

The Board's Role in Understanding & Sustaining Financial Health in Challenging Times and Beyond

Board Leadership Workshop Series

Gina McDonald, CPA, Lead Consultant

January 22, 2021



BDO FMA



Agenda



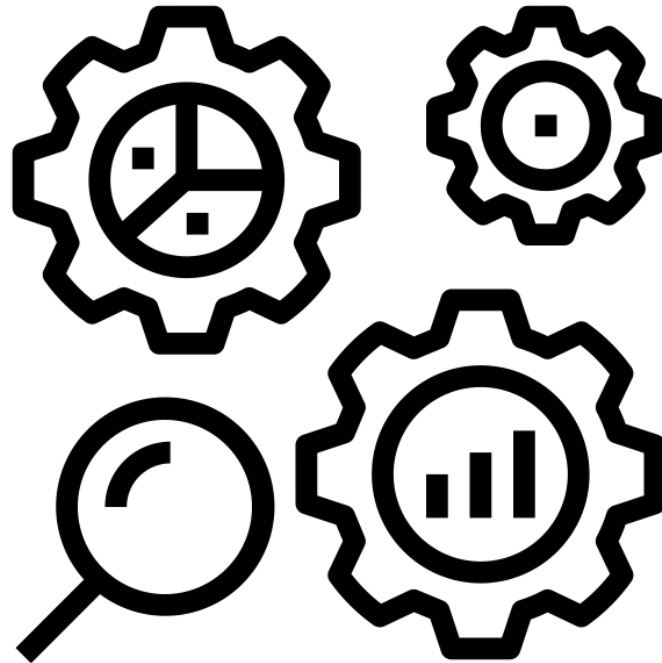
What is the Board's role?

*What financial
information should we
reference?*

Poll #1

How would you rate your ability to assess the financial health of your organization?

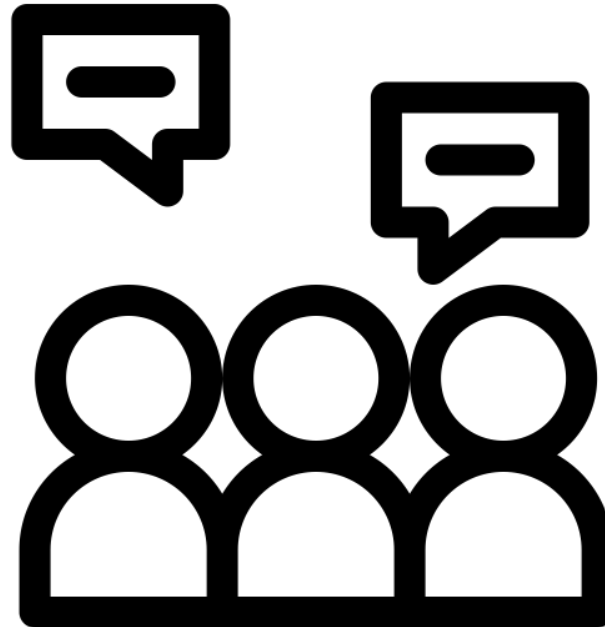
- Not at all confident
- Somewhat confident
- Confident
- Very confident
- Extremely confident



