

# Elegant Financial Statements for Nonprofits

## Part Two

November 10, 2020

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# CLA Resources (CLAconnect.com)

The screenshot shows the CLAconnect.com website. The browser address bar displays "claconnect.com/industries/nonprofit#Resources". The website has a navigation bar with links: Locations, Directory, Contact Us, About Us, Client Login, Industries, Services, Resources, Events, and Careers. The "Industries" section is active. On the left, there's a sidebar with a search bar and a "What do you want to see?" section. The main content area features a large blue banner for "Nonprofits" with the text: "Professionals who work with nonprofits have to know more than standards and regulations. They have to understand the context surrounding the organization, the motivation of leadership, and the perspective of the people served. CLA has the broad experience needed to help strengthen and guide your organization." Below this banner are two articles: "REGULATIONS | ARTICLE FASB ASU 2018-08 Clarifies Revenue Accounting for Nonprofit Grants and Contracts" and "PREVENTING CYBERCRIME | NEWS RELEASE CLA Joins NCSA for Cybersecurity Awareness Month".

Nonprofits

Professionals who work with nonprofits have to know more than standards and regulations. They have to understand the context surrounding the organization, the motivation of leadership, and the perspective of the people served. CLA has the broad experience needed to help strengthen and guide your organization.

Resources | Services | Who We Serve | Events | People

REGULATIONS | ARTICLE  
FASB ASU 2018-08 Clarifies Revenue Accounting for Nonprofit Grants and Contracts

PREVENTING CYBERCRIME | NEWS RELEASE  
CLA Joins NCSA for Cybersecurity Awareness Month

The screenshot shows the "Innovation in Nonprofit Finance Blog" page. The browser address bar displays "blogs.claconnect.com/nonprofitinnovation/". The page features a large banner image of people holding hands with the text "Innovation in Nonprofit Finance Blog". Below the banner is an article titled "Elegant Chart of Accounts: System Design" by Kathy Jastrzebski, dated July 24, 2019. The article text reads: "The most effective framework for designing vital financial reports that drive business decisions is an elegant chart of accounts design." There is a "Subscribe to Blog" button on the right side of the article.

Innovation in Nonprofit Finance Blog

Elegant Chart of Accounts: System Design

July 24, 2019 | by Kathy Jastrzebski

The most effective framework for designing vital financial reports that drive business decisions is an elegant chart of accounts design.

Subscribe to Blog



# Learning Objectives

- Identify the concepts of elegant financial system design and true program costs (full-cost accounting)
- Recognize elegant design principles and use them to build out your chart of accounts, cost centers, allocation processes, and reports
- Recognize how to integrate the elegant financial systems model into your processes and systems
- Describe the principles of elegant financial reporting to communication with funders and with your own boards, leadership, and staff

