COMMUNITY SECTOR COUNCIL of NOVA SCOTIA

Financial Sustainability

Guiding your organization toward financial health

Learning Objectives

- Arriving at an effective, working understanding of financial sustainability and nonprofit financial literacy for your organization
- Gain a basic understanding of some of the core financial practices and issues at a small-medium nonprofit
- Understanding the various phases of financial planning, cashflow forecasting and budgeting
- Understanding the role of effective board governance in financial sustainability and viability.
- Understanding the crucial role of nonprofit financial literacy at all levels within your organization
- Gain a better sense of how well your organization is positioned to

Introduction

In late 2019, The Community Sector Council of NS conducted a large scale consultation with the nonprofit sector in NS. One of the main purposes of this effort was to get an up-to-the-minute reading of the central concerns that nonprofit organizations are contending with. By a significant margin, the most important and time-consuming set of issues identified by the sector was the difficulty accessing funds and maintaining a nonprofit organization in a financially viable state. It's probably safe to say that this is a broadly agreed reality within the sector nationally and internationally.

Finding a way around the various financial constraints (i.e. fund generation, financial literacy, sustainability, etc.) that weigh down an organization requires us to approach it from several angles. Increasing the capacity of an organization to operate better from a financial perspective requires us to address the various elements separately. During this workshop, we'll take a close look at a number of these components so that we can aim to raise the capacity of our organizations across a number of parameters. Specifically, we'll explore:

- Understanding and creating a Financial Sustainability Plan
- Building a literacy, at the board and management level, around nonprofit financial practices, tools and reporting
- Budgeting within nonprofits
- Effective grant writing for nonprofits in NS

Note: This discussion will revolve around nonprofit organizations. While this advice is broadly applicable, charitable organizations face a slightly different set of requirements re. reporting and best practice

Nonprofit Financial Literacy

Wikipedia defines financial literacy as:

.... *the possession of the set of skills and knowledge that allows an individual to make informed and effective decisions with all of their financial resources.*

One of the first steps in approaching financial sustainability and creating a financial sustainability plan within your organization is building the capacity of the board, the management and the staff to fully comprehend the various core financial tools and practices that define and constrain financial elements of your work. While there are host of tools, practices and terms to understand, there are a few core concepts that can help to move your organization to a more purposeful place with its financial practices. Here we'll discuss;

- The Balance Sheet
- The Income statement
- Fund Accounting
- Financial Reporting

If your organization is new or has been working to increase it's core functional capacities regarding financial practices, these four concepts provide an excellent set of foundational pillars to begin with.

Nonprofit Financial Literacy

The Nonprofit Balance Sheet or **Statement of Financial Position**

The Balance Sheet reflects the overall financial position of your organization at a given moment in time. It is the report that shows the accumulated results of all the individual years of your organization's operations put together. The statement of financial position is a required financial statement and should be produced every quarter.

The formula for this document is simple:

	Assets	(what you have or what you are owed)
minus	**Liabilities**	(what you owe to others)
--------------------------------		
equals	**Net Assets**	(what's left over)

See appendix 1

Fund Accounting

In the early days of a small nonprofit, it's often quite normal to record all transactions in one large collection. As the organization grows however, funds can become quite diverse with restrictions on some to be used for programs only. At this stage, it can be tricky to keep all of the financials together in one large clump and report effectively on them. Fund accounting is a process that is quite unique to the nonprofit sector and serves two main purposes:

- Fund accounting shifts the accounting focus to accountability and program transparency
- Fund accounting segregates resources into categories or funds. By using this method of accounting you can properly identify the source of these funds and also the use of those funds.

Nonprofit Financial Literacy

The Income Statement or **Statement of Activities (Operations)**

The Statement of Activities/Operations highlights the organizations revenue less all expenses. There are two main sections to a statement of activities. The first covers revenue. All types of fund inflows are added up in this section, including individual donor contributions, grant revenue, membership dues, investment income, and funds released from restrictions. The other section covers expenses. These are reported on the statement of activity by function. The major function categories include programs, fundraising, and administrative costs. The statement of activities is a required financial statement and should be produced every quarter.
Usually, both revenue and expenses are further classified into one of three potential restrictions:

- Permanent–expected to remain held by the corporation
- Temporary–expected to remain temporarily held, but can be utilized/paid at a future date
- Unrestricted–no restrictions apply to when or why this type of revenue/expense can be used/paid

See appendix 2

Financial Reporting

As outlined by the CPA GAAPs, there are two key reports that should be filed with the board at least each quarter. These are :

- Statement of Activities (also referred to as Statement of Operations)
- Statement of Financial Position

Generally, the treasurer will supply the board with financial statements at most, if not every, board meeting. This is often each month. Please be aware that the board are free to design any types of internal documents that ease the comprehension of financial reporting.