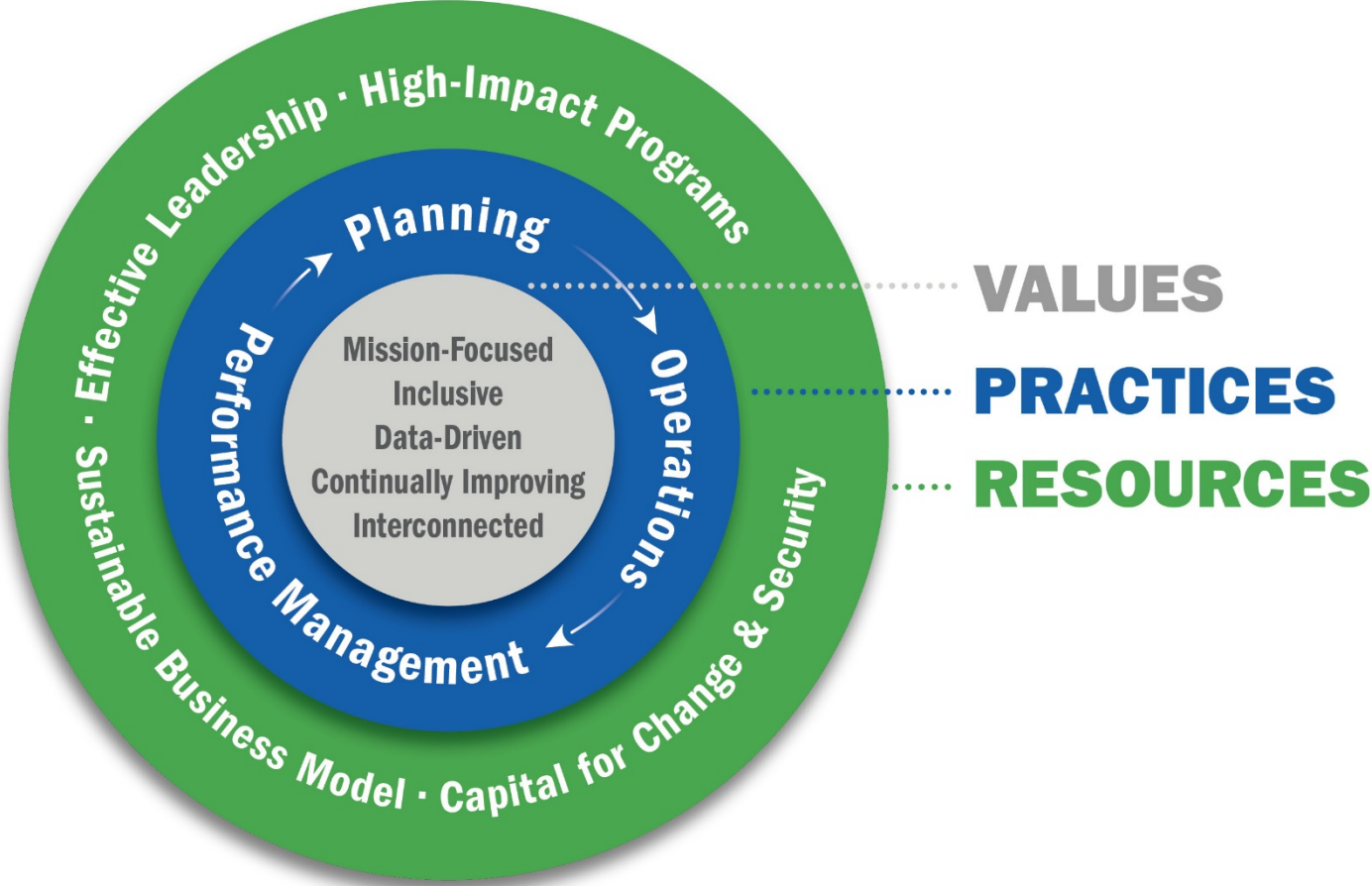
Poll #2

How would you rate your ability to engage in dialogue with the Board and management regarding the organization's financial health?

- Not at all confident
- Somewhat confident
- Confident
- Very confident
- Extremely confident



Financial Resilience in Nonprofit Organizations



WHAT IS THE BOARD'S ROLE IN FINANCE?

Levels of Financial Management

Level	Function
Strategic	Lead and support organizational financial planning and monitoring
Managerial	Ensure that the finance office is effectively carrying out its operational responsibilities
Transactional	Perform day-to-day accounting functions, data entry, and administrative tasks.

