



FISCAL STRENGTH FOR NONPROFITS



Assessing Your Grantees' Financial Health

City & County of San Francisco

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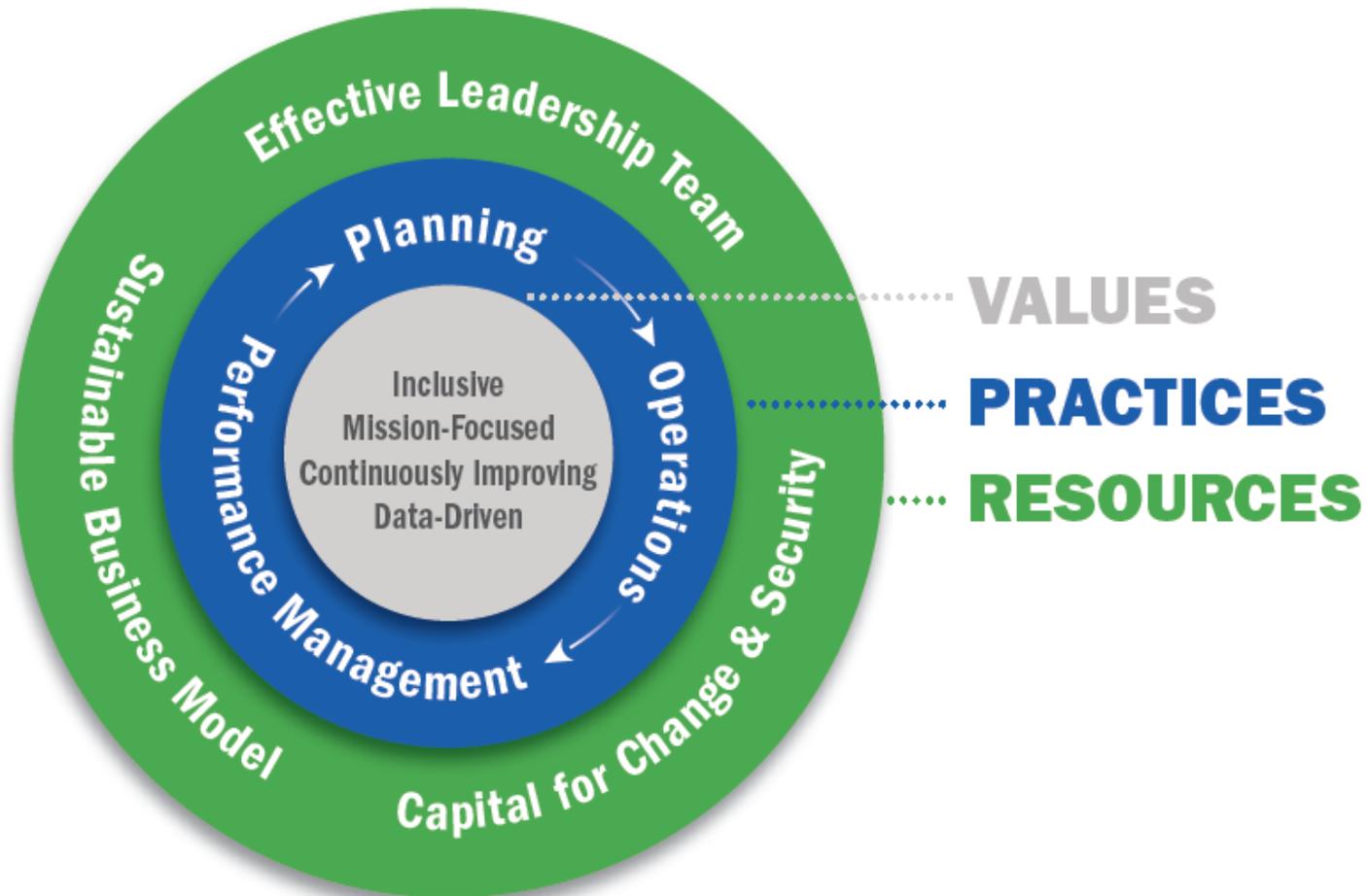
November 29, 2018

What are indicators
that an organization is
financially healthy?

