
“Is Your Organization Healthy?”: Agency-Wide Budget, Financial Statements and Relevant Fiscal Policies

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CompassPoint intensifies the impact of fellow nonprofit leaders, organizations, and networks as we achieve social equity together

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Welcome

- 9:00 am – 3:00 pm. 1 hour lunch around noon. A break in the morning.
- Sign in & logistics
- Silence mobile phones
- Questions
- Introductions:
 - Name, organization, and role
 - One thing that you want to learn

Learning Objectives

- To use financial reports to assess and monitor your organization's financial condition
- To identify the hallmarks of a strong organizational budget
- To share strategies and best practices around developing and implementing fiscal policies and procedures



Coming to terms...

- Budget
 - Annual
 - Program/project
 - Grant request/Contract
- Financial Statements
- Audit
- Form 990



Compliance Form Box: 1A

1A. Agency-wide Budget

- a. Current (fiscal or calendar year)
- b. Shows income and expense by funding source or program
- c. Shows allocation of shared and indirect costs by funding source or program
- d. Shows fundraising separate from program expense
- e. Clearly identifies all funding sources
- f. 15% of funding from non-City sources

Budgeting = Planning + Monitoring

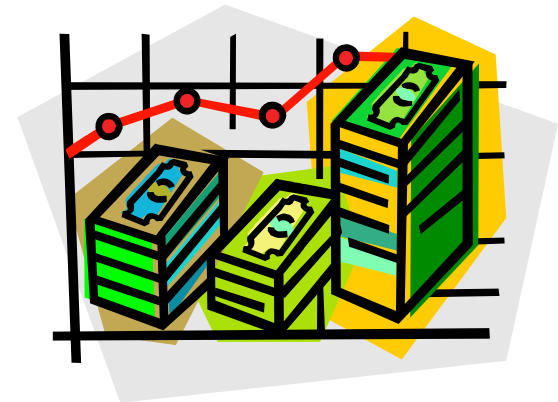


Planning

- Defining organizational **goals**
- Outlining the **resource needs** and uses to accomplish their goals
- This should be **connected** to an annual operational plan and, at the very least, to a strategic plan

Monitoring

- Monitoring progress **throughout** the time period
- Pointing out **significant variances** between the financial goals and how resources are actually being used
- Taking **corrective action** as problems arise



Budget Concepts Review

- 3 types: **organization**, **program** and **contract**
- A board has 3 options for the organizational budget: **surplus**, **break-even**, and **deficit**
- Maximum cost recovery in the budgeting process
- Direct and indirect costs in the budgeting process

The Organizational Budget: Key Performance Points

- Current budget?
- Budgeted by cost centers?
- Includes projections and variances?
- Funding sources included?
- Appropriate cost allocations?
- 15% of funding from non-City sources?

SAMPLE UNRESTRICTED BUDGET WITH SHARED COSTS ALLOCATED							
2012-13 Budget: First Draft (summarized)							
As for May 29, 2012							
	Program Activities		Supporting Activities				
	Shelter Services	Support Groups	Admin-istration	Fund-raising	Shared Costs	Total 2012-13	Total 2011-2012
Contributions	-	-	-	80,000	-	80,000	58,000
Fundraising events - net	-	-	-	135,000	-	135,000	125,000
Foundation grants	-	-	-	125,000	-	125,000	115,000
Total support	-	-	-	340,000	-	340,000	298,000
Government contracts	815,009	-	-	-	-	815,009	770,467
Interest and dividends	-	-	10,000	-	-	10,000	5,750
Unrealized gain (loss) on investments	-	-	-	-	-	-	-
Total revenue	815,009	-	10,000	-	-	825,009	776,217
Net assets released from restriction	-	445,000		5,000	-	450,000	453,000
Total income	815,009	445,000	10,000	345,000	-	1,615,009	1,527,217
Personnel expenses	329,852	214,881	117,365	127,339	179,161	968,598	973,204
Non-personnel expenses	416,750	129,300	28,100	44,750	224,113	843,013	505,507
Total specific costs	746,602	344,181	145,465	172,089	403,274	1,811,611	1,478,711
See 1 Note Below							-
Allocation of shared costs	181,473	125,015	44,360	52,426	(403,274)	-	-
Expenses before overhead/indirect	928,075	469,196	189,825	224,514	-	1,811,611	1,478,711
Change before overhead/indirect	(113,066)	(24,196)	(179,825)	120,486	-	(196,602)	48,507
% of direct costs See Note 2 Below	57%	29%	-100%	14%	0%	(0)	-
Allocation of indirect costs	108,200	55,049	(189,825)	26,576	-	(0)	-
Total expenses	1,036,275	524,245	-	251,090	-	1,811,610	1,478,710
Change in net assets	(221,266)	(79,245)	10,000	93,910	-	(196,601)	48,507