Adapted from Jeanne Bell Peters and Elizabeth Schaffer, *Financial Leadership for Nonprofit Executives: Guiding Your Organization to Long-term Success* © 2005

Board Fiduciary Responsibilities

Includes ensuring financial health and setting strategic direction

- Creating annual and long-term financial goals and plans
- Establishing mechanisms to monitor financial performance
- Risk management



BASICS OF NONPROFIT FINANCIALS

Key Financial Documents

Document	What do I learn from it?	How is it different from others?
GAAP Financials	<p>Financials for most recently completed year</p> <p>May be audited reviewed or compiled</p>	<ul style="list-style-type: none"> • Present revenue and net assets by restriction • Show board designated assets • Has informative note disclosures
IRS Form 990	<p>Financials for most recently completed year</p>	<p>Disclosures related to:</p> <ul style="list-style-type: none"> • Program accomplishments • Governance • Compensation
Internal Budget	<p>Management's plans for current (or future) year</p>	<ul style="list-style-type: none"> • Includes assumptions • Based on goals
Internal Financial Reports	<p>Most current financial information</p>	<ul style="list-style-type: none"> • Interim financials may not be fully "adjusted"

Balance Sheet

What We Own



- Cash
- Receivables
- Investments
- Fixed Assets

What We Owe



- Bills Due
- Line of Credit
- Deferred Revenue
- Debt (short-and long-term)

Our Net Worth



- With Donor Restrictions
- Without Donor Restrictions



Sample Balance Sheet

ASSETS

Current Assets:

Cash	\$	274,139
Grants and contracts receivable		200,000
Prepaid expenses		7,000
Short term investments		10,000
Total Current Assets		<u>491,139</u>

Investments		15,000
Property and equipment, net		24,393
Other assets		<u>12,000</u>

Total Assets	\$	<u><u>542,532</u></u>
--------------	----	-----------------------

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable and accrued expenses	\$	179,578
Refundable advances		72,544
Total Current Liabilities		<u>252,122</u>

Net Assets:

Without donor restrictions		(38,427)
With donor restrictions		328,837
Total Net Assets		<u>290,410</u>

Total Liabilities and Net Assets	\$	<u><u>542,532</u></u>
----------------------------------	----	-----------------------

Information in Financials vs. 990

Audit: Statement of Financial Position

990: Balance Sheet (Part X)

NONPROFIT ORG, INC.			
STATEMENT OF FINANCIAL POSITION			
JUNE 30, 2017 and 2018			
	ASSETS		
	2018	2017	
Assets:			
Cash	\$274,139	\$297,389	
Pledges and contracts receivable	200,000	210,000	
Prepaid expenses	17,000	22,000	
Total Current Assets	491,139	529,389	
Property and equipment, less accumulated depreciation of \$27,505	39,393	64,393	
Other Assets - security deposit	12,000	12,000	
Total Assets	\$542,532	\$605,782	
	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	10,500	9,750	
Total Current Liabilities	91,378	228,304	
Long-term debt	160,744	170,494	
Total Liabilities	252,122	398,798	
Net Assets:			
Unrestricted	(38,427)	114,417	
Temporarily restricted	328,837	92,567	
Total Net Assets	290,410	206,984	
Total Liabilities and Net Assets	\$542,532	\$605,782	



