



Navigating Nonprofit Financials: A Board Member's Guide to Reporting

Financial reporting transparency and accountability helps to support your organization's mission and goals. This on-demand session is designed to equip board members with essential knowledge to oversee nonprofit financial management. Learn how to read financial statements, gain insights into new revenue recognition standards, and understand the management and reporting of restricted funds.

Find additional resources on our event page: [Nonprofit Financials: A Board Member's Guide to Reporting: CLA](#)

Here is a transcription of this session:

00:00

Jackie Dodson

Good afternoon, everyone. Thank you for joining us today for Navigating Nonprofit Financials A Board Member's Guide to Reporting. I'm Jackie, and I'm thrilled to be here today with my colleague and friend, Latha.

00:13

Jackie Dodson

We're here to make nonprofit financials a little less intimidating and maybe even a little fun. First, we're required to show you this disclaimer, but you're not required to read it all right now.

00:25

Jackie Dodson

It'll be available for download with the slides after the session. Okay, Latha, you want to introduce yourself?

00:32

Latha Saikrishnan

Certainly. Thank you, Jackie. Good afternoon, everyone. My name is Latha Sai Krishnan. I'm a signing director at CliftonLarsonAllen LLP located in Arlington, Virginia. I've been with CliftonLarsonAllen LLP since January 2003 and bring over 25 years of experience working with nonprofit organizations.

00:49



Latha Saikrishnan

It's been a great privilege to collaborate with these organizations, providing valuable guidance and expertise in accounting and finance.

00:58

Jackie Dodson

And I'm Jackie Dodson, a consulting CFO with CliftonLarsonAllen LLP and I live in Orlando, Florida. I've worked with nonprofit organizations for 20 years in a variety of accounting and finance roles, and I joined CliftonLarsonAllen LLP last year in March 2024.

01:15

Latha Saikrishnan

Okay, I just wanted to give the CPE requirements here. So you need to attend 50 minutes to receive the full one CPE credit. There will be four polling questions throughout the presentation.

01:27

Latha Saikrishnan

You must respond to a minimum of 3 to receive the full 1 CPE credit. Both requirements must be met to receive CPA credit.

01:37

Jackie Dodson

Our goal today is to equip you with essential knowledge to help you confidently oversee the financial management of a nonprofit organization. By the end of the session, you'll be able to identify and understand the key components of nonprofit financials, recognize the revenue recognition standards and related risks, recall whether transactions are contributions or exchange, and describe how to manage and report restricted funds.

02:03

Jackie Dodson

Before we begin, we're going to have our first polling question to get a pulse on who's in the audience today.

02:11

Latha Saikrishnan

So please take a moment to respond, to the polling question on your screen. How are you currently supporting a nonprofit organization? Or your board member, CFO or finance staff, organization leader, volunteer or professional services firm, or it could be other.

02:31



Latha Saikrishnan

So please take few seconds to respond to the polling question here. Looking at the results, it looks like, Jackie, we have at least 40% in the audience who are a CFO. Finance stuff.

02:49

Jackie Dodson

that's absolutely amazing, Latha. Huh? So excited for you guys to be here.

02:55

Latha Saikrishnan

Okay. Jackie and I have worked with nonprofit organizations for a long time, and we have heard, some crazy myths around the nonprofits. Jackie, let's start out by busting a few of them.

03:11

Latha Saikrishnan

You want to kick it off?

03:14

Jackie Dodson

Sure. Myth number one, nonprofits can't make profits. Well, that's just not true. Nonprofits can and should generate surplus revenue in order to reinvest into their mission and programs.

03:29

Latha Saikrishnan

Exactly. Surplus revenue helps an organization sustain operations and grow their impact. On to myth number two, nonprofits must have balanced budgets. Jackie, what do you think about that, Latha?

03:42

Jackie Dodson

this myth is actually one of my hot buttons, because while having a balanced budget makes sense, sometimes there are many times that an org should really be budgeting for a surplus or a deficit, because that often more accurately reflects their current strategic goals.

03:58

Jackie Dodson

If it's a year of growth, then we'd expect surplus. If it's a year to use the surpluses generated in a prior year, then we'd expect a deficit.

04:08

Latha Saikrishnan

Exactly right, Jackie. Budget should be a good fit estimate aligned with the organization's current goals. And so often that is not reflected by adopting a zero based budget. Let's go to myth number three.



04:20

Latha Saikrishnan

Deficits are, better than surpluses.

04:23

Jackie Dodson

That one's tricky, Latha. Deficits can be strategic, but surpluses in general are more desirable. They provide a cushion for unexpected scenarios, and they can help fuel future initiatives.

04:37

Jackie Dodson

Finally, myth number four. Revenue is more important than assets.

04:41

Latha Saikrishnan

That's definitely a myth. Revenue does keep the lights on, but assets, provide long term stability and can even help an organization generate more revenue.

