

Financial Management Training Series Session # 2

Understanding Nonprofit Financial Health

Participant Manual

Initiative Overview

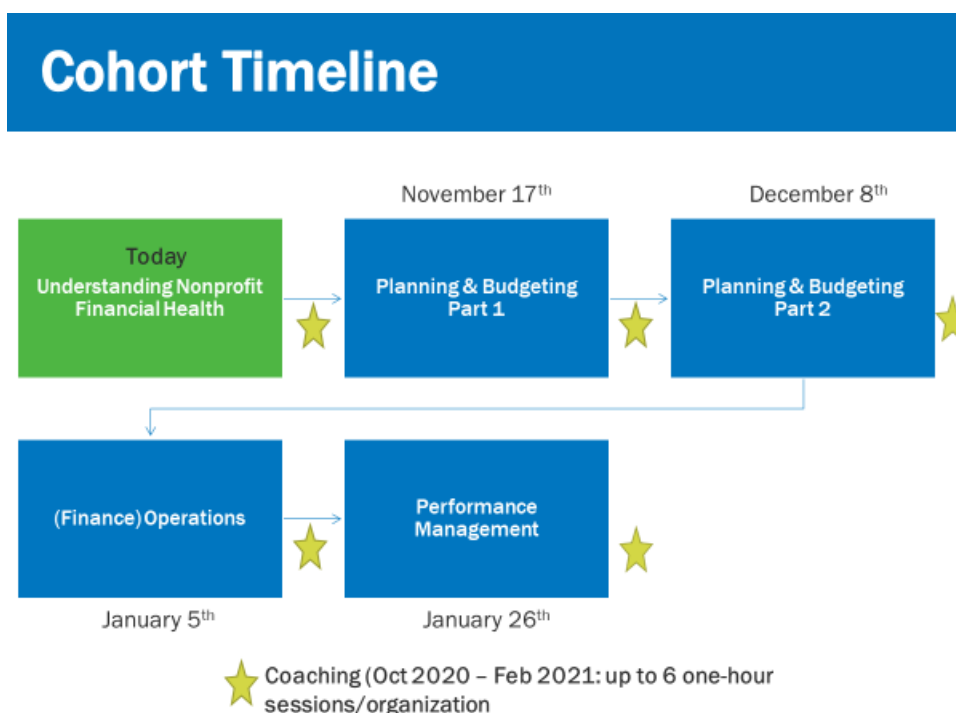
Hartford Foundation for Public Giving's team and [Fiscal Management Associates](#) (FMA) have partnered to deliver a Financial Management Training series (October 2020 – February 2021) to increase the **financial and operational stability and resiliency** of a cohort of organizations. Together, we believe that if organizations are rooted in a sound financial position and develop discipline around financial and operational practices, then they will be better positioned to deliver innovative programs in support of their mission. Through virtual convenings, and coaching, organizations in this cohort will work towards becoming more durable and resilient in the face of challenging times.

Key Program Activities

Each organization participates in the following:

- Organization **pre-assessment** for baseline capacity and financial practices
- Development of a **multi-year financial health trends analysis** for each participant
- Hands-on **learning activities** in a workshop setting, and as part of a **series of virtual convenings**
- **Coaching** geared toward creating space for each organization's specific context and helping leaders hold themselves accountable

Core Topics



Today's Session:

Understanding Nonprofit Financial Health

Agenda

Understanding Nonprofit Financial Health

GAAP Basis Financials

Net Asset Composition

Liquidity and Other Financial Metrics

Guide to General Accepted Accounting Principles (GAAP) Financial Statements & 990

External Reporting Requirements

GAAP Financial Statements	IRS Form 990
<input type="checkbox"/> Refer to By-laws <input type="checkbox"/> State Reporting Requirements* <input type="checkbox"/> Funders?	<input type="checkbox"/> Form 990 <input type="checkbox"/> Form 990-EZ <input type="checkbox"/> Form 990-N

* State of CT – Annual gross revenue in excess of \$500,000 requires submitting financial statement audit

Required Components

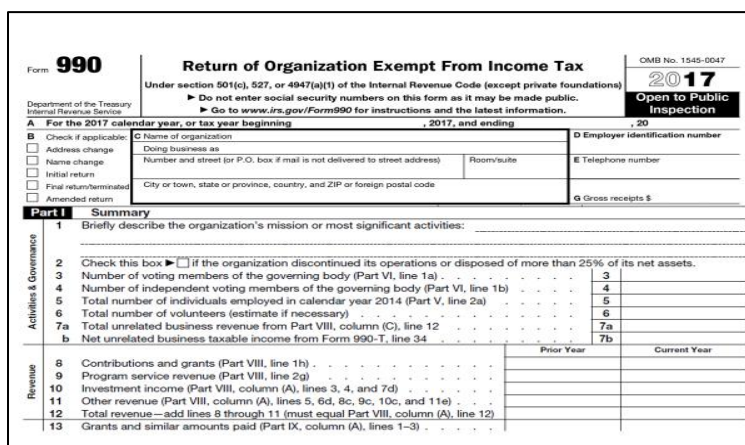
- Financial statements:
 - Statement of Financial Position (Balance Sheet)
 - Statement of Activities (Income Statement)
 - Statement of Functional Position
 - Statement of Cash Flows
 - Footnotes Disclosures
- Other Potential Deliverables:
 - Opinion Letter (for audit): Standard letter in all audits stating the role of the management and auditor, as well as the auditor's "opinion" of the organization's financial management
 - Accountant's Review Report (for review)
 - Management Letter (if applicable): Optional letter issued by the auditor outlining concerns or questions that may have come up during the audit

* GAAP basis accounting requires accrual basis of accounting

The IRS Form 990

An information return for organizations exempt from income tax which provides the IRS and state charity agencies information to assisted them in enforcing the laws government nonprofits.