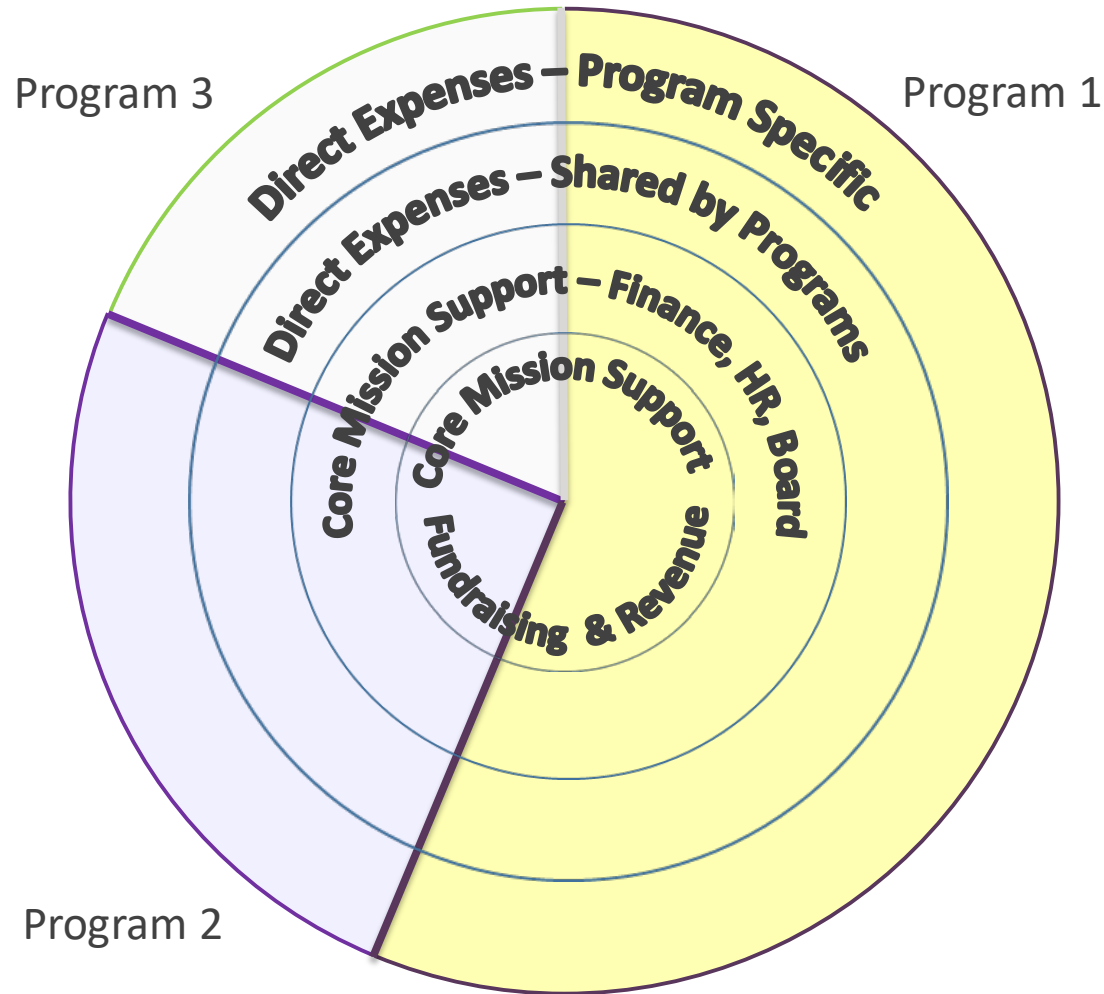




# Elegant Financial Statements

Review of Cost Centers and Chart of Accounts

# You Are Going For This



Each of your programs is built around, is supported by, and shares responsibility for **Core Mission Support**.

All of the resources you need to accomplish your programs are the **True Program Costs**, which include four types of expenses:

- Direct Expenses: Program-Specific
- Direct Expenses: Shared by Programs
- Core Mission Support: Finance, HR, and Board
- Core Mission Support: Fundraising & Revenue

# Apply the Elegance Principles

Ask yourself these questions:

- 1) Is this particular **cost center** or **line item** absolutely *necessary to manage your organization* and make important strategic decisions?
- 2) Is this particular **cost center** or **line item** absolutely *required by outside users* of your financial and organizational data — donors, foundations, government agencies, regulatory agencies, nonprofit watchdogs, or community members?



# Mapping Your Cost Centers

All programs are cost centers

But all cost centers are not necessarily programs

Cost Centers - Aligned with Organization	Allocated?
Program 1	N
Program 2	N
Program 3	N
General Mission	N
Admin	Y
Fundraising	Y
To Be Allocated	Y

You might also have  
Communications/Marketing





# Elegance through Roll Ups – Defining Your Chart of Accounts

Expense Item	Roll Up Account	Direct	Shared Direct	Admin	Fundraising	Allocation Method
Executive Director Salary and Benefits	Payroll, Taxes, Benefits		X			2
Development Director Salary and Benefits	Payroll, Taxes, Benefits		X			2
Program Director						2
Other Staff:						2
Other Staff:	Payroll, Taxes, Benefits					2
Benefits, Taxes	Contracted Services					2, 3
Consultants	Program Materials and Supplies					1, 3, 4
Professional	Occupancy					1
Professional	Equipment and Technology					1
Program Materials	Travel & Meetings					1, 3, 4, 6
Office Supplies	Marketing and Communications					1, 3, 4, 6
Rent	Other Operating Expenses					3, 5, 6
Maintenance	Depreciation Expense					3, 5, 6
Mortgage Interest	Occupancy			X		3, 5, 6
Janitorial	Occupancy			X		3, 5, 6



# Defining Shared Direct Costs and Administrative Costs

Just because a resource is used by more than one program or functional area (administration or fundraising) does not define it as administrative cost

- **Shared direct costs** are resources that are used by more than one program or functional area to accomplish its work. These resources are often acquired centrally and made available to each program or function. Admin, fundraising, and communications receive a share of these costs.
- **Administrative costs** are resources used for the overall management of the entire organization – often related to board governance, financial accounting, human resources, and organization-wide staff meetings. This is NOT a general, catch-all category. It is a specific function.





