



## Telling Your Financial Story

---

City & County of San Francisco

Rebecca Coker, MPA  
Lead Consultant, West Coast, FMA  
May 5, 2016



### Overview

---

#### Agenda

*Welcome (9:00am)*

**Introductions**

**Strategic Financial Management**

**Understanding Audited Financial Statements**

**IRS Form 990**

*Adjourn (1:00pm)*

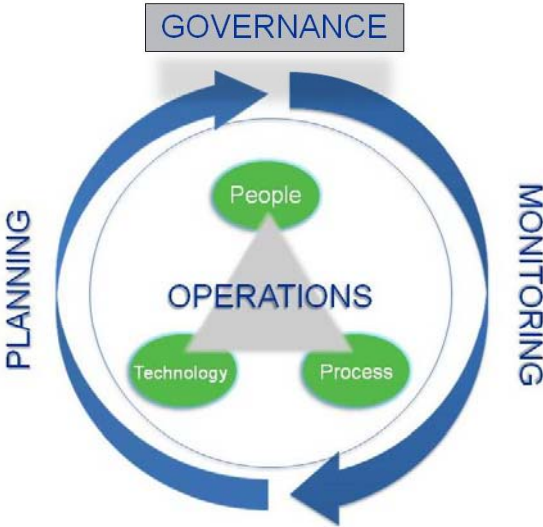
# STRATEGIC FINANCIAL MANAGEMENT

---

3



## Strategic Financial Management





## Strategic Financial Management

### What does excellence in financial management look like?

- Organizations engage in effective financial **planning** to prioritize the use of resources
- Leaders closely **monitor** results to understand how the organization is doing in relation to plans and to adjust accordingly
- Effective financial **operations** ensure that plans are being executed properly and that decisions are based on reliable information
- **Governance** sees that all of these elements are being carried out properly and in furtherance of the organization's mission

5

#fiscalstrength



## Question for the Group

What do you think about when you hear the phrase 'financial health'?



6

#fiscalstrength



## Financial Health

### Four Key Questions About Financial Health

1. How strong are the organization's reserves? How liquid are they?
2. What are the trends in operating results?
  - Surpluses or deficits?
  - vs last year?
3. How is the organization investing its resources?
4. How many months of operations can be covered with available cash?

7

[#fiscalstrength](#)

## UNDERSTANDING AUDITED FINANCIAL STATEMENTS

---



# Nonprofit Financial Health Analysis Tool

## Nonprofit Financial Health Assessment Tool

Document:		1. Previous Year Audit	2. Latest Audit	3. Current Year Unaudited	4. Next Year: Budget
Fiscal Year Ending:					
<b>Statement of Activities</b>					
Did your organization have an operating surplus or deficit?					
Unrestricted Revenue & Support (A)					
Less:					
Total Expenses (B)					
Change in Unrestricted Net Assets or "Operating Surplus or (Deficit)" (A-B)		\$0	\$0	\$0	\$0
<b>How are resources allocated across programs and supporting services?</b>					
Total Program Expense					
Divided by total expense:					
Program Expense % $\left( \frac{\text{Program Expenses}}{\text{Total Expenses}} \right)$					
Total Management & General Expense					
Divided by total expense:					
Management & General Expense % $\left( \frac{\text{Management \& General Expenses}}{\text{Total Expenses}} \right)$					

9

#fiscalstrength



# Tool Output: Trends Charts





## Annual Financial Audit

### Annual Financial Audit: Definition

A series of procedures followed by an **independent** professional accountant used to test, on a selective basis, transactions and internal controls in effect, all with a view to forming an opinion on the presentation of the organization's financial statements

11

#fiscalstrength



## Annual Financial Audit

### California Audit Requirements

- Audits are required for charitable organizations with gross annual revenue of **\$2 million** or more
- No threshold or requirements for a Review or Compilation

### Single Audit Requirements

Orgs that expend \$750,000 or more in federal awards in a given fiscal year are required to conduct a single audit under OMB A-133

12

#fiscalstrength



## Introduction to Financial Statements

### Order of statements in the audit

- Statement of Financial Position (Balance Sheet)
  - Statement of Activities (Income Statement)
  - Statement of Functional Expenses (Required for Voluntary Health & Human Service Organizations)
  - Statement of Cash Flows
- 
- Management Letter

### INDEPENDENT AUDITORS' 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 the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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, 2014, 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.

**Report on Summarized Comparative Information**

We have previously audited Nonprofit Org's 2013 financial statements and we expressed an unmodified opinion on those audited financial statements in our report dated October 23, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

New York, NY  
September 27, 2014



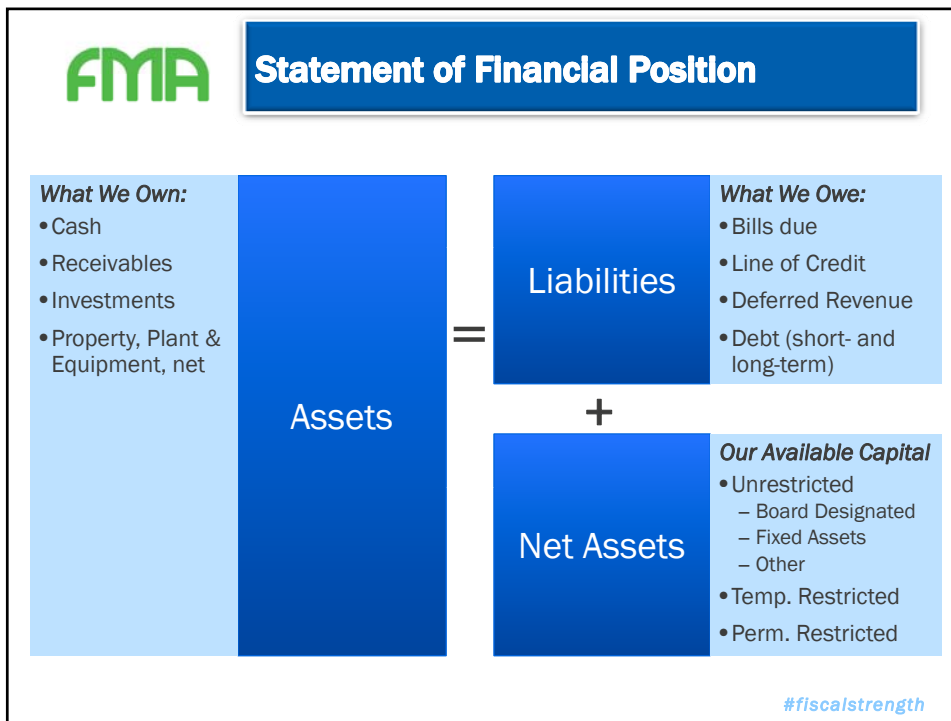
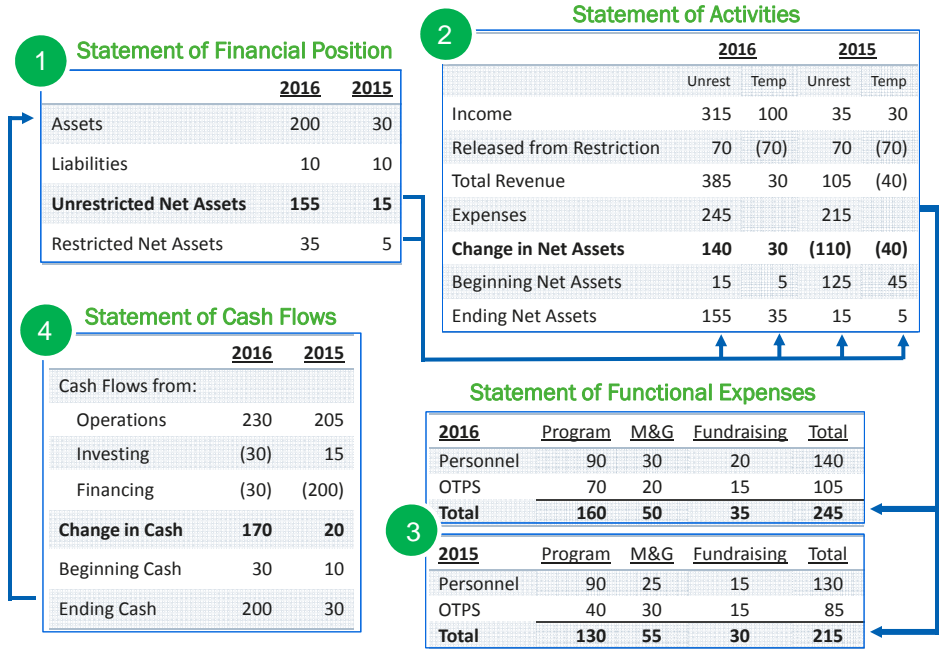
## Financial Health