All nonprofits with revenue over \$50,000 must submit the 990 or 990EZ.



Form 990 **Return of Organization Exempt From Income Tax**
 Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except private foundations)
 Do not enter social security numbers on this form as it may be made public.
 Go to www.irs.gov/Form990 for instructions and the latest information.

OMB No. 1545-0047
2017
Open to Public Inspection

Department of the Treasury
 Internal Revenue Service

A For the 2017 calendar year, or tax year beginning , 2017, and ending

B Check if applicable:
☐ Address change
☐ Name change
☐ Initial return
☐ Final return/terminated
☐ Amended return

C Name of organization
 Doing business as
 Number and street (or P.O. box if mail is not delivered to street address) Room/suite
 City or town, state or province, country, and ZIP or foreign postal code

D Employer identification number
E Telephone number
F Gross receipts \$

Part I Summary
 1 Briefly describe the organization's mission or most significant activities:
 2 Check this box ☐ if the organization discontinued its operations or disposed of more than 25% of its net assets.
 3 Number of voting members of the governing body (Part VI, line 1a) 3
 4 Number of independent voting members of the governing body (Part VI, line 1b) 4
 5 Total number of individuals employed in calendar year 2014 (Part V, line 2a) 5
 6 Total number of volunteers (estimate if necessary) 6
 7a Total unrelated business revenue from Part VIII, column (C), line 12 7a
 7b Net unrelated business taxable income from Form 990-T, line 34 7b

Part II Revenue
 8 Contributions and grants (Part VIII, line 1h) Prior Year Current Year
 9 Program service revenue (Part VIII, line 2g) Prior Year Current Year
 10 Investment income (Part VIII, column (A), lines 3, 4, and 7d) Prior Year Current Year
 11 Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e) Prior Year Current Year
 12 Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12) Prior Year Current Year
 13 Grants and similar amounts paid (Part IX, column (A), lines 1–3) Prior Year Current Year

Statement of Financial Position (Balance Sheet)

The Statement of Financial Position is a financial statement that reports the assets, liabilities, and net assets of an organization on a given date. In the audit, it reflects the accumulated operating results for the life of an organization.

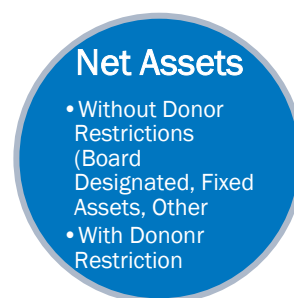
What We Own



What We Owe



Available Capital



NONPROFIT ORG, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019 and 2018

ASSETS		<u>2019</u>	<u>2018</u>
Assets:			
Cash		\$274,139	\$297,389
Pledges and contracts receivable		200,000	210,000
Prepaid expenses		<u>17,000</u>	<u>22,000</u>
Total Current Assets		491,139	529,389
A Property and equipment, net of accumulated depreciation \$27,505		39,393	64,393
Other Assets - security deposit		<u>12,000</u>	<u>12,000</u>
B Total Assets		<u>\$542,532</u>	<u>\$605,782</u>
LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts payable and accrued expenses		\$ 29,578	\$140,054
Advances		51,300	78,500
Current portion of long-term debt		<u>10,500</u>	<u>9,750</u>
Total Current Liabilities		91,378	228,304
Long-term debt		<u>160,744</u>	<u>170,494</u>
D Total Liabilities		<u>252,122</u>	<u>398,798</u>
Net Assets:			
E Without donor restrictions		(38,427)	114,417
F With donor restrictions		<u>328,837</u>	<u>92,567</u>
G Total Net Assets		<u>290,410</u>	<u>206,984</u>
Total Liabilities and Net Assets		<u>\$542,532</u>	<u>\$605,782</u>

- A** **Property and equipment**, also referred to as fixed assets, are long-term assets such as a buildings that can not easily be converted into cash.
- B** **Total assets** are everything an organization owns such as cash, pledges receivable (e.g. pledges made but cash has not come in yet), and fixed assets. Assets are listed in order of liquidity with the most liquid (cash) on top.
- C** **Current portion of long-term debt** is any debt due within the next year, and **long-term debt** is debt beyond the next year. Examples include mortgages and loans.
- D** **Total liabilities** are everything an organization owes such as outstanding bills, funds received for services not yet performed, and debt.
- E** **Net Assets Without Donor Restrictions** are the difference between assets without donor restrictions and liabilities. Net assets without donor restrictions are an organization's equity. This number matches the Net Assets Without Donor Restrictions – end of year on the *Statement of Activities*.
- F** **Net Assets With Donor Restrictions** are equal to assets with restrictions as liabilities do not have restrictions.
- G** **Total Net Assets** are the difference between assets and liabilities. This value has limited use without understanding the restriction levels.