04:53

Jackie Dodson

That was fun. Thanks, Latha.

04:55

Latha Saikrishnan

Thanks, Jackie.

04:59

Jackie Dodson

As we move into our session on financial reporting, I want to highlight the importance of the fiduciary responsibility that the board has. Fiscal oversight is a core responsibility that's shared by all board members.

05:12

Jackie Dodson

You're like the guardians of the organization's treasure chest. Board members have a responsibility to understand the financial health of the organization and provide guidance and governance along the way.

05:24

Jackie Dodson

Here are three basic principles that I'd like us to use as a starting point for our discussion today. Number one, financial information is based on periods of time, and understanding these periods help us make informed decisions and keep the organization on track.



05:41

Jackie Dodson

Number two, numbers are meant to be compared. Comparisons help us see where we stand, where we need to go. It's about keeping our financial picture clear and focused. And number three, anticipation is key.

05:57

Jackie Dodson

Just like a good chess player anticipates their opponent's moves, organizations need to anticipate future financial needs. Management needs time to adjust and to be proactive rather than reactive.

06:09

Jackie Dodson

By staying ahead of the game, you can help the organization remain financially stable and ready to Tackle any challenges that come your way. Okay. It's actually time for our next polling question. How optimistic are you on the current economic conditions and the impact to your organization?

06:30

Jackie Dodson

5. Very confident. 4. Confident. 3. Neutral. 2. Somewhat confident. 1. Not confident. As you finish answering, let's talk about the four key nonprofit financial statements.

06:48

Jackie Dodson

These statements are the tools that help us understand the financial story of the organization in the nonprofit world. Numbers aren't just numbers. They represent lives changed, communities transformed, and the world being impacted for good.

07:03

Jackie Dodson

They help communicate the amazing work being done by your organization. All four of these statements are interconnected, and it's important to understand how they all fit together. We're going to go over the Statement of Financial Position, the Statement of Activities, Statement of Cash Flows, and the Statement of Functional Expenses.

07:24

Jackie Dodson

Before we look at the statements themselves, it's important for us to know the context in which they are prepared. Financials can be prepared on either a cash or an accrual basis. Most nonprofits, report on accrual basis using Generally Accepted Accounting Principles, or gaap, and that's what we'll be assuming today as we move forward with the session.



07:46

Jackie Dodson

Let's start with the Statement of Financial Position. This is the nonprofit version of a balance sheet. It's a snapshot of what the organization owns, what it owes to others, and what's left over.

07:58

Jackie Dodson

It's like being able to check your bank account and your credit card balance all at the same time. Here's what to look for. Assets. These are the resources that an organization has in its toolbox. Liabilities. This is what the organization owes to others.

08:13

Jackie Dodson

And the difference between the two is called net assets. Net assets can be categorized as, with or without donor restrictions. And we'll dive deeper into that a little bit later. Next up, the Statement of Activities.

08:28

Jackie Dodson

This is your nonprofit's income statement, or profit and loss. It shows how much money came in, how much went out, and whether you ended up with a surplus or a deficit. We break it down into revenue and expenses.

08:41

Jackie Dodson

The statement helps us answer questions like are we raising enough money? Are we spending it wisely? Are we growing or shrinking? And for maximum impact, don't forget to compare it to past years or to your budget.

08:55

Jackie Dodson

At the bottom of the statement is the change in net assets, which is revenue minus expense. This amount flows onto the Statement of Financial Position, and it's included in the calculation of net assets.

09:10

Jackie Dodson

Next is the Statement of Cash Flows. This statement shows how money moves in and out of the organization. It's kind of like a financial fitbit. Tracking your cash health it's divided into three sections.

09:22



Jackie Dodson

Operating Activities these are your day to day revenue and expense investing activities Buying or selling assets Financing activities Loans and loan repayments the cash flow statement helps us understand liquidity.

09:36

Jackie Dodson

Do we have enough cash to keep going? Are we investing it wisely? And are we prepared for surprises? This statement starts with the change in net assets at the top, which was taken from the Statement of Activities and and it reconciles to the change in the cash balance from the beginning to the end of the period.

09:55

Jackie Dodson

The ending cash balance is the same amount as what's shown on the Statement of Financial Position. Finally, we have the Statement of Functional Expenses. This statement is specific to nonprofits and shows how resources are being utilized across all three functions.

10:13

Jackie Dodson

It takes the list of natural expenses from the Statement of Activities and shows what those expenses are used for. Program this is the heart of your mission. This is the purpose you exist. Fundraising it's the effort it takes to bring in the revenue and management in general.

10:32

Jackie Dodson

These are the behind the scenes operations. Now this statement is all about transparency and accountability. Donors and stakeholders want to know what your dollars are being spent on and this statement tells a powerful story.