Self Assessment - Literacy

Please take 5 minutes to consider your own responses to these questions. Once you have a sense of what this looks like in your own practice, share any major ideas with your group and not any shared experiences.

- Do you currently have any plans for building the capacity of your organization to better understand basic financial terminology and practices?
- What are the ways in which you could help to increase financial literacy now at your organization?
- What are the 3 most pressing financial literacy issues in your own professional practice? What steps can you take to address this now?
- Are staff involved in the budgeting process? Do you think they are empowered to understand the financial practices that impact them i.e., program funding and reporting, etc.

Board Responsibilities

One of the most central concerns for a nonprofit board member is the financial stewardship of the organization. Members are tasked with reviewing quarterly reports, evaluating financial policies, contributing to budgeting efforts and serving on finance committees.
There are some key approaches to fostering effective financial practices at the board level:

- Board members are required to review financial reports each quarter. Hard copy financial reports should be available for board members to review at least two weeks prior to the board meeting. During these quarterly finance meetings, you should pay particular attention to the variance (difference) between predicted, budgeted amounts and actual amounts. This can be an ideal metric regarding how accurate your budgeting exercises have been.

- Ensure that you clearly define how board members will be responsible for financial stewardship. This includes having clear descriptions of the finance committees within your organization with appropriate TORs for member. You should also ensure that board members have relevant job descriptions that delineate the ways in which they are responsible for the organizations finances.

- Board members must engage with the major financial questions that emerge regarding the organization. In order to correctly engage with these issues, the board must understand the various core components of financial sustainability for nonprofits. This may involve investing in some capacity building and financial literacy training for the board.

- Board members should be able to speak with a unified voice about the financial picture of the organization. The board should work to create effective and succinct messaging around current fund development efforts and gift acceptance policies.

- Board members should be able to speak to how the organizations strategic plan is aligned with the annual budget. Can they also speak to a larger financial sustainability plan?

Self Assessment - Board

Please take 5 minutes to consider your own responses to these questions. Once you have a sense of what this looks like in your own practice, share any major ideas with your group and note any shared experiences.

- What are the main roles that the board plays in regard to financial stewardship at your organization?
- Do you have a comprehensive plan for leveraging the financial strengths at your board i.e., what does the treasurer do, how do they interact with external roles such as auditors, etc. ?
- Do you currently have any plans for building the capacity of your board to better understand financial terminology, financial best practice and your organization's financial state?
- What are the ways in which you could help to increase financial literacy now at your board?
- Do you currently produce financial reports that are designed for basic comprehension? Have you discussed the potential to produce custom internal reports that are more reflective of expressed reporting needs and more appropriate for some board members?
- Do you provide on-boarding or training in basic nonprofit financial practices for new board members?
- Do you have a financial committee at your board? Do they have a role in creating a financial plan or annual financial calendar in your organization?

Core Financial Practices: Reporting

Financial reporting refers to the kinds of financial information used by non-profit organizations to aid in decision making. Sound reporting practices should go beyond rudimentary accounting practices, such as records of deposits and disbursements, to include comparisons of actual spending against budget (variance) and against historical spending. Additionally:

- Cash flow statements and various financial performance ratios can be a useful addition to the analysis of your financial health

- Understanding and differentiating between program and operating/overhead costs can be an early step prior to implementing Fund Accounting.

- Having appropriate software and trained staff helps to reduce inefficiencies and generate more accurate and reliable financial information. Organizations can only make informed decisions with complete information.

- Leadership needs to ensure that reporting resources, technology, software, or in-house skill, is a match for the programs and services at the core of the mission or mandate.
    - Are the resources too limited?
    - Is the staff configuration appropriate?
    - Have programs become more sophisticated, requiring the organization’s administration to evolve?