GAAP: Statement of Financial Position

	2019	2018
ASSETS		
Assets:		
Cash	\$274,139	\$297,389
Pledges and contracts receivable	200,000	210,000
Prepaid expenses	17,000	22,889
Total Current Assets	491,139	529,389
Property and equipment, net of accumulated depreciation \$27,505	39,393	64,393
Other Assets - security deposit	52,000	12,800
Total Assets	\$582,532	\$606,582
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 29,578	\$140,954
Advances	51,300	79,500
Current portion of long-term debt	10,500	3,750
Total Current Liabilities	91,378	228,304
Long-term debt	389,744	179,434
Total Liabilities	252,122	398,738
Net Assets:		
Without donor restrictions	(38,427)	114,417
With donor restrictions	328,837	32,567
Total Net Assets	290,410	206,844
Total Liabilities and Net Assets	\$582,532	\$606,582

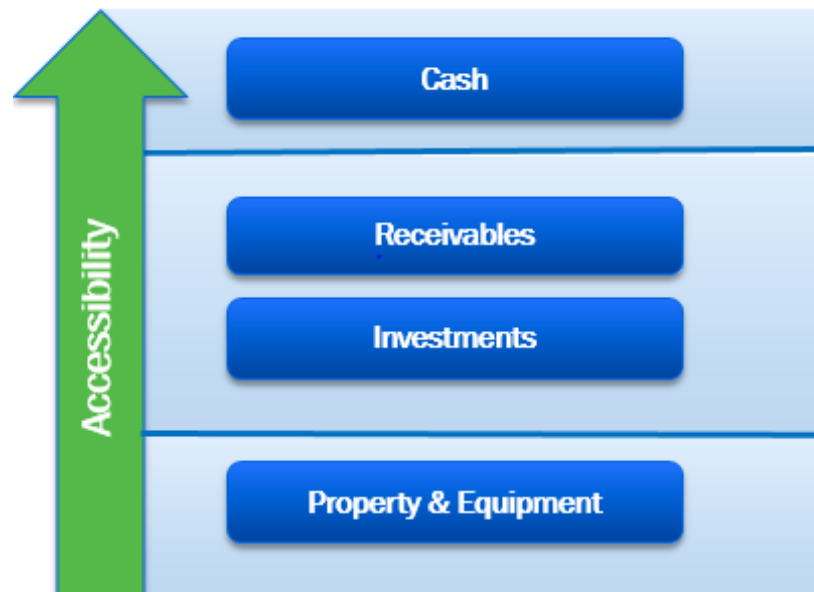


990: Balance Sheet (Part X)

Line	Amount	Amount
1	Cash	274,139
2	Pledges and contracts receivable	200,000
3	Prepaid expenses	17,000
4	Total Current Assets	491,139
5	Property and equipment, net of accumulated depreciation	39,393
6	Other Assets - security deposit	52,000
7	Total Assets	582,532
8	Accounts payable and accrued expenses	29,578
9	Advances	51,300
10	Current portion of long-term debt	10,500
11	Total Current Liabilities	91,378
12	Long-term debt	389,744
13	Total Liabilities	252,122
14	Net Assets:	
15	Without donor restrictions	(38,427)
16	With donor restrictions	328,837
17	Total Net Assets	290,410
18	Total Liabilities and Net Assets	582,532

Liquidity

Liquidity describes how easily you can access your assets as cash. Assets are listed on your Balance Sheet in order of liquidity, with the most liquid assets (cash) listed at the top.



Fixed Assets and Depreciation

Fixed Asset (aka Capital Assets)

An asset that is valued over a pre-determined dollar threshold and will benefit the organization beyond a time span of 1 year.

Depreciation

Depreciation is an accounting method of allocating the cost of a fixed asset over its useful life.

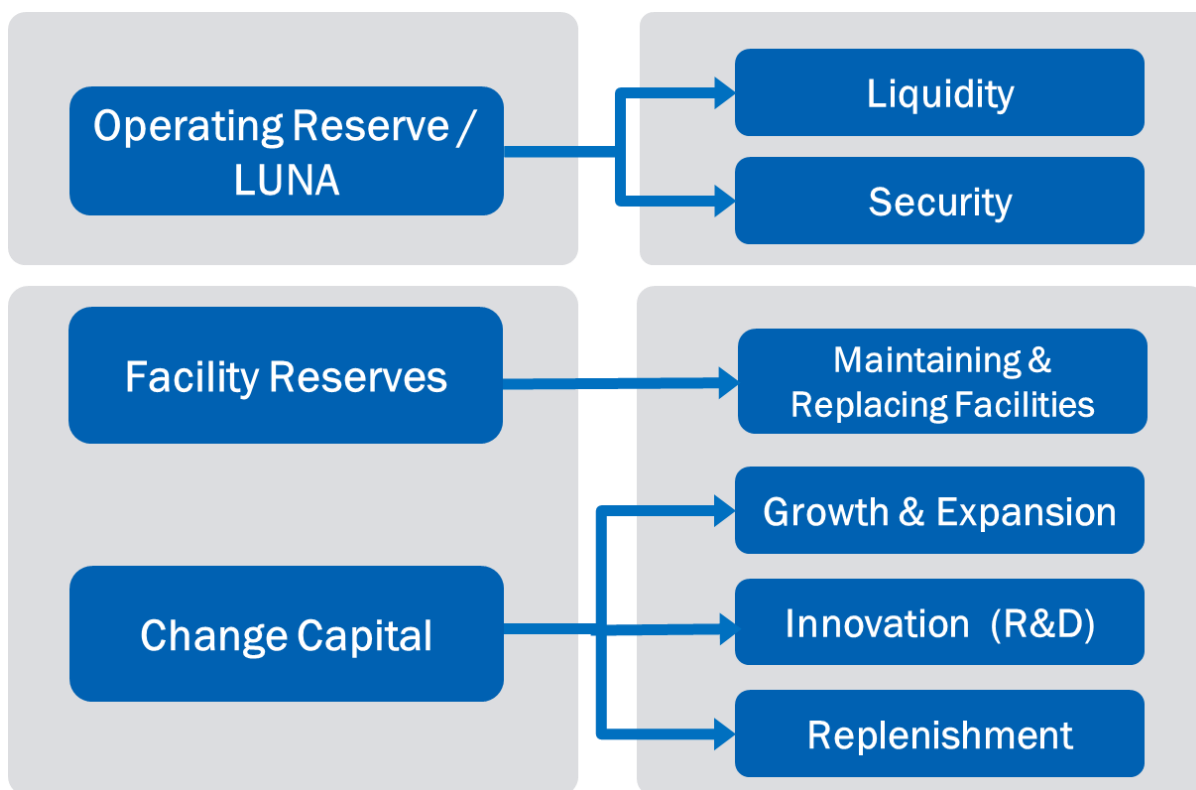
Depreciation is defined as the reduction in the value of an asset with the passage of time, due in particular to wear and tear.