10:46

Jackie Dodson

It is also required for regulatory compliance and it is included on your nonprofit's 990 form. 990 is like the nonprofit version of a report card.

10:59

Jackie Dodson

All 990s filed with the IRS are posted online to websites such as Guidestar, Charity Navigator. So this makes them accessible to the public and to your donors. That might seem scary, but think of your 990 as your opportunity to show the world how well you're doing and how responsibly you're managing your resources.

11:23



Jackie Dodson

It's not enough just for your organization to prepare all these financial statements. We also have to analyze them. And that analysis is like uncovering the story behind the numbers.

11:34

Jackie Dodson

It enhances the narrative, produces insights that allow us to form judgments and ask questions. Remember, context is critical. It's all about understanding the big picture so that we can make informed decisions.

11:50

Jackie Dodson

So what makes a nonprofit financially healthy? Well, it's kind of like having a balanced diet. You need sufficient resources and a ready source of cash for shortfalls. You also need a, commitment to income based spending and to retain positive cash each year.

12:07

Jackie Dodson

You need an operating reserve and you need a board and management that hold themselves accountable. These characteristics will help ensure your nonprofit remains strong and resilient into the future.

12:22

Jackie Dodson

Here are a few key performance indicators that organizations can use to measure their financial the current ratio it answers the question, can we pay our bills? It's calculated by dividing current assets by current liabilities, which are shown on the Statement of Financial Position.

12:41

Jackie Dodson

We want a larger number here because this informs us of our ability to meet our short term obligations next days or months. Cash on hand. It answers the question, how long can we keep the lights on without new revenue?

12:58

Jackie Dodson

It's calculated by dividing the operational cash balance by the daily or monthly burn rate. This calculation uses amounts from both the Statement of Financial Position and the Statement of Activities.

13:11



Jackie Dodson

It represents the financial cushion we have to ensure that we can weather any storm. The two ratios that we just talked about are your organizational's, your organization's financial pulse check.

13:24

Jackie Dodson

They help track how well cash is being managed. Of course, it's essential to have enough cash on hand to meet your obligations. But keeping too much cash in the checking account isn't ideal either.

13:37

Jackie Dodson

These KPIs are great for spotting when there's extra cash hanging around that could actually be working harder in a reserve account with a smart investment strategy. The Program Efficiency Ratio.

13:52

Jackie Dodson

How much of each donation goes to the mission. This ratio helps us understand how effective we are at using our resources to achieve our goals. It's calculated by dividing program expenses by total expenses as shown on the Statement of Functional Expense.

14:10

Jackie Dodson

The typical industry benchmark is about 75% or more on programs. But this can be a hot topic for discussion because there are many good reasons why your organization may need to be higher or lower than that.

14:27

Jackie Dodson

Trend analysis. Examining the top revenue and expense drivers over a period of time can provide valuable insight. Trends tell us whether we're on the right track or if we need to course correct.

14:43

Jackie Dodson

And they can help us plan for the future and make strategic decisions. When we put all four of these financial statements together, we get a well rounded view of our organization's financial health, performance, long term sustainability.

15:04



Jackie Dodson

And as board members, your role is governance, not day to day management. So I encourage you to partner with your leadership team to create a reporting package that works for you. Think second summary style reports with clear KPIs, trend snapshots, and a narrative that brings all the numbers to life.

15:24

Jackie Dodson

After all, they're not just numbers, they're the story of your mission in action.

15:32

Latha Saikrishnan

That was really great information, Jackie. Thank you. Up next. I know, yeah, up next we have revenue recognition standards. let's talk about it. Sounds fancy, right? But it's really about how and when we record revenue.

15:55

Latha Saikrishnan

So revenue recognition isn't just a one size fits all deal. It's all about understanding the difference between two types of transactions. Reciprocal transactions, these are like contracts.

16:08

Latha Saikrishnan

You give something, you get something in return. Simple, right? Non reciprocal transactions. These are more like contributions. Think of them as gifts with no strings attached. The distinction is super important because it influences how we report and comply with financial rules.

16:27

Latha Saikrishnan

Accurate revenue recognition affects organizational operations, shapes financial practices and ensures that compliance with regulations. It also provides a, truthful representation of the organization's financial health.

16:42

Latha Saikrishnan

So it's important to distinguish between contributions and exchange transactions. Let's look at a couple of examples. A grant to support general community development, that's a contribution charging a fee for a workshop.

16:58



Latha Saikrishnan

That's an exchange transaction. So let's talk about exchange transactions. What is an exchange transaction? These are, transactions where goods or services are exchanged for payment. In other words, it's a reciprocal arrangement where both parties receive something of value.

17:20

Latha Saikrishnan

Let's dive into the five steps to evaluate our contracts and performance obligations. I'm not going to go too much into details, but let's look at these five steps using a simple example.