Form 990 (2014)		Page 11	
Part X Balance Sheet			
Check if Schedule O contains a response or note to any line in this Part X <input type="checkbox"/>			
		(A)	(B)
		Beginning of year	End of year
1	Cash—non-interest-bearing		1
2	Savings and temporary cash investments		2
3	Pledges and grants receivable, net		3
4	Accounts receivable, net		4
5	Loans and other receivables from current and former officers, directors, trustees, key employees, and highest compensated employees. Complete Part II of Schedule L		5
6	Loans and other receivables from other disqualified persons (as defined under section 4958(f)(1)), persons described in section 4958(c)(3)(B), and contributing employers and sponsoring organizations of section 501(c)(9) voluntary employees' beneficiary organizations (see instructions). Complete Part II of Schedule L		6
7	Notes and loans receivable, net		7
8	Inventories for sale or use		8
9	Prepaid expenses and deferred charges		9
10a	Land, buildings, and equipment: cost or other basis. Complete Part VI of Schedule D	10a	
b	Less: accumulated depreciation	10b	10c
11	Investments—publicly traded securities		11
12	Investments—other securities. See Part IV, line 11		12
13	Investments—program-related. See Part IV, line 11		13
14	Intangible assets		14
15	Other assets. See Part IV, line 11		15
16	Total assets. Add lines 1 through 15 (must equal line 34)		16
17	Accounts payable and accrued expenses		17
18	Grants payable		18
19	Deferred revenue		19
20	Tax-exempt bond liabilities		20
21	Escrow or custodial account liability. Complete Part IV of Schedule D		21
22	Loans and other payables to current and former officers, directors, trustees, key employees, highest compensated employees, and disqualified persons. Complete Part II of Schedule L		22
23	Secured mortgages and notes payable to unrelated third parties		23
24	Unsecured notes and loans payable to unrelated third parties		24
25	Other liabilities (including federal income tax, payables to related third parties, and other liabilities not included on lines 17-24). Complete Part X of Schedule D		25
26	Total liabilities. Add lines 17 through 25		26
	Organizations that follow SFAS 117 (ASC 958), check here <input type="checkbox"/> and complete lines 27 through 29, and lines 33 and 34.		
27	Unrestricted net assets		27
28	Temporarily restricted net assets		28
29	Permanently restricted net assets		29
	Organizations that do not follow SFAS 117 (ASC 958), check here <input type="checkbox"/> and complete lines 30 through 34.		
30	Capital stock or trust principal, or current funds		30
31	Paid-in or capital surplus, or land, building, or equipment fund		31
32	Retained earnings, endowment, accumulated income, or other funds		32
33	Total net assets or fund balances		33
34	Total liabilities and net assets/fund balances		34

Sample Income Statement

What We Raised
and/or Earned



What We Spent



Our Results



Restricted Revenue



**Nonprofit Organization
Statement of Activities
Year Ended June 30, 20XX**

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support:			
Government contracts	\$ 692,998		\$ 692,998
Grant and contributions, non-government	188,760	559,100	747,860
Special event		11,100	11,100
Satisfaction of program restrictions	333,930	(333,930)	-
Interest income	3,915		3,915
Total revenue and support	<u>1,219,603</u>	<u>236,270</u>	<u>1,455,873</u>
Expenses:			
Program A	357,953		357,953
Program B	118,378		118,378
Program C	381,238		381,238
Program D	229,861		229,861
Total program expenses	<u>1,087,430</u>		<u>1,087,430</u>
Supporting Services			-
Administrative and general	118,058		118,058
Fundraising	166,959		166,959
Total supporting services	<u>285,017</u>		<u>285,017</u>
Total expenses	<u>1,372,447</u>		<u>1,372,447</u>
Change in net assets	(152,844)	236,270	83,426
Net assets, beginning of year	<u>114,417</u>	<u>92,567</u>	<u>206,984</u>
Net assets, end of year	<u>\$ (38,427)</u>	<u>\$ 328,837</u>	<u>\$ 290,410</u>

Information in Financials vs. 990

Audit: Statement of Activities

NONPROFIT ORG, INC.				
STATEMENT OF ACTIVITIES				
FOR THE YEARS ENDED JUNE 30, 2017 and 2018				
	Unrestricted	Temporarily Restricted	Total	2017
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	333,930	(333,930)	--	
Interest income	3,915	--	3,915	4,578
Total revenue and support	1,219,603	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
Supporting Services				
Administrative and general	118,058	--	118,058	128,765
Fundraising	166,959	--	166,959	170,780
Total expenses	1,372,447	--	1,372,447	1,428,868
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 (2014) Page **9**