# Elegant Allocations

Design Your Accounting System to Capture True Program Costs

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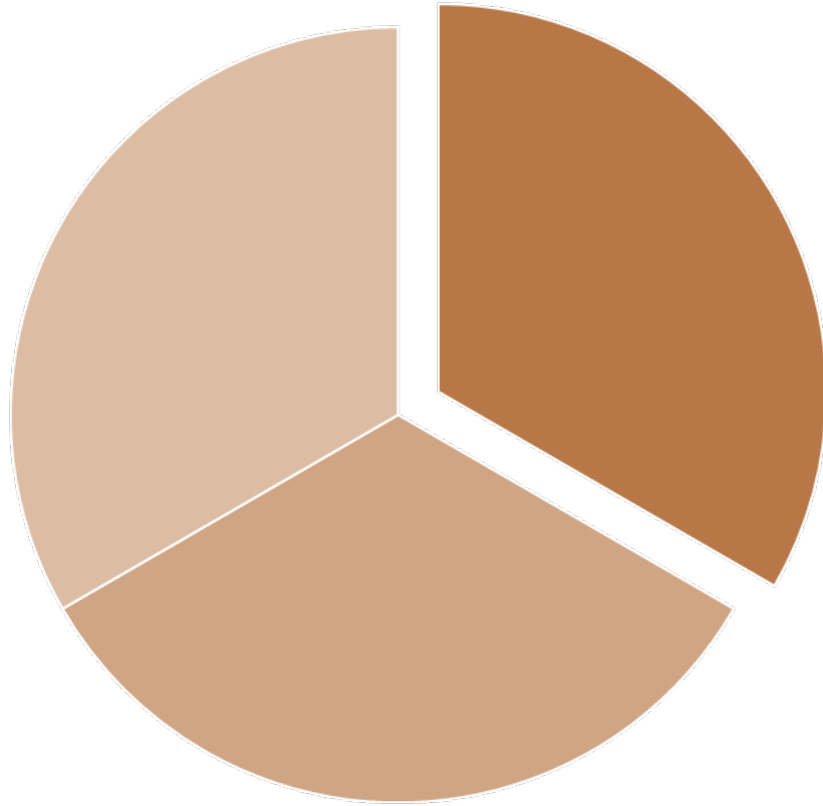


# The Power of Cost Centers and Allocation

- Both the IRS Form 990 and audited financial statements under new FASB standards **require you to report expenses by function** (program activities, management and general, and fundraising).
- You **strengthen your decision making** when you can see the whole truth about your programs and their finances.
- For a complete view of the financial state of any one program, you need to **see the full range of resources required** to support it.

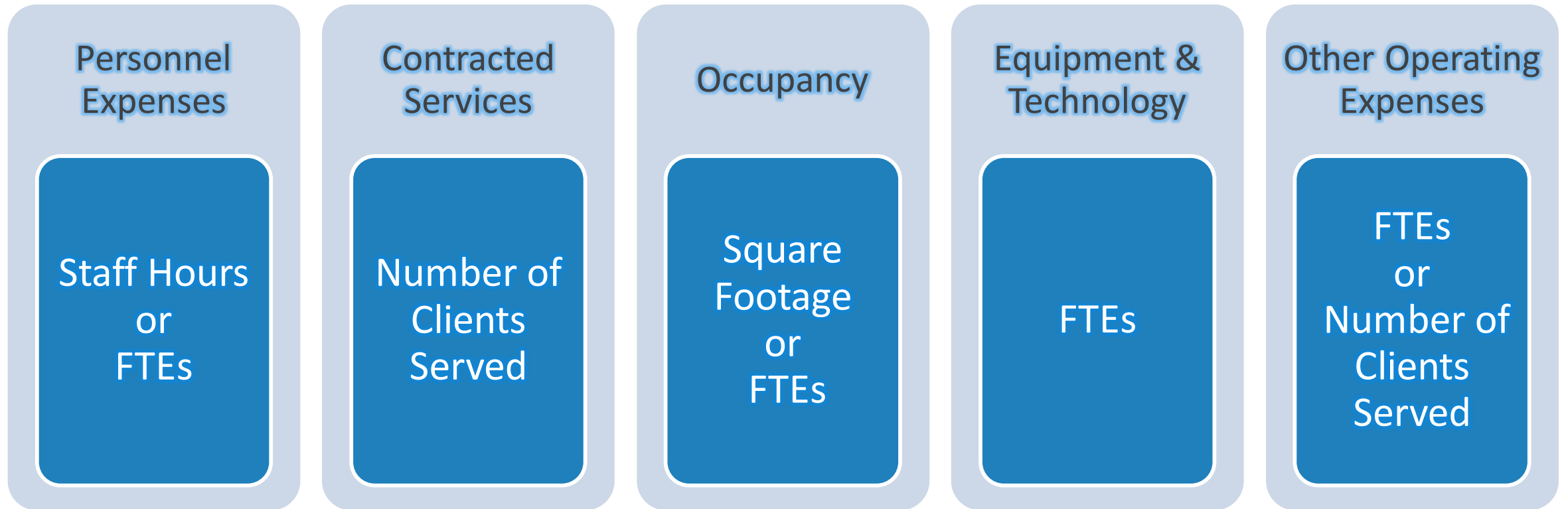


# Choosing Allocation Methods



For each type of expense, determine what drives how much of that resource is used and where.