17:32

Latha Saikrishnan

As you can see, the step one is identify contracts. Step two is identify performance obligations. Third step is determine transaction price. The fourth step is allocate transaction price. And fifth step is recognized revenue.

17:46

Latha Saikrishnan

So let's take the example of museum membership. A museum offers annual memberships for \$120 per year. And it includes unlimited museum entry, four guest passes, quarterly magazine, that is four magazines a year.

18:05

Latha Saikrishnan

Applying these five steps, the first step is identify the contract. So a member pays \$120 for a one year membership. Identify the performance obligations. That's the second step. So what are the obligations?

18:18

Latha Saikrishnan

We have museum access, four guest passes and four magazine issues. The third step is determine the transaction price. The total cost is \$120. The fourth step is allocate the transaction price.

18:32

Latha Saikrishnan

The museum access is \$60, guest pass is \$40 and magazine is \$20. The fifth step is recognize revenue. As you can note, the museum access is \$60.

18:46

Latha Saikrishnan

So if you prorate it across a year, it is \$5 per month. So museum access is \$5 per month, guest passes as and when they're used, and magazine is \$5 per issue upon delivery.



18:59

Latha Saikrishnan

Let's assume one guest pass was used in the first quarter. And let's calculate the total revenue recognized for the first quarter. So that's \$5 per month for museum access, which is \$15, plus one magazine for the first quarter, which is \$5.

19:16

Latha Saikrishnan

And then since one guest pass was used in the first quarter, it's \$10, so it totals to \$30. I hope this simple example clarify the five step process. Let's look at the types of exchange transactions.

19:34

Latha Saikrishnan

So where goods are services exchanged for payment. A common type is membership dues. That's very popular. Where a member pays dues, they receive benefits in return. Conference meetings so the members again pay fees which cover the cost associated with attending events.

19:53

Latha Saikrishnan

And program fees are, charges for specific activities or services. Royalties and licensing agreements. They involve payments for the use of intellectual property. Each of these transactions requires careful management to ensure accurate financial reporting.

20:13

Latha Saikrishnan

Of course, every I tell my kids too, everywhere there are challenges. We just need to come up with solutions to face these challenges. So what are the common challenges with the exchange transactions? So the first is recognizing revenue in the correct way.

20:30

Latha Saikrishnan

recognizing revenue in the correct period. So when services are delivered, revenue should be recognized, not just then paid and then clarifying what is promised. Identify all goods or services including deal fair price allocation.

20:47

Latha Saikrishnan

Like split the total price across items based on their value and let's say the contract changes in between. Then reassess the revenue to make sure that it matches the modifications in the agreement. And then handling uncertain pricing.

21:01



Latha Saikrishnan

Let's say the revenue recognition depends on future events. So estimate the revenue carefully so that the pricing is not to weigh off. We have a polling question coming up here, so I would like someone from CliftonLarsonAllen LLP to contact me to discuss these services.

21:25

Latha Saikrishnan

Accounting and advisory Financial statement audit, Tax return preparation Managing investments. Nothing at this time. Okay, great. Let's shift gears and talk about grants and contributions.

21:43

Latha Saikrishnan

There are several types of contributions supporting nonprofit organizations. Cash contributions are direct donations of money providing immediate support for programs and operations. Non cash contributions or in kind donations include goods, services or resources that aid nonprofits without monetary exchange.

22:04

Latha Saikrishnan

Pledges are promises to donate in the future, but it's vital for long term planning and sustainability. Grants are funds from foundations, corporations or government entities for specific projects, often with requirements and reporting obligations.

22:21

Latha Saikrishnan

Contributions of time and expertise come from volunteers and pro bono services offering valuable skills and support. Each type of contribution is essential collectively enabling nonprofits to make a meaningful impact.

22:41

Latha Saikrishnan

FASB ASC958. It provides comprehensive guidance for accounting and reporting by nonprofit entities, including grants and contributions. It covers various aspects including contributions received, contributions made and the classification of net assets.

22:58

Latha Saikrishnan

The standard aims to improve the clarity and consistency of financial statements for nonprofit organizations. It ensures that nonprofits provide relevant information about their financial performance, liquidity and cash flows.

23:13



Latha Saikrishnan

Revenue recognition criteria. This involves determining when and how to recognize different types of revenue streams. Contributions are recognized when they are received or promised unconditionally, while grants are recognized based on the terms of the grant agreement.

23:31

Latha Saikrishnan

Every grant agreement is unique in kind. Contributions are recognized at the face value at the time of donation. Let's look at the measurement and disclosure requirements. Measurement requirements involve determining the fair value of contributions and other revenue streams.

23:49

Latha Saikrishnan

Disclosure requirements include providing detailed information about the nature and the amount of contributions received. Nonprofits must disclose any restrictions on the use of contributions and the conditions under which they were received.

