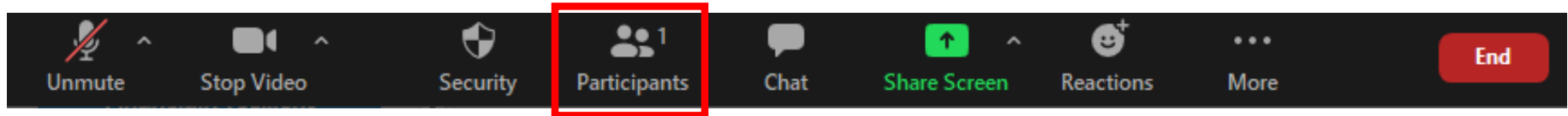


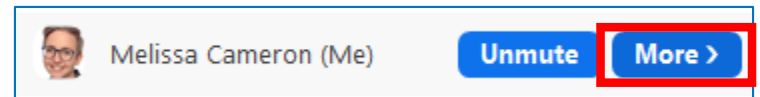
# Welcome!

As you log in, please update your Zoom screen name with **your first name, organization, and your pronouns** this change is temporary just for this meeting

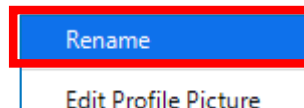
- 1 Select Participants from the menu at the bottom of your screen



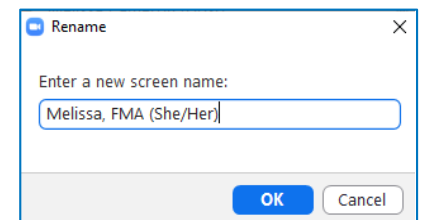
- 2 Hover over your name and select “more”



- 3 Select “Rename”



- 4 Update with your first name, organization, and pronouns, then select “okay”



# Understanding Financial Health

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Ethan Zatzko, Senior Consultant

April 29, 2021



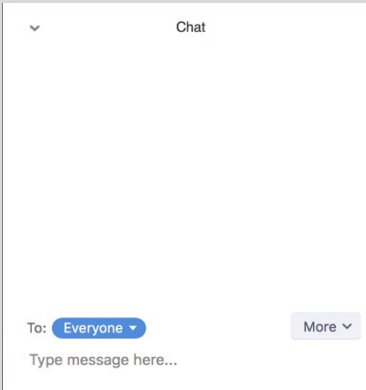
**BDO FMA**

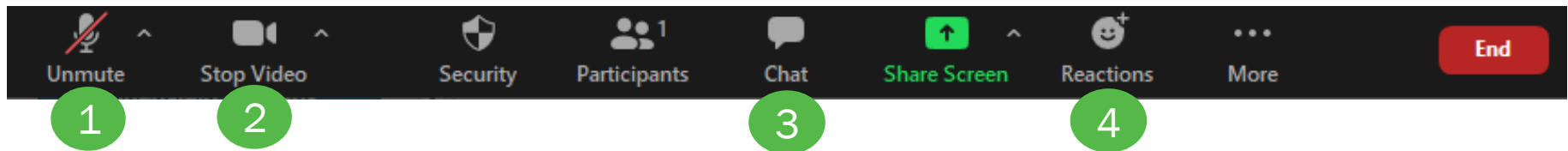
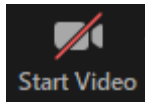
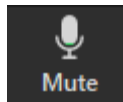


Community Foundation  
for Monterey County



# Zoom Controls

Audio/ Video	Chat	Reactions
<p>1</p> <p>Mute your microphone while others are presenting or speaking by pressing “mute”</p>	<p>3</p> <p>For questions while in-meeting click “Chat” to open a chat box and talk to everyone or a specific person</p> 	<p>4</p> <p>To react (clap/thumbs up) to something, click “Reactions” and select a reaction</p>
<p>2</p> <p>Position your webcam at eye-level. Click “Start Video” to turn on your camera</p>		



# Meeting Norms

## PARTICIPATE AUTHENTICALLY



Respect each other  
Judge ideas, not people



Avoid multi-tasking



Be present & engaged



Be patient with tech



Expect confidentiality



Be prepared to use video



Expect active & fun  
participation



Mute your microphone  
(unless you want to  
speak)

# Today's Session

Understanding  
Financial  
Heath

## Our Agenda

- ☐ Our Money Stories & Community Builder
- ☐ Financial Resilience: Operating Reserves & Business Model
- ☐ Audited Financial Statements and Tax Form 990
- ☐ Liquidity
- ☐ Calculating key metrics
- ☐ Understanding and communicating financial stories