Leaders must ask themselves if they have sufficient in-house skill and support to produce critical financial reports because limiting this capacity also limits oversight functionality and analytical capabilities.

This is based directly on research and work by Kristin Williams

Self Assessment - Reporting

Please take 5 minutes to consider your own responses to these questions. Once you have a sense of what this looks like in your own practice, share any major ideas with your group and note any shared experiences.

- What are the main financial reports produced in your organization? How often are they produced? Do you understand them well?
- Do you know how to access a specific report? Do you know where your previous reports are archived?
- Do you provide program financial reports for program staff?
- Do you feel that your current financial reports provide you with the types of information you require to successfully comprehend the financial health and workings of your organization?
- Do you produce public-facing versions of financial reports for public access?
- Can you automatically produce the relevant reports from your financial software? How many steps away are board members from effective reports?

Core Financial Practices: Transparency

All non-profit organizations are and should be under scrutiny for how funds are used and allocated. For an organization to operate transparently requires that its leadership be accountable. Organizational procedures should generate clear indicators of financial status, account for overhead and should alert stakeholders and board members to impending shortfalls. Reporting should also be clear and easy to understand for the non-financial reader, allowing all levels of the organization to be engaged and have responsibility for, and/or sensitivity to, keeping on target with revenues and expenses.

Additionally, organizations can pursue:

- Effective policy that positions the organization as transparent and efficient.
- Established standards (ISO) that demonstrate transparency along agreed upon standards
- Transparency refers to the extent to which internal and external stakeholders have access to the financial information that addresses their organizational interests. Where possible, make your financial reporting broadly available in formats that are audience appropriate.
- The efficient and transparent use of funds is at the heart of building a strong relationship with funders, whereby funders trust not only the capacity of the organization to deliver on its mandate, but the competent and resourceful use of funds in the process. Be sure to communicate clearly with funders.
- Monitoring and forecasting is common practice and considers spending (or actuals) against forecasts (or budget). This practice helps to ensure that actual expenditures do not exceed what was planned and therefore leadership can make informed decisions about budget management and program or service delivery

Self Assessment - Transparency

Please take 5 minutes to consider your own responses to these questions. Once you have a sense of what this looks like in your own practice, share any major ideas with your group and note any shared experiences.

- What are the main financial reports produced in your organization? How often are they produced? Do you understand them well? Are they available to the public or are they made available on the web?
- Do you know what your current board policies are regarding financial transparency at your organization?
- Have you engaged an external party to review your transparency procedures or perform a "transparency audit"?
- Do you have a dedicated plan for conveying financial information to funders?

Core Financial Practices: Fund Development

Having a sustained flow of funds is vital to developing and maintaining quality standards, improving outcomes, establishing best practices and ensuring staff satisfaction. Resources must be adequate to the task at hand if the organization is to accomplish its mission. Effective fund development is also key to sustaining operations and the services or programs of the non-profit organization. Therefore, an unremitting approach to revenue generation aids in cash flow, allowing leadership to make programming decisions based on the needs of the community being served, not on the whim of funders.

Organizations also need to consider their threshold for diverting assets and resources to fundraising. While some organizations engage the services of a fund development professional or a grant writer, at the very least, revenue generation needs to be an active priority, supported by adequate and appropriate resources.

Fund development needs to focus both on the donor's interests and the organization's needs. A case for support should package the outcomes of the mission in a way that is appealing to funders. Fundraisers must work to create trust, commitment, satisfaction and to manage mutuality – or an appropriate balance of power - between the mission of the organization and the donor's strategic priorities.