24:07

Latha Saikrishnan

Again, we have common challenges with contributions as well. The first challenge is misclassification of revenue. Nonprofits often struggle with correctly classifying revenues, such as distinguishing between contribution of grant revenues and exchange revenues.

24:24

Latha Saikrishnan

The second challenge is timing of revenue recognition. Determine the correct timing for recognizing revenue, especially for conditional grants and contributions, can be challenging. The third challenge is documentation of donor intent.

24:39

Latha Saikrishnan

Properly documenting donor restrictions and intent is crucial but often overlooked, leading to errors in net assets classification. Measurement of in kind contributions. Accurately measuring the fair value of in kind contributions, such as donated goods and services, can be complex regulatory and compliance challenges.

25:02

Latha Saikrishnan

Nonprofits, especially in this environment, can face additional layers of regulatory and compliance requirements designed to enhance transparency for donors and other stakeholders. Next, let's talk about managing restricted funds, or as I like to call it, managing money with a mission.



25:30

Latha Saikrishnan

Restricted funds are donations that come with specific instructions from the donor. Think of it like getting a gift card that can only be used at one store. You can't just spend it anywhere.

25:42

Latha Saikrishnan

You have to follow the rules and use it exactly how the donor intended.

25:49

Jackie Dodson

There are two main types of funds with donor restrictions and without donor restrictions. With donor restrictions are funds that must be used for a specific purpose or during a specific time according to the donor request.

26:06

Jackie Dodson

Without donor restrictions are funds that are flexible dollars. They can be used for whatever purpose the organization deems necessary. Within restricted funds, we often see purpose restricted and time restricted.

26:21

Jackie Dodson

Purpose restricted example is when a donor says, use this donation to build a playground. A time restricted example could be when a donor says, use this donation over the next two years.

26:38

Latha Saikrishnan

Thanks, Jackie. Yes, managing, restricted funds requires a few things. Clear documentation. Know exactly what the donor intended. Award letters, emails and agreements of your best friends.

26:52

Latha Saikrishnan

Accurate, tracking. Use your accounting system to separate restricted and unrestricted funds. No mixing regular reporting. Keep donors in the loop. Show them how their gift is making an impact.

27:10

Jackie Dodson

Of course, there can be some challenges to managing these types of funds. Misunderstand the donor intent Tracking Multiple restrictions can be complex. There are legal compliance requirements and balancing restricted and unrestricted funds.



27:30

Jackie Dodson

But with strong internal controls, regular audits and good communication, you can manage restricted funds with confidence and you can keep your donors happy. Remember, transparency builds trust and trust builds long term support.

27:51

Latha Saikrishnan

Let's look at the common errors in the financial reporting related to restrictions, time and purpose. It's a common error where we, like you need to understand the type of restriction being imposed.

28:06

Latha Saikrishnan

Again, it all goes back to clear documentation of donor intent so that it helps to avoid confusion. multiyear pledges, watch out because they are implicitly categorized as a time restriction net asset classification.

28:27

Latha Saikrishnan

Make sure you get the net assets classifications right and disclose them properly. So it could be board designated reserves, endowments, restrictions. Disclosure of restrictions. I know we talked about the disclosure requirements in one of the previous slides.

28:45

Latha Saikrishnan

It's important to accurately calculate the release of restrictions and handle perpetual endowments as well. Understand how earnings affect these endowments and disclose any underwater endowments to keep everyone in the loop keeping track of restricted funds.

29:07

Latha Saikrishnan

The right way is key for staying on top of accounting rules and being clear with donors.

29:15

Jackie Dodson

And we're actually going to have our final polling question. Did you find the information in the CliftonLarsonAllen LLP webinar helpful to you and your organization or business? I'll give you a minute to respond. Latha.

29:34



Jackie Dodson

We actually got through our content, in about 30 minutes. But a lot of questions have been coming in the chat and so I think it would be, great for us to address some of these questions that people have.

29:50

Latha Saikrishnan

Yes, yes. Yeah, we can use some. Wow, a lot of questions have come in. Okay, so maybe I'll filter it and Yeah, maybe. I know there's, there's a question about the myth we discussed earlier.

30:09

Latha Saikrishnan

there's a question about doesn't surplus create problems long term to retain non profit status with irs?

30:18

Jackie Dodson

that's a great question and one of those myths that I think we hear, sometimes no. And nonprofits, can absolutely have surplus. They can have savings. It's very much encouraged and desirable to have, operating reserves and even additional cushion.

30:40

Jackie Dodson

it doesn't jeopardize your exemption status with the irs. And I would argue it's good financial stewardship. I would say to add on to the content, there's a balance and it's really a partnership between the board and management to determine how comfortable everyone is with their financial cushion.

31:04

Jackie Dodson

someone else, there is another question in here that referenced the current economic conditions and does that have an impact on how much reserves a nonprofit should have? And of course this is, this kind of a climate that we're in right now is going to impact the comfortability, and the conservativeness that a board might feel to have more reserves.