# Money Stories



- Click on the link to the Padlet that's been shared in the chat
- Take a moment to reflect on the following questions:
  - *What messages did you get from your family/community about money?*
  - *How were you expected to use your own money when you had it?*
  - *What beliefs do you have about spending and saving money?*
  - *How do these histories show up at work?*
- Please share some responses using the Padlet – all responses are anonymous

# Community Builder

- We will place you into breakout groups
- Discuss the following with your group:
  - *Introduce yourself: name, organization and role*
  - *What was that reflection activity like for you?*
  - *What do you wish you understood about your organization's financial health?*
- When we return to the large group, share those wishes with us using the chat function

# Financial Resilience





# Operating Reserves

Reserves indicate flexibility - capital for change and security

## What Are Reserves?

Reserves are like a savings account

Liquid  
Unrestricted Net  
Assets (LUNA)

## Why Do We Need Them?

Serve the mission during downturn

Take risks, innovate and grow

Cover frontloaded expenses

## How Do We Build them?

Annual surpluses

Fundraising campaign or investment

Strategic budgeting

# Business Model Drivers: Revenue

## Contributed Revenue

Foundation/Corporate

Individual Donations

Government\*

In-Kind Donations

Special Events

## Earned / Other Revenue

Program Service Fees

Rental Income

Endowment Income

Other (interest and dividends, unrelated business income, sale of fixed assets, etc.)

*\*In cases where government acts as a third party payor (e.g., Medicaid reimbursements) it is considered earned revenue*

# Sustainable Business Model

## Characteristics of revenue strategies

### Foundations & Individuals

- May be restricted – requires strong accounting
- Inequitable access
- High-touch cultivation, requires adequate tech
- Giving may be inconsistent year to year
- Individual donor strategy requires more transactional capacity

### Earned Revenue & Special Events

- Earned is unrestricted, more controllable
- Requires true cost analysis for pricing
- Potential for mission drift/drain on program staff
- Beware of rules (UBIT, charitable income tax deduction)

### Government

- Often large/multi-year
- Cost-reimbursement requires other recurring source of liquidity
- Does not fund true cost, does not build reserves – requires supplemental resources
- Heavy compliance & reporting, requires strong billing & invoicing
- Requires close finance—program partnership to track spend-down
- Sometimes “signal funding” to others

Does your organization's revenue mix:  
a) Resource your true costs? b) Generate reserves?

# 990 vs Audited Financial Statements

## 990

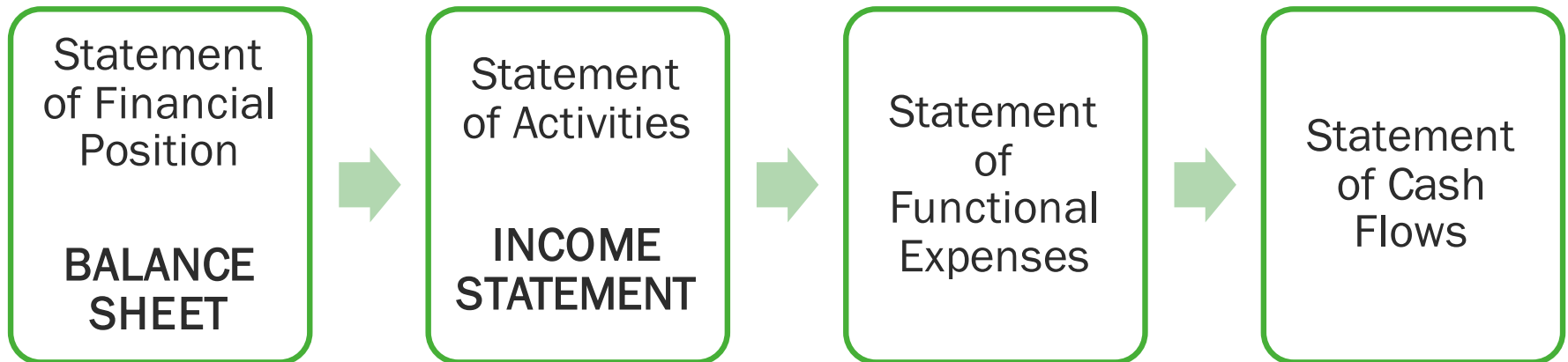
- No detail about **donor restrictions on revenue**
- **Board designated net assets** not shown
- **In-kind donations of services** not recognized
- Sales of merchandise, special events, and rental activities are shown **net of expenses**
- **Management & Governance** info included
- One of the most public and visible documents about our organizations