How it Works

Purchases of fixed assets provide value not only in the year that asset is purchased but over the full useful life of the asset. Rather than accounting for the full value of a large asset in the year it is purchased (e.g. a new building), depreciation is a way to account for how much of the asset is being used each year of its useful life.

For example, a fixed asset costing \$100,000 with a useful life of 10 years would be depreciated at \$10,000 each year for 10 years.

Capital for Change and Security



Months of Cash on Hand

Months of Cash-on-Hand represents the amount of cash the organization has available divided by the average monthly operating expenses of the organization. This metric does not remove any bills that need to be paid or distinguish between assets with and without donor restrictions that may both be included in cash.



Liquid Unrestricted Net Assets (LUNA)

LUNA represents the amount of cash, receivables, and investments (excluding fixed assets) without donor restrictions an organization has available to spend after board-designated reserves, bills, and debt are removed. LUNA consists of that portion of an organization's net assets balance without donor restrictions that could be converted to cash relatively easily if necessary. Months of LUNA is calculated as a percentage of average monthly operating expenses (excluding depreciation). LUNA represents an organization's financial strength and flexibility to pursue new opportunities or weather financial challenges.



Guide to GAAP Financial Statements & 990

Statement of Activities (Income Statement)

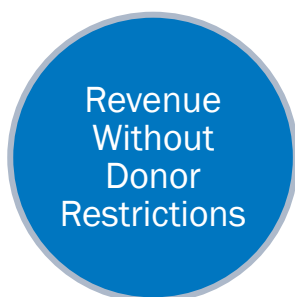
The Statement of Activities is a financial statement that shows our organizational performance over a specific period of time. Key information in this report includes:

- Revenue by type and restriction, as well as what has been released from restriction
- Expenses by function
- Fiscal year *operating* results

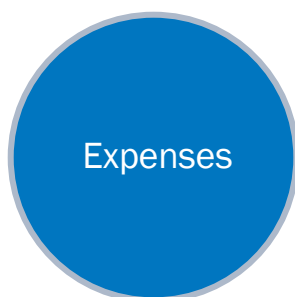
Operating Results

Operating Results measures the difference between the amount of revenue without donor restrictions an organization brings in and the amount it spends for one year. An **operating surplus** (positive number) means the organization brought in more than it spent. An **operating deficit** (negative number) means the organization spent more than it brought in.

What We Earned



What We Spent



Our Results



NONPROFIT ORG, INC.
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2019 and 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total 2019</u>	<u>2018</u>
Revenue and support:				
Government contracts	\$ 692,998	--	\$ 692,998	659,650
Grants and contributions, non-government	188,760	559,100	747,860	834,982
Fundraising event	--	11,100	11,100	12,500
Satisfaction of program restrictions	A 333,930	(333,930)	--	--
Interest income	3,915	--	3,915	4,578
Total revenue and support	B 1,219,603	F 236,270	1,455,873	1,511,710
Expenses:				
Program A	357,953	--	357,953	387,997
Program B	118,378	--	118,378	127,738
Program C	381,238	--	381,238	380,694
Program D	229,861	--	229,861	232,894
Total program expenses	1,087,430	--	1,087,430	1,129,323
<u>Supporting Services</u>				
Administrative and general	118,058	--	118,058	128,765
Fundraising	166,959	--	166,959	170,780
Total expenses	C 1,372,447	--	1,372,447	1,428,868
Change in net assets	D (152,844)	236,270	83,426	82,842
Net assets - beginning of year	114,417	92,567	206,984	124,142
Net assets - end of year	E \$ (38,427)	\$ 328,837	\$ 290,410	\$ 206,984

- A** **Satisfaction of program restrictions** (under the without donor restrictions column) is the amount of revenue that met donor restrictions (time and/or purpose) and was previously revenue with donor restrictions.
- B** **Total revenue and support without donor restrictions** is the amount of revenue that was available to use. It includes any revenue released from restriction, where the donor restrictions (time and/or purpose) were met.
- C** **Total expenses** are all expenses for the year. Expenses are not restricted.
- D** **Change in net assets without donor restrictions** (negative \$153K in this case) is the amount of surplus or deficit during the time period. This is the organization's operating results.
- E** **Net assets without donor restrictions - end of year** is the total net assets without donor restrictions accumulated during the life of the organization. This number matches the Net Assets Without Donor Restrictions on the *Statement of Financial Position*.
- F** **Revenue with donor restrictions** is the amount of revenue pledged within the timeframe that has not met donor restrictions (time and/or purpose).