31:26

Jackie Dodson

and so I would encourage really having and developing a financial policy that is evergreen, right. It's going to stand the test of time. A lot of times there's kind of three buckets I think about that, that we should all be looking at in our financial policies.

31:44



Jackie Dodson

One is just operating cash. And I mentioned, you need enough in your checking account that you are operating and you're, you're not going to go zero or negative. but you don't want to be cash heavy in your checking account.

31:58

Jackie Dodson

So because that's not working for you, that money isn't going to work for you. Then there's kind of like a midterm bucket, that's maybe your operating reserves bucket. And it really depends on your board and your leadership of how comfortable and how much money should be kept in each of these buckets.

32:18

Jackie Dodson

generally we see maybe three to six months in an operating reserves. Now that's outside of your checking account. Right? You're going to need a couple of months in your checking account to pay your bills, cover your expenses, and then maybe another three to six months in the operating reserves.

32:35

Jackie Dodson

but then if you have more surplus lots, of times we see this when an organization runs a capital campaign and you're getting a lot of high dollar donations because you're going to do future projects that may be, best invested in some sort of, a smart investment strategy for maybe three to five or more years.

33:00

Jackie Dodson

And that could be a separate bucket in your financial policy. Each of these buckets can have different amounts and different guidance, based on the board's comfortability with their financial cushion.

33:17

Jackie Dodson

So it's just a really good practice to work in tandem with the board and leadership about what we feel good about, what do we want our internal benchmarks to be. And there really isn't an industry standard across all nonprofits that you're going to want to shoot for.

33:37

Jackie Dodson

It needs to be targeted and specific to your organization and your specific needs and your board's comfortability with your financial cash. Lapa Anything else to mention about that?

33:53



Latha Saikrishnan

No, I agree. Jackie, because there was a question about, how much should a non profit organization have in reserves and how much is too much? And you answered the question perfectly. There's nothing like there's too much or too less.

34:06

Latha Saikrishnan

generally, as you Mentioned, I've seen three to six months of operating expenses that's kept as an operating reserve. but again, it would vary based on the organization. And there is another question about, KPI.

34:20

Latha Saikrishnan

And how do you determine the most appropriate KPIs?

34:26

Jackie Dodson

So, KPI, key performance indicators. And again, I showed, three pretty common KPIs that most orgs are tracking on a regular basis. but again, it's so specific, it can be tailored so specifically to your organization.

34:46

Jackie Dodson

what are the most important factors that your board wants to watch out for? Wants to make sure that we're targeting and we're tracking and trending. I would also say that. So to finish my thought, it's a partnership.

35:01

Jackie Dodson

Again, what does the board want to see? And those KPIs may be different than what management and leadership is looking at internally. They may have additional KPIs to track as well.

35:14

Jackie Dodson

it's a partnership between those two to develop the most important ones, to be tracking on a. On a regular basis.

35:24

Latha Saikrishnan

Yep, yep, I know. And there was a question about nine, hundred ninety requirements. Of course, we can have a separate session on 990 to talk about it, but, I think. Do you want to cover anything on that, Jackie, for the 990 requirements?

35:39

Jackie Dodson

Well, I, I think we could. We could kind of go down a rabbit hole. And Laha and I are not the tax experts. It's probably a whole webinar in it in and of itself. so I would highly recommend that you reach out to, to a tax CliftonLarsonAllen LLP.

35:56

Jackie Dodson

Happy to engage with you on the requirements needed for, for a nonprofit.

36:02

Latha Saikrishnan

And, there was a question about trend analysis. How many years should we include?

36:07

Jackie Dodson

Well, do you have a thought about this?

36:10

Latha Saikrishnan

No. I've seen three to five years. Like, not beyond that.

36:13

Jackie Dodson

Yeah, well, what's so interesting is that Covid really kind of threw kind of a wrench, I think, in the trend analysis, because I'm hearing a lot more. We need to go back pre Covid, because Covid, the period of time of COVID your org trend might be totally different than what it normally was.

36:38

Jackie Dodson

And so I'm hearing more like, okay, if we only go back three years, that's not a good representation of the trend that we want to be tracking. We need to go back farther. We need to go back five years.

36:49

Jackie Dodson

We actually need to go back pre Covid, maybe six or seven years to really fully capture what. What was our trend before COVID How did Covid really affect things? And how do we get back, how do we get back in alignment?

37:05



Latha Saikrishnan

Mhm. Yes. Yes. there was a question about what is underwater endowment. I'll take the. Jackie. So yeah, an underwater endowment as defined by the FASB is a donor restricted endowment for which the fair value of the fund at the reporting date is less than either the original gift amount or the amount required to be maintained by the donor or by law that extends donor restrictions.