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

		(A) Total revenue	(B) Related or exempt function revenue	(C) Unrelated business revenue	(D) Revenue excluded from tax under sections 512-514
Contributions, Gifts, Grants and Other Similar Amounts	1a Federated campaigns				
	b Membership dues				
	c Fundraising events				
	d Related organizations				
	e Government grants (contributions)				
	f All other contributions, gifts, grants, and similar amounts not included above				
	g Noncash contributions included in lines 1a-1f: \$				
	h Total. Add lines 1a-1f				
Program Service Revenue	2a				
	b				
	c				
	d				
	e				
	f All other program service revenue				
g Total. Add lines 2a-2f					
3 Investment income (including dividends, interest, and other similar amounts)					

990: Stmt of Expenses (Part IX)

Form 990 (2014) Page **10**

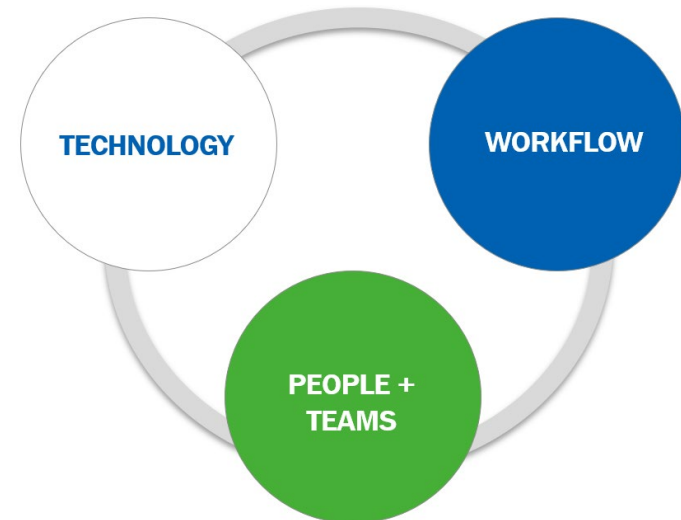
Part IX Statement of Functional Expenses
Section 501(c)(3) and 501(c)(4) organizations must complete all columns. All other organizations must complete column (A).
Check if Schedule O contains a response or note to any line in this Part IX

Do not include amounts reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII.

		(A) Total expenses	(B) Program service expenses	(C) Management and general expenses	(D) Fundraising expenses
1	Grants and other assistance to domestic organizations and domestic governments. See Part IV, line 21				
2	Grants and other assistance to domestic individuals. See Part IV, line 22				
3	Grants and other assistance to foreign organizations, foreign governments, and foreign individuals. See Part IV, lines 15 and 16				
4	Benefits paid to or for members				
5	Compensation of current officers, directors, trustees, and key employees				
6	Compensation not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(E)				
7	Other salaries and wages				
8	Pension plan accruals and contributions (include section 401(k) and 403(b) employer contributions)				
9	Other employee benefits				
10	Payroll taxes				
11	Fees for services (non-employees):				

Can Cause Confusion – Internal Financials

- When compared to audits and 990s, internal documents have different:
 - Line items (more revenue and expense as well as balance sheet lines)
 - Formats
- Infrastructure limits affect comparability across grantees
 - Software/Technology
 - Staffing
 - Processes/workflow