### Four Key Questions About Financial Health

1. How strong are the organization's reserves? How liquid are they?
2. What are the trends in operating results?
  - Surpluses or deficits?
  - vs last year?
3. How is the organization investing its resources?
4. How many months of operations can be covered with available cash?



## Audited Financial Statements: How the Numbers Flow

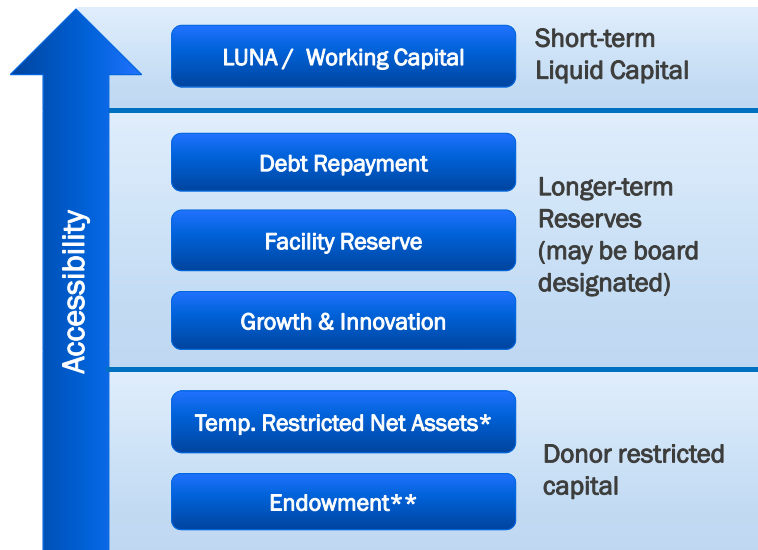


**NONPROFIT ORG, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2013 and 2014**

	<b>2014</b>	<b>2013</b>
<b>ASSETS</b>		
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, less accumulated depreciation of \$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>
<b>LIABILITIES AND NET ASSETS</b>		
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:		
Unrestricted	(38,427)	114,417
Temporarily restricted	<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>



## Capital Structure



\*To be accessed only if delivering on donor expectations

\*\*Only earnings are accessible



## Operating Reserves

### Liquid Unrestricted Net Assets (LUNA)

- Represents the portion of an organization's unrestricted net assets that could be converted to cash relatively easily
- Is a measure of funds available to an organization for purposes such as supplying working capital, guarding against downturns, and pursuing new opportunities

$$\text{LUNA} = \text{Unrestricted Net Assets} - (\text{Fixed Assets} - \text{Debt Related to Fixed Assets})$$

**Benchmark:** LUNA sufficient to cover 3-6 months of operating expenses is generally considered healthy, but *this depends* on an organization's business model, plans and goals.

21

#fiscalstrength



## Measuring Liquidity (Level of Reserves)

### Balance Sheet: Liquid Unrestricted Net Assets (LUNA)

Indicator	Calculation
Months of Liquid Net Assets	$\frac{\text{Liquid Unrestricted Net Assets}}{\text{Average Monthly Expense}}$

22

#fiscalstrength



## Measuring Liquidity (Level of Reserves)

### Calculating LUNA

Statement of Financial Position		How liquid are the organization's reserves?			
Statement of Financial Position	Unrestricted Net Assets (A)				
	Board Designated Net Assets (B)				
	Fixed Assets (C)				
	Less:				
	Debt Related to Fixed Assets (e.g. Mortgages) (D)				
	Fixed Assets, net of related debt (E)				
	<b>LUNA: Liquid Unrestricted Net Assets (A-B-E)</b>				
Statement of Financial Position		How many months of operations can be covered with liquid operating reserves?			
Statement of Financial Position	Available LUNA from above calculation (A)				
	Divided by average monthly expenses:				
	(Total Annual Expenses ÷ 12) (B)				
	<b>Months Covered by Liquid Reserves (A÷B)</b>				

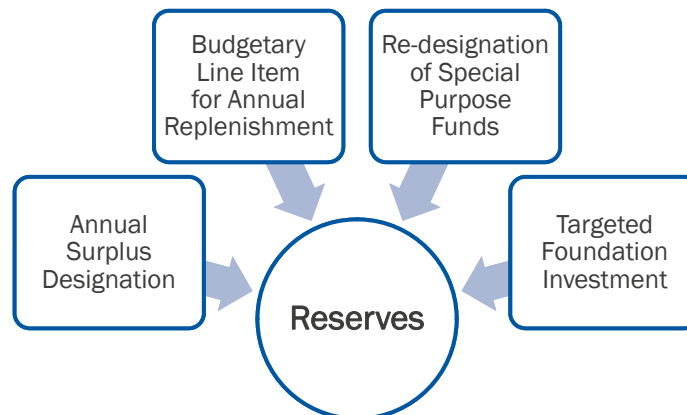
23

#fiscalstrength



## Strategies for Creating Reserves

### How Are They Funded ?



24

#fiscalstrength



## Measuring Liquidity (Cash)

### Balance Sheet: Months of Cash on Hand

*Indicator*

*Calculation*

Months of Cash  
on Hand

$$\frac{\text{Total Cash and Cash Equivalents}}{\text{Average Monthly Expense}}$$