Financially resilient organizations

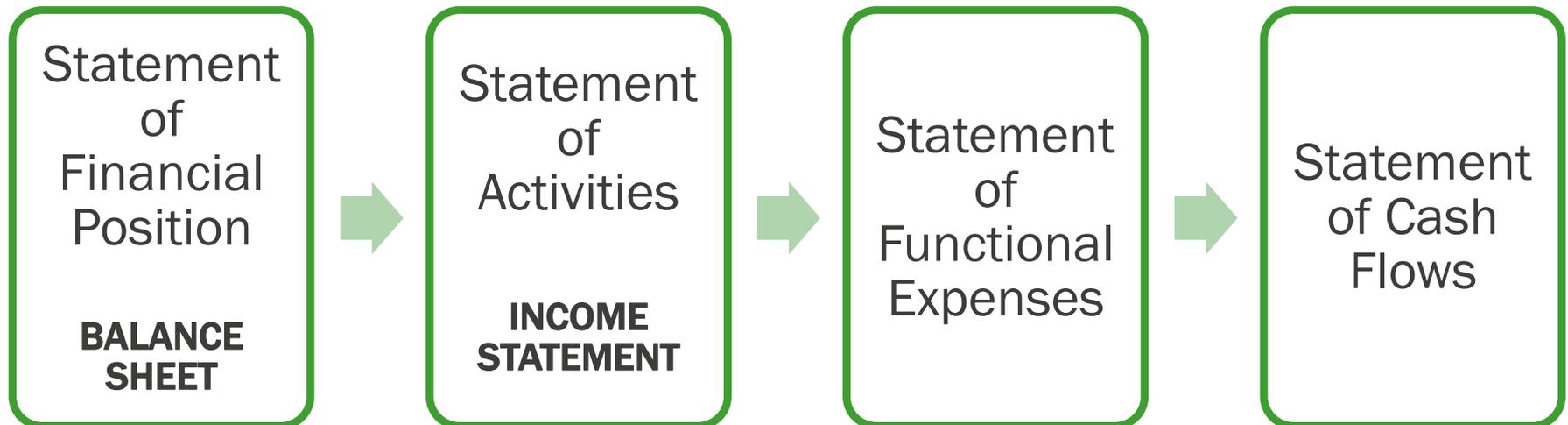
Stay focused on the long-term while continually assessing and responding to current needs. They understand and are able to tell their financial story.