Compliance Form: Box 1F

1F. Financial Reports

Balance Sheet (a.k.a. Statement of Financial Position):

- a. Current (as of the last four months, at least)
- b. Overall cash balance is positive
- c. Current assets exceed current liabilities by 2 to 1
- d. Current bank reconciliation (as of the last four months, at least)

Profit and Loss Statement (a.k.a. Statement of Activity):

- e. Current (as of the last four months, at least)
- f. Shows year-to-date (YTD) income and expense by program/contract/ funding source, including indirect costs
- g. Year-to-date net income is either a positive number or the Contractor provides a sound explanation of how it will be positive by the end of the fiscal year

Statement of Financial Position

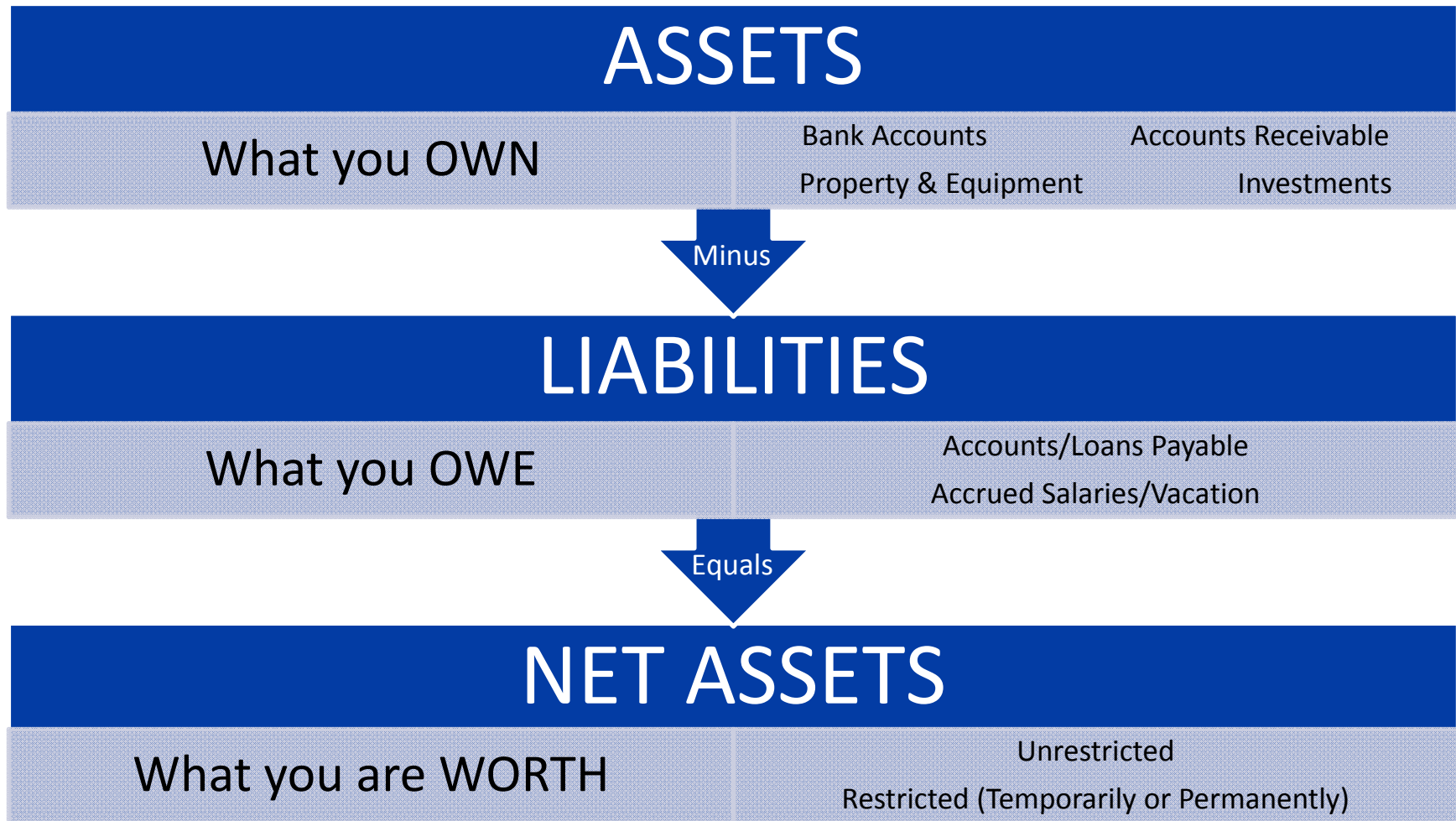
- Commonly called “balance sheet”
- A snapshot as of date on top of report
- Never gets zeroed out: no “starting over”
- Assets = own/have title to
- Liabilities = owe
- Net Assets = the difference between the two
- Remember what “current” means: within a year