25

#fiscalstrength



## Measuring Liquidity (Cash)

### Calculating Months Cash on Hand

How many months of operations can be covered with the available cash?				
Cash & Cash Equivalents (A)				
<i>Divided by Average Monthly Expenses:</i>				
(Total Annual Expenses ÷ 12) (B)	\$0	\$0	\$0	
Months of Cash on Hand (A÷B)				

26

#fiscalstrength



## Composition of Net Assets

### Balance Sheet: Composition of Net Assets

Indicator	Calculation
Composition of Net Assets	$\frac{\text{Unrestricted Net Assets}}{\text{Total Net Assets}}$
	$\frac{\text{Temporarily Restricted Net Assets}}{\text{Total Net Assets}}$
	$\frac{\text{Permanently Restricted Net Assets}}{\text{Total Net Assets}}$

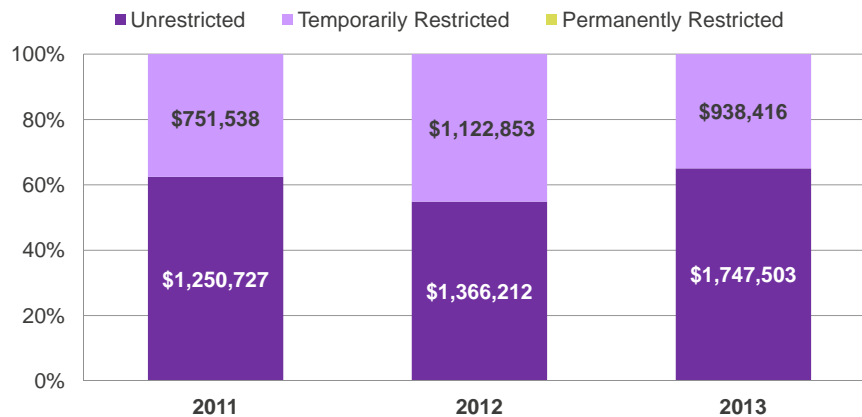
27

#fiscalstrength



## Composition of Net Assets

### EXAMPLE



28



## Age of Fixed Assets

### Age of Fixed assets

*Indicator*

Age of Fixed Assets

*Calculation*

$$\frac{\text{Fixed Assets} - \text{Accumulated Depreciation}}{\text{Total Fixed Assets}}$$

29

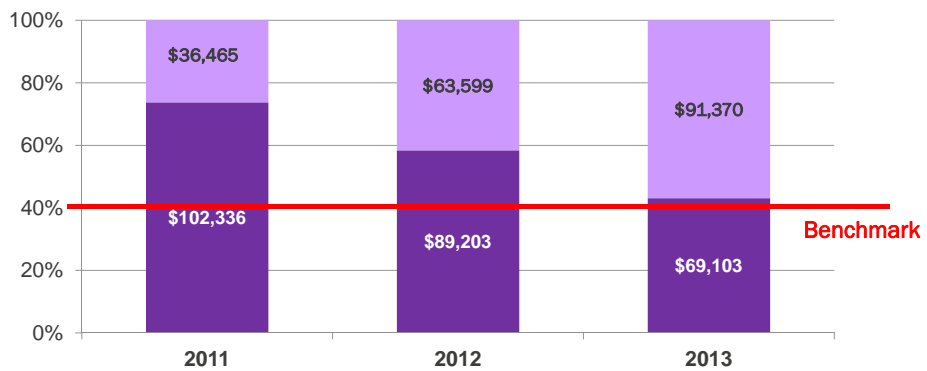
#fiscalstrength



## Age of Fixed Assets

### EXAMPLE

■ Percent of Fixed Assets Undepreciated    ■ Percent of Fixed Assets Depreciated



30



## Statement of Activities

### Organizational performance for the fiscal year

- Revenues by type and restriction
- Expenses broken out functionally
- Fiscal year's operating results (gains/losses)

### Revenues released from restriction

- Amount released from restrictions
- Balance of Temporarily Restricted Net Assets being carried forward into the next fiscal year

31

#fiscalstrength

**NONPROFIT ORG, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
 JUNE 30, 2013 and 2014

ASSETS		<u>2014</u>	<u>2013</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>
<b>Total Current Assets</b>		491,139	529,389
Property and equipment, less accumulated depreciation of \$27,505		39,393	64,393
Other Assets - security deposit		<u>12,000</u>	<u>12,000</u>
<b>Total Assets</b>		<u>\$542,532</u>	<u>\$605,782</u>
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>
<b>Total Current Liabilities</b>		91,378	228,304
Long-term debt		<u>160,744</u>	<u>170,494</u>
<b>Total Liabilities</b>		<u>252,122</u>	<u>398,798</u>
Net Assets:			
Unrestricted		(38,427)	114,417
Temporarily restricted		<u>328,837</u>	<u>92,567</u>
<b>Total Net Assets</b>		<u>290,410</u>	<u>206,984</u>
<b>Total Liabilities and Net Assets</b>		<u>\$542,532</u>	<u>\$605,782</u>

To Statement of Activities



**NONPROFIT ORG. INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2013 and 2014**

	Unrestricted	Temporarily Restricted	Total	2013
<b>Revenue and support:</b>				
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	3,915	--	3,915	4,578
<b>Total revenue and support</b>	<b>1,219,603</b>	<b>236,270</b>	<b>1,455,873</b>	<b>1,511,710</b>
<b>Expenses:</b>				
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	229,861	--	229,861	232,894
<b>Total program expenses</b>	<b>1,087,430</b>		<b>1,087,430</b>	<b>1,129,323</b>
<b>Supporting Services</b>				
Administrative and general	118,058	--	118,058	128,765
Fundraising	166,959	--	166,959	170,780
<b>Total expenses</b>	<b>1,372,447</b>	<b>--</b>	<b>1,372,447</b>	<b>1,428,868</b>
Change in net assets	(152,844)	236,270	83,426	82,842
Net assets - beginning of year	114,417	92,567	206,984	124,142
Net assets - end of year	\$ (38,427)	\$ 328,837	\$ 290,410	\$ 206,984

*Operating Results* (circled) points to (152,844)  
*Reserve Balance* (circled) points to (38,427)  
*TRNA balance going into the next fiscal year* (circled) points to 328,837



## Operating Results

---

Statement of Activities: Operating Results

Indicator	Calculation
Operating Results	Unrestricted Revenue - Total Expenses

34 #fiscalstrength



## Operating Results

### Calculating Operating Results

		Document:	1. Previous Year Audit	2. Most Recent Audit	3. Current Year Unaudited
		Fiscal Year Ending:			
Statement of Activities	Did your organization have an operating surplus or deficit?				
	Unrestricted Revenue & Support (A)				
	Less:				
	Total Expenses (B)				
	Change in Unrestricted Net Assets or "Operating Surplus or (Deficit)" (A-B)	\$0	\$0	\$0	\$0

