



Colonial Life
Board Training

**Nonprofit Finances and the
Board's Fiduciary
Responsibilities**



PREVIEW OF CONCEPTS

- ◆ Key things for a board to ask.
- ◆ The key financial statements and what they communicate.
- ◆ Annual Audits and IRS 990 Statement.
- ◆ Functional expense breakdown, overhead, & ROI (The double bottom line).
- ◆ The Mission Matrix.
- ◆ Alignment with strategy and budget.
- ◆ The relationship between finance and development.



Breakout Activity
New Board Member

What are your questions about the organization's finances?



- Are we financially capable of carrying out its mission effectively?
- Do our assets exceed our liabilities?
- What debt are we carrying? What is that debt financing? What is our capability of repaying it? Are we carrying the best terms available?
- Do we have sufficient cash flow to operate year-round without strain?
- How does our budget support our strategic plan?
- Is our work creating value for the investment we are making?
- Are we future fit from a financial standpoint?
- How diverse is our revenue stream?
- Where are our risks or vulnerabilities?
- What are our contingencies for crises?
- What are our past, current, and future trends?
- What is our growth strategy?
- How well do we steward and administer our financial assets?



3 Primary Financial Statements



Income Statement

Range of Time

Shows the relationship between income and expenses over a defined period of time.



Cash Flow Statement

Range of Time

Shows uses and sources of cash, and changes in cash position over a defined period of time.



Balance Sheet

Point in Time

Shows Overall financial value (assets over liabilities) at a defined point in time.



Community Support Network

Financial Statements for the Year Ended
December 31, 2023

Income Statement – 1/1/23 – 12/31/23

Revenue:	
Donations & Grants:	\$150,000
Program Service Fees:	\$20,000
Fundraising Events:	\$30,000
Total Revenue:	\$200,000
Expenses:	
Salaries & Benefits:	\$(120,000)
Rent & Utilities:	\$(20,000)
Materials & Supplies:	\$(15,000)
Depreciation Expense:	\$(5,000)
Total Expenses:	\$(160,000)
Net Income:	\$40,000

Insights:

Fairly diverse revenue streams.

Appears to be healthy management of yearly revenue to expenses (budget). \$40K in the positive.

Their 'program' IS their people.

How they allocate their salaries matters for overhead calculation.

We'll come back to that!

Cash Flow Statement – 1/1/23 – 12/31/23

Operating Activities:	
Net Income:	\$40,000
Add: Depreciation:	\$5,000
Change in Accounts Receivable:	\$(2,000)
Change in Accounts Payable:	\$1,000
Net Cash from Operating Activities:	\$44,000
Investing Activities:	
Purchase of Equipment:	\$(10,000)
Net Cash from Investing Activities:	\$(10,000)
Financing Activities:	
Loan Received:	\$5,000
Loan Repayment:	\$(3,000)
Net Cash from Financing Activities:	\$2,000
Net Increase in Cash:	\$36,000
Cash at Beginning of Year:	\$18,000
Cash at End of Year:	\$54,000

Insights:

Start with Net Income

Add back depreciation because it is a non-cash expense.

Loans add cash and liability at the same time.

Payments decrease cash, but increase net assets on the balance sheet.

What will we do with the increase in cash? Hire more staff? Put in reserve?

Balance Sheet as of 12/31/23

Assets:	
Cash:	\$54,000
Accounts Receivable:	\$5,000
Total Current Assets:	\$59,000
Equipment:	\$40,000
Less: Accumulated Depreciation:	\$(10,000)
Net Fixed Assets:	\$30,000
Total Assets:	\$89,000
Liabilities & Net Assets:	
Accounts Payable (Current):	\$5,000
Loan Payable (Long-Term):	\$0
Total Liabilities:	\$5,000
Net Assets:	
Beginning Net Assets:	\$44,000
Change in Net Assets (Net Income):	\$40,000
Total Net Assets:	\$84,000
Total Liabilities & Net Assets:	\$89,000