Essential Questions the Statement of Financial Position Answers:

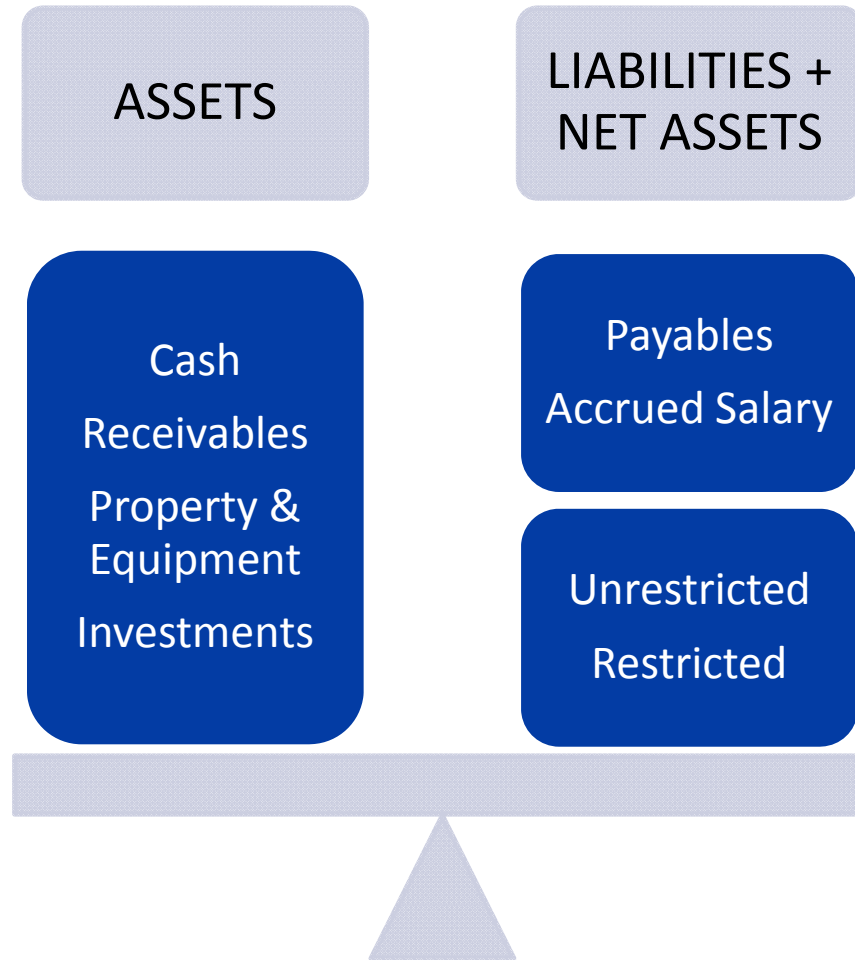


- Are we in crisis?
- Do we have adequate liquidity?
- Do we have a comfortable operating reserve?