A well-articulated fundraising plan considers all of the following:

- Short and long term goals
- Overall strategic financial direction
- Program level financial direction
- Budgeting and forecasting efforts
- Monitoring and evaluation considerations

Core Financial Practices: Fund Development - Revenue

Revenue Diversity

- Best practice holds that at least 60% of the organization's budget should come from at least five different sources
- Multi-segment targeting is one approach to diversification and requires a focus on a wide range of donors.
- Tactical plans might consider individual donations, major gifts, corporate sponsors, or private sector grants.
- In general, methods to raise funds can be categorized in two ways: donations or agreements, and exchanges, discounts or gifts

Of particular concern to fund development is that the funds can be used at the discretion of the organization (for the advancement of mandate) without the undue influence or control of sponsors (i.e. donated funds should be unrestricted in their application within and by the organization). For an organization to acquire significant diversity its strategies need to remain focused and effectual and consider multiple methods and audiences

Own Income

Own income generation describes the kind of unrestricted revenue that can be generated by an organization. Examples include:

- contributions to a trust or endowment fund (reserves),
- public donations,
- sales of goods or services,
- social enterprise (business related to the mission),
- financial management (strategic management of assets for performance), and
- corporate alliances

As a result of new approaches to fund development, there is now a continuum of funding activity, with one end representing outright, unrestricted revenues, gifts or grants and the other end representing loans or other investments, usually commercial and often restricted

Self Assessment - Fund Development

Please take 5 minutes to consider your own responses to these questions. Once you have a sense of what this looks like in your own practice, share any major ideas with your group and note any shared experiences.

- Do you have a plan for revenue generation at your organization?
- Do you have any plans to engage a professional fund development professional in your work?
- Do you have any plans for investments or endowments?
- Do you have any plans to establish or innovate around a social enterprise?
- How might a social enterprise advance your organization's mission?
- How diverse are your sources of revenue? If your major donor withdrew support tomorrow, how would you proceed?

Core Financial Practices: Budgeting

Understanding the need to think about your organizations finances both strategically (high level) and pragmatically (low-level) is critical to being able to maintain an actionable near and long term financial vision for your organization. Your annual budget is one of the most important financial tools at your organization. It can remain relevant and current throughout the year by implementing related forecasting and cashflow projections. An additional step aimed at increasing financial resilience is the exploration of adaptive scenarios addressing potential unexpected financial shifts. Taking the time to explore how your organization might address budget shortfalls or how it might absorb emerging mid-year funds is critical to financial sustainability.

Your annual budget is a plan - it's essentially the financial companion to your strategic thinking for the next year. Your budget will shift and adapt as the year unfolds, and must be revisited on a regular basis.

Your annual budget is a process - it's essentially the point at which you harvest all of the best financial experience and knowledge at your organization. Involve as many related staff as possible. Engage board members and financial professionals often in the process to ensure the final submitted budget is well considered.

A No Numbers Budget - strategic alignment

The first step in constructing your budget can be the creation of a no-numbers budget. Building a picture of the assets and resources you require to achieve your strategic goals without getting bogged down in numbers can aid in defining what expenses are priorities and which ones are more optional within your plans.

The successful approval of the annual operating budget is one of the fundamental building blocks of sound financial practice and management.

Core Financial Practices: Budgeting

A budget is a guide that can help a nonprofit plan for the future as well as assess its current financial health. It is quite common to periodically review the budget as well as compare it to the actual cash flow and expenses, to determine whether they are playing out as expected during the course of the year. It may be necessary to amend the budget during the year. It is likely that the nonprofit's budget will be referred to many times throughout the year - by staff and board members who play different roles within a nonprofit. Budgets may even be requested by parties involved in financial transactions with the nonprofits, such as banks, or by donors/grantmakers considering a gift to the nonprofit.

If and when you share the organization's budget outside the organization, make sure to stress that the budget is reviewed periodically throughout the year and revised as needed - it is not set in stone.

Key steps to a successful budgeting

1. Clearly identify programmatic objectives to be funded, and that are aligned with the mission and strategic plan.

2. Determine the types of financial resources needed and whether they are available to achieve program goals.

3. Involve staff and board members in the process to improve accuracy of information and commitment to the plan.

4. Document! Don’t rely on memory. Write down assumptions and formulas. This will be very important in managing the budget throughout the year.

5. Customize your process. The steps each organization takes will be somewhat different. Each time you complete the process, work to refine it for the next time.

Core Financial Practices: Budgeting

The Process

Establishing a schedule of key action and decision points in the process allows adequate time for information gathering and decision making. How long the process should take and who should be involved varies depending on the management style and complexity of the organization.

Typically ***the budgeting process should begin at least four months before the end of the fiscal year*** to ensure the budget is approved by the Board before the start of the new year.