# What Are Your Cost Drivers?





# Common Allocation Methods

Method	Use
1. Direct attribution	Expenses that can be clearly assigned to one or more programs or functions.
2. Staff hours	Best for salaries and benefits, where the relative pay rates of employees matter.
3. FTEs	For expenses that follow the level of staff activity, but are not influenced by pay rate.
4. Units of service	For expenses that vary based on the number of units of service, clients seen, or products delivered.
5. Space apportionment	Most commonly square footage used to allocate expenses related to department or location usage.
6. Percent of total dollars	Sometimes used to allocate admin or fundraising expenses. Can be either expense or revenue dollars.



# Allocation Methods Defined

Expense Item	Roll Up Account	Direct	Shared Direct	Admin	Fundraising	Allocation Method
Executive Director Salary and Benefits	Payroll, Taxes, Benefits		X			2
Development Director Salary and Benefits	Payroll, Taxes, Benefits		X			2
Program Director Salary and Benefits	Payroll, Taxes, Benefits		X			2
Other Staff:	Payroll, Taxes, Benefits		X			2
Other Staff:	Payroll, Taxes, Benefits		X			2
Benefits, Taxes, Workers Comp Insurance	Payroll, Taxes, Benefits		X			2, 3
Consultants and Contractors	Contracted Services	X	X	X	X	1, 3, 4
Professional Fees - Audit	Contracted Services			X		1
Professional Fees - Legal	Contracted Services	X		X		1
Program Materials	Program Materials and Supplies	X	X			1, 3, 4, 6
Office Supplies	Program Materials and Supplies	X	X	X	X	1, 3, 4, 6
Rent	Occupancy		X			3, 5, 6
Maintenance	Occupancy		X			3, 5, 6
Mortgage interest	Occupancy		X			3, 5, 6
Janitorial	Occupancy		X			3, 5, 6



# Pause for Q & A

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# Two-Step Approach to Allocating Nonprofit Expenses

- Step 1: *Allocate shared direct costs*  
Do this step first because shared direct costs are also allocated to administrative and fundraising functions
- Step 2: *Allocate administrative and fundraising categories*  
The expenses aggregated in the administrative and fundraising categories are shared across programs



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Statement of Functional Expense  
Year Ended December 31, 20XX



**Create Opportunities**

# Step 1: Allocations and True Program Costs – To Be Allocated

## Nonprofit Organization

Statement of Functional Expense

Year Ended December 31, 20XX

	Program Services					Supporting Services			To Be Allocated	TOTAL
	Program 1	Program 2	Program 3	General Program	Total	Management & General	Fundraising	Total	Total	
<b>EXPENSES</b>										
Payroll, Taxes, Benefits	\$ 264,195	\$ 330,243	\$ 594,438	\$ 132,097	\$ 1,320,973	\$ 232,290	\$ 65,845	\$ 298,135	\$ -	\$ 1,619,108
Contracted Services	13,020	16,275	29,295	6,510	65,101	37,848	22,390	60,238	15,000	140,339
Program materials and supplies	78,234	97,793	176,027	39,117	391,172	-	-	-	-	391,172
Occupancy	-	-	-	-	-	-	-	-	286,346	286,346
Equipment and Technology	900	740	1,331	-	2,971	-	3,200	3,200	85,599	91,770
Travel & Meetings	14,294	17,868	32,162	7,147	71,471	4,800	200	5,000	-	76,471
Marketing and Communications	4,962	6,203	11,165	2,481	24,812	-	1,088	1,088	-	25,900
Other Operating Expenses	6,211	8,487	17,888	3,050	35,636	9,036	1,122	10,158	122,489	168,283
Depreciation Expense	-	-	-	-	-	-	-	-	22,400	22,400
ADMIN ALLOCATION	-	-	-	-	-	-	-	-	-	-
FUNDRAISING ALLOCATION	-	-	-	-	-	-	-	-	-	-
<b>TOTAL EXPENSES</b>	<b>\$ 381,817</b>	<b>\$ 477,609</b>	<b>\$ 862,308</b>	<b>\$ 190,403</b>	<b>\$ 1,912,136</b>	<b>\$ 283,974</b>	<b>\$ 93,845</b>	<b>\$ 377,819</b>	<b>\$ 531,834</b>	<b>\$ 2,821,789</b>





