

CLA Nonprofit Financial Training

Session #1: June 19, 2015



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Welcome

Caty Jirik

Director, Community Impact Management & Operations

Ben Aase

Principal at CliftonLarsonAllen LLP

Today's Presenters

Ben Aase – Principal, CLA Public Sector Group

- Ben serves as the engagement principle for a number of United Way projects including this financial due diligence work, the capacity building fund design efforts, and prior work building capacity among culturally specific organizations.

Sarah Curfman – Managing Consultant, CLA Public Sector Group

- Sarah is the project manager for this financial due diligence work as well as the capacity building fund design efforts.

Brian Peterson – Senior Consultant, CLA Public Sector Group

- Brian Peterson serves as a consultant, trainer, and financial analyst for this financial due diligence work and other United Way projects.



Training Plan

Session #1: June 19, 2015

Primer on Nonprofit Finance and Terms

Session #2: August 17, 2015

How to Use United Way's Financial Dashboard

Ongoing Training and Consultation Opportunities



Today's Training Goals

Participants will understand:

- Commonly used financial terms
- Names and uses for financial statements and reports
- How we can use financials to understand business model, business acumen, and operational performance.
- How the financial dashboard can be used with agencies

Today's Agenda

| | | |
|----------------------|--|---|
| 10:00 – 10:30 | Welcome and Introduction | Ben Aase |
| 10:30 – 10:45 | Nonprofit Finance Overview | Sarah Curfman |
| 10:45 – 11:15 | Financial Statements | Sarah Curfman & Brian Peterson |
| 11:15 – 11:25 | Introduction to the Financial Dashboard | Brian Peterson |
| 11:25 – 11:30 | Questions and Closing | All |

Discussion

What is your understanding of, comfort with, or feelings toward finance/financial statements?

How do hope this training series will help you do your job?



Why This Effort Came To Be

Financial due diligence is a critical component in ensuring that United Way is:

- a good steward of the community's resources
- investing in programs that have the potential to generate the greatest impact
- creating opportunities for long-term relationships to further advance its mission of eliminating poverty



Financial Dashboard Project Goals

1. Create a tool that provides clear, relevant and concise information at the organizational and sector level to use for high stakes decisions – initial funding, annual reviews, additional capacity building assistance, etc.
2. Provide training that increases internal understanding of financial health, governance, and organizational capacity for CI team members
3. Increase transparency between GTCUW and funded agencies



Nonprofit Finance Overview

Nonprofit Myths and Basics



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Five Nonprofit Myths

1. Mission is more important than market
2. Nonprofits cant make profits
3. Nonprofits must have balanced budgets
4. Deficits are better than surpluses
5. Income is more important than assets

Five Financial Basics—#1

There are two basic types of nonprofit income

Revenue—self-generated fees for service and products sales

Support—charitable contributions and grants

Five Financial Basics—#2

Financial information is based on periods of time

Past.....Financial Statements

Future.....Budget

Present Reality.....Cash Flow Projections

Five Financial Basics—#3

Numbers are meant to be compared

Actual vs. budget

Current year to date vs. prior year to date

Current month vs. prior month

Budget vs. historical averages

Five Financial Basics—#4

Anticipation is the key to financial stability

Managers need **TIME** to adjust if revenues are not coming in according to plan.

Five Financial Basics—#5

Financial health is **essential** for the effective delivery of nonprofit services.

Financial Statements

Finding Meaning In Agency Financial Statements



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Know What You Are Looking At

Organizations produce various types of financial reports, which provide different types of information to readers, and are used for varying purposes.

- Audited Financial Statements
- Internal Financial Statements
- Form 990
- Budget

Audited Financial Statements

This type of statement **has been examined and tested by independent certified public accountants**, using protocols established by the Financial Accounting Standards Board.

Issued once a year and are accompanied by an **“Independent Auditors’ Report”** which expresses an opinion as to whether the financial statements have been presented fairly by the organization’s management.

Internal Financial Statements

This type of statement is what the organization uses on a **monthly basis** to track revenues and expenses.

Internal statements **should include more detail than the audit.** Should reflect program-based accounting, where readers can see both revenues and expenses by program, whereas the audit usually shows only expenses by program.

Internal statements should include some **basic comparisons.** Actual vs. budget, current year vs. prior year, etc.

Financial Statements Include

- Statement of Financial Position (also referred to as a balance sheet)
- Statement of Activities (also referred to as an income statement)

Form 990

Form 990 is **required by the IRS** for most nonprofit organizations with gross receipts over \$25,000 per year. Form 990 is available for public inspection at www.guidestar.org.

Budget

Reflects **PLANNED** revenues and expenses, **NOT ACTUAL** revenues and expenses.

The Statement of Financial Position

Shows the organization's financial position at a particular point in time.

ASSETS: Economic resources the organization owns or has been promised.

LIABILITIES: Financial obligations; what the organization owes to others.

NET ASSETS: The difference between total assets and total liabilities.

Assets = Liabilities + Net Assets

- This is the equation that gives the **“balance sheet”** its title.
- **NET ASSETS** represent the accumulation of surpluses or deficits the organization has achieved since it began operating.



The Statement of Activities

Shows all of the organization's financial activities from one point in time to another.

- From the beginning to the end of the fiscal year.
- From the beginning of the fiscal year through current month (YTD)

The Statement of Activities

Also called income statement:

- Shows sources and amounts of income
- Shows expenses by category or activity
- How much income was left (surplus) at the end of the year
- How much income was overspent (deficit) at the end of the year



Discussion

- Which statements would you look at to determine how well an organization understands its business model?
- What would you look at to understand if the organization was stable?
- What would you look at to understand how well an organization plans/executes?



Financial Dashboard

United Way's Financial Due Diligence Tool



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Why a Financial Dashboard

- Dashboard is designed to highlight an organization's financial information into a 2-page easy to read format
- Dashboard is transparent – meant to be shared and used by partner agencies
- Dashboard is meant to spark conversations and identify opportunities
- Dashboard is one of many tools to understand partner agencies in a more holistic way

What Metrics are We Considering?

- State of the organization
 - Leadership stability
 - Major strategic or operational changes
 - Compliance
 - Autonomy (relevant for programs with fiscal agent)
 - Clean audit (unqualified opinion)
- Financials of the organization
 - Months of cash
 - Current ratio (current assets / current liabilities)
 - Trends and historical margins
 - Budget comparison to prior year(s)
 - Year-to-date actuals compared to budget



What Metrics are We Considering?

- Revenue and expense composition and trends
 - Sources and levels of revenue and trend
 - Drivers and levels of expense and trend
 - Consistency or changes in financial model
- Financial health
 - Months of cash trend
 - Dollars of cash trend
 - Statement of financial position (balance sheet) summary
 - Net asset restrictions summary



Financially Healthy Nonprofits

- Have sufficient financial resources to ensure stable programming
- Have cash, or access to cash, available in times of shortfalls.
- Are committed to income-based spending.
- Retain, at the end of each year, positive cash net assets.
- Have established an operating reserve to finance cash shortfalls and program growth.
- Have boards and management that hold themselves responsible for the financial stability of the organization.
- Understand when and where to take appropriate risks

Questions and Comments



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