35

#fiscalstrength



## Revenue Composition

### Statement of Activities: Revenue Composition

Indicator	Calculation
Revenue Composition	Contribution & Foundation Support
	<u>Total Revenue</u>
	Government Contracts
	<u>Total Revenue</u>
	Earned Income
	<u>Total Revenue</u>

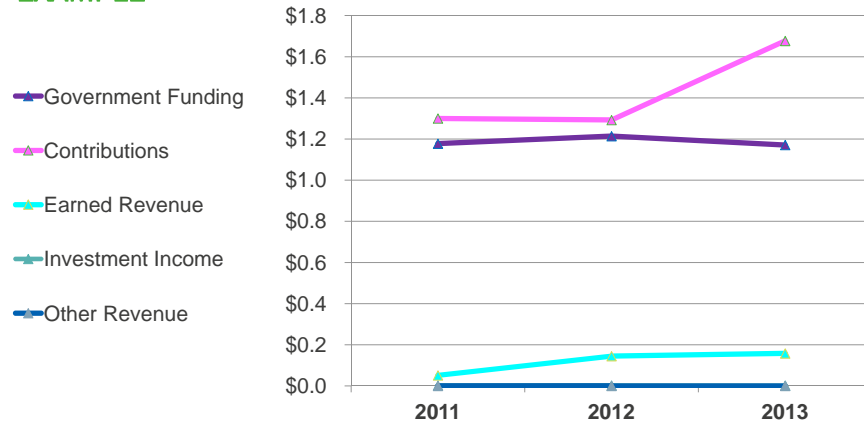
36

#fiscalstrength



## Revenue Composition

### EXAMPLE



37

**NONPROFIT ORG. INC.**  
**STATEMENT OF ACTIVITIES**  
 FOR THE YEAR ENDED JUNE 30, 2013 and 2014

	Unrestricted	Temporarily Restricted	Total	2013
<b>Revenue and support:</b>				
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	3,915	--	3,915	--
<b>Total revenue and support</b>	<b>1,219,603</b>	<b>236,270</b>	<b>1,455,873</b>	<b>1,511,710</b>
<b>Expenses:</b>				
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	229,861	--	229,861	232,894
<b>Total program expenses</b>	<b>1,087,430</b>	<b>--</b>	<b>1,087,430</b>	<b>1,129,323</b>
<b>Supporting Services</b>				
Administrative and general	118,058	--	118,058	128,765
Fundraising	166,959	--	166,959	170,780
<b>Total expenses</b>	<b>1,372,447</b>	<b>--</b>	<b>1,372,447</b>	<b>1,428,868</b>
Change in net assets	(152,844)	236,270	83,426	82,842
Net assets - beginning of year	114,417	92,567	206,984	124,142
Net assets - end of year	\$ (38,427)	\$ 328,837	\$ 290,410	\$ 206,984

To Stmt of Functional Expenses



## Statement of Functional Expenses

### Expense Analysis

- What is the largest program?
  - Is the program with the largest expense a program aligned with the organization's mission?
- What is the largest expense?
  - Salaries and benefits are often an organization's largest expense
  - Salaries and benefits commonly make up 60% or more of total expenses

39

#fiscalstrength



## Functional Expenses

### Functional Expense Definitions

Classification	Description	Examples
<b>Program</b> , separated by major programs	The direct provision of goods or services related to the organization's mission and purpose	Program supplies, salaries of program staff
Support Services: <b>Management &amp; General</b>	Activities such as oversight, business and financial management	Audit costs, salaries of Finance and HR staff
Support Services: <b>Fundraising</b>	Incurred in inducing donors to contribute	Costs to produce a donor event, salaries of fundraising staff

40

#fiscalstrength

**NONPROFIT ORG, INC.**  
**SCHEDULE OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2014**

	Program Services				Program Expenses	Supporting Services		Total
	Program A	Program B	Program C	Program D		Management and General	Fundraising	
Salaries	\$168,189	\$ 67,710	\$247,474	\$129,323	\$612,696	\$ 74,120	\$ 75,697	\$ 762,513
Payroll taxes and Employee benefits	34,037	13,703	49,962	26,120	123,822	15,228	15,263	154,313
Rent	97,288	8,215	24,436	13,271	143,210	7,162	6,530	156,902
Utilities	2,935	1,180	3,509	1,906	9,530	1,029	938	11,497
Office cleaning	1,797	723	2,149	1,167	5,836	630	574	7,040
Consultants	6,989	3,237	8,688	7,440	26,334	1,887	46,987	75,208
Accounting & Auditing Fees	-	-	-	-	-	19,000	-	19,000
Office expense	6,123	2,462	7,248	3,945	19,778	2,122	1,921	23,821
Supplies	7,907	2,500	3,355	2,514	16,276	-	-	16,276
Telephone	7,591	3,052	9,078	4,930	24,651	2,661	2,426	29,738
Postage and messengers	1,500	750	600	1,584	4,434	1,784	4,000	10,218
Photocopying	135	145	80	2,565	2,925	390	-	3,315
Equipment leasing	3,535	1,421	4,227	2,296	11,479	1,239	1,130	13,848
Insurance	2,848	1,145	3,406	1,849	9,248	998	910	11,156
Local transportation	667	268	798	434	2,167	234	213	2,614
Meals and entertainment	1,798	723	1,371	125	4,017	1,000	2,026	7,043
Seminars and training Fees	500	250	750	2,500	4,000	3,698	1,000	8,698
Data processing	496	199	593	322	1,610	174	158	1,942
Dues and subscriptions	385	532	130	683	1,730	375	185	2,290
Advertising	5,017	3,838	3,245	5,979	18,079	432	393	18,904
Depreciation	2,284	918	2,731	1,483	7,416	800	730	8,946
Miscellaneous	522	210	625	16,275	17,632	176	4,328	22,136
<b>Total expenses</b>	<b>\$357,953</b>	<b>\$118,378</b>	<b>\$381,238</b>	<b>\$229,861</b>	<b>\$1,087,430</b>	<b>\$118,058</b>	<b>\$168,959</b>	<b>\$1,372,447</b>

Matches amounts on Statement of Activities     
 Largest Program     
 79.2%     
 8.6%     
 12.2%



## Investment of Resources

### Investment of Resources

Expense ratios: The percentage of funds spent by the organization in each functional area

#### Program Expense

Total Expense

Benchmark:  
65%-70%

#### Mgmt. & General Expense

Total Expense

Benchmark:  
20%-25%

#### Fundraising Expense

Total Expense

Benchmark:  
10%-15%

Source **BBB Wise Giving Alliance** Charity Accreditation Standards:  
<http://give.org/for-charities/How-We-Accredit-Charities/>