# Step 1: Allocations and True Program Costs – To Be Allocated

## Nonprofit Organization

Statement of Functional Expense

Year Ended December 31, 20XX

	Program Services					Supporting Services			To Be Allocated	TOTAL
	Program 1	Program 2	Program 3	General Program	Total	Management & General	Fundraising	Total		
<b>EXPENSES</b>										
Payroll, Taxes, Benefits	\$ 264,195	\$ 330,243	\$ 594,438	\$ 132,097	\$ 1,320,973	\$ 232,290	\$ 65,845	\$ 298,135		\$ 1,619,108
Contracted Services	15,468	19,335	34,803	7,734	77,339	40,000	23,000	63,000	-	140,339
Program materials and supplies	78,234	97,793	176,027	39,117	391,172	-	-	-		391,172
Occupancy	46,724	58,405	105,129	23,362	233,620	41,081	11,645	52,726	-	286,346
Equipment and Technology	14,867	18,199	32,758	6,984	72,808	12,281	6,681	18,962	-	91,770
Travel & Meetings	14,294	17,868	32,162	7,147	71,471	4,800	200	5,000		76,471
Marketing and Communications	4,962	6,203	11,165	2,481	24,812	-	1,088	1,088		25,900
Other Operating Expenses	26,198	33,471	62,859	13,043	135,570	26,609	6,103	32,712	-	168,283
Depreciation Expense	3,655	4,569	8,224	1,828	18,275	3,214	911	4,125	-	22,400
ADMIN ALLOCATION	-	-	-	-				-		-
FUNDRAISING ALLOCATION	-	-	-	-				-		-
<b>TOTAL EXPENSES</b>	<b>\$ 468,598</b>	<b>\$ 586,085</b>	<b>\$ 1,057,565</b>	<b>\$ 233,793</b>	<b>\$ 2,346,041</b>	<b>\$ 360,275</b>	<b>\$ 115,473</b>	<b>\$ 475,748</b>	<b>\$ -</b>	<b>\$ 2,821,789</b>



# Step 2: Allocations and True Program Costs – Supporting Services

## Nonprofit Organization

Statement of Functional Expense

Year Ended December 31, 20XX

### EXPENSES

Payroll, Taxes, Benefits

Program Services					Supporting Services			To Be Allocated	TOTAL
Program 1	Program 2	Program 3	General Program	Total	Management & General	Fundraising	Total		
\$ 264,195	\$ 330,243	\$ 594,438	\$ 132,097	\$ 1,320,973	\$ 232,290	\$ 65,845	\$ 298,135		\$ 1,619,108

Contracted Services

15,468	19,335	34,803	7,734	77,339	40,000	23,000	63,000	-	140,339
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Program materials and supplies

78,234	97,793	176,027	39,117	391,172	-	-	-		391,172
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Occupancy

46,724	58,405	105,129	23,362	233,620	41,081	11,645	52,726	-	286,346
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Equipment and Technology

14,867	18,199	32,758	6,984	72,808	12,281	6,681	18,962	-	91,770
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Travel & Meetings

14,294	17,868	32,162	7,147	71,471	4,800	200	5,000		76,471
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Marketing and Communications

4,962	6,203	11,165	2,481	24,812	-	1,088	1,088		25,900
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Other Operating Expenses

26,198	33,471	62,859	13,043	135,570	26,609	6,103	32,712	-	168,283
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Depreciation Expense

3,655	4,569	8,224	1,828	18,275	3,214	911	4,125	-	22,400
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ADMIN ALLOCATION

-	-	-	-				-		-
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FUNDRAISING ALLOCATION

-	-	-	-				-		-
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TOTAL EXPENSES

\$ 468,598	\$ 586,085	\$ 1,057,565	\$ 233,793	\$ 2,346,041	\$ 360,275	\$ 115,473	\$ 475,748	\$ -	\$ 2,821,789
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Create Opportunities