## Audit

- Shows **donor restrictions**
- Shows **board designated**
- Recognizes **In-kind donations of services**
- These may also be net of expenses, not always
- Conforms to **Generally Accepted Accounting Principles (GAAP)**—not required of data in the 990

# Audited Financial Statements

Every audit includes these financial statements:



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Opinion Letter

Notes

Management Letter (if applicable)

# INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Nonprofit Org, Inc.  
Anytown, USA

## ***Report on the Financial Statements***

We have audited the accompanying financial statements Nonprofit Org, Inc., which comprise of the statements of financial position as of June 30, 2018 and 2019 and the related statements of activities, functional expenses, and cash flows for the years then ended and related notes to the financial statements.

## ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

## ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide basis for our audit opinion.

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects the financial position of Nonprofit Org as of June 30, 2019 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

New York, NY

October 15, 2019

# Balance Sheet = Net worth as of a point of time

## What is Owned

### Assets

- Cash
- Receivables
- Investments
- Fixed Assets

## What is Owed

### Liabilities

- Bills due
- Line of Credit
- Deferred Revenue
- Debt (short-and long-term)

## Net Worth

### Net Assets

- WithOUT Donor Restriction (Board Designated, Fixed Assets, Other)
- WITH Donor Restriction (Temp or Perm)

Formal name: “*Statement of Financial Position*”

**NONPROFIT ORG, INC.**  
**STATEMENT OF FINANCIAL POSITION**

**JUNE 30, 2019 and 2018**

ASSETS			
		<u>2019</u>	<u>2018</u>
Assets:			
Cash		\$274,139	\$297,389
Pledges and contracts receivable		200,000	210,000
Prepaid expenses		<u>17,000</u>	<u>22,000</u>
Total Current Assets		491,139	529,389
Property and equipment, net of accumulated depreciation \$27,505		39,393	64,393
Other Assets - security deposit		<u>12,000</u>	<u>12,000</u>
<b>Total Assets</b>		<b><u>\$542,532</u></b>	<b><u>\$605,782</u></b>
LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts payable and accrued expenses		\$ 29,578	\$140,054
Advances		51,300	78,500
Current portion of long-term debt		<u>10,500</u>	<u>9,750</u>
Total Current Liabilities		91,378	228,304
Long-term debt		<u>160,744</u>	<u>170,494</u>
<b>Total Liabilities</b>		<b><u>252,122</u></b>	<b><u>398,798</u></b>
Net Assets:			
Without donor restrictions		(38,427)	114,417
With donor restrictions		<u>328,837</u>	<u>92,567</u>
<b>Total Net Assets</b>		<b><u>290,410</u></b>	<b><u>206,984</u></b>
<b>Total Liabilities and Net Assets</b>		<b><u>\$542,532</u></b>	<b><u>\$605,782</u></b>



# Income Statement = Financial activity over a period of time

What We Earned

What We Spent

Our Results



Formal name: “*Statement of Activities*”

Also known as “P&L” or “profit and loss”

“Budget vs Actual” is a similar report that shows this activity relative to your budget, highlighting variances

## NONPROFIT ORG, INC.

## STATEMENT OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2019 and 2018

	Without Donor Restrictions	With Donor Restrictions	Total 2019	2018
Revenue and support:				
Government contracts	\$ 692,998	--	\$ 692,998	659,650
Grants and contributions, non-government	188,760	559,100	747,860	834,982
Fundraising event	--	11,100	11,100	12,500
Satisfaction of program restrictions	333,930	(333,930)	--	
Interest income	<u>3,915</u>	<u>--</u>	<u>3,915</u>	<u>4,578</u>
Total revenue and support	1,219,603	236,270	1,455,873	1,511,710
Expenses:				
Program A	357,953	--	357,953	387,997
Program B	118,378	--	118,378	127,738
Program C	381,238	--	381,238	380,694
Program D	<u>229,861</u>	<u>--</u>	<u>229,861</u>	<u>232,894</u>
Total program expenses	1,087,430		1,087,430	1,129,323
Supporting Services				
Administrative and general	118,058	--	118,058	128,765
Fundraising	<u>166,959</u>	<u>--</u>	<u>166,959</u>	<u>170,780</u>
Total expenses	<u>1,372,447</u>	<u>--</u>	<u>1,372,447</u>	<u>1,428,868</u>
Change in net assets	(152,844)	236,270	83,426	82,842
Net assets - beginning of year	<u>114,417</u>	<u>92,567</u>	<u>206,984</u>	<u>124,142</u>
Net assets - end of year	<u>\$ (38,427)</u>	<u>\$ 328,837</u>	<u>\$ 290,410</u>	<u>\$ 206,984</u>