GAAP Financials vs. 990

GAAP: Statement of Activities

	Without Donor Restrictions	With Donor Restrictions	Total 2019	2018
Revenue and support:				
Government contracts	\$ 682,990	—	\$ 682,990	658,650
Grants and contributions, non-government	188,760	559,100	747,860	834,962
Fundraising event	—	11,100	11,100	12,500
Satisfaction of program restrictions	333,930	(333,930)	—	—
Interest income	3,915	—	3,915	4,578
Total revenue and support	1,219,695	236,270	1,455,973	1,511,710
Expenses:				
Program A	357,953	—	357,953	387,997
Program B	118,378	—	118,378	127,738
Program C	581,238	—	581,238	380,694
Program D	229,861	—	229,861	232,899
Total program expenses	1,087,430	—	1,087,430	1,129,328
Supporting Services				
Administrative and general	118,058	—	118,058	128,765
Fundraising	156,959	—	156,959	179,788
Total expenses	1,372,447	—	1,372,447	1,438,881
Change in net assets	(152,844)	236,270	83,426	82,842
Net assets - beginning of year	114,417	92,567	206,984	124,142
Net assets - end of year	\$ (38,427)	\$ 328,837	\$ 290,410	\$ 206,984

990: Stmt of Revenues (Part VIII)

Form 990 (2018) **Part VIII Statement of Revenues** Page 8

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

		(A) Total Revenues	(B) Unrelated Business Revenues	(C) Investment Income	(D) Dividends and Capital Gains	
Contributions, Gifts, Grants	1a Voluntary contributions					
	1b Membership dues					
	1c Fundraising events					
	1d Restricted organizations					
	1e Government grants/contributions					
	1f All other contributions, gifts, grants, and similar amounts not included above					
	1g Repeal restrictions included in line 1f					
	1h Total. Add lines 1a-1f					
	2a Business income					
	2b All other program service revenues					
3 Investment income (including dividends, interest, and other similar amounts)						

990: Stmt of Expenses (Part IX)

Form 990 (2018) **Part IX Statement of Functional Expenses** Page 9

Section 501(c)(2) and 501(c)(4) organizations must complete all columns. All other organizations must complete column (A).

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

Do not include amounts reported on lines 8b, 7b, 8c, 9b, and 10b of Part VIII.

	(A) Total Expenses	(B) Unrelated Business Expenses	(C) Investment Income and Dividends	(D) Dividends and Capital Gains
1 Grants and other assistance to domestic organizations. See Part IV, line 21.				
2 Grants and other assistance to foreign organizations, foreign governments, and foreign individuals. See Part IV, lines 11 and 12.				
3 Benefits paid to or for members.				
4 Compensation of current officers, directors, trustees, and key employees.				
5 Compensation not included above to disqualified persons (as defined under section 4958(c)) and persons described in section 4958(c)(5).				
7 Other salaries and wages.				
8 Pension plan contributions and contributions payable under section 401(a) and 408(a) employee contributions.				
9 Other employee benefits.				
10 Payroll taxes.				
11 Fees for services not employees.				

Activity: Calculating Metrics

We will place you into breakout groups.

As a group, using the sample financials provided or your organization's financials, discuss the following questions:

- What questions do you have as you review the statements?
- What do you notice about LUNA and/or months of cash on hand?

Reflect on anything you'd like to share with the larger group when we debrief.

Community Arts Organization, Inc. Statement of Financial Position As of June 30, 2019 and 2018		
ASSETS	2019	2018
<u>Current Assets</u>		
Cash	\$ 257,590	\$ 286,052
Accounts Receivable	82,482	67,697
Prepaid Expenses	21,200	17,259
Total Current Assets	361,272	371,008
<u>Non-Current Assets</u>		
Property and Equipment, Net	1,506,326	1,545,689
TOTAL ASSETS	\$ 1,867,598	\$ 1,916,697
LIABILITIES AND NET ASSETS		
LIABILITIES		
<u>Current Liabilities</u>		
Accounts Payable	\$ 104,434	\$ 101,369
Current Portion of Mortgage Payable	36,442	31,573
Deferred Revenue	917	1,084
Total Current Liabilities	141,793	134,026
<u>Non-Current Liabilities</u>		
Long-Term Mortgage Payable	1,028,713	1,065,155
TOTAL LIABILITIES	\$ 1,170,506	\$ 1,199,181
NET ASSETS		
Net Assets without Donor Restriction	492,947	576,734
Net Assets with Donor Restriction	204,145	140,782
TOTAL NET ASSETS	\$ 697,092	\$ 717,516
TOTAL LIABILITIES AND NET ASSETS	\$ 1,867,598	\$ 1,916,697

Community Arts Organization, Inc.
Statement of Activities
For The Year Ended June 30, 2019
With Comparative Totals for 2018

	2019			2018
	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>	<u>Total</u>
REVENUES				
Government Grants & Contracts	\$ 978,042	\$ 77,162	\$ 1,055,204	\$ 1,108,731
Foundations and Corporations	389,319	272,500	661,819	569,379
Individuals	98,389	2,048	100,437	43,885
Fundraising Events (Net of Expenses)	80,978	3,868	84,846	100,061
Interest	220	-	220	34
Miscellaneous Earned Revenue	32,473	-	32,473	10,100
In-Kind	21,785	-	21,785	37,366
Net Assets Released from Restrictions	292,215	(292,215)	-	-
TOTAL REVENUES AND PUBLIC SUPPORT	\$ 1,893,421	\$ 63,363	\$ 1,956,784	\$ 1,869,556
EXPENSES				
Program Services	\$ 1,419,559	\$ -	\$ 1,419,559	\$ 1,396,897
Management & General	339,190		339,190	221,264
Development	218,459		218,459	162,946
TOTAL EXPENSES	\$ 1,977,208	\$ -	\$ 1,977,208	\$ 1,781,107
CHANGE IN NET ASSETS	\$ (83,787)	\$ 63,363	\$ (20,424)	\$ 88,449
NET ASSETS AT BEGINNING OF YEAR	576,734	140,782	717,516	629,067
NET ASSETS AT END OF YEAR	\$ 492,947	\$ 204,145	\$ 697,092	\$ 717,516

Statement of Functional Expenses

The Schedule of Functional Expenses reports expenses by their function (program, management & general, and fundraising) and by the nature of expense (salaries, rent).