#fiscalstrength



## Investment of Resources

### Statement of Functional Expenses: Resource Allocations

Indicator	Calculation
Functional Expense Composition	$\frac{\text{Program Expense}}{\text{Total Expenses}}$
	$\frac{\text{General \& Administrative Expense}}{\text{Total Expenses}}$
	$\frac{\text{Fundraising Expense}}{\text{Total Expenses}}$

43

#fiscalstrength



## Investment of Resources

### Calculating Resource Allocation

How are resources allocated across programs and supporting services?				
Statement of Functional Expenses	Total Program Expense			
	Divided by total expense:			
	<b>Program Expense %</b> $\left( \frac{\text{Program Expenses}}{\text{Total Expenses}} \right)$			
	Total Management & General Expense			
	Divided by total expense:			
	<b>Management &amp; General Expense %</b> $\left( \frac{\text{Management \& General Expenses}}{\text{Total Expenses}} \right)$			
	Total Fundraising Expense			
	Divided by total expense:			
	<b>Fundraising Expense %</b> $\left( \frac{\text{Fundraising Expenses}}{\text{Total Expenses}} \right)$			

44

#fiscalstrength



## Statement of Cash Flows

### Understanding the Statement of Cash Flows

- Looks at where cash was obtained and spent
- Reports on the following activities:
  - Operations
  - Investing
  - Financing
- Must disclose any non-cash activity such as acquisitions of equipment on finance

45

#fiscalstrength



## Cash Flow Projections

### Definition

- **Cash Flow:** The difference between the amount of cash coming in to an organization and the amount of cash going out
- **Cash Flow Budget:** 12- to 18-month plan for cash disbursements and receipts, month by month, incorporating both operating and capital requirements

46

#fiscalstrength



## Cash Flow Projections

### Who is involved in projecting cash flow?

- Involve key staff as necessary when drafting cash flow projections:
  - **Development** staff for information on cash receipts from private funders
  - **Program** staff for information on the timing of payment for key expenditures
  - **Grants Management** staff for information on government receivables

47

#fiscalstrength



## Cash Flow Projections

### Planning and managing cash flow throughout the year:

- Manage credit terms with vendors
- Incorporate short-term borrowing options such as a line of credit for periods of **negative** cash flow
  - Plan ahead: identify and secure sources of lending when cash position is strongest
- Identify periods of **positive** cash flow when idle cash will be available for investment

48

#fiscalstrength





## In a cash crunch...

### What to do

- Focus on receivables collections
- Liquidate short-term investments, if available
- Use Line of Credit
- Delay non-critical vendor payments
- Negotiate with foundations on timing of payments

### What not to do

- Do not delay payment of payroll taxes
- Avoid personal loans from staff and Board members, if possible

49

#fiscalstrength



## Cash Flow Projections

### Line of Credit

- Can smooth out uneven cash inflows and outflows over the course of a year
- Lenders may limit borrowings based on the size of a borrower's accounts receivable or grant commitments
- There may be a fee for non-use as well as a "clean up" provision
- Should never be used to fund an operating deficit or capital expenditures

50

#fiscalstrength



## Cash Flow Forecast: Excel Tool

Cash Flow Projection Template +  
Online Tutorial



Toolkit:  
StrongNonprofits.org

	Prior Year Carrgover	Current Yr Budgeted	Spread Evenly?	Jan	Feb	Mar	Apr	May
<b>CASH RECEIPTS</b>								
<i>Contributions &amp; Support</i>								
Foundations								
Corporations								
Individual contributions [additional line item]								
<i>Government Contracts</i>								
Federal								
State/Local [additional line item]								
<i>Other Revenue</i>								
Investment income								
Program service fees								
Special events								
Miscellaneous								
<i>Prior Year Receivables</i>								
Foundation grants receivable								
Collection of other receivables								
<b>Total Cash Receipts</b>	<b>\$0</b>	<b>\$0</b>		<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>CASH DISBURSEMENTS</b>								
<i>Personnel</i>								
Salaries & wages								

51

#fiscalstrength

### NONPROFIT ORG, INC.

#### STATEMENT OF FINANCIAL POSITION

JUNE 30, 2013 and 2014

#### ASSETS

	2014	2013
<b>Assets:</b>		
Cash	\$274,139	\$297,389
Pledges and contracts receivable	200,000	210,000
Prepaid expenses	17,000	22,000
Total Current Assets	491,139	529,389
Property and equipment, less accumulated depreciation of \$27,505	39,393	64,393
Other Assets - security deposit	12,000	12,000
<b>Total Assets</b>	<b>\$542,532</b>	<b>\$605,782</b>


#### LIABILITIES AND NET ASSETS

<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 29,578	\$140,054
Advances	51,300	78,500
Current portion of long-term debt	10,500	9,750
Total Current Liabilities	91,378	228,304
Long-term debt	160,744	170,494
<b>Total Liabilities</b>	<b>252,122</b>	<b>398,798</b>
<b>Net Assets:</b>		
Unrestricted	(38,427)	114,417
Temporarily restricted	328,837	92,567
<b>Total Net Assets</b>	<b>290,410</b>	<b>206,984</b>
<b>Total Liabilities and Net Assets</b>	<b>\$542,532</b>	<b>\$605,782</b>

To Stmt of Cash Flows

<b>NONPROFIT ORG, INC.</b>		
<b>STATEMENT OF CASH FLOWS</b>		
<b>FOR THE YEAR ENDED JUNE 30, 2013 and 2014</b>		
	<u>2014</u>	<u>2013</u>
<b>Cash Flows from Operating Activities:</b>		
Change in net assets	\$83,426	\$82,842
Adjustments to reconcile change in net assets to net cash provided in operating activities		
Depreciation	8,946	7,765
Increase in pledges receivable	(215,685)	(48,986)
Increase in prepaid expenses	(3,932)	(4,765)
Increase in security deposits	(255)	(500)
Increase in accounts payable and accrued expenses	120,127	49,981
Decrease in advances	<u>(6,304)</u>	<u>8,790</u>
Net cash provided by operating activities	<u>(13,677)</u>	<u>95,127</u>
<b>Cash Flows from Investing Activities:</b>		
Capital expenditures	<u>(9,573)</u>	<u>(7,560)</u>
Net cash used in investing activities	<u>(9,573)</u>	<u>(7,560)</u>
Net increase in cash	(23,250)	87,567
Cash - beginning of year	297,389	209,822
Cash - end of year	<u>\$274,139</u>	<u>\$297,389</u>

Matches cash amount on  
Statement of Financial Position →



**Notes to the Financial Statements**

---

**Significant Disclosures**

- Description of the organization
- Basis of accounting (cash, accrual and modified accrual)
- Fixed assets
- Debt
- Temporarily and permanently restricted net assets
- Related party transactions
- Subsequent events
- Commitment and contingencies

54
#fiscalstrength



## Tool: Telling Your Financial Story

### Financial Health Narrative: Part 1

#### SUMMARY OF FINANCIAL RESULTS

**Organization:**

**Date:**

---

Our organization received a “clean” or “unqualified” audit opinion for [fiscal year]; this is the highest level of assurance an audit firm can issue. While a clean opinion is something for which we strive, the opinion alone does not tell stakeholders much about “how” [organization name] is doing financially. Therefore, we would like to call attention to a few key financial indicators that give a more complete picture of the organization’s financial health.