Operating  
Results

# So far today we've discussed:

- Financial Resilience
- Operating Reserves
- Business Model
- 990s & Audited Financial Statements:
  - Balance Sheet
  - Income Statement

## Do you have any questions?

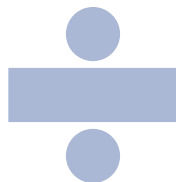
**Break**

**Poll:**

**Does your organization own a building or other significant fixed assets?**

# Liquidity: Cash on Hand

Money in the  
Bank



What We Will  
Spend on  
Average Per  
Month



Operating  
Runway



\*Consider excluding non-cash expenses

# Calculating Cash on Hand

Assets	
Cash	1,103,580
Receivables	563,000
Fixed assets, net	47,875
Total assets	<u>1,714,455</u>

	Jul 19 - Apr 20
Revenue	
Individual Contributions	176,000
Foundations	1,478,400
Other	105,600
Total Revenue	1,760,000
Expenses	
Personnel	1,458,331
Rent	250,000
Supplies	374,999
Total Expense	2,083,330

YTD Expenses	2,083,330
\ Number of Months	10
= Monthly Expense	208,333
Cash	1,103,580
\ Monthly Expense	208,333
= Months of Cash	5.3

# Liquidity: Liquid Unrestricted Net Assets (LUNA)

Our Unrestricted  
Net Worth

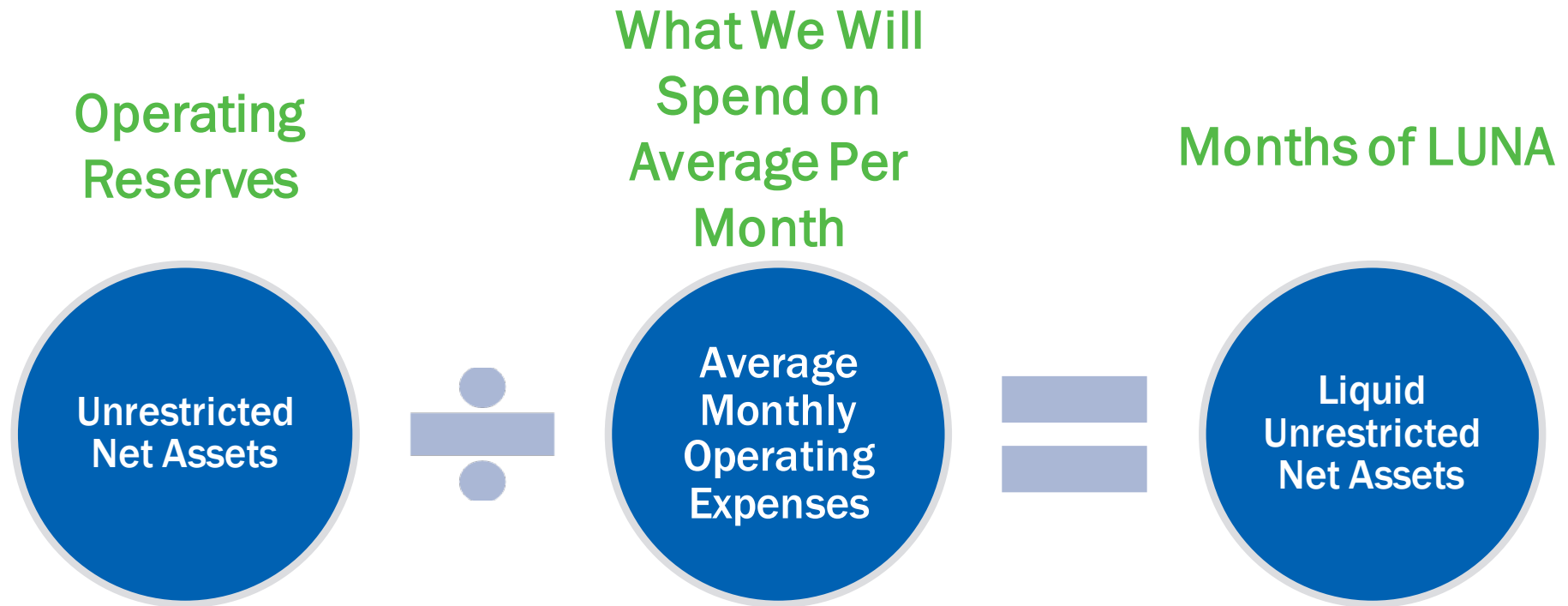
Unavailable Net  
Worth

Operating  
Reserves





# Liquidity: Months of Liquid Unrestricted Net Assets (LUNA)



# Calculating LUNA

Assets	
Cash	1,103,580
Receivables	563,000
Fixed assets, net	47,875
Total assets	1,714,455
Liabilities and Net Assets	
Liabilities:	
Accounts payable	340,000
Total liabilities	340,000
Net assets:	
Without donor restrictions	
Operations	370,455
Board designated	250,000
Total unrestricted	620,455
With donor restrictions	754,000
Total net assets	1,374,455
Total liabilities and net assets	1,714,455

Unrestricted Net Assets	620,455
– Board designated	250,000
– Fix assets, net	47,875
= LUNA	322,580
\ Monthly Expenses	208,333
= Months of LUNA	1.5

# *Calculating Metrics*

1. Assign a group member to manage the Excel tool and share their screen
2. Using the sample financials provided, calculate 2 years of LUNA (Liquid Unrestricted Net Assets)
3. Discuss the 2-year LUNA trend with your group

*If you complete the activity with time to spare, try your hand at months of cash and operating results!*

# Answer Key: LUNA

Liquid Unrestricted Net Assets (LUNA)		
Year:	2019	2018
Source of Data:	Audit	Audit
Net Assets without Donor Restriction	\$ 492,947	\$ 576,734
Fixed Assets, Net	\$1,506,326	\$ 1,545,689
Less: Mortgages or Other Debt Related to Fixed Assets	\$1,065,155	\$ 1,096,728
Fixed Assets less Mortgages	\$ 441,171	\$ 448,961
Liquid Unrestricted Net Assets (LUNA) (A - B)	\$ 51,776	\$ 127,773
Average Monthly Expenses (Annual Expenses / 12)	\$ 164,767	\$ 148,426
Months of LUNA (C / D)	0.31	0.86

A

B

C

D

**Do you have any questions  
about calculating three key  