Balance Sheet as of 12/31/23

Assets:	
Cash:	\$54,000
Accounts Receivable:	\$5,000
Total Current Assets:	\$59,000
Equipment:	\$40,000
Less: Accumulated Depreciation:	\$(10,000)
Net Fixed Assets:	\$30,000
Total Assets:	\$89,000
Liabilities & Net Assets:	
Accounts Payable (Current):	\$5,000
Loan Payable (Long-Term):	\$0
Total Liabilities:	\$5,000
Net Assets:	
Beginning Net Assets:	\$44,000
Change in Net Assets (Net Income):	\$40,000
Total Net Assets:	\$84,000
Total Liabilities & Net Assets:	\$89,000

Insights:

Current ratio is strong:
 Current assets/current liabilities:
 $59,000 / 3,000 = 19:1$ (Rare!) –1.5-3 is good. Again, what will we do with the growth in cash?

Improved strength in net assets over last year
 2022: \$44,000
 2023: \$89,000

They appear to own no land or property. \$40k in equipment is likely computers, etc.

Similarly, they have no long-term debt. The \$5k is a short-term loan, as indicated on the cash flow statement.

Balance Sheet Identification

Organizations whose largest asset may well be “accounts receivable”.

- United Way (employee pledges over a year)
- Nonprofit Hospital (invoices and reimbursements)
- **Cash flow impact: Operating activities**

Largest asset may be land and property (and long-term debt!)

- Scouts (Camps)
- Nonprofit universities (facilities heavy)
- **Cash flow impact: Investment and financing activities**

Leverages Debt as a primary driver of capital

- Affordable Housing orgs (mortgages)
- Large cultural institutions (museums, etc. – temporary for exhibits, etc.)
- **Cash flow impact: Financing activities**



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The Audit:
A snapshot:

The audit provides an independent assessment of the organization's financial statements, ensuring accuracy, transparency, and compliance with accounting standards and regulatory requirements.



Annual Audit Tenets to Consider

Generally, organizations with revenues exceeding \$500K are required to conduct an annual audit.

\$20k - \$40K +

Alternative – Financial Review – Sometimes nearly as costly.

Cost vs. Assurance

\$5K - \$15K

Accuracy Standards Controls

Clean Audit

Control or Significant Deficiency

Material Weakness

Opinion Unmodified Qualified Adverse

The auditor works for you, but also for the greater community.

Recommendations vs. Requirement

Board should be engaged in hiring auditor, with no COI (Audit Committee – SOX - States)

Also, Board monitors and reviews

Other Considerations:

Auditor Rotation

Public Access to FS

CEO/CFO Role and Competence



IRS 990 Tax Return

- ▣ Required for tax-exempt organizations.
- ▣ Includes both financial AND mission/program information.
- ▣ Open for public inspection.
- ▣ Usually in conjunction with the annual audit.
- ▣ Includes:
 - ▣ Functional expense statement (to show what the organization spends its money on (general administration, fundraising, programs).
 - ▣ Compensation of key employees (at least the CEO).
 - ▣ Program accomplishments.

Income tax exemption is in exchange for public value.

This is why mission measurement is important.

Functional Expenses

Expense Category	Program Services	Management and General	Fundraising	Total
Salaries and Wages	\$350,000	\$50,000	\$40,000	\$440,000
Employee Benefits	\$75,000	\$10,000	\$8,000	\$93,000
Payroll Taxes	\$30,000	\$5,000	\$3,500	\$38,500
Professional Services	\$25,000	\$15,000	\$8,000	\$48,000
Office Supplies	\$10,000	\$5,000	\$2,000	\$17,000
Occupancy (Rent, Utilities)	\$20,000	\$10,000	\$6,000	\$36,000
Depreciation	\$12,000	\$8,000	\$3,000	\$23,000
Travel and Conferences	\$15,000	\$7,000	\$4,000	\$26,000
Grants to Other Organizations	\$50,000	\$0	\$0	\$50,000
Marketing and Advertising	\$5,000	\$3,000	\$10,000	\$18,000
Insurance	\$10,000	\$5,000	\$2,500	\$17,500
Miscellaneous Expenses	\$3,000	\$2,000	\$1,500	\$6,500
Total Expenses	\$605,000	\$120,000	\$88,500	\$813,500

Overhead Expenses =

$(\text{M\&G} + \text{Fundraising}) / \text{Total Expenses}$

$\$120,000 + \$88,500 = \$208,500$

$\$208,500 / \$813,500 = 25.6\% \text{ Overhead}$

Not all salary and office expenses are overhead!



