

UNDERSTANDING FINANCIAL VIABILITY

June 19, 2018

Presented by Glenda Y. Hicks, CPA for
2018 Regions 3 and 4 PTAC Conference

Learning Objectives

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- Understand the purpose of key nonprofit financial statements
- Understand how to interpret financial information to assess financial condition
- Learn tools, resources and ratios available for assessing financial viability and risks
- Learn important financial questions to ask as a board member
- Increase awareness of new developments in accounting or regulatory rules



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Resource Providers

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- Analyze financial information to measure:
 - Efficiency
 - Staying Power
 - Liquidity
 - Mission Accomplished
 - Stewardship



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Analytical Procedures

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- Ratio
- Trend
- Benchmarking
- Common Sense Relationship
- Communication vs. Explanation



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Non-Profit Financial Statements

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- Audit Report
 - Auditor's Opinion (modified, unmodified, adverse)
 - Statement of Financial Position (Balance Sheet)
 - Statement of Activities (Income Statement/P&L)
 - Statement of Functional Expenses
 - Statement of Cash Flows
 - Footnotes
- 990
- Annual Budget
- Annual Report
- Internal/Interim Financial Statements
- Cash vs. Accrual



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Assess Your Knowledge



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Parent Center Board Professional Development Toolkit



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Nonprofit Financial Statements

- Balance Sheet (on a specific date)
 - What organization owns
 - What organization owes
 - What organization has left
- Statement of Activities (over a period of time)
 - What organization earned/took in
 - What organization incurred/paid out
- Statement of Cash Flows (over a period of time)
 - What cash moved through the organization



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- Statement of Functional Expenses (over a period of time)
 - ▣ How organization spent money by type of expense (natural classification—rent, salary, office supplies)
 - ▣ How organization spent money by function, which is by program, management & general, and fundraising



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Balance Sheet

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- Comparative
- Classified
- Pledges, net of allowance and discount
- Prepaid Expenses impact event budgets
- Liquidity
- Net Assets
 - ▣ Unrestricted (without donor restrictions)
 - Designated (Reserves)
 - ▣ Temporarily Restricted (with donor restrictions)
 - ▣ Permanently Restricted (with donor restrictions)



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Statement of Activities

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- Revenue and Direct Public Support
- Expenses
 - Program
 - Supportive Services
 - Management and General
 - Fundraising
- Changes in Net Assets
- Assets released from restrictions
- In-kind donations of goods and services
- Special events revenue and expense netted, if regular
- Donated goods can create inventory which impacts net



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Statement of Cash Flows

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- Indirect Method (vs. direct method)
 - Starts with Net Income/Loss
- Cash flows from
 - Operating
 - Investing (securities and property)
 - Financing (debt and donors)
- Discloses interest paid



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Statement of Functional Expenses

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- Required for voluntary, health and welfare organization
- Based on cost allocation plan
- Inconsistent among organizations
- A national survey found¹:
 - Barely 1/3 of the nonprofits tracked payroll by function by pay period
 - Only 25% of nonprofits receiving foundation grants properly classified those proposal writing costs as fundraising
 - Only 17% of nonprofits receiving government grants classified those proposal writing costs as fundraising
- Program, Management & General, Fundraising



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IRS Form 990

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- Must file 990 if revenue greater than \$50,000
- Less than \$50,000 can file a 990N e-postcard (online only)
- Page 1 summary totals and mission
- Part III, Program Accomplishments (tell your story)
- Part VI, Governance, Management & Disclosure (no jurisdiction)
- Compensation of CEO/E.D. or top management
- Donated services are NOT included on 990 (except Sch. D reconciliation)



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Budgets

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- ❑ To profit or not to profit.....that is the question
- ❑ Difference is motive
- ❑ Surpluses are necessary for reserves, debt service, expansion
- ❑ Budget vs. Actual interim/internal financial statements
- ❑ Communicate then explain



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BINGO



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Dashboards

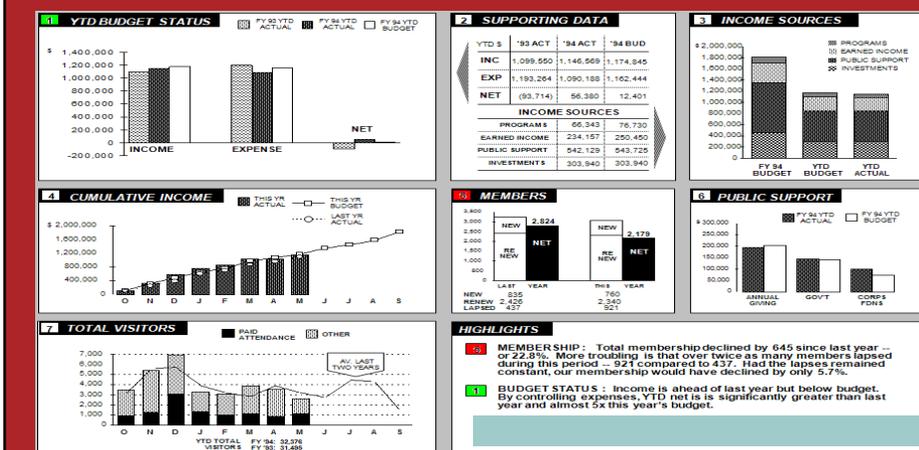
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- At a glance
- Key indicators
- Benchmarks (peers)
- Trends (self)