NONPROFIT ORG, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

	Program Services					Supporting Services		
	Program A	Program B	Program C	Program D	Program Expenses	Management and General	Fundraising	Total
Salaries	\$168,189	\$ 67,710	\$247,474	\$129,323	\$612,696	\$ 74,120	\$ 75,697	\$ 762,513
Payroll taxes and Employee benefits	34,037	13,703	49,962	26,120	123,822	15,228	15,263	154,313
Rent	97,288	8,215	24,436	13,271	143,210	7,162	6,530	156,902
Utilities	2,935	1,180	3,509	1,906	9,530	1,029	938	11,497
Office cleaning	1,797	723	2,149	1,167	5,836	630	574	7,040
Consultants	6,989	3,237	8,668	7,440	26,334	1,887	46,987	75,208
Accounting & Auditing Fees	-	-	-	-	-	19,000	-	19,000
Office expense	6,123	2,462	7,248	3,945	19,778	2,122	1,921	23,821
Supplies	7,907	2,500	1,355	2,514	16,276	550	450	16,276
Telephone	7,591	3,052	9,078	4,930	24,651	2,661	2,426	29,738
Postage and messengers	1,500	750	600	1,584	4,434	1,784	4,000	10,218
Photocopying	135	145	80	2,565	2,925	280	110	3,315
Equipment leasing	3,535	1,421	4,227	2,296	11,479	1,239	1,130	13,848
Insurance	2,848	1,145	3,406	1,849	9,248	998	910	11,156
Local transportation	667	268	798	434	2,167	234	213	2,614
Meals and entertainment	1,798	723	1,371	125	4,017	1,000	2,026	7,043
Seminars and training	500	250	750	2,500	4,000	3,698	1,000	8,698
Fees	560	3,247	1,003	-	4,810	219	-	5,029
Data processing	496	199	593	322	1,610	174	158	1,942
Dues and subscriptions	385	532	130	683	1,730	375	185	2,290
Advertising	5,017	3,838	3,245	5,979	18,079	432	393	18,904
Depreciation	2,284	918	2,731	1,483	7,416	800	730	8,946
Miscellaneous	522	210	625	16,275	17,632	176	4,328	22,136
Total expenses	\$357,953	\$118,378	\$381,238	\$229,861	\$1,087,430	\$118,058	\$166,959	\$1,372,447

- A** **Expenses** are listed on the far left of the Statement of Functional Expenses. If applicable, this would include non-cash expenses such as depreciation and bad debt expense.
- B** **Program Expenses** are expenses related to the direct provision of goods or services related to the organization's mission and purpose. This should include programs' portion of shared expenses (e.g. rent).
- C** **Management and General**, also referred to as General and Administration, includes expenses not directly associated with programs or programs' portion of shared expenses including activities such as oversight, business and financial management.
- D** **Fundraising**, also referred to as Development, includes expenses incurred in soliciting individual donors, corporations, and foundations to contribute.
- E** **Total** is the sum of Program, Management and General and Fundraising expenses. This number matches the total expenses on the *Statement of Activities*.

Section 1: Background of Functional Equations		Section 2: Functional Equations		Section 3: Functional Equations		Section 4: Functional Equations		Section 5: Functional Equations	
Section 1: Background of Functional Equations	Section 2: Functional Equations	Section 3: Functional Equations	Section 4: Functional Equations	Section 5: Functional Equations	Section 6: Functional Equations	Section 7: Functional Equations	Section 8: Functional Equations	Section 9: Functional Equations	Section 10: Functional Equations
1. The functional equation $f(x+y) = f(x) + f(y)$ is satisfied by all linear functions $f(x) = ax$ for any real number a .	2. The functional equation $f(xy) = f(x)f(y)$ is satisfied by all exponential functions $f(x) = a^x$ for any real number a .	3. The functional equation $f\left(\frac{x}{y}\right) = \frac{f(x)}{f(y)}$ is satisfied by all logarithmic functions $f(x) = \log_a x$ for any real number a .	4. The functional equation $f(x+y) = f(x)f(y)$ is satisfied by all exponential functions $f(x) = a^x$ for any real number a .	5. The functional equation $f\left(\frac{x}{y}\right) = \frac{f(x)}{f(y)}$ is satisfied by all logarithmic functions $f(x) = \log_a x$ for any real number a .	6. The functional equation $f(xy) = f(x)f(y)$ is satisfied by all exponential functions $f(x) = a^x$ for any real number a .	7. The functional equation $f\left(\frac{x}{y}\right) = \frac{f(x)}{f(y)}$ is satisfied by all logarithmic functions $f(x) = \log_a x$ for any real number a .	8. The functional equation $f(x+y) = f(x)f(y)$ is satisfied by all exponential functions $f(x) = a^x$ for any real number a .	9. The functional equation $f\left(\frac{x}{y}\right) = \frac{f(x)}{f(y)}$ is satisfied by all logarithmic functions $f(x) = \log_a x$ for any real number a .	10. The functional equation $f(xy) = f(x)f(y)$ is satisfied by all exponential functions $f(x) = a^x$ for any real number a .