Overhead = Capacity
Capacity + Effectiveness = Impact
Impact + Scale = ROI
The Double Bottom Line =
Financial Health + Social Impact



ROI

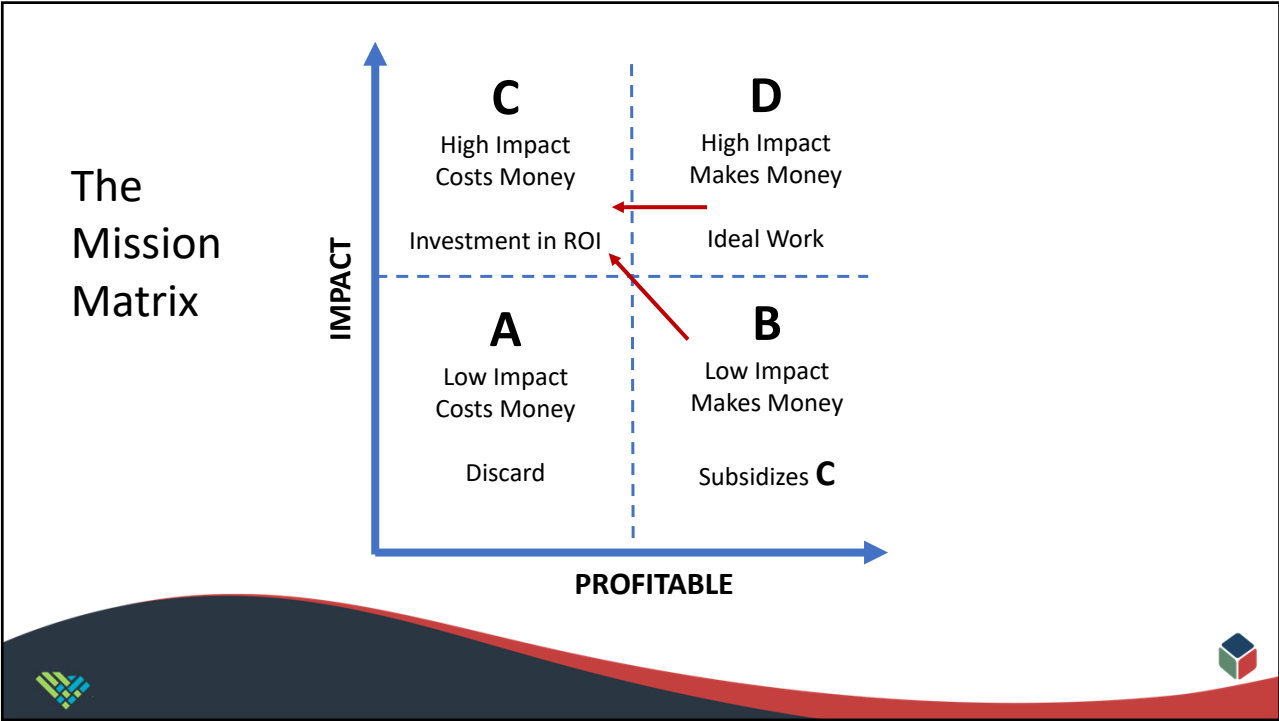
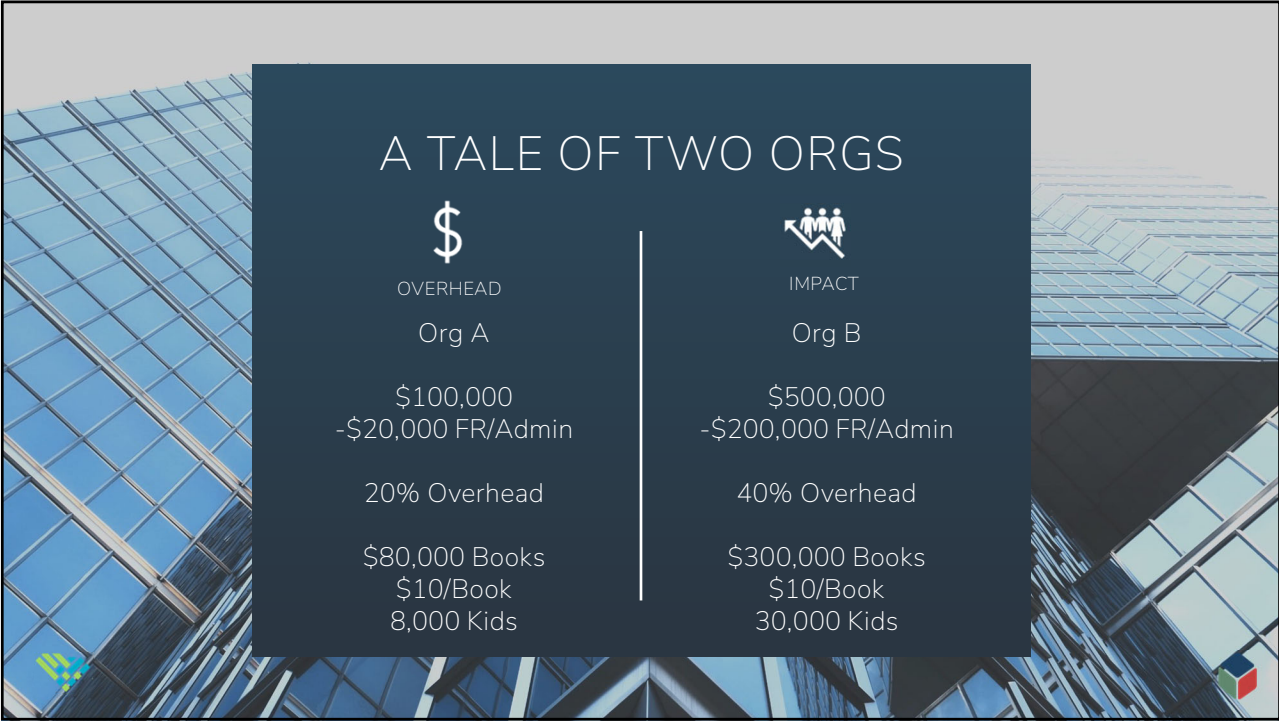
A Major Gift Story
"What's your Overhead?"