Financial Resilience in Nonprofit Organizations



Introduction to Financial Statements

Order of statements in the audit



Opinion Letter
Notes

3a

Complete package

Revenue restrictions



Depreciation



Balance Sheet

What is Owned

Assets

- Cash
- Receivables
- Investments
- Fixed Assets

What is Owed

Liabilities

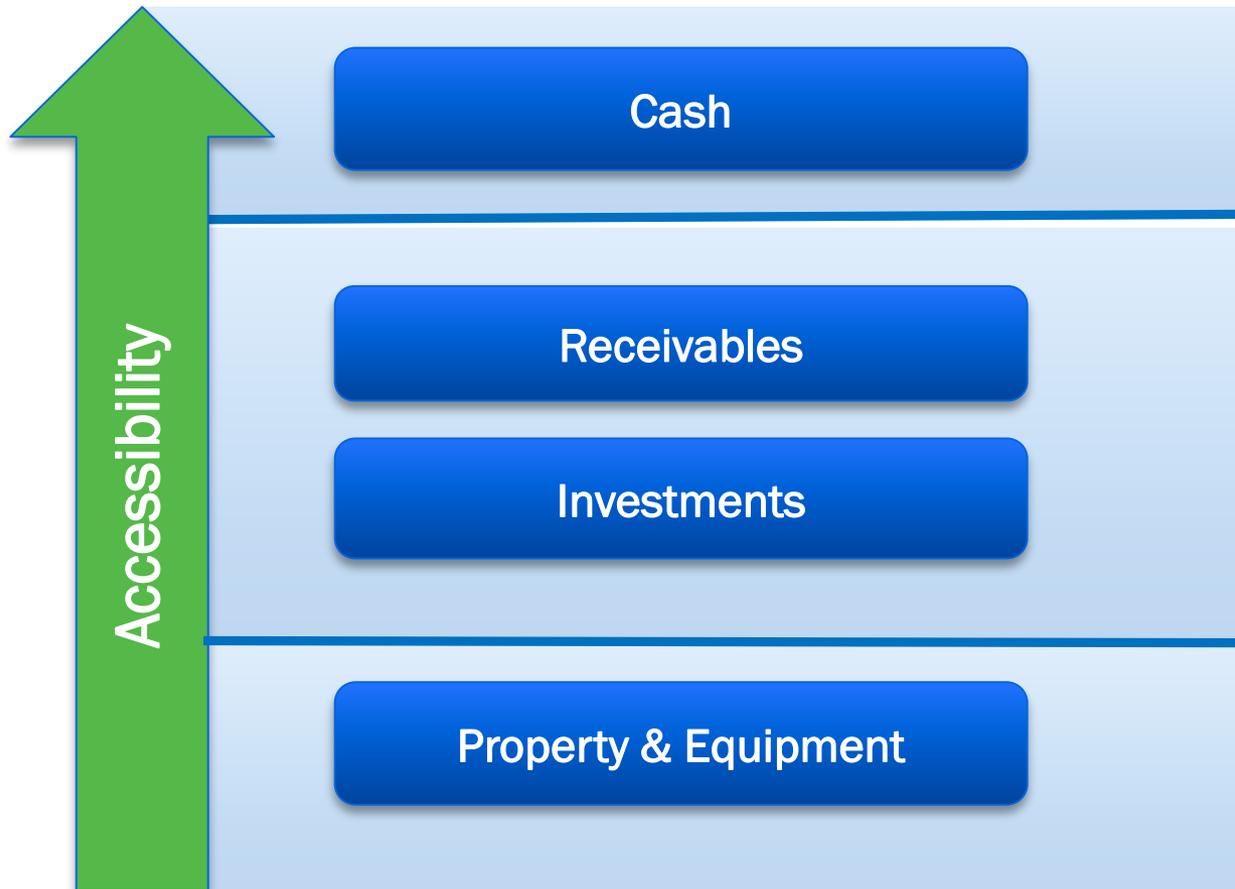
- Bills due
- Line of Credit
- Deferred Revenue
- Debt (short-and long-term)

Net Worth

Net Assets

- Unrestricted (Board Designated, Fixed Assets, Other)
- Temp. Restricted
- Perm. Restricted

Assets & Liquidity

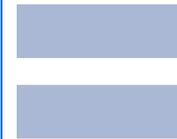


Statement of Activities & Statement of Functional Expenses

What was Earned



What was Spent



Results



Financial Health Analysis Tool

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

Operating Results

What was Earned

What was Spent

1 Results



3k

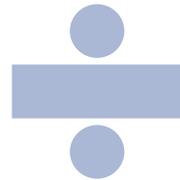
Total unrestricted net income is positive over sum of 2 years or explanation [pilot]

6f

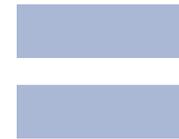
YTD net income is either a positive number or explanation

Months of Cash-on-Hand

Money in the Bank



What was Spent on Average Per Month



7

Operating Runway



3m

In current audit agency has at least 60 days of cash (doesn't include non-cash in operating expenses) [best practice]

3I

Total change in cash is positive over 2 years or explanation [best practice]

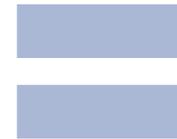
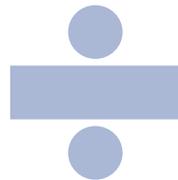
Working Capital Ratio

Cash and Other
Assets Converted
to Cash within
the Next 12 Mos.

What is Owed in
the Next 12 Mos.