# Step 2: Allocations and True Program Costs – Supporting Services

## Nonprofit Organization

Statement of Functional Expense

Year Ended December 31, 20XX

	Program Services					Supporting Services			To Be Allocated	TOTAL
	Program 1	Program 2	Program 3	General Program	Total	Management & General	Fundraising	Total		
<b>EXPENSES</b>										
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Occupancy	46,724	58,405	105,129	23,362	233,620	41,081	11,645	52,726	-	286,346
Equipment and Technology	14,867	18,199	32,758	6,984	72,808	12,281	6,681	18,962	-	91,770
Travel & Meetings	14,294	17,868	32,162	7,147	71,471	4,800	200	5,000		76,471
Marketing and Communications	4,962	6,203	11,165	2,481	24,812	-	1,088	1,088		25,900
Other Operating Expenses	26,198	33,471	62,859	13,043	135,570	26,609	6,103	32,712	-	168,282
Depreciation Expense	3,655	4,569	8,224	1,828	18,275	3,214	911	4,125	-	22,400
ADMIN ALLOCATION	68,452	86,466	154,918	32,425	342,261	(360,275)	18,014	(342,261)		-
FUNDRAISING ALLOCATION	24,371	22,393	74,537	12,186	133,487	-	(133,487)	(133,487)		-
<b>TOTAL EXPENSES</b>	<b>\$ 561,421</b>	<b>\$ 694,944</b>	<b>\$ 1,287,020</b>	<b>\$ 278,404</b>	<b>\$ 2,821,789</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,821,789</b>



# Allocations & True Program Costs = Full-Cost Accounting

## Nonprofit Organization Statement of Functional Expense Year Ended December 31, 20XX

### Program Services

	Program 1	Program 2	Program 3	General Program	Total
<b>SUPPORT AND REVENUE</b>					
Support (Contributions)	\$ 408,350	\$ 375,200	\$ 1,248,900	\$ 204,175	\$ 2,236,625
Revenue (Earned)	241,310	301,637	235,998	120,655	899,600
<b>TOTAL SUPPORT AND REVENUE</b>	<b>\$ 649,660</b>	<b>\$ 676,837</b>	<b>\$ 1,484,898</b>	<b>\$ 324,830</b>	<b>\$ 3,136,225</b>
<b>EXPENSES</b>					
Payroll, Taxes, Benefits	\$ 264,195	\$ 330,243	\$ 594,438	\$ 132,097	\$ 1,320,973
Contracted Services	15,468	19,335	34,803	7,734	77,339
Program materials and supplies	78,234	97,793	176,027	39,117	391,172
Occupancy	46,724	58,405	105,129	23,362	233,620
Equipment and Technology	14,867	18,199	32,758	6,984	72,808
Travel & Meetings	14,294	17,868	32,162	7,147	71,471
Marketing and Communications	4,962	6,203	11,165	2,481	24,812
Other Operating Expenses	26,198	33,471	62,859	13,043	135,570
Depreciation Expense	3,655	4,569	8,224	1,828	18,275
<b>TOTAL DIRECT EXPENSES</b>	<b>\$ 468,598</b>	<b>\$ 586,085</b>	<b>\$ 1,057,565</b>	<b>\$ 233,793</b>	<b>\$ 2,346,041</b>
ADMIN ALLOCATION	68,452	86,466	154,918	32,425	342,261
FUNDRAISING ALLOCATION	24,371	22,393	74,537	12,186	133,487
<b>TOTAL EXPENSES</b>	<b>\$ 561,421</b>	<b>\$ 694,944</b>	<b>\$ 1,287,020</b>	<b>\$ 278,404</b>	<b>\$ 2,821,789</b>
<b>CHANGE IN NET ASSETS</b>	<b>\$ 88,239</b>	<b>\$ (18,107)</b>	<b>\$ 197,878</b>	<b>\$ 46,426</b>	<b>\$ 314,436</b>

Business Model  
Information

Program  
Sustainability





# Allocations and True Program Costs – Audit Ready Innovation

## Nonprofit Organization

Statement of Functional Expense

Year Ended December 31, 20XX

	Program Services					Supporting Services			To Be Allocated	TOTAL
	Program 1	Program 2	Program 3	General Program	Total	Management & General	Fundraising	Total		
<b>EXPENSES</b>										
Payroll, Taxes, Benefits	\$ 264,195	\$ 330,243	\$ 594,438	\$ 132,097	\$ 1,320,973	\$ 232,290	\$ 65,845	\$ 298,135		\$ 1,619,108
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Program materials and supplies	78,234	97,793	176,027	39,117	391,172	-	-	-		391,172
Occupancy	46,724	58,405	105,129	23,362	233,620	41,081	11,645	52,726	-	286,346
Equipment and Technology	14,867	18,199	32,758	6,984	72,808	12,281	6,681	18,962	-	91,770
Travel & Meetings	14,294	17,868	32,162	7,147	71,471	4,800	200	5,000		76,471
Marketing and Communications	4,962	6,203	11,165	2,481	24,812	-	1,088	1,088		25,900
Other Operating Expenses	26,198	33,471	62,859	13,043	135,570	26,609	6,103	32,712	-	168,282
Depreciation Expense	3,655	4,569	8,224	1,828	18,275	3,214	911	4,125	-	22,400
<b>TOTAL DIRECT EXPENSES</b>	<b>\$ 468,598</b>	<b>\$ 586,085</b>	<b>\$ 1,057,565</b>	<b>\$ 233,793</b>	<b>\$ 2,346,041</b>	<b>\$ 360,275</b>	<b>\$ 115,473</b>	<b>\$ 475,748</b>	<b>\$ -</b>	<b>\$ 2,821,789</b>
ADMIN ALLOCATION	68,452	86,466	154,918	32,425	342,261	(360,275)	18,014	(342,261)		-
FUNDRAISING ALLOCATION	24,371	22,393	74,537	12,186	133,487	-	(133,487)	(133,487)		-
<b>TOTAL EXPENSES</b>	<b>\$ 561,421</b>	<b>\$ 694,944</b>	<b>\$ 1,287,020</b>	<b>\$ 278,404</b>	<b>\$ 2,821,789</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,821,789</b>