Examples:

- VITA
 - \$50k-\$100k investment (with IRS grant!)
 - Millions of dollars into the local economy
 - Saved interest and fees from lenders
- Early Childhood Education
 - 7:1, 16:1, 23:1 ROI over the life of a child.
- Longitudinal research shows many correlations between things like education and health and financial benefits, such as:
 - Higher incomes
 - Saved costs
 - Emergency Room
 - Incarceration

**ROI doesn't have to
go through our
financial books!**





Two More Considerations

- Strategy informs the budget – not the other way around.
- Who is ultimately accountable?
- Financial Management and Fund Development are two different things, but not unrelated.

In a nonprofit organization, the board is ultimately accountable for ensuring the organization has the financial resources it needs to carry out its mission.



"A company's budget is the ultimate expression of its strategy."

– David Norton
David Norton, co-creator of the Balanced Scorecard



Breakout Activity 3 DAY FINANCIAL HORIZON



Today

Current concerns and waters to navigate

3-12 Months



Tomorrow

Strategic opportunities and positioning

3-5 Years



Day After Tomorrow

Ensuring 'future fitness'

10+ Years



Which Day?

Annual budget	Today
Endowment fund	Day After Tomorrow
Building/facilities	Tomorrow
Technology	Tomorrow
Staffing	Tomorrow
Sustainability	Day After Tomorrow
Debt	Tomorrow
Investments	Day After Tomorrow
Economic trends	Tomorrow
Relevance	Day After Tomorrow
Cash flow	Today
Strategic plan	Tomorrow
Operations plan	Today
Business model	Tomorrow





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