



Not-For-Profit

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CPAs & Advisors

Everyone needs a trusted advisor. Who's yours?



Understanding Not-for-Profit Finance

What You Need to Know

- Understanding NFP Financial Statements
 - Basic Structure
 - Unique Components
- IRS Considerations



Why Should You Care?

- Board is decision-making body, not committee
- Not liable for debts of organization if act with “due care”
 - Review financial information provided
 - Ask questions to gain complete understanding
 - Implement appropriate financial policies & controls
- Financial information for not-for-profits is available to everyone
 - Reputational risk





UNDERSTANDING NFP FINANCIAL STATEMENTS

Understanding NFP Financial Statements

- Statement of Financial Position (SOFP)
- Statement of Activities (SOA)
- Statement of Functional Expenses (SOFE)
- Statement of Cash Flows (SOCF)

Basic Accounting

- Cash Basis
 - Revenues/Expenses recorded when cash is received or paid
- Accrual Basis
 - Revenues/Expenses recorded when earned/incurred



Basic Accounting

| | | Cash | Accrual |
|--|----------------------|-------|---------|
| Scenario 1: Budget / Cash | | | |
| Pledge Donation \$100 | Record at Receipt | \$100 | \$0 |
| | | | |
| | | | |
| Scenario 2: Financials / Accrual | | | |
| Pledge Donation \$100 | Record at Pledge | \$0 | \$100 |
| | | | |
| | | | |

Basic Structure (SOFP)

Assets

| | |
|--|----------------------------|
| Cash and cash equivalents | \$ 842,142 |
| Amounts held on behalf of others | 300,008 |
| Certificates of deposit | 110,809 |
| Accounts receivable, net of allowance of \$2,500 | 9,252 |
| Rent receivable | 113,031 |
| Contributions receivable | 240,000 |
| Prepaid expenses and other | 52,306 |
| Beneficial interest in assets held by community foundations | 901,459 |
| Property and equipment, net | <u>41,890</u> |
| Total assets | <u><u>\$ 2,610,897</u></u> |

Liabilities and Net Assets

Liabilities

| | |
|--|----------------|
| Accounts payable | \$ 37,598 |
| Accrued expenses | 99,418 |
| Amounts held on behalf of others | 300,008 |
| Deferred revenue | 275,049 |
| Deferred rent payable | 193,761 |
| Rent deposits held on behalf of others | <u>29,247</u> |
| Total liabilities | <u>935,081</u> |

Net Assets

| | |
|----------------------------------|----------------------------|
| Without donor restrictions | 1,179,316 |
| With donor restrictions | <u>496,500</u> |
| Total net assets | <u>1,675,816</u> |
| Total liabilities and net assets | <u><u>\$ 2,610,897</u></u> |

Basic Structure (SOFP)

Statement of Financial Position = Balance Sheet

- Point in time
- Assets = Liabilities + Net Assets
- **Things to consider:**
 - Liquidity trends & other ratios
 - Current ratio
 - Days cash on hand
 - Liquidity without restriction
 - Year-to-year fluctuations



Basic Structure (SOA)

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|----------------------------------|-------------------------------|------------------|
| Revenue, Gains and Other Support | | | |
| Membership | \$ 559,786 | \$ - | \$ 559,786 |
| Grants and contributions | 84,759 | 576,981 | 661,740 |
| Earned income | | | |
| Advertising | 10,231 | - | 10,231 |
| Registrations and fees | 180,614 | - | 180,614 |
| Job board | 71,240 | - | 71,240 |
| Commissions and royalties | 247,561 | - | 247,561 |
| Product sales | 88,654 | - | 88,654 |
| Investment return, net | (41,233) | - | (41,233) |
| Rental income | 204,143 | - | 204,143 |
| Other income | 19,573 | - | 19,573 |
| Loss on disposal of fixed assets | (2,612) | - | (2,612) |
| Inherent contribution | 171,985 | 15,000 | 186,985 |
| Net assets released from restrictions | 673,703 | (673,703) | - |
| Total revenue, gains and support | 2,268,404 | (81,722) | 2,186,682 |