Create Opportunities

# Allocations and True Program Costs – Visualization

Sample use of Excel Pie Chart and Excel Bubble Chart to Conceptualize Nonprofit Financial Reports using Core Mission Support

	Total per Ring	Cumulative \$						
	Expenses	per Bubble	Admin	FR	Prog 1	Prog 2	Prog 3	General Program
Direct - Specific	1,912,437	2,821,789			381,817	477,609	862,308	190,703
Direct - Shared	433,604	909,352			86,781	108,476	195,257	43,090
Admin	360,275	475,748	360,275	18,014	68,452	86,466	154,918	34,425
FR	115,473	115,473		115,473	24,371	22,393	74,537	12,186
Total	2,821,789			133,487	561,421	694,944	1,287,020	280,404

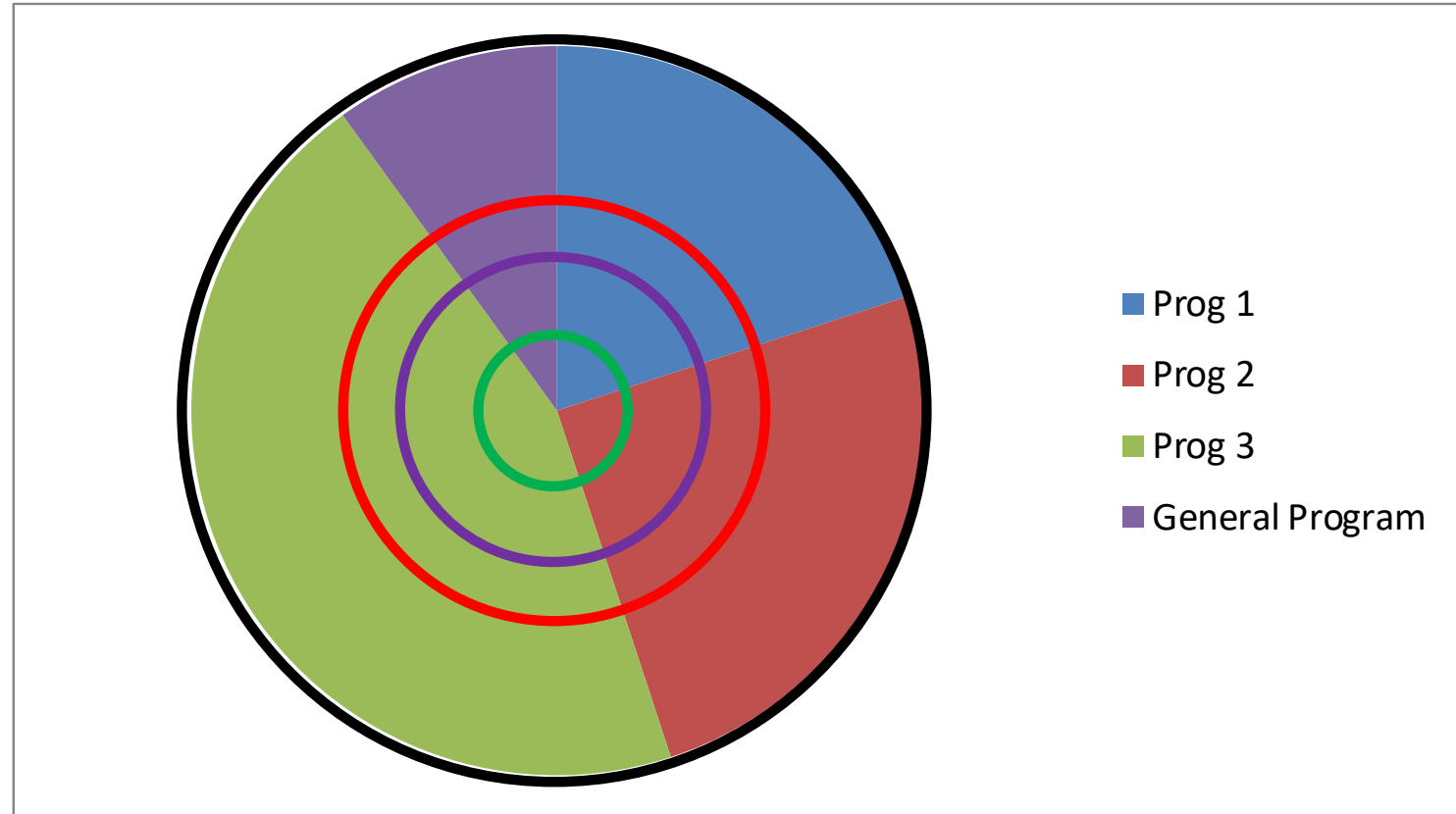
	Prog 1	Prog 2	Prog 3	General Program	Total
Total of Direct & Shared Direct Expenses	468,598	586,085	1,057,565	233,793	2,346,041
Percentage used for pie chart	20%	25%	45%	10%	100%