Statement of Financial Position



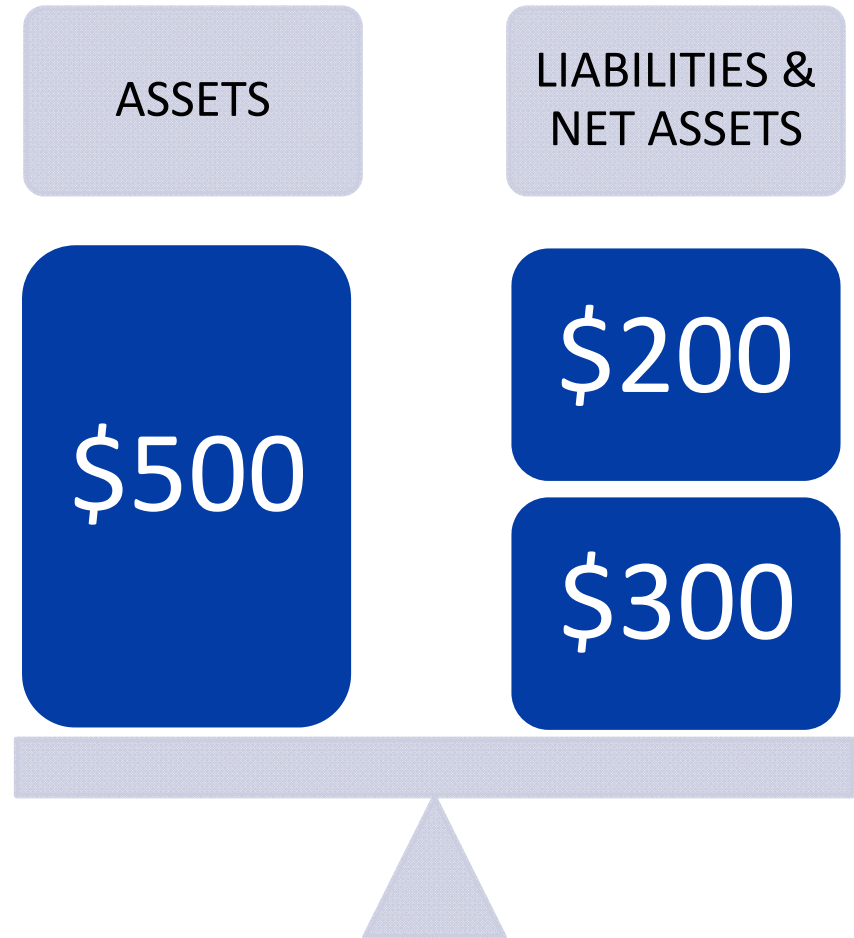
Statement of Financial Position



Statement of Financial Position

We borrowed \$200 from a friend and now have \$500 in our bank account.

Our financial picture would be as follows:



Statement of Financial Position	
As of January 31, 2012	
Assets	
Cash and equivalents	161,270
Investments	106,361
Contracts receivable	144,567
Grants receivable	315,000
Prepaid expenses	11,942
Total current assets	739,140
Buildings and improvements	180,000
Vehicles	32,750
Furniture and fixtures	48,955
Equipment	19,771
Total property and equipment	281,476
Less accumulated depreciation	(102,419)
Net property and equipment	179,057
Long-term deposits	3,589
Total non-current assets	3,589
Total assets	921,786
Liabilities and Net Assets	
Accounts payable	12,514
Accrued vacation	9,897
Current portion of long-term debt	14,259
Total current liabilities	36,670
Note payable (leasehold improvements)	99,398
Less current portion of long-term debt	(14,259)
Total liabilities	121,809
Unrestricted net assets	275,308
Temporarily restricted net assets	419,669
Permanently restricted net assets	105,000
Total net assets	799,977