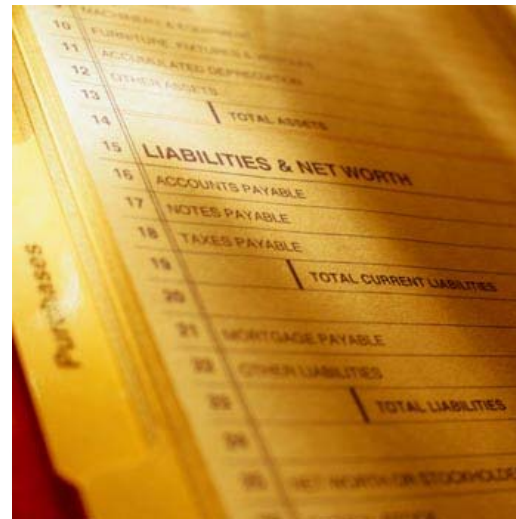
Basic Structure (SOA) - continued

| | | | |
|------------------------------------|---------------------|-------------------|---------------------|
| Expenses | | | |
| Influence | 456,111 | - | 456,111 |
| Knowledge | 306,752 | - | 306,752 |
| Major events | 611,622 | - | 611,622 |
| Network | <u>286,062</u> | <u>-</u> | <u>286,062</u> |
| Total program expenses | <u>1,660,547</u> | <u>-</u> | <u>1,660,547</u> |
| Management and general | 542,799 | - | 542,799 |
| Fundraising and development | <u>13,179</u> | <u>-</u> | <u>13,179</u> |
| Total supporting expenses | 555,978 | - | 555,978 |
| Rent expense related to subtenants | <u>201,902</u> | <u>-</u> | <u>201,902</u> |
| Total expenses | <u>2,418,427</u> | <u>-</u> | <u>2,418,427</u> |
| Change in Net Assets | (150,023) | (81,722) | (231,745) |
| Net Assets, Beginning of Year | <u>1,329,339</u> | <u>578,222</u> | <u>1,907,561</u> |
| Net Assets, End of Year | <u>\$ 1,179,316</u> | <u>\$ 496,500</u> | <u>\$ 1,675,816</u> |

Basic Structure (SOA)

Statement of Activities = Income Statement

- Operations over a period of time
- Change in Net Assets = Net Income
- Income sources
 - Program fees
 - Grants, contracts
 - Events
 - Contributions



Basic Structure (SOA)

Things to Consider

- Budget vs. Actual – Are large variances being addressed?
- Are revenue sources diversified?
- Trends
 - Program expense vs. program revenue
 - “The Bottom Line”



Basic Structure (SOFE)

| | Influence | Knowledge | Major Events | Network | Total Program Services | Management and General | Development and Fundraising | Total Support Services | Total |
|---|-------------------|-------------------|-------------------|-------------------|------------------------|------------------------|-----------------------------|------------------------|---------------------|
| Salaries and benefits | \$ 289,079 | \$ 150,393 | \$ 186,729 | \$ 184,717 | \$ 810,918 | \$ 272,138 | \$ 5,384 | \$ 277,522 | \$ 1,088,440 |
| Occupancy | 23,998 | 21,121 | 22,079 | 19,200 | 86,398 | 17,277 | - | 17,277 | 103,675 |
| Professional services | 10,388 | 9,189 | 16,860 | 18,345 | 54,782 | 105,051 | 7,500 | 112,551 | 167,333 |
| Consultants and trainers | 47,750 | 65,773 | 29,472 | 8,000 | 150,995 | 6,248 | - | 6,248 | 157,243 |
| Food and beverages | 996 | 3,382 | 137,421 | 5,119 | 146,918 | 1,172 | - | 1,172 | 148,090 |
| Rental fees | - | 852 | 124,945 | 200 | 125,997 | - | - | - | 125,997 |
| Printing and copying | 32,778 | 12,230 | 16,200 | 9,717 | 70,925 | 5,732 | 278 | 6,010 | 76,935 |
| Information technologies | 13,685 | 13,166 | 11,631 | 10,037 | 48,519 | 18,691 | - | 18,691 | 67,210 |
| Office supplies and support | 12,669 | 7,657 | 8,992 | 10,703 | 40,021 | 11,943 | - | 11,943 | 51,964 |
| Bad debt expense | - | - | - | - | - | 35,078 | - | 35,078 | 35,078 |
| Other | 5,806 | 4,472 | 3,093 | 2,932 | 16,303 | 13,295 | 17 | 13,312 | 29,615 |
| Travel | 4,608 | 5,148 | 5,437 | 6,085 | 21,278 | 7,268 | - | 7,268 | 28,546 |
| Bank fees | - | - | - | - | - | 28,295 | - | 28,295 | 28,295 |
| Program event expenses | - | - | 21,515 | - | 21,515 | - | - | - | 21,515 |
| Dues and subscriptions | 7,478 | 3,921 | 3,928 | 3,338 | 18,665 | 1,905 | - | 1,905 | 20,570 |
| Program materials | - | 703 | 19,242 | - | 19,945 | - | - | - | 19,945 |
| Depreciation | 4,907 | 4,318 | 3,926 | 4,344 | 17,495 | 1,963 | - | 1,963 | 19,458 |
| Insurance | - | - | - | - | - | 14,206 | - | 14,206 | 14,206 |
| Conference calls and webinars | 319 | 3,836 | 152 | 402 | 4,709 | 1,735 | - | 1,735 | 6,444 |
| Other program expenses | 1,650 | 591 | - | 718 | 2,959 | 772 | - | 772 | 3,731 |
| In-kind | - | - | - | 2,205 | 2,205 | 30 | - | 30 | 2,235 |
| Total expense before rent related to subtenants | 456,111 | 306,752 | 611,622 | 286,062 | 1,660,547 | 542,799 | 13,179 | 555,978 | 2,216,525 |
| Rent expense related to subtenants | - | - | - | - | - | 201,902 | - | 201,902 | 201,902 |
| Total expenses | <u>\$ 456,111</u> | <u>\$ 306,752</u> | <u>\$ 611,622</u> | <u>\$ 286,062</u> | <u>\$ 1,660,547</u> | <u>\$ 744,701</u> | <u>\$ 13,179</u> | <u>\$ 757,880</u> | <u>\$ 2,418,427</u> |
| Percentage of total expenses | <u>19%</u> | <u>13%</u> | <u>25%</u> | <u>12%</u> | <u>69%</u> | <u>31%</u> | <u>1%</u> | <u>31%</u> | <u>100%</u> |