metrics?**

- operating results**
- months of cash on hand**
- months of LUNA**

# *Breakout Activity*

- Financial information is only as powerful as we're able to make meaning from it, and communicate effectively about it with others.
- What are the most difficult challenges you experience when using your organization's financial information to **understand** and/or **communicate** the *story behind the numbers* to key stakeholders like staff, board, funders, community?
- What are your best tips or success stories?

**Use the chat:**

**What was your key takeaway from  
your breakout discussion?**

# Good Financial Storytelling

When I tell the “story behind the numbers,” it:



Is **accurate** and based on current and relevant data



Headlines key **successes** and **challenges**



Explains **past trends** and gives insight into the future



Is **accessible** and easy to understand



Has been tailored to the interests and needs of its **audience**



Utilizes **visual** tools



Addresses **weaknesses** and anticipates **questions**



Has a clear **call to action** for its audience



Is connected to **mission**



# Resources

# Resources

[www.strongnonprofits.org](http://www.strongnonprofits.org)

In collaboration with the Wallace Foundation, FMA created a library of **free tools and resources** to help organizations become “fiscally fit”

## StrongNonprofits Toolkit

Resources to strengthen your nonprofit financial management

Toolkit Home

Budgeting

Cash Flow

Audit  
Readiness

Operations

Data and  
Analysis

Governance  
and Strategy



Understanding  
Cash Flow

Cash Flow  
Projections

Cash Flow  
Projections (Basic)

Next Steps



### Cash Flow

Once you have completed your annual budget process, these tools can help your team translate your newly minted operating budget into a detailed cash flow projection over the course of a fiscal year.

**Use the chat:**

**What was your biggest takeaway  
from your today's session?**

# Evaluation



**BDO FMA**

- Established in 1999 to serve not-for-profit organizations around the country
- Provides customized financial management, accounting, software, organizational development, and other consulting services
- Works directly with organizations or through funder-supported management and technical assistance programs

***FMA exists to build a community of individuals with the confidence and skills to lead organizations that change the world***

**Ethan Zatko**  
**Senior Consultant**

ezatko@bdo.com



@FMA4Nonprofits



/FiscalManagementAssociates



/company/fiscal-management-associates-llc

**[www.fmaonline.net](http://www.fmaonline.net)**

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