#### Operating Results

One of the most important indicators of financial health is the organization’s ability to break-even or generate an operating surplus each year. Our total unrestricted revenues [exceeded/failed to cover] our total expenses in [#] of the past two years. The organization had a [surplus/deficit] of [\$ ] in [year 1] and a [surplus/deficit] of [\$ ] in [year 2]. This trend indicates [the organization’s success at building towards a sustainable future / a struggle to keep expenses in line with revenue / other...]

55

#fiscalstrength



## Tool: Telling Your Financial Story

### Financial Health Narrative: Part 2

#### Investment of Resources

We have an allocation plan that we use to distribute expenses across the three functional categories: program, management and general (M&G), and fundraising. Our allocation methodology is driven by [staff level of effort, square footage, etc.]. Direct expenses are charged to the appropriate program or function. Shared costs – such as rent, utilities, and insurance – are then allocated to each of the functions based on the [staff level of effort, square footage, etc.] percentages. As a result of this process, our Statement of Functional Expenses shows that program expense makes up [%] of our total expenses. M&G expense makes up [%] of our total expenses and fundraising expense making up the remaining [%] of the total. This approach to calculating and presenting expenses on a functional basis is [consistent/inconsistent] with the presentation in prior years [if inconsistent, insert explanation here and indicate how the allocation methodology has changed].

#### Availability of Liquid Reserves

An organization’s Liquid Unrestricted Net Assets (LUNA) – also referred to as “operating reserves” – is the portion of unrestricted net assets that can be converted to cash relatively easily. It is a measure of funds available to an organization for guarding against downturns, pursuing new opportunities, and providing working capital in times of low cash flow. This is the portion of Unrestricted Net Assets not designated by the Board of Directors for a particular purpose, or otherwise invested in fixed assets.

#fiscalstrength



## Tool: Telling Your Financial Story

### Financial Health Narrative: Part 3

#### Our Most Recently Completed Fiscal Year

[If a full fiscal year has taken place since the close of the audited fiscal year being discussed in this memo, provide an update on the financial results from this most recent year. Did the organization have an operating surplus or deficit for that year? Was the allocation of resources consistent with the description above? How did this interim unaudited year impact LUNA for the organization?]

#### Plans for the Future

Based on the metrics described above, [organization name] is currently in a [very stable/stable/somewhat tight/troubled] financial position and will focus on the following areas to [maintain/build] our financial sustainability for the future:

- For the upcoming fiscal year, we plan to [generate an operating surplus/intentionally run an operating deficit] in order to [insert plans/goal here].
- [If you have reserves, explain how the funds will be used/invested/managed going forward. If you don't have them, explain the plan to build reserves].
- We plan to [maintain/increase] liquidity by [insert plans/goal here].

#fiscalstrength



## Management Letter

### Management Letter

- Issued by the auditor
- Identifies areas of operations or procedures that the organization may want to improve or redesign
- Reports any "material weaknesses" and significant deficiencies
- May include an organization's **corrective action plan**
  - On a quarterly basis, the Finance and Audit Committee should check in on the progress in implementing this plan

58

#fiscalstrength

**Comment and Recommendation that is an Opportunity for Strengthening  
Internal Controls and Operating Efficiency**

**Discounting of contributions receivable**

The Organization discounts its multi-year contributions ("pledges") and grants receivable in order to present these receivables at present value in accordance with generally accepted accounting principles ("GAAP"). However, GAAP requires that once pledges are discounted and recorded each year, the discount rate used should be applied consistently across the applicable periods and not be changed for those pledges in future years. We noted that the discounts on these receivables are being revised subsequently to the time the contribution was initially recognized. We proposed a \$45,000 adjustment related to this matter, which was recorded in the Organization's financial statements.

**Recommendation**

We recommend that when pledges are discounted and recorded, the discount rate for those pledges should not be changed in the future.

**Management response**

We are aware that the discount rate used to discount pledges raised in prior years should not be changed. In fiscal year 2013, however, the organization elected to use the risk free rate of US Daily Treasury Yield Curve Rates in calculating the net present value of pledges not expected to be paid for more than one year instead of the Federal Reserve Commercial and Industrial loans rates used in prior years. To date, we have assessed that all receivables due in 2015 are collectible based on donors' historical records and commitment to the organization.

To be consistent with the US Daily Treasury Curve rates as basis in calculating the discount for the pledges due in 2015, the receivables raised in fiscal year 2012 were discounted using the rate as if the change happened in fiscal year 2012.

**IRS FORM 990**

---



# IRS Form 990

## Some Critical Areas of Focus

- Part I: Cover Page (Summary)
- Part I: Statement of Program Service Accomplishments
- Part VI: Governance, Management & Disclosure
- Part VII: Compensation of Officers, Directors, Key Employees, etc.
- Schedule A: Public Charity Status and Public Support
- Schedule G: Fundraising Activities

61

#fiscalstrength

## Part 1: Cover Page (Summary)

Form <b>990</b>	<b>Return of Organization Exempt From Income Tax</b>	OMB No. 1545-0047
Department of the Treasury Internal Revenue Service	Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except private foundations) ▶ Do not enter social security numbers on this form as it may be made public. ▶ Information about Form 990 and its instructions is at <a href="http://www.irs.gov/form990">www.irs.gov/form990</a> .	<b>2014</b> <b>Open to Public Inspection</b>
<b>A</b> For the 2014 calendar year, or tax year beginning , 2014, and ending , 20		
<b>B</b> Check if applicable: <input type="checkbox"/> Address change <input type="checkbox"/> Name change <input type="checkbox"/> Initial return <input type="checkbox"/> Final return/terminated <input type="checkbox"/> Amended return	<b>C</b> Name of organization Doing business as Number and street (or P.O. box if mail is not delivered to street address) Room/suite City or town, state or province, country, and ZIP or foreign postal code	<b>D</b> Employer identification number <b>E</b> Telephone number <b>G</b> Gross receipts \$
<b>Revenue</b>	<b>Expenses</b>	
<b>8</b> Contributions and grants (Part VIII, line 1h) . . . . .	<b>13</b> Grants and similar amounts paid (Part IX, column (A), lines 1–3) . . . . .	Prior Year
<b>9</b> Program service revenue (Part VIII, line 2g) . . . . .	<b>14</b> Benefits paid to or for members (Part IX, column (A), line 4) . . . . .	Current Year
<b>10</b> Investment income (Part VIII, column (A), lines 3, 4, and 7d) . . . . .	<b>15</b> Salaries, other compensation, employee benefits (Part IX, column (A), lines 5–10)	
<b>11</b> Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e) . . . . .	<b>16a</b> Professional fundraising fees (Part IX, column (A), line 11e) . . . . .	
<b>12</b> Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)	<b>b</b> Total fundraising expenses (Part IX, column (D), line 25) ▶	
	<b>17</b> Other expenses (Part IX, column (A), lines 11a–11d, 11f–24e) . . . . .	
	<b>18</b> Total expenses. Add lines 13–17 (must equal Part IX, column (A), line 25) . . . . .	
	<b>19</b> Revenue less expenses. Subtract line 18 from line 12 . . . . .	
<b>Net Assets or Fund Balances</b>		Beginning of Current Year
<b>20</b> Total assets (Part X, line 16) . . . . .		End of Year
<b>21</b> Total liabilities (Part X, line 26) . . . . .		
<b>22</b> Net assets or fund balances. Subtract line 21 from line 20 . . . . .		