37:33

Latha Saikrishnan

So that is the underwater endowment. And I saw another question about the endowment. I'm just scrolling to the questions here. Of course there are a lot of questions, at least almost more than 100. But we may not have time to cover all the more than 100 questions here.

37:49

Latha Saikrishnan

But we will definitely respond to each and every question that's posed here. I think there's a question about what's the current ratio? I know, Jackie, you covered it in the slides. Do you want to repeat the ratio again?

38:00

Jackie Dodson

Sure. The current ratio is current assets divided by current liabilities. And it really just speaks to the organizations. Do they have enough short term resources, to cover their short term obligations?

38:13

Jackie Dodson

So you're looking at things like cash and architecture. nonprofits do have accounts receivable. They're probably, sometimes. She was giving an example about memberships. We're waiting for the money to come in for people who are paying their membership dues.

38:27

Jackie Dodson

So what is our cash, and our receivables and do we have more of that than our payable, our credit card pay, our short term, obligations? Latha, There are some questions about restrictions and so, one that I saw that I thought might be good for you to talk about.

38:55

Jackie Dodson

Oh, I saw a couple times actually. Can you ask the donor to change the terms of the restriction after the donation is received?

39:05



Latha Saikrishnan

Yes, in the sense that I had one client where this happened because I had a donor that gave an amount for a program, but then that program did not kick off. But but the organization wanted to use that money for another program which had a similar objective.

39:26

Latha Saikrishnan

So they went back to the donor and so the donor gave another, an email. Actually he just sent an email clarifying that these funds could be used for the program B. So that work, I think, there's always an option to go back to the donor and at least change the intent, if need be based on the needs of the organization.

39:52

Latha Saikrishnan

Eventually the donor wants, to give the funds for the organization's mission as long as it's supporting the mission. It's okay.

40:04

Jackie Dodson

I agree. And we actually see this quite a bit. it's very common and the key is just documentation. You need to make sure you're retaining written documentation from the donor.

40:18

Jackie Dodson

So an email or some letter or something.

40:21

Latha Saikrishnan

Mhm. And I see a question about, since we are talking about restrictions. I know there's a question about when should donor restricted donations be recognized? Should it be recorded as deferred revenue until the funds are spent as donor specified?

40:36

Latha Saikrishnan

No. so it depends on the letter that accompanied the pledge or the donation. So if it is not conditional, it should be recognized in the year it was received and based on the restrictions it will be classified as the donor restrictions in the statement of financial position until the amount is spent for the purpose for which it was received.

41:00



Latha Saikrishnan

So the deferred revenue comes into play only then we have conditional contributions in which case the money cannot be spent until those conditions are fulfilled. So it becomes like a exchange transaction.

41:14

Latha Saikrishnan

So that's when it gets recorded as deferred revenue until the conditions are fulfilled. I'm skimming through the questions here. m.

41:33

Jackie Dodson

So you can, while you look I'll address another one. I, I do just want to say that some of it was spoken kind of quickly and the slides are in materials are going to be available for the download.

41:49

Jackie Dodson

and I, yeah you can, you can download the material afterwards and go through the slides and watch it again. so if you happen to miss anything that we said. but there was, there was a question. This is a little repeat.

42:04

Jackie Dodson

But I don't, I don't want to repeat too much. for those that that have, have been able to listen to, I get, listen to everything. but, but basically there's a lot of questions in the chat about cash and of course that is like the climate that we're in right now.

42:21

Jackie Dodson

there is uncertainty and so there is a lot of sometimes anxiety and trepidation around our cash reserves, our cash balance, how far can our cash take us? because we might be used to getting federal or state funding and that funding is uncertain right now.

42:42

Jackie Dodson

the market goes down, there's uncertainty just in general climate and donors may be more apprehensive to give. So you might be seeing a pullback from your donor base. so that cash on hand ratio is really a great ratio for both the board and management to have regular targets and check ins on that.

43:09



Jackie Dodson

it's probably the metric that I use with almost every single one of my clients. On every single board packet that I prepare. it is critical for us to know how much cash we have and how far that cash can go.

43:24

Jackie Dodson

And also not just knowing that, but what are our goals. So are we higher or lower? when you do that ratio, you are determining your burn rate. So you're looking at your expenses, and you're dividing that over either 12 months or 365 days.

43:45

Jackie Dodson

I like to take, ideally I would be taking a rolling 12 month average. But caveat. If there are weird things that have happened in the last 12 months in your org that aren't going to reflect a good number, then you want to tailor your average burn rate to be reflective of where you're at right now.

44:07

Jackie Dodson

So you get your burn rate either in a daily rate or a monthly rate. And then you divide your cash by the burn rate and that gives you your metric. I hope that clears up and expands a little bit more.

44:22

Latha Saikrishnan

Mhm. Yes. And there's a question, Jackie. I, I can take this. I know they've asked me to repeat, when you recognize donations or pledges. So contributions are recognized when they are received or pledged provided they are unconditional.