Resource: StrongNonprofits.org

Resources

www.strongnonprofits.org

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

StrongNonprofits Toolkit

Resources to strengthen your nonprofit financial management

[Toolkit Home](#)
[Budgeting](#)
[Cash Flow](#)
[Audit Readiness](#)
[Operations](#)
[Data and Analysis](#)
[Governance and Strategy](#)

Understanding Cash Flow

Cash Flow Projections

Cash Flow Projections (Basic)

Next Steps

Cash Flow

Once you have completed your annual budget process, these tools can help your team translate your newly minted operating budget into a detailed cash flow projection over the course of a fiscal year.

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

Session 2 Homework

1. Calculate Your Metrics

Using **your organization's audit** and the tool from today's activity, calculate the operating surplus, months of cash on hand, and month of LUNA for your two most recent fiscal years. If you do not have an audit, use the sample financials from the activity.

2. Budget Assessment

As a team, **discuss the following prompts and rate your organization** prior to the next training session. In addition, take some time as a team to talk through your current budget process. If you have time, we'd even recommend mapping it out "on paper!"

How well does your organization engage in the following budgeting best practices?			
Our organization's Operating Budget:	Not Well	Moderately Well	Extremely Well
1. Helps our organization to achieve our mission and represents our values	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Reflects the organization's financial and programmatic goals	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Presents revenue and expense by programmatic/functional activity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Documents assumptions and cost allocation methodologies, which are applied consistently and are reasonable	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Includes capital expenses , such as: <ul style="list-style-type: none"> • Loan interest payments • Depreciation 	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Presents revenue available for current year operations, including funding raised in prior years	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Presents sources of funding (i.e. foundations, individual donors, earned income, etc.)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. Provides a realistic outlook of what is likely to happen during this fiscal year	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

How well does your organization engage in the following budgeting best practices?

9. Shows impact to organization's reserves (surplus = increase; deficit = depletion)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. Is understandable to multiple users such as board, finance committee and program managers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11. Shows total program costs , not just expenses covered by specific grants or contracts (funded vs unfunded expenses)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12. Involves the appropriate stakeholders and at the appropriate time			
13. Includes a narrative outlining significant changes from prior year and areas of risk	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14. Receives board approval prior to the start of the fiscal year	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
15. Facilitates reporting of actual results compared to budget	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
16. Builds on lessons learned from previous budgeting processes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Appendix

Calculate Your Metrics – Answer Key

Exercise 1

Calculating Liquid Unrestricted Net Assets (LUNA)

Enter Data in Yellow Cells

Grey Cells Calculate Automatically

Calculation:

Net Assets without Donor Restriction - (Net Fixed Assets - Debt Related to Fixed Assets) - Other Illiquid Assets

Liquid Unrestricted Net Assets (LUNA)			
	Year:	2019	2018
	Source of Data:	Audit	Audit
Net Assets without Donor Restriction		\$ 492,947	\$ 576,734
Fixed Assets, Net		\$ 1,506,326	\$ 1,545,689
Less: Mortgages or Other Debt Related to Fixed Assets		\$ 1,065,155	\$ 1,096,728
Fixed Assets less Mortgages		\$ 441,171	\$ 448,961
Liquid Unrestricted Net Assets (LUNA) (A - B)		\$ 51,776	\$ 127,773
Average Monthly Expenses (Annual Expenses / 12)		\$ 164,767	\$ 148,426
Months of LUNA (C / D)		0.31	0.86

Question: What is the trend for this metric? Is it improving or not?

Decreasing, which could be concerning.

Exercise 2

Calculating Months of Cash on Hand

Enter Data in Yellow Cells

Grey Cells Calculate Automatically

Calculation:

Cash & Cash Equivalents / Average Monthly Expenses

Months of Cash on Hand		
Year:	2019	2018
Source of Data:	Audit	Audit
Cash & Cash Equivalents	\$ 257,590	\$ 286,052
Average Monthly Expenses (Annual Expenses ÷ 12)	\$ 164,767	\$ 148,426
Months of Cash on Hand (A ÷ B)	1.56	1.93

A
B

Question: What is the trend for this metric? Is it improving or not?

Decreasing, which could be a concern.

Exercise 3

Calculating Operating Results

Enter Data in Yellow Cells

Grey Cells Calculate Automatically

Calculation:

Revenue without Donor Restrictions - Total Expenses

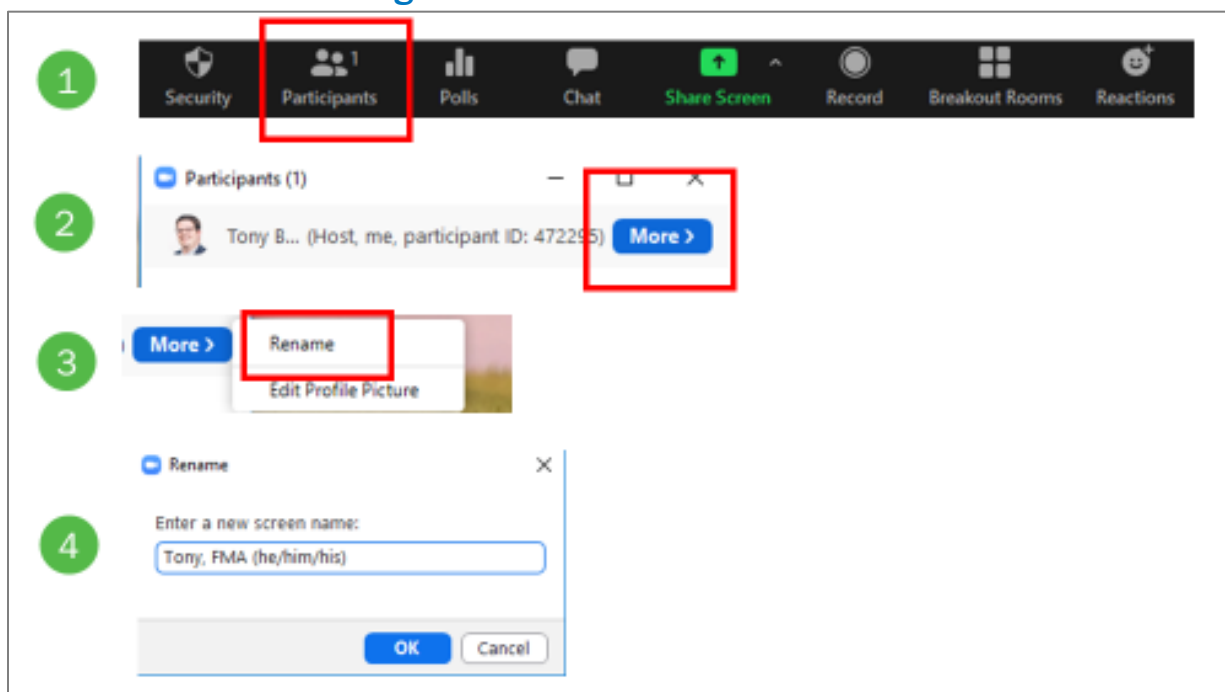
Change in Unrestricted Net Assets (Operating Surplus/ Deficit)		
Year:	2019	
Source of Data:	Audit	Audit
Revenue without Donor Restrictions	\$1,893,421	
Total Expenses	\$1,977,208	
Change in Net Assets without Donor Restriction (Operating Surplus/ Deficit) (A - B)	\$ (83,787)	\$ -

A
B

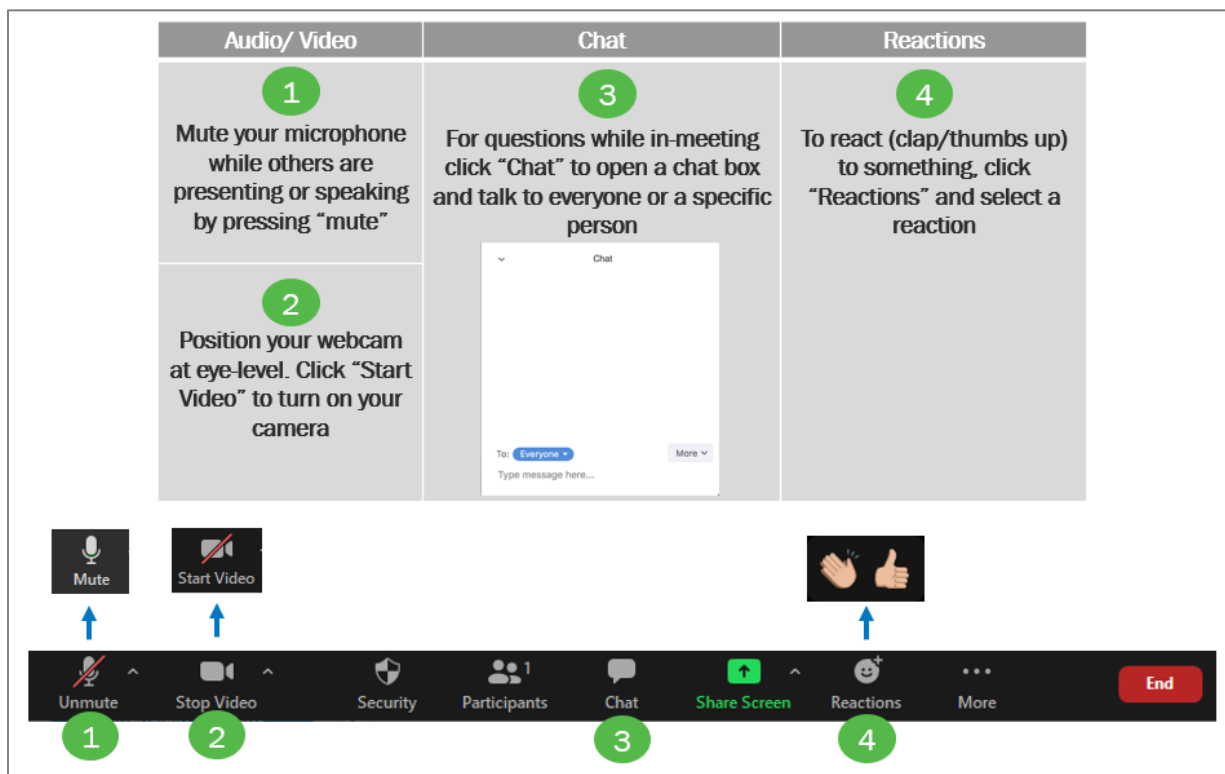
Question: What is the trend for this metric? Is it improving or not?

Note: This metric cannot be calculated for 2018 because the revenue presented for that year is only in total.


Create a Zoom Name Badge



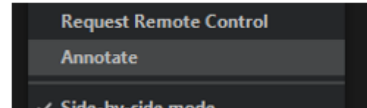
Zoom Controls



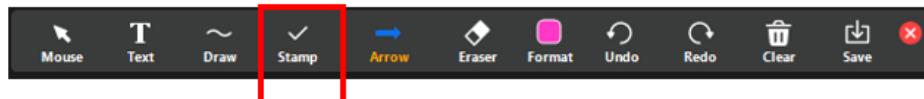
Zoom Annotation Functionality

- At the top of your screen, select “View Options” next to the green bar: 

- Select the “Annotate” option:



- From the toolbar, select the stamp option:



- Select the stamp of your choice
- On the next slide, using the stamp, indicate which steps in of the budget process your organization engages in