- Identify who will coordinate the budgeting process and which staff, board members and committees need to be involved
- Set timelines and key deadlines
- Clearly communicate responsibilities, expectations and deadlines to everyone involved
- Determine program goals and objectives
- Project staffing requirements and salary and benefit assumptions based on program goals
- Get board agreement on goals and assumptions
- Research and gather information about income and expenses based on program goals and assumptions
- Construct budget details by program
- Have one person compile all information, review it for consistency and redistribute to everyone involved
- Have the finance committee and other appropriate staff and board committees review a budget draft and key assumptions
- Be sure to allow enough time between committee meetings and the final approval deadline to address questions and recommendations and make revisions
- Distribute information to the board prior to the board meeting, including budget draft, program goals and other supporting information
- Have the finance committee or treasurer present the draft budget proposal to the board
- Seek approval of draft, publish final budget for staff

Creating a financial picture of your organization

In the nonprofit sector, it has become increasingly important to be able to tell the story of how your organization is pursuing its mission. This narrative-based, story-telling approach to documenting organizational progress and community impact can also be applied to understanding the financial picture of how your organization has arrived in it's current situation, and how it can traverse it's current fiscal realities, moving toward a financially viable future.

According to Nonprofit Finance Fund, organizations that know and can effectively tell their financial stories are able to:

- Understand and convey how programs and finances fit together
- Align key leadership and board members around organizational priorities
- Better navigate leadership transitions
- Strengthen board/leadership's ability to advocate for the organization's resource needs
- Define key drivers of business model activities and use those drivers to further the organization's mission

Since these stories require reflection and insight into how the financial history of your organization has shaped its operational trajectory, it can be an excellent approach to projecting how this maps onto the organizations future.

In this section we'll work in small groups to address the following sets of questions. These will contribute to the construction of your financial sustainability plan.

This exercise is based on work by Nonprofit Finance Fund, which revolves around financial storytelling. https://nff.org

Creating a financial picture of your organization

About the past

For the full story of your organization's financial and related programmatic history, you should set aside some time at a board meeting to consult past income statements, balance sheets, internal statements and board financial reports.

1. How has your organization historically made and spent money in service of its mission?
2. Are there historical debts that need to be addressed?
3. What is your organization's asset composition? Has this changed over time and why?
4. In years where surpluses were achieved, were they large enough to cover longer-term needs of your organization?

About the present

To unpack where your organization is now, you can set aside board time to consult your current budget, your most recent balance sheet, program budgets, and any other financial tools you use to manage your organization, like a dashboard or a cashflow projection. The goal is not to discuss what your budget will allow you to do for the year, but to show how those numbers connect to your strategy and will help you accomplish your organization's objectives. Please consider:

1. How do the activities outlined in question 1 above connect to your organization's strategy? Has your organization been reactive or proactive in its financial planning?
2. Have there been any significant changes in programs and/or operations in response to prior-year shifts?
3. What additional investments (e.g., in systems or staff) will it take to deliver on the items included in the budget?
4. Does your organization have the financial resources and flexibility to respond to new opportunities and challenges?

Creating a financial picture of your organization

About the future

The story of your organization's future is less about asking questions of your financial picture or programmatic choices and more about communicating the following:

1. Key financial goals and the resources necessary to deliver on your strategic priorities and achieve mission success
2. The investments required to strengthen your organization's financial position and increase its impact on the community
3. Potential risks – either external or internal – to your organization's mission delivery

A lot of this information can be found in your organization's strategic plan. If your organization does not have a formal strategic plan, you can gather similar information by talking with your leadership and board about risks, strategic priorities, and the vision for the future. The story of your future can also be supported by financial tools like multi-year projections and financial scenario plans. Ultimately, the story of your organization's future should articulate why your chosen path fulfils your mission and is financially viable.

Financial Sustainability Plan

Small and medium-sized nonprofit organizations in Nova Scotia almost invariably face significant financial challenges in the pursuit of operational and program objectives. As such, effective financial planning is a central component to nonprofit management, stewardship and the pursuit of strategic goals. Your organization should explore the creation of a plan for financial sustainability that can sit alongside your strategic planning and operational planning.