## Part 1: Statement of Program Service Accomplishments

Form 990 (2014)

Page 2

### Part III Statement of Program Service Accomplishments

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

1 Briefly describe the organization's mission:

.....  
.....  
.....

2 Did the organization undertake any significant program services during the year which were not listed on the prior Form 990 or 990-EZ?  Yes  No  
If "Yes," describe these new services on Schedule O.

3 Did the organization cease conducting, or make significant changes in how it conducts, any program services?  Yes  No  
If "Yes," describe these changes on Schedule O.

4 Describe the organization's program service accomplishments for each of its three largest program services, as measured by expenses. Section 501(c)(3) and 501(c)(4) organizations are required to report the amount of grants and allocations to others, the total expenses, and revenue, if any, for each program service reported.

4a (Code: \_\_\_\_\_) (Expenses \$ \_\_\_\_\_ including grants of \$ \_\_\_\_\_) (Revenue \$ \_\_\_\_\_)

4b (Code: \_\_\_\_\_) (Expenses \$ \_\_\_\_\_ including grants of \$ \_\_\_\_\_) (Revenue \$ \_\_\_\_\_)

4c (Code: \_\_\_\_\_) (Expenses \$ \_\_\_\_\_ including grants of \$ \_\_\_\_\_) (Revenue \$ \_\_\_\_\_)



## IRS Form 990: Part VI

### Section A: Governing Body and Management

- Use of management company
- Changes to organizational documents
- Documentation of board and committee meetings
- Presentation of 990 to board
- List of officers, directors, trustee or key employees not reachable at organization's mailing address



## Part VI, Section A: Governing Body and Management

Form 990 (2014)

Page **6**

**Part VI** **Governance, Management, and Disclosure** For each "Yes" response to lines 2 through 7b below, and for a "No" response to line 8a, 8b, or 10b below, describe the circumstances, processes, or changes in Schedule O. See instructions. Check if Schedule O contains a response or note to any line in this Part VI

### Section A. Governing Body and Management

		Yes	No
<b>1a</b>	Enter the number of voting members of the governing body at the end of the tax year . . . . . If there are material differences in voting rights among members of the governing body, or if the governing body delegated broad authority to an executive committee or similar committee, explain in Schedule O.		
<b>1b</b>	Enter the number of voting members included in line 1a, above, who are independent . . . . .		
<b>2</b>	Did any officer, director, trustee, or key employee have a family relationship or a business relationship with any other officer, director, trustee, or key employee? . . . . .	<input type="checkbox"/>	<input type="checkbox"/>
<b>3</b>	Did the organization delegate control over management duties customarily performed by or under the direct supervision of officers, directors, or trustees, or key employees to a management company or other person? . . . . .	<input type="checkbox"/>	<input type="checkbox"/>
<b>4</b>	Did the organization make any significant changes to its governing documents since the prior Form 990 was filed? . . . . .	<input type="checkbox"/>	<input type="checkbox"/>
<b>5</b>	Did the organization become aware during the year of a significant diversion of the organization's assets? . . . . .	<input type="checkbox"/>	<input type="checkbox"/>
<b>6</b>	Did the organization have members or stockholders? . . . . .	<input type="checkbox"/>	<input type="checkbox"/>
<b>7a</b>	Did the organization have members, stockholders, or other persons who had the power to elect or appoint one or more members of the governing body? . . . . .	<input type="checkbox"/>	<input type="checkbox"/>
<b>7b</b>	Are any governance decisions of the organization reserved to (or subject to approval by) members, stockholders, or persons other than the governing body? . . . . .	<input type="checkbox"/>	<input type="checkbox"/>
<b>8</b>	Did the organization contemporaneously document the meetings held or written actions undertaken during the year by the following:		
<b>a</b>	The governing body? . . . . .	<input type="checkbox"/>	<input type="checkbox"/>
<b>b</b>	Each committee with authority to act on behalf of the governing body? . . . . .	<input type="checkbox"/>	<input type="checkbox"/>
<b>9</b>	Is there any officer, director, trustee, or key employee listed in Part VII, Section A, who cannot be reached at the organization's mailing address? If "Yes," provide the names and addresses in Schedule O . . . . .	<input type="checkbox"/>	<input type="checkbox"/>



## IRS Form 990: Part VI

### Section B: Policies

- Process for determining compensation. Process should include:
  - A review and approval by independent persons
  - Comparability data
  - Contemporaneous substantiation of the deliberation and decision