# Allocations and True Program Costs – Visualization

## True Program Costs - Core Mission Support

- Direct - Specific
- Direct - Shared
- Admin
- FR





# Full Cost Accounting & Elegant Proposal Budgets

How we ask for money matters

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# What Full-Cost Accounting Looks Like

- Sample Nonprofit has **civic engagement** as its mission
- Proposes to offer **10 educational workshops** about city government
- Proposes to offer **2 guided tours** of city council meetings to teach residents to better engage with their elected officials
- Budget is set at **\$100,000**
- Budget is designed to **fully fund the work** and contribute appropriately to the financial needs of the entire organization



Sample Full-Cost Proposal Budget

What if instead of this...

Expense	Amount	Description
Personnel	\$ 55,000	Salaries and benefits
Contracted Services	8,000	Consultants, facilitators, trainers
Occupancy	4,500	Rent, utilities, maintenance, leasehold improvement
Equipment and IT	2,300	Managed IT services, equipment purchase, depreciation
Travel	2,100	Staff and participant mileage, van rental for trips to city council
Meeting Space, Meals, and Hosting	3,500	Space rental, catering, beverage service for participant events
Marketing and Communications	700	Communications to publicize workshops, engage elected officials
Operating Expenses	1,500	Supplies, photocopying, insurance, telecommunications
Program-specific materials	3,000	Printed workbooks for participants
Core Admin Allocation	12,000	Program share of core administrative support from organization
Core Fundraising Allocation	6,000	Program share of core fundraising support from organization
Total Expenses	\$ 98,600	
Provision for Operating Reserve	700	Board-designated fund - operating reserve of 6-months cash on hand
Provision for Opportunity Reserve	700	Board-designated fund - opportunity reserve for future expansion
Total	\$ 100,000	

# Sample Deliverable-Based Proposal Budget

We did this...

	Amount	Description
Workshop - budget per event	\$ 9,000	Each event will be three hours, attract 20 participants, be led by two staff, provide a catered light meal, and include a printed workbook
X number of events	10	
	\$ 90,000	
Guided Tour of City Council Meeting	\$ 5,000	Each event will be three hours, attract 20 participants, be led by three staff, include van transportation, snacks, and beverage
X number of events	2	
	\$ 10,000	
Total Budget	<u>\$ 100,000</u>	



Design your proposal budgets  
to avoid being a victim of  
your proposal budgets



# Elegance in financial statements and reporting is about intentional design

We strive to create reports that are:

- As **simple** as possible, while still being complete
- As **informative** as possible, without being too dense
- As **sophisticated** as possible, without being complicated



# Questions?



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Create Opportunities



# Related Resources

## Blogs:

- [“Elegant Financial Systems: Principles and Practice”](#)
- [“Elegant Cost Centers”](#)
- [“Elegant Chart of Accounts: Simple Can Be Sophisticated”](#)
- [“Elegant Allocations In Nonprofit Accounting”](#)
- [“Elegant Allocations in Nonprofit Accounting: System Design”](#)
- [“Elegant Reporting in Nonprofit Accounting”](#)
- [“Elegant Nonprofit Reporting: System Design”](#)

## Articles:

- [“A Graphic Re-visioning of Nonprofit Overhead,”](#)  
Curtis Klotz, *Nonprofit Quarterly*, Fall 2016, republished Fall 2019
- [“Functional Expenses by Nature and the Overhead Debate,”](#)  
Curtis Klotz, *The CPA Journal*, May 2019





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# *Thank You!*

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