Statement of Activities

- Commonly called “income statement” or “P&L”
- Reports on the fiscal year
- Does get zeroed out each new year
- Shows flows of restricted contributions in aggregate, not by funder

Essential Questions the Statement of Activities

Answers:

- What is the relationship between income and expense, and was it planned?
- How are the core programs performing financially?



Statement of Activities

Income

(earned revenue and contributed support)

—

Expenses

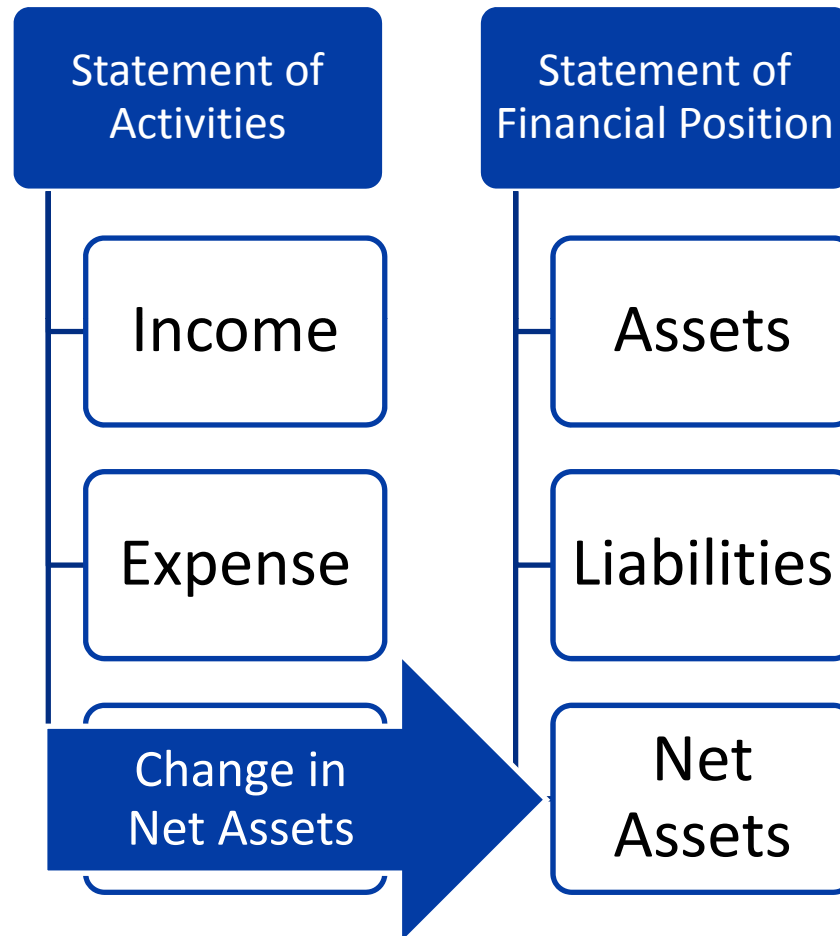
(grouped by function)

Change in net assets

(income-expense)