5

How Assets Can
Cover Liabilities in
the Short-Term



6b

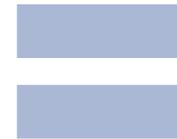
Working capital ratio is greater than 1

Liquid Unrestricted Net Assets (LUNA)

Unrestricted Net
Worth



Unavailable Net
Worth



6 Operating
Reserves



7 Months of Operating
Reserves

Auditor's Opinion

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

Opinion

In our opinion, the financials statements referred to above present fairly, in all material respects, the financial position of Nonprofit Org as of June 30, 2018, and the changes in its net assets and its cash flows for the years that ended in accordance with accounting principles generally accepted in the United States of America.

San Francisco, CA

September 14, 2018

3b

Unmodified opinion

3e

Audit completed within 6 months of end of fiscal year

Notes to the Financial Statements

- Basis of accounting
- Fixed assets
- Debt
- Restricted net assets
- Related party transactions
- Subsequent events
- Commitment and contingencies

Management Letter

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.

3d

No audit findings and/or questioned costs

3f

Letter signed by audit firm

3g

For prior year findings, reasonable explanation of correction action



Accounting Standards Update (ASU)

- ASU 2016-14:

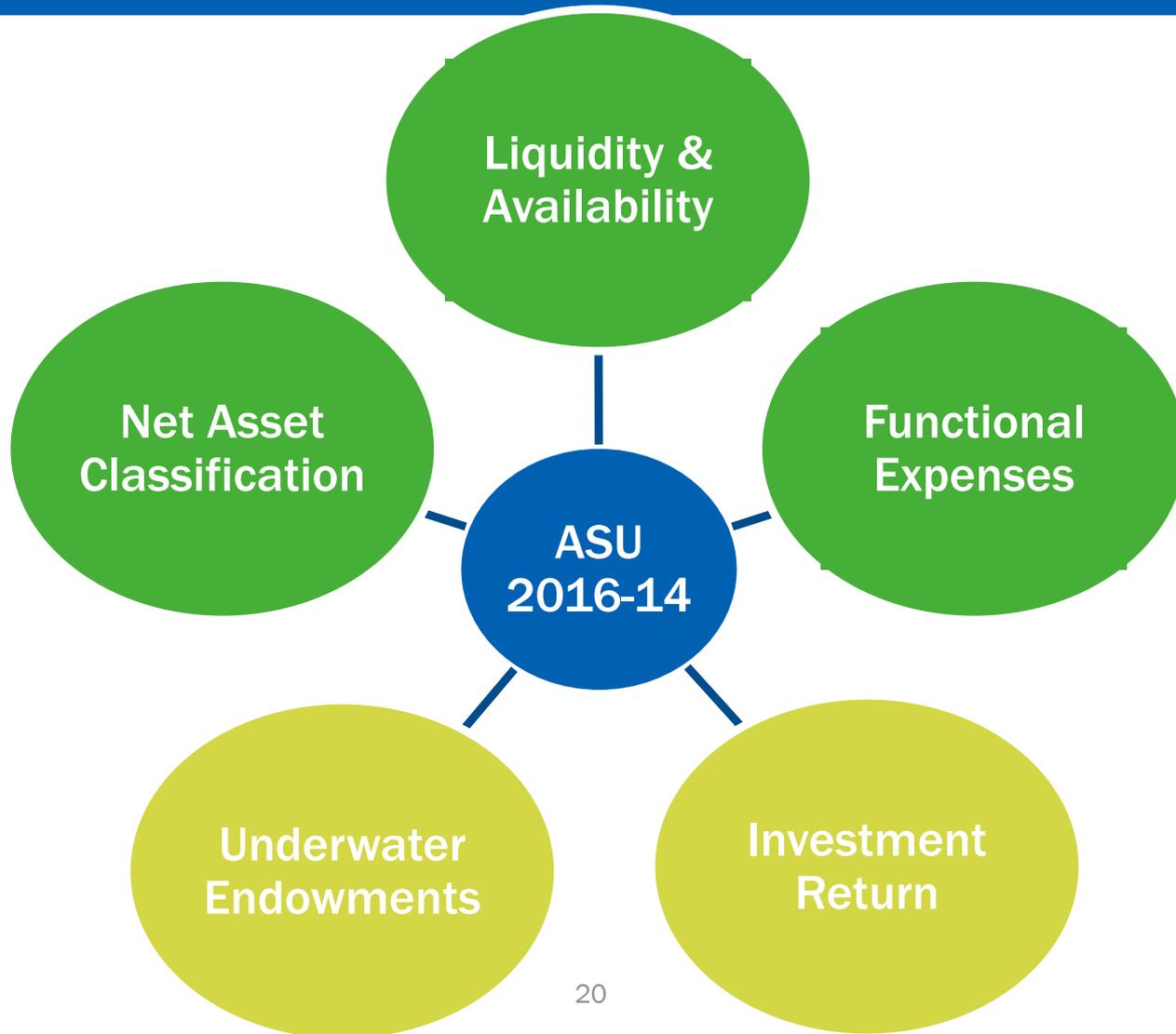


Issued in August 2016

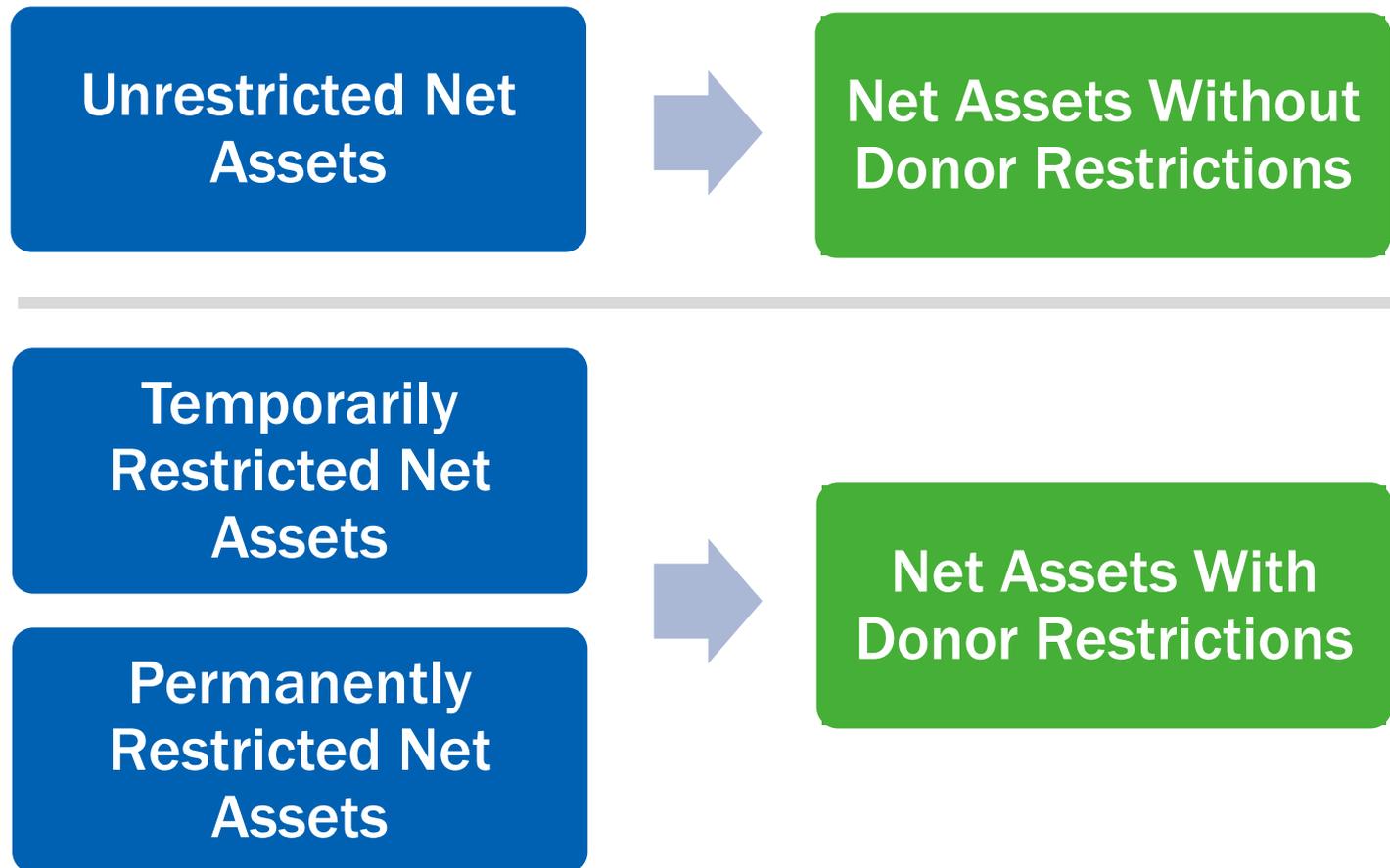
First major revision
since 1993

Effective Date: Calendar
2018 or Fiscal Year 2019