Board Monitoring - Financial Reports

Board of Directors

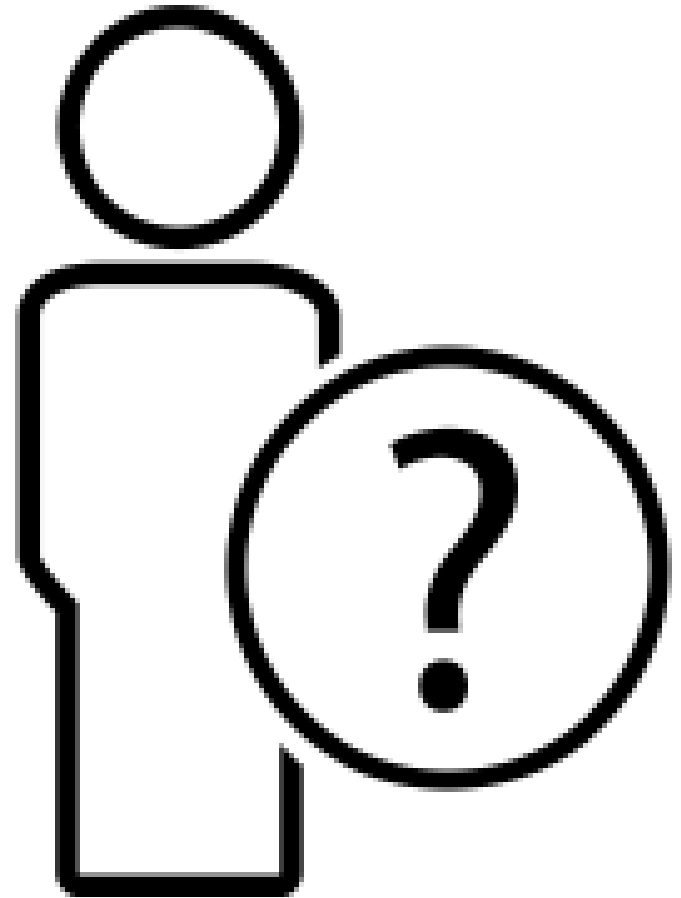
- Financial narrative
- Performance dashboard
- Development dashboard
- Budget-to-actual – high level

Finance Committee

- Financial narrative
- Performance dashboard
- Development dashboard
- Budget-to-actual – varying detail
- Balance sheet ?
- Projections ?
- Aged receivables or payables?
- What else?

Board Monitoring – WHO AND HOW

- Is Finance accessible to all Board members?
- Are there any barriers for those interested in participating?
- Is orientation and training provided?
- Is information in “plain English”?
- Are graphics used where possible?



CONSIDERATION OF ORGANIZATION RISK

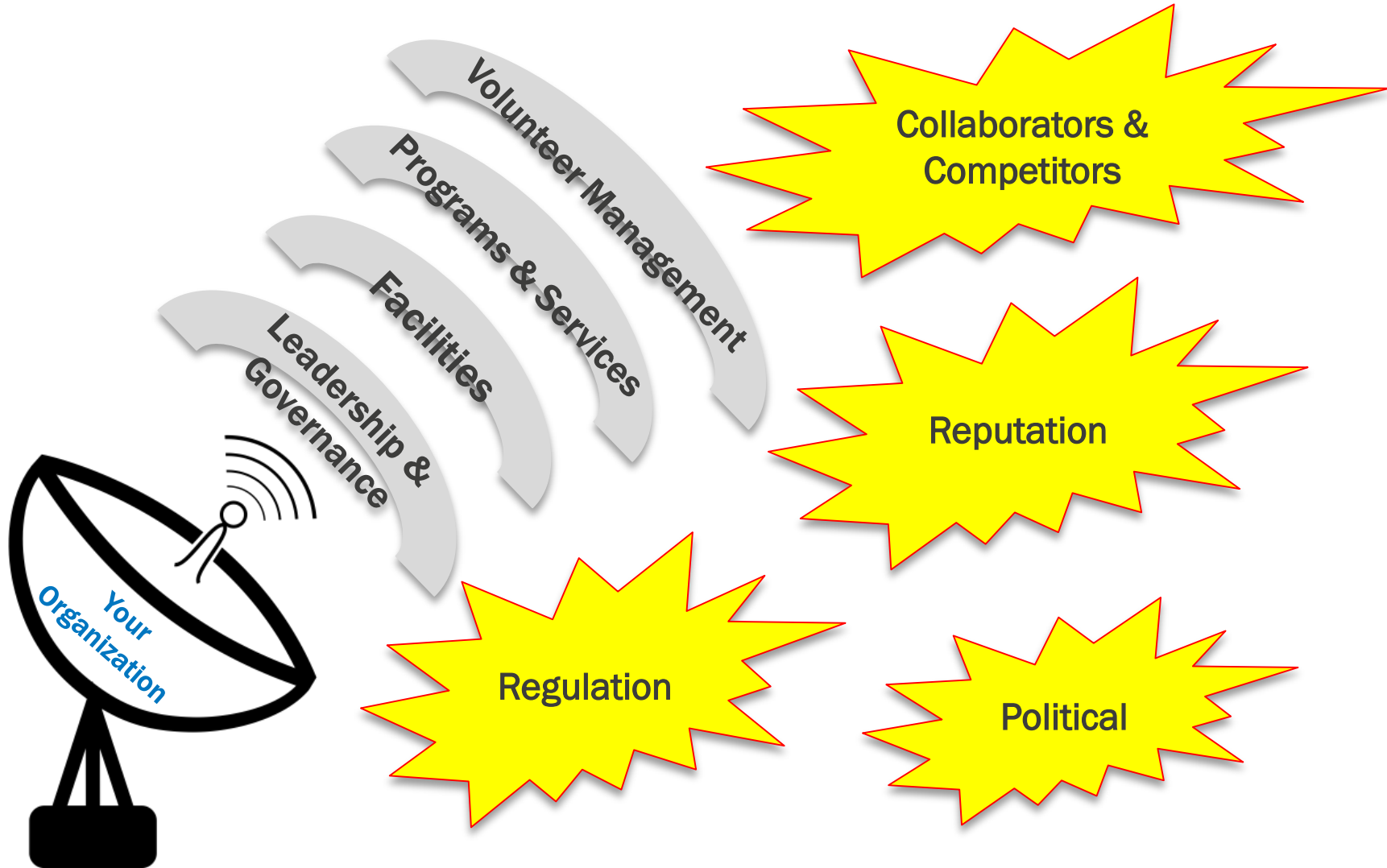
Standards of Excellence: Risk Management