Basic Structure (SOFE)

- Allocates expense by function within organization
 - Program, Administrative, Fundraising
- Statement of Functional Expenses
 - Required for all organizations and all have to report on Form 990
- How is management allocating?
- What percentage of expenditures is on programming?



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Basic Structure (SOCF)

| | |
|---|--------------------------|
| Operating Activities | |
| Change in net assets | \$ (231,745) |
| Items not requiring (providing) operating activities cash flows | |
| Depreciation | 19,458 |
| Change in value of beneficial interest in assets held by community foundations | 39,732 |
| Inherent contribution related to acquisition | (186,985) |
| Bad debt expense | 35,078 |
| Net loss on disposal of fixed assets | 2,612 |
| Changes in | |
| Accounts receivable | 6,432 |
| Rents receivable | (397) |
| Contributions receivable | 116,019 |
| Publications inventory | 651 |
| Prepaid expenses and other | 42,248 |
| Accounts payable and accrued expenses | 33,275 |
| Deferred revenue | 54,895 |
| Deferred rent payable | (1,252) |
| Other assets and liabilities | <u>(3,508)</u> |
| Net cash used in operating activities | <u>(73,487)</u> |
| Investing Activities | |
| Proceeds from maturities of certificates of deposit | 359,546 |
| Cash received from acquisition | 162,795 |
| Proceeds from beneficial interest in assets held by community foundations | <u>153,533</u> |
| Net cash provided by investing activities | <u>675,874</u> |
| Increase in Cash and Cash Equivalents | 602,387 |
| Cash and Cash Equivalents, Beginning of Year | <u>239,755</u> |
| Cash and Cash Equivalents, End of Year | <u><u>\$ 842,142</u></u> |

Liquidity Metrics

June 30, 2018

| | |
|--|-------------|
| Total cash and cash equivalents and investments | \$2,001,634 |
| Total expenses before depreciation and amortization (non-cash) | \$6,618,483 |
| Expense per day | \$18,133 |
| Days Cash on Hand | 110.4 |
| Months of Cash on Hand | 3.6 |

Unique Components of NFP Financials

- Contributions
- Net Assets



Unique Components (Contributions)

- Forms of contributions
 - Cash
 - Pledge
 - Contributed services
 - Gifts-in-kind
- **Things to consider**
 - Cost vs. Benefit analysis of accepting certain restricted grants, gifts or gifts-in-kind
 - Thoughtful gift acceptance policy can remedy these issues
- Source of restricted net assets



Unique Components (Net Assets)

- Without Donor Restriction
 - Unrestricted
 - No donor stipulations
 - May include board-designated
- With Donor Restriction
 - Temporarily or Permanently Restricted
 - May be restricted for time or purpose
 - Gift held in perpetuity to generate future income for organization
- Restrictions can only be imposed by **donors**



Unique Components (Endowment)

- A fund which requires principal to remain intact & invested with intent to generate investment income for organization to be used in operations or a restricted purpose
 - Donor-restricted or board-designated
- Establish spending policy to determine how much of income can be spent annually
 - State laws vary on what is deemed “prudent”



IRS CONSIDERATIONS

IRS Considerations

- Form 990
 - Board members should review prior to filing
 - Three most recent years must be made available
- www.guidestar.org
- Inaccurate information could skew potential donors, reduce credibility of organization & create unnecessary scrutiny from IRS



Today's Key Takeaways

- Understanding key aspects of financials statements & what to consider as you're reviewing
- Understanding difference between restricted & unrestricted gifts



Questions?

Thank You!

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