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Sample Dashboard



BoardSource

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RATIO ANALYSIS



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Impacts to Ratio

- High volunteer staff can negatively impact ratio
- Downsizing nonprofit leaving fewer program staff can negatively impact ratio
- Part-time program staff can negatively impact ratio (vs. full time admin. and fundraising staff)



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Benchmarking Resources

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- Guidestar
- Charity Navigator (measure capacity & efficiency)
- Independent Sector
- The National Center for Charitable Statistics
- State center for nonprofits
- Your Organizations' Membership in Affiliations
- Your Government Funders may track



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Financial Risk Assessment

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- “Assessment of Recession Risk and Preparedness for Nonprofit Organizations”
- A tool to prioritize your financial focus
- Developed by the Nonprofits Assistance Fund (now, Propel Nonprofits)



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Biggest Financial Challenges

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- Understanding
- Participation
- Agency finances (viability)



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NEW DEVELOPMENTS

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FASB ASU 2016-14

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- Financial Accounting Standards board-Accounting Standards Update
- Presentation of Financial Statements of Not-for-Profit Entities
- Effective for years beginning after 12/15/17
- Intent is to
 - ▣ Improve financial statement presentation and disclosures
 - To provide more relevant, comparable, and useful information about NFP resources and changes to them
 - Changes are both qualitative and quantitative



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ASU 2016-14

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- Net asset classification
 - ▣ 2 classes
 - With donor restrictions
 - Without donor restrictions
 - ▣ Still requires disclosure about nature and amount of donor imposed restrictions and governing board designations
 - ▣ Must now use “placed in service” approach instead of “over time” approach to release restrictions on cash or other asset received as donation to acquire or construct a long-lived asset
 - ▣ Underwater endowments (current fair value is less than original gift or donor or law required retention amount):
 - Are to be recorded as donor imposed instead of reducing unrestricted net assets by underwater amount,
 - Must disclose original gift, amount underwater, governing board policy to spend or not to spend these funds



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Changes, continued

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- Information about liquidity
 - ▣ Requires qualitative and quantitative disclosures on the availability of and how the nonprofit manages its liquid available resources to meet cash needs for general expenditures within one year of the balance sheet date
- Expense presentation
 - ▣ Requires all not-for-profits (not just voluntary health and welfare organizations) to present a Statement of Functional Expenses by natural classification and function (on the face of the Statement of Activities, in a separate statement or in the notes to the financial statements) with enhanced disclosures about the cost allocation method



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Changes, continued

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- Expenses, continued
 - ▣ Investment return net of expenses must be shown on the face of the Statement of Activities. External and direct internal investment expenses must be netted against investment return (need procedures to track and capture, exclude from presentation of expenses by natural classification and function)
 - ▣ The components of the expenses no longer need to be disclosed
- Statement of Cash Flows
 - ▣ Either the direct method or the indirect method can still be used, however
 - ▣ Use of the direct method no longer requires supplemental disclosure of a reconciliation to the indirect method



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Uniform Guidance

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- Part 200 of Code of Professional Regulations
- Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards
- Issued December 2013 by the OMB
- Audit requirements effective for fiscal years beginning after December 26, 2014 (awards made after or existing award funding increments made after)
- Audit threshold increased from \$300,000 to \$750,000



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Contents

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- Subpart A Acronyms and Definitions
- Subpart B General Provisions
- Subpart C Pre-Federal Award Requirements and Contents of Federal Award
- Subpart D Post Federal Award Requirements
- Subpart E Cost Principles
- Subpart F Audit Requirements
- Appendix I through XVII



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FAQ

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- United States Chief Financial Officers Council
- <https://cfo.gov/grants/uniform-guidance/>
 - ▣ <https://cfo.gov/wp-content/uploads/2017/08/July2017-UniformGuidanceFrequentlyAskedQuestions.pdf>

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ENDNOTES

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- ¹ The Urban Institute and Indiana University, *Special Issues in Nonprofit Financial Reporting: A Guide for Financial Professionals*, 2004



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