An organization should...

- Have a process for identifying and quantifying the financial impact of changes in the **operating environment** (ex. new legislative requirements)
- Have policies in place for assessing strategies for **revenue diversification** and building **sufficient reserves**
- Regularly analyze staff salaries and benefits to inform strategies for **staff retention**
- Be aware of and addresses risks associated with the **security of technology systems** used to process and maintain financial data
- Have individuals focused on **risk** - appropriate staff and board members in place

*What types of
Financial Risks
should your organization
be thinking about?*

Organization Risk



Let's Put it All Together!

Grounding in Values & Setting Priorities

Gather your planning team and:

- Identify key internal and external opportunities and threats
- Agree on organizational strengths and opportunities for improvement, both programmatic and financial
- Outline organizational values or the overarching principles that any plan should adhere to - “non-negotiables”
- Gather and understand financial data



Let's Put it All Together!

Board Fiduciary Responsibilities

(1) Create annual and long-term financial goals and plans

- Develop multi-year financial plans, including fundraising plans
- Understand the full costs of programming and capital needs
- Establish operating reserves and policies on their use

(2) Establish mechanisms to monitor financial performance

- Understand finances
- Develop dashboards to track progress towards goals
- Consider forecasting

RESOURCES

Resources – Contact Info

Jim Taylor

Vice President of Leadership Initiatives

BoardSource

Jim.Taylor@boardsource.org

Chuck Gordon

President and CEO

The New Kensington Group

chuckgordon1979@gmail.com

Gina McDonald, CPA

Lead Consultant

BDO-FMA

gmcdonald@bdo.com

Resources

StrongNonprofits.org

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

[Toolkit Home](#)

[Budgeting](#)

[Cash Flow](#)

[Operations](#)

[Data and
Analysis](#)

[Audit
Readiness](#)

[Governance
and Strategy](#)

[Nonprofit Business
Models](#)

[Know your Role](#)

[Funding
Opportunity
Assessment Tool
\(the “Go/No-Go
Tool”\)](#)

[Next Steps](#)