44:40

Latha Saikrishnan

Exchange transactions however, are recognized as revenue when goods or services are delivered. So that's the distinction there, between the contributions and exchange transactions.

44:52

Latha Saikrishnan

I, I hope that clarifies as Jackie, mentioned. I know we may have gone through the information a little fast, but please feel free to ask any questions you may have after looking through the slides later. We are happy to answer the questions and we will definitely look through all the questions we have received so far and respond to them.

45:13



Latha Saikrishnan

and then I think there's another question about multiyear pledges. Do multiyear pledges have to be documented with a signed agreement in order to be accrued? Yes, we need to have a ratified agreement in order to record the pledges in the system or in the accounting system.

45:33

Jackie Dodson

Latha, there's some questions in the chat about functional expenses and this might be a good topic to kind of expand upon a little bit. so there are the guidance about how to allocate expenses across function and this is definitely a little bit more of an art, not a science.

45:56

Jackie Dodson

There is not a, a very black and white specific formula that the IRS mandates. They really use a more they use like a reasonable approach. So an organization should do it reasonably.

46:11

Jackie Dodson

It should make sense. It should be, the way and the method that they're using needs to be Documented, like how are we determining what our allocations are? it needs to be documented and it should be consistent.

46:25

Jackie Dodson

It should be able to, have a consistent method. Not a consistent percentage, but a consistent method of how we determine it year to year. the org that I worked at, right before I came to CliftonLarsonAllen LLP, we use time card studies, time studies.

46:42

Jackie Dodson

And so every other year we took, that was kind of how we determined it. Our method was every other year every person in the organization completed a time study of a two week period documenting what they did every 15 minutes.

46:59

Jackie Dodson

And we tried to get those two week periods of a normal two weeks. Not when something, something, once a year the major gala event is happening. And we're not doing the time study during that time.

47:12



Jackie Dodson

We're doing it, during a normal. Reflective of your regular job requirements and capability. regular job requirements. So then we would compile and we had very specific, definitions written.

47:28

Jackie Dodson

What is program time, what is program activity? What is pro fundraising? time and what is management time? And, and then every person from the executive director, president all the way down, every person would fill this out, we compile the results and we would get a percentage of time.

47:48

Jackie Dodson

We would use this to reasonably allocate, salaries and benefits, of course, but also we would apply that to different operational categories. So such things like insurance, maybe even your office rent, utilities, those costs that are overhead costs.

48:07

Jackie Dodson

But really, your office is being used for program activities. So you can use that, that personnel percentage to apply to other categories. I would also say though, it's, it's not, it's not to use that percent, that personnel percentage to allocate every category because you're going to have a lot of expenses that are program only.

48:35

Jackie Dodson

They are, you bought that supply for your program activity and it can 100% be allocated to program or your fundraising. maybe there was a fundraising supply and it had to go directly to fundraising.

48:50

Jackie Dodson

So, there's. This is kind of a general overview of how we do expenses, functional expenses. Latha any more about that? You have thoughts about that?

49:06

Latha Saikrishnan

No, I agree. even with my clients, time study is the, most commonly used tool for allocating the expenses. many of my clients, since they have federal grants, they also use timesheets. and the timesheet system, is synced with the accounting system so that the time percentages automatically flow to the accounting system for salary allocations and that becomes a driver for allocating other expenses as well.



49:38

Latha Saikrishnan

but that's the most commonly used, allocation methodology for many of my clients, actually.

49:45

Jackie Dodson

Yeah, that feeds into grant reporting too. Right. Because there are times When a person's 100% of a person's time for a specific thing or period of time, it needs to be allocated directly to the program and specifically the grant that's being, used for that activity.

50:07

Jackie Dodson

And so there are times when allocating with an estimated percentage, isn't going to work for you in every scenario. So it's, it, it's those grant reportings that layer on top the, the complex, reporting and tracking that a lot of us have to do.

50:27

Jackie Dodson

And, and that's, I mean, it's just kind of the nature of what we do to get the money. We have to be able to track. and so it's, it's really important. That's why some of these financial. This financial information is so important in your nonprofit.

50:44

Latha Saikrishnan

I agree. I think, Jackie, we are almost at time, so. But I just want to thank everyone in the audience today for your time. Your commitment to nonprofit financial stewardship is inspiring.

51:01

Jackie Dodson

For more resources, you can check out the CliftonLarsonAllen LLP website, claconnect.com and don't hesitate to reach out if you'd like to continue the conversation. Latha and my information is on the screen.

51:15

Jackie Dodson

And of course, our CliftonLarsonAllen LLP team members will be following up with many of you. if you've expressed interest to continue the conversation.

51:24

Latha Saikrishnan

Thanks again and keep making a difference. Thank you.



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