➔ *Additional questions on compensation: Part VII*

## Part VI, Section B: Policies

### Section B. Policies (This Section B requests information about policies not required by the Internal Revenue Code.)

	Yes	No
<b>10a</b> Did the organization have local chapters, branches, or affiliates? . . . . .	<input type="checkbox"/>	<input type="checkbox"/>
<b>b</b> If "Yes," did the organization have written policies and procedures governing the activities of such chapters, affiliates, and branches to ensure their operations are consistent with the organization's exempt purposes?	<input type="checkbox"/>	<input type="checkbox"/>
<b>10b</b>	<input type="checkbox"/>	<input type="checkbox"/>
<b>11a</b> Has the organization provided a complete copy of this Form 990 to all members of its governing body before filing the form?	<input type="checkbox"/>	<input type="checkbox"/>
<b>b</b> Describe in Schedule O the process, if any, used by the organization to review this Form 990.		
<b>12a</b> Did the organization have a written conflict of interest policy? If "No," go to line 13 . . . . .	<input type="checkbox"/>	<input type="checkbox"/>
<b>b</b> Were officers, directors, or trustees, and key employees required to disclose annually interests that could give rise to conflicts?	<input type="checkbox"/>	<input type="checkbox"/>
<b>12b</b>	<input type="checkbox"/>	<input type="checkbox"/>
<b>c</b> Did the organization regularly and consistently monitor and enforce compliance with the policy? If "Yes," describe in Schedule O how this was done . . . . .	<input type="checkbox"/>	<input type="checkbox"/>
<b>12c</b>	<input type="checkbox"/>	<input type="checkbox"/>
<b>13</b> Did the organization have a written whistleblower policy? . . . . .	<input type="checkbox"/>	<input type="checkbox"/>
<b>14</b> Did the organization have a written document retention and destruction policy? . . . . .	<input type="checkbox"/>	<input type="checkbox"/>
<b>14</b>	<input type="checkbox"/>	<input type="checkbox"/>
<b>15</b> Did the process for determining compensation of the following persons include a review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision?		
<b>a</b> The organization's CEO, Executive Director, or top management official . . . . .	<input type="checkbox"/>	<input type="checkbox"/>
<b>15a</b>	<input type="checkbox"/>	<input type="checkbox"/>
<b>b</b> Other officers or key employees of the organization . . . . .	<input type="checkbox"/>	<input type="checkbox"/>
<b>15b</b>	<input type="checkbox"/>	<input type="checkbox"/>
If "Yes" to line 15a or 15b, describe the process in Schedule O (see instructions).		
<b>16a</b> Did the organization invest in, contribute assets to, or participate in a joint venture or similar arrangement with a taxable entity during the year? . . . . .	<input type="checkbox"/>	<input type="checkbox"/>
<b>16a</b>	<input type="checkbox"/>	<input type="checkbox"/>
<b>b</b> If "Yes," did the organization follow a written policy or procedure requiring the organization to evaluate its participation in joint venture arrangements under applicable federal tax law, and take steps to safeguard the organization's exempt status with respect to such arrangements? . . . . .	<input type="checkbox"/>	<input type="checkbox"/>
<b>16b</b>	<input type="checkbox"/>	<input type="checkbox"/>



## IRS Form 990: Part VI

### Section C: Disclosure

- States in which 990 is filed
- How governing documents, conflict of interest policy and financial statements are made public

#### Section C. Disclosure

- 17** List the states with which a copy of this Form 990 is required to be filed ▶
- 18** Section 6104 requires an organization to make its Forms 1023 (or 1024 if applicable), 990, and 990-T (Section 501(c)(3)s only) available for public inspection. Indicate how you made these available. Check all that apply.  
 Own website     Another's website     Upon request     Other (explain in Schedule O)
- 19** Describe in Schedule O whether (and if so, how) the organization made its governing documents, conflict of interest policy, and financial statements available to the public during the tax year.
- 20** State the name, address, and telephone number of the person who possesses the organization's books and records: ▶

Form 990 (2014)

# RESOURCES

---



## Resources

---

Citywide Nonprofit  
Monitoring and Capacity  
Building Program

**Public Website:**

<http://sfcontroller.org/nonprofits>

- Training Materials
- Resources for Nonprofits

**Laura Marshall** (*Program Lead*)  
Project Manager  
(415) 554-7511  
[Laura.Marshall@sfgov.org](mailto:Laura.Marshall@sfgov.org)

**Kendra Froshman** (*General Inquiries*)  
Sr. Performance Analyst  
(415) 554-7529  
[Kendra.Froshman@sfgov.org](mailto:Kendra.Froshman@sfgov.org)

**Jeff Pomrenke** (*SharePoint*)  
City Hall Fellow  
(415) 554-5365  
[Jeffrey.Pomrenke@sfgov.org](mailto:Jeffrey.Pomrenke@sfgov.org)

#fiscalstrength



## Resources

### Citywide Nonprofit Monitoring and Capacity Building Program

- Link to materials: [www.sfcontroller.org/nonprofits](http://www.sfcontroller.org/nonprofits)
- Standard Fiscal & Compliance Monitoring Form
- Citywide Fiscal & Compliance Monitoring Guidelines
- Training Materials

71

#fiscalstrength



## Resources

- ***The Key to Long Term Financial Health Liquid Unrestricted Net Assets (LUNA)***, Hilda Polanco, New York Nonprofit Press, May 2012:  
<http://www.nynp.biz/index.php/strengthening-nonprofits/10505-the-key-to-long-term-financial-health-liquid-unrestricted-net-assets-luna>
- ***Operating Reserve Policy Toolkit for Nonprofit Organizations***, sponsored by the National Center for Charitable Statistics, Center on Nonprofit and Philanthropy at the Urban Institute, and United Way Worldwide, September 15, 2010  
[http://www.nccs2.org/wiki/images/b/b4/Operating\\_Reserves\\_Policy\\_Toolkit\\_1st\\_Ed\\_2010-09-16.pdf](http://www.nccs2.org/wiki/images/b/b4/Operating_Reserves_Policy_Toolkit_1st_Ed_2010-09-16.pdf)

72

#fiscalstrength



## Resources

### StrongNonprofits.org

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

Four Topic Areas: [Planning](#) | [Monitoring](#) | [Operations](#) | [Governance](#)

The Wallace Foundation / Knowledge Center / Resources for Nonprofit Financial Management

Resources for Nonprofit Financial Management

Search Financial Management Resources

Overview | **Planning** | Monitoring | Operations | Governance | All Resources

**SHOW:**

- General Resources
- Tools and Templates
- Case Studies

**Planning Resources for Nonprofit Financial Management**  
Good planning finds the most effective ways to deploy your organization's resources – and meet your overall objectives. Materials here include help with budgeting, cost calculations and cash projections.

[Strengthening the Budget Development Process](#)

#strongnonprofits



## Resources

### Online Tutorials for StrongNonprofits.org

FMA is offering complimentary orientation one-hour webinars that will feature a high-level overview of the website and drill down on several resources housed on the site.

Upcoming webinar dates:

- **June 2, 2016 at 11:00 am PDT**

To register, or check for future webinar dates, see the following webpage:

<http://fmaonline.net/strongnonprofits>

## QUESTIONS?

---



### Upcoming Session

---

#### Session 2: Operational Excellence

- **Date:** May 12, 2016
- **Time:** 9am - 1pm
- **Topic:** This workshop will focus on the foundational components of Operational Excellence - effective teams, integrated technology systems, and efficient workflow - and will leave participants with a renewed vision of what it means to operate at the highest levels to achieve solid program outcomes. The session will explore how to identify if an organization is on the right track to achieve operational excellence across all functions and, if not, how to most effectively shift course.



## Fiscal Management Associates, LLC

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

*FMA's mission is to empower not-for-profit organizations with the knowledge and skills to successfully serve their constituents and fulfill their missions*

Rebecca Coker, MPA  
rcoker@fmaonline.net  
415.871.0109

New York | Chicago | Oakland | Los Angeles

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



@FMA4Nonprofits



/FiscalManagementAssociates



[linkedin.com/company/fiscal-management-associates-llc](https://www.linkedin.com/company/fiscal-management-associates-llc)