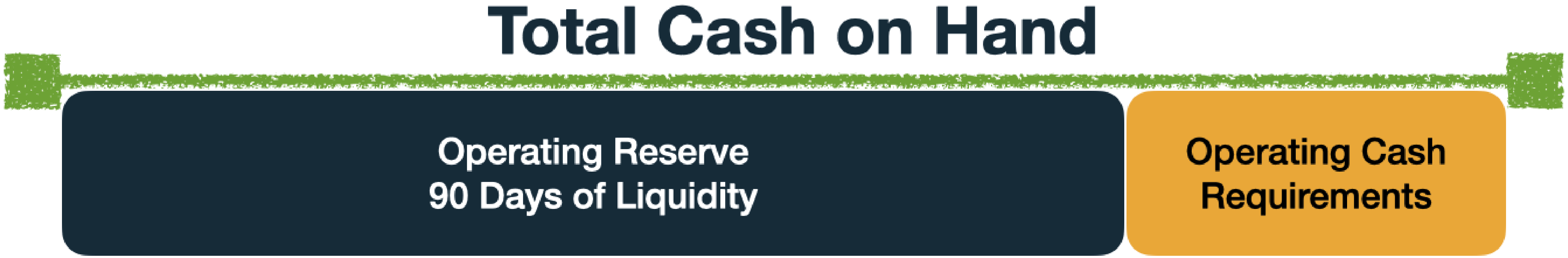
- **Days Cash on Hand**
- **Liquid Unrestricted Net Assets (LUNA)**

Also Known as "Operating Reserve"

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

So What? – How to Analyze Financial Statements

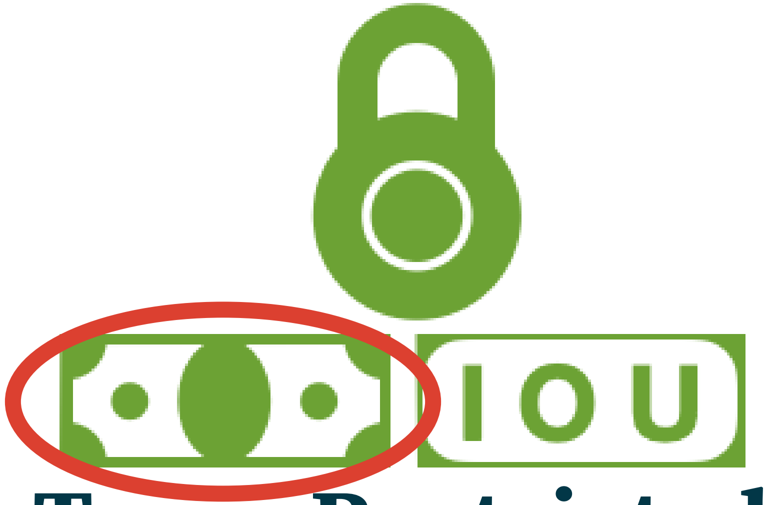
Liquidity



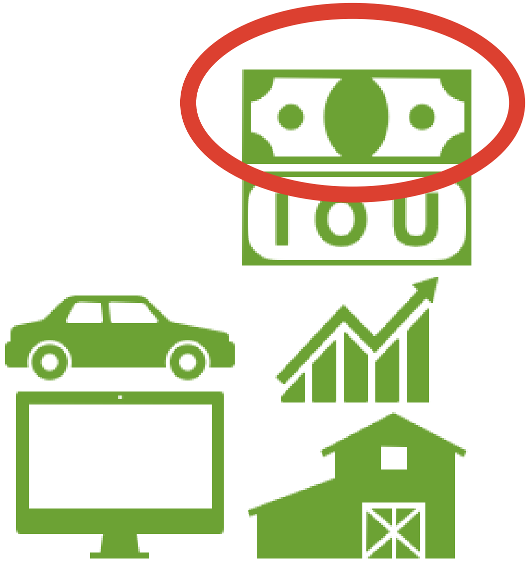
So What? – How to Analyze Financial Statements

Liquidity

Days Cash on Hand



Temp Restricted



Unrestricted

MNA

So What? – How to Analyze Financial Statements

Liquidity

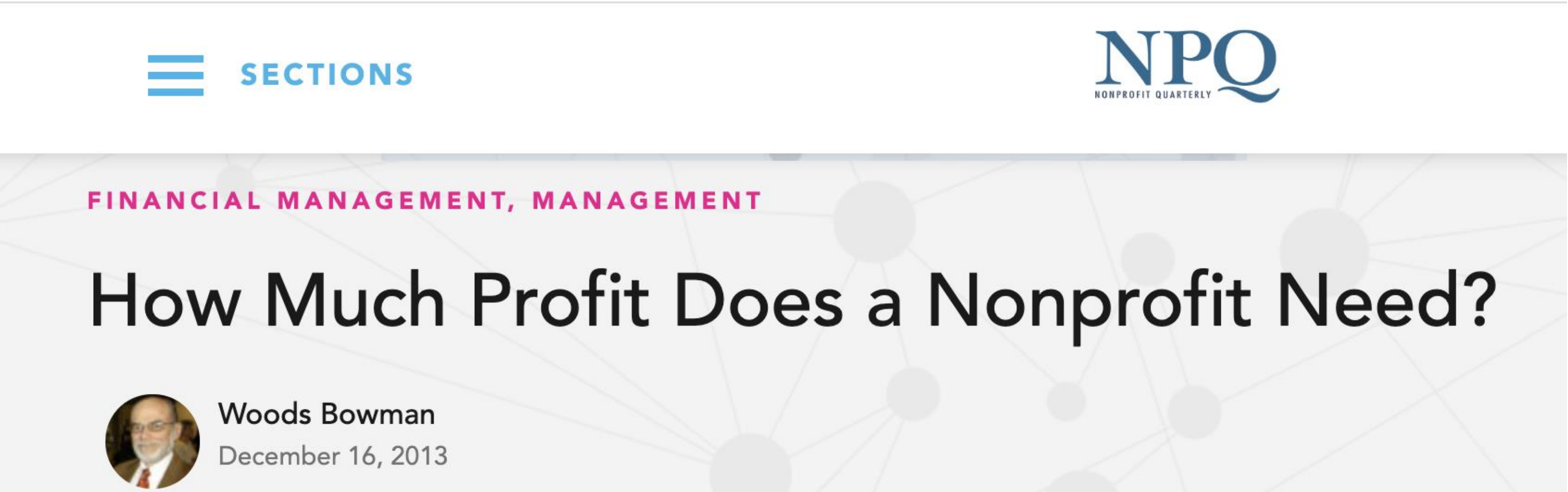
Liquid Unrestricted Net Assets (LUNA)

Temp Restricted

Unrestricted

So What? – How to Analyze Financial Statements

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?

MNA

So What? – How to Analyze Financial Statements

Other Ratios:

Solvency
Debt
Reliance
Revenue Mix
Personnel Cost
Overhead
Profit Margin

So What? – How to Analyze Financial Statements

Ratio Analysis Template

- Schedule to update regularly (monthly, quarterly, bi-annually)
- Set goals and track trends
- Know "Why?"
- Over time, see relationships between ratios
- Use for scenario planning (e.g. What if we bought that building?)

See you Next Week!

Adam Jespersen, MBA (he/him)
Executive Director
ajespersen@mtnonprofit.org
(406) 449.3717

Feel free to reach out when the time is right.