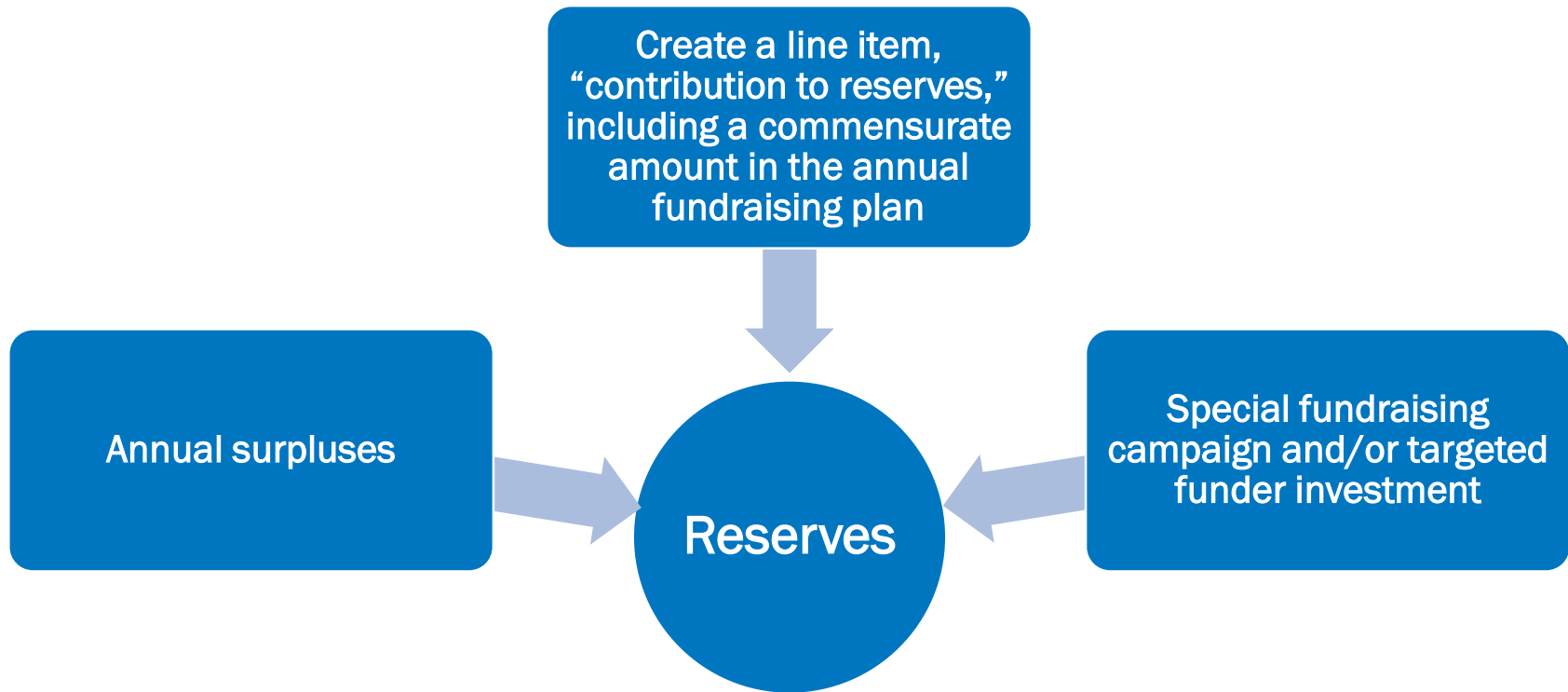


Governance and Strategy

An engaged, knowledgeable board is essential. Directors should oversee the organization’s activities, assessing whether it is meeting legal, financial and strategic obligations. These tools are designed to help staff and board members.



Strategies for Creating Reserves



Developing reserves is a multi-year activity pursued one year at a time:
the long-term strategy must be evident in annual plans



BDO FMA

- Established in 1999 to serve not-for-profit organizations around the country
- Provides customized financial management, accounting, software, organizational development, and other consulting services
- Works directly with organizations or through funder-supported management and technical assistance programs

FMA exists to build a community of individuals with the confidence and skills to lead organizations that change the world

Gina McDonald, CPA,
Lead Consultant



@FMA4Nonprofits



/company/fiscal-management-associates-llc

www.fmaonline.net