SAMPLE BUDGET TO ACTUAL INCOME STATEMENT (Statement of Financial Activity)						
Budgeted Statement of Activity - Unrestricted						
For the Nine Months Ending March 31, 2012						
	YTD	YTD	Variance	Annual	\$	%
	Actual	Budget		Budget	Remaining	Remaining
Contributions	23,200	43,500	(20,300)	58,000	34,800	60%
Fundraising events - net	92,430	93,750	(1,320)	125,000	32,570	26%
Foundation grants	92,000	86,250	5,750	115,000	23,000	20%
Total support	207,630	223,500	(15,870)	298,000	90,370	30%
Government contracts	574,382	577,850	(3,468)	770,467	196,085	25%
Interest and dividends	3,761	4,313	(552)	5,750	1,989	35%
Unrealized gain (loss) on investments	(2,400)	-	(2,400)	-	2,400	n/a
Total revenue	575,743	582,163	(6,420)	776,217	200,474	26%
Net assets released from restriction	322,335	339,750	(17,415)	453,000	130,665	29%
Total income	1,105,708	1,145,413	(39,705)	1,527,217	421,509	28%
Shelter Services	505,866	502,478	(3,388)	669,971	164,105	24%
Support Groups	277,286	288,695	11,408	384,926	107,640	28%
Administration	167,168	156,025	(11,144)	208,033	40,865	20%
Fundraising	163,769	161,834	(1,935)	215,779	52,010	24%
Total expenses	1,114,090	1,109,032	(5,058)	1,478,709	364,619	25%
Change in net assets	(8,382)	36,381	(44,763)	48,508	56,890	117%
Beginning net assets	283,690	283,690	-	283,690		
Ending net assets	275,308	320,071	(44,763)	332,198		

Connections between statements



Assessing Organizational Financial Health



What are our immediate financial strengths and vulnerabilities?

What are our long term financial strengths and vulnerabilities?

Do our constituents perceive us as efficient and competitive?

Financial Ratios

Current Ratio: $\frac{\text{Total Current Assets}}{\text{Total Current Liabilities}}$

Quick Ratio : $\frac{\text{Total Cash and Investments}}{\text{Total Current Liabilities}}$

Liquid Reserve Ratio: $\frac{\text{Unrestricted Net Assets} - \text{Total Fixed Assets}}{\text{Typical Monthly Expenses}}$

Are we in crisis?

Current Ratio: tells us our ability to meet current obligations, like paying bills and making payroll

- Healthy ratio for most organizations is 2.0 – essentially means that for every dollar you owe you have double the financial means to pay off your short-term debts

Current Ratio: $\frac{\text{Total Current Assets}}{\text{Total Current Liabilities}}$

739,140 (Current assets)

36,670 (Current liabilities)

Current Ratio = 20.16

“For every dollar we owe, we have 20.16 dollars in hand or on the way.”

Are we liquid?

Quick ratio: your ability to meet your obligations with your most liquid of assets – generally, cash and short-term investments

- Note that if you wanted to be really conservative, use cash and equivalents line only
- Healthy ratio for most organization is 2.0 – essentially means that for every dollar you owe you have double the financial means **in hand** to pay off your short-term debts

Quick Ratio :
$$\frac{\text{Total Cash and Investments}}{\text{Total Current Liabilities}}$$

161,270 (Cash and equivalents)**

36,670 (Current liabilities)

Quick Ratio = 4.4

“For every dollar we owe now, we have 4.4 dollars on hand.”

**Note: if we include investments (penalty free withdrawals), the ratio would be even more favorable.

Do we have a reserve?

Reserve: unrestricted money that your org has accumulated over time beyond what it needs to pay your bills and other commitments – your rainy day fund

- Generally – nonprofits should strive for 3 – 6 months reserve
- In calculating your reserve, we use only the unrestricted net assets and exclude those net assets you have committed to spend
- Can determine typical month's expenses from your annual budget or from your statement of activities

Liquid Reserve Ratio:
$$\frac{\text{Unrestricted Net Assets} - \text{Total Fixed Assets}}{\text{Typical Monthly Expenses}}$$

96,251 (Unrestricted Net Assets (275,308) – Fixed Assets (179,057))

123,226 (1,478,709 */ 12 months)

Reserve Ratio = .78 months

“If resources ceased to come in, we could survive with current spending rates for less than 1 month.”