Your **Financial Sustainability Plan** will be a tool to help your organization:

- Build capacity to operate along nonprofit financial best practice
- Reflect upon it's history of financial realities and practices, and construct grounded, strategically aligned financial goals for the future grounded in these historical realities
- Construct accurate budgets and forecasts and effective financial reports
- Identify and manage the financial practices that are lacking in your organization
- Create a plan for improving financial literacy at the board and management levels
- Identify lists of common needs and related expenses for organization programs, projects and operations
- Identify current sources of funding, potential avenues for new funding and new, innovative approaches to fund development
- Develop a framework for grant writing and fund development

Bassett and Mitchell (2006) suggest six steps related to the financial sustainability:

1. Trend analysis: The purpose is to identify key financial trends that can help make more accurate financial projections. Trends can be identified through internal financial data and in comparison to other similar organizations.

2. Ratio analysis: Ratio analysis is performed to obtain a snapshot of current key ratios that will help in strategic financial planning. Key ratios can be compared against comparable institutions to observe variance, similarities, and differences.

3. Evaluating financial planning assumptions: This step aims to help an organization identify objective assumptions that will enable it to make policy decisions and strategic choices related to financial growth and stability in order to achieve a stronger long-term financial position.

Financial Sustainability Plan

4. Establishing markers of financial success: This step consists of identifying and setting goals that can ensure anticipated positive outcomes and financial health. This implies that the organization must develop a carefully considered budget that is able to ensure a degree of success, as well as to serve as a benchmark to measure continuing progress.

5. Re-engineering strategies: This fifth step relates to adopting strategies that are the most likely to help achieve key financial objectives. Part of developing re-engineering strategies includes taking into account potential financial vulnerabilities and strategies to overcome them.

6. Projecting multiple scenarios: The final step is to test various financial scenarios through projection and plans for the envisioned financial future.

Possible Elements of a Financial Sustainability Plan

- **Executive Summary**
  - A brief description of the document, with emphasis on creating an overview of how this document aligns with high level organizational priorities

- **Financial picture of your organization**
  - A narrative statement on how this plan adds to the financial picture of your organization

- **Strategic Alignment of the Annual Budget**
  - An overview of how your budget addresses your strategic goals

- **Financial Predictions, Scenarios and Trend Analysis**
  - A series of financial tools that can allow you to act with increased confidence

- **Annual Budgets**

- **Commentary on how the financial picture of your organization may evolve during the current period**

Appendix 1

SAMPLE BALANCE SHEET

Financial Statements Explained

ABC CHARITIES, INC.
Statements of Financial Position (Balance Sheet)
At December 31, 2015 and 2014 (in thousands)

Assets (WHAT THE ORGANIZATION OWNS)	**December 2015**	**December 2014**
Current Assets		
Cash	1,200	2,000
Investments — Short Term	6,500	5,400
Total Cash and Cash Equivalents	7,700	7,400
Gross Accounts Receivable	12,000	12,800
Less: Allowance for Doubtful Accounts	(2,800)	(2,600)
Net Patient Receivables	9,200	10,200
Unconditional Promises To Pay	5,000	5,000
Inventory	500	400
Prepaid Expenses	400	300
Other Current Assets	900	700
Total Current Assets	22,800	23,300
Long-Term Investments — Unrestricted	62,300	55,000
Trusteed Investments	10,000	12,200
Deferred Financing Costs	1,300	1,400
Other Noncurrent Assets	73,600	68,600
Property, Plant & Equipment		
Land and Land Improvements	2,000	2,000
Buildings	20,000	18,000
Leasehold Improvements	700	700
Equipment and Fixtures	10,500	9,000
Construction in Progress	1,500	1,000
Total PP&E	34,700	30,700
Less: Accumulated Depreciation	(18,000)	(15,000)
Net PP&E (book value)	16,700	15,700
Total Assets	**113,100**	**107,600**
Liabilities (WHAT THE ORGANIZATION OWES)	**December 2015**	**December 2014**
Current Liabilities		
Accounts Payable	6,000	4,500
Current Retirement on L/T Debt	1,500	1,400
Total Current Liabilites	7,500	5,900
Long-Term Debt	64,800	66,200
Other Long-Term Liabilites	2,000	2,100
Total Long-Term Liabilites	66,800	68,300
Total Liabilities	74,300	74,200
Net Assets (DIFFERENCE BETWEEN WHAT IS OWNED AND OWED)	**December 2015**	**December 2014**
Unrestricted	32,600	27,900
Temporarily Restricted	4,200	4,200
Permanently Restricted	2,000	1,300
Total Net Assets	**38,800**	**33,400**
Total Liabilities & Net Assets	**113,100**	**107,600**