Key Provisions



Net Asset “Classification”



Liquidity & Availability of Resources

Disclose: how a nonprofit manages its available liquid resources

Qualitative

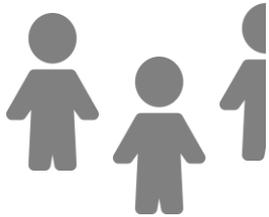
Availability of financial assets to meet cash needs for **general expenditures** within one year of balance sheet date

Quantitative

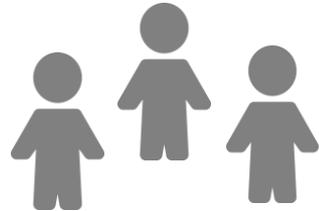
Cost Allocation Methods

By Staff (FTE)

Program A



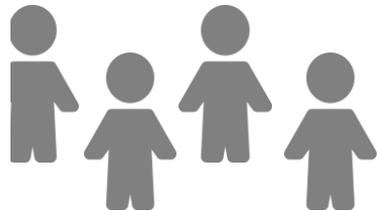
Management & General



Fundraising



Program B



By Space Usage (Sq Ft)



By Participants



Internal Financial Reports

1g

Cash flow projections [best practice]

	Budget Owners	Leadership Team	Board of Directors
Budget-to-Actual Revenue & Expenses for program, contract and/or org-wide	X	X	X
Performance Dashboard	X	X	X
Management Narrative		X	X
Statement of Activities		X	X
Balance Sheet and supporting schedules		X	X
Cash Flow Projection		X	X
Year End Projection		X	X

6a

Balance Sheet is current

6d

P&L is current

6f

Ytd net income is positive

6c

Current bank reconciliation

6e

Includes ytd revenue and expense by program, contract or funding source



Resources

Public Website:

<http://www.sfgov.org/controller/nonprofits>

- Training Materials
- Monitoring Form
- Resources for Nonprofits

Internal Website *(login needed)*:

<https://elibrary.controller.sfgov.org/csa/performance/nonprofitmonitoring/SitePages/Home.aspx>

- Monitoring Workflow
- Contractor Libraries