*This # = Total Annual Expenses (found on the Statement of Activities)

Your Turn – Calculating Health Ratios



Your Turn – Balance Sheet Exercise



Great Organization		
Statement of Financial Position		
From September 1, 2011 to January 4, 2012		
	Current	Previous
	YTD	Year End
Assets		
Cash and equivalents	35,000	155,683
Investments	12,000	100,000
Contracts receivable	15,000	177,674
Grants receivable	115,000	124,000
Prepaid expenses	37,251	15,065
Total current assets	214,251	572,422
Buildings and improvements	385,000	175,000
Vehicles	32,750	32,750
Furniture and fixtures	48,956	48,956
Equipment	19,771	18,559
Total property and equipment	486,477	275,265
Less accumulated depreciation	(101,483)	(76,259)
Net property and equipment	384,994	199,006
Long-term deposits	3,589	3,589
Total non-current assets	3,589	3,589
Total assets	602,834	775,017
Liabilities and Net Assets		
Accounts payable	149,584	48,990
Accrued vacation	9,897	6,941
Current portion of long-term debt	14,259	13,457
Total current liabilities	173,740	69,388
Note payable (leasehold improvements)	99,398	109,392
Less current portion of long-term debt	(14,259)	(13,457)
Total liabilities	258,879	165,323
Unrestricted net assets	89,555	183,690
Temporarily restricted net assets	300,514	326,004
Total net assets	390,069	509,694
Total liabilities and net assets	648,948	675,017

Issues Identified – “Great Organization: Statement of Financial Position”

- The statement does not balance, i.e. total liabilities + net assets do not equal total assets.
- The statement does not include permanently restricted net assets as part of its net assets balance.
- The statement’s time period is not from the inception of the organization to present (i.e., as of January 4, 2012), but for a 4 month timeframe only.
- In assessing the organization’s financial health, participants should note that:
 - The organization’s quick ratio is less than 1 (indicates possible liquidity problem).
 - The organization’s fixed assets comprise the majority of the organization’s total assets (indicates possible liquidity problem).
 - The organization’s investments have decreased compared to previous year.
 - Accounts payable is very large in relationship to the accounts payable line from previous year end – is the organization behind in paying its bills?
 - The low contracts receivable suggests that the organization may not be invoicing in a timely manner.
 - There is no accrued liabilities line in the current liabilities section, which is where unpaid payroll and payroll taxes should be reported.

Internal Controls: What are they?

- Internal controls are a set of policies and procedures to prevent deliberate or misguided use of funds for unauthorized purposes.
- A key principle of internal controls is the **segregation of duties** so that no accounting process is handled by one person from beginning to end.

Internal Controls: Why do we need them?

- Provide reliable data
- Prevent fraud and loss
- Promote operational efficiency
- Encourage adherence to management policies and funding source requirements
- Provides an audit trail

Compliance Form: Box 1E

1E. Fiscal Policies & Procedures

- a. Current (updated to reflect prior site visit or audit recommendations)

In writing, contains at a minimum:

- b. Internal controls (safeguarding of assets, authorization of transactions, reconciliation of accounting records)
- c. Financial reporting
- d. Accounts payable
- e. Accounts receivable
- f. Petty cash
- g. Payroll

Key Elements of a Fiscal Policies and Procedures Manual

- Internal Controls (safeguarding of assets, authorization of transactions, reconciliation of accounting records)
- Financial Reporting (which reports are required, to whom, and when)
- Accounts Payable (processing of bills to the organization including credit cards)
- Accounts Receivable (process of money coming into the organization)
- Petty cash procedures
- Payroll (timesheets, time-studies, payroll process, paying and filing payroll taxes)
- Conflict of Interest Policies (if not included in the organization's Personnel Manual)

Other Resources . . .

- **Controller's website:** <http://www.sfgov.org/controller/nonprofits>
- **CompassPoint Workshops:** <http://www.compasspoint.org/workshopspage>
- **CompassPoint Consulting Services:** <http://www.compasspoint.org/consulting>
- **Nonprofit Finance Fund:** <http://www.nonprofitfinancefund.org>
- ***"Financial Leadership for Nonprofit Executives" by Jeanne Bell and Elizabeth Schaffer***

Next Steps . . .

What next steps will you take as a result of what you learned today?

Contact Information

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