Anything easily convertible into cash

an allowance for receivables that may not be collected

Contributions that have been promised to the organization without any conditions that have to be met

Assets that were donated or purchased with the hope that they will generate income

The portion of long-term debt that your organization must pay within 12 months

Outstanding debt that has a due date beyond 365 days

No donor restrictions on how and when the asset can be used

Tip: This number assists you in determining the underlying value of the organization. A continuously rising trend represents positive operating margins.

Donor restrictions that can be met over time

Donor restrictions that will never expire

Quick ratio:
Cash + Cash Equivalent ($7,700)
+
Accounts Receivable ($7,200)
+
Unconditional Promises to Pay ($5,000)
+
Current Liabilities ($7,500)

$7,700
$7,200
+ $5,000
$21,700

$\frac{\$21,700}{\$7,500} = 2.9$

Current ratio:
$\frac{\text{Current assets}}{\text{Current liabilities}}$

$\frac{\$22,800}{\$7,500} = 3.0$

Debt-to-Equity Ratio:
$\frac{\text{Total liabilities}}{\text{Total unrestricted net assets}}$

$\frac{\$74,300}{\$32,600} = 2.3$

BoardSource
Empowering Boards. Inspiring Leadership.

Appendix 2

SAMPLE INCOME STATEMENT

Statement of Activites Explained

BoardSource
Empowering Boards. Inspiring Leadership.

No restrictions on how and/or when the net assets are used

Donor has placed restrictions on the use of the net assets that can be met over time or by purpose fulfilled

Donor has required gift to be held in perpetuity (not used); generates income that must be used according to donor's intent

ABC CHARITIES, INC.
Statement of Activites (Income Statement)
For the Years Ending December 31, 2015 & 2014 (in thousands)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL 2015	TOTAL 2014	PERCENTAGE CHANGE
Public Support & Revenues						
Net Service Revenues	43,600	10,000	–	53,600	50,000	7.2%
Contributions	9,000	–	700	9,700	9,000	7.8%
Grants	3,400	–	–	3,400	3,200	6.3%
Total Support and Revenue	56,000	10,000	700	66,700	62,200	7.2%
Expenses						
Program Services	40,600	7,000	–	47,600	45,800	3.9%
Management and General	10,190	3,000	–	13,190	12,000	9.9%
Fundraising	710	–	–	710	700	1.4%
Total Expenses	51,500	10,000	–	61,500	58,500	5.1%
Excess of Support & Revenue over Expenses	4,500	–	700	5,200	3,700	40.5%
Non-Operating Income (Expenses)						
Gain/(Loss) on investments	1,200	–	–	1,200	1,000	20.0%
Total Non-Operating Income	1,200	–	–	1,200	1,000	20.0%
Excess of Support & Total Revenue over Expenses (Total margin)	5,700	–	700	6,400	4,700	36.2%
Net Assets, Beginning of Year	59,500	4,200	1,300	65,000	62,300	4.3%
Change in net unrealized gains & losses on investments	(1,000)	–	–	(1,000)	(2,000)	-50.0%
Net Assets, End of Year	64,200	4,200	2,000	70,400	65,000	8.3%

Commonly includes expenses directly related to program delivery, such as salaries, supplies, purchased services

Expenditures related to oversight and administrative activities, such as record keeping and finances

Total cost of fundraising efforts

Revenue/expenses not related to mission, such as income from investments

Changes in the fair market value of investments that the organization could sell

Operating Margin Percentage: Allows you to quickly determine the organization's profitability on its core operations; the higher the value the better.

$$\frac{\text{Excess of Support + Revenue over Expenses}}{\text{Total Support \& Revenue}}$$

$$\frac{\$5{,}200}{\$66{,}700} = 7.8\%$$