- Monitoring Resources

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Resources

- [*The Key to Long Term Financial Health Liquid Unrestricted Net Assets \(LUNA\)*](#), Hilda Polanco, New York Nonprofit Press, May 2012:
- [*Keeping it in Reserve: Grantmaking for a Rainy Day*](#), Hilda Polanco and John Summers, Nonprofit Quarterly, May 2016:
- [*Operating Reserve Policy Toolkit for Nonprofit Organizations*](#), The National Center for Charitable Statistics, Dec. 2008
- [Nonprofit Audit Guide](#)
- [StrongNonprofits.org](#)



The screenshot displays the 'Resources for Nonprofit Financial Management' page from The Wallace Foundation Knowledge Center. The page features a green header with navigation links and social media icons. Below the header is a search bar and a main navigation menu with tabs for Overview, Planning, Monitoring, Operations, Governance, and All Resources. The 'Planning' tab is selected, showing a list of resources under the heading 'SHOW:'. The resources listed are 'General Resources', 'Tools and Templates', and 'Case Studies', all of which are checked. A featured resource titled 'Planning Resources for Nonprofit Financial Management' is highlighted, with a sub-heading 'Strengthening the Budget Development Process'. The background of the page shows a group of people in a meeting.

Fiscal Management Associates (FMA)

- 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

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