Finance for Non-Finance Professionals

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I5O Consulting Services

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Dr. Teresa Hardee

- President/CEO of I5O Consulting
  - Idea.Information.Insight.Implementation.Intervention.Outcome
- Services
  - Financial Sustainability
  - Data Analytics
  - Certifications and Badges
  - Business Process Reengineering
  - Risk Management
  - Strategic Planning
- Education
  - BS Fayetteville State University
  - MPA NC Central University
  - EdD University of Pennsylvania
- Experience
  - Auditor
  - Chief Financial Officer
  - Chief Operating Officer
  - Budget Director

Introductions

Name

Title

Agency

Years in Current Position

Objectives

- To communicate your financial position to non-financial professionals
- To discuss key elements of financial statements and management reports, and
- To create and display key financial indicators to help the reader/audience understand the financial and operational condition of the agency.

Exercise: On the Post-It

- **Draw a picture of your agency's financial situation (in your eyes)**
- **Draw a picture of your agency's financial situation (in the eyes of the Board, managers or others)**

Exercise

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A Prayer For A Bad Financial Situation

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HEALTH

Objective

To communicate your financial position to non-financial professionals

Why is this important?

- **People can be intimidated by financial data**
- **People can lack experience with financial information**
- **People can work in a culture that doesn't embrace financial accountability**

Who needs this information?

- **Managers**
- **Board members**
- **General Public**
- **Financial Institutions**

How to communicate?

- Know your audience
- Offer quarterly training / informal conversation
- Use less jargon
- Build trust
- Use dashboards/images/graphics
- Use repeatable metrics
- Be clear and concise

Tips on Communicating

- One-page format
- Graphics & bullets points
- Indicators (which)
- Training on indicators
- Financial information should be discussed at each board meeting

- Know your audience
- Tell a story
- Defend your numbers
- Make data available
- Discuss overall financial conditions
- Budget variances
- Key indicators and metrics
- Stability of grants & revenues

Objective

To discuss key elements of financial statements and management reports

Financial Statements

Statement of Position (Balance Sheet)

- Assets
- Liabilities
- Net Assets (OE)

Statement of Activities (Income Statement)

- Revenue
- Expenses

Statement of Cash Flows

- Operating Activities
- Financing Activities
- Investing Activities

Statement of Functional Expenses

- Program Services
- Management & General
- Fundraising

BS Statement of Financial Position

- The financial position of the agency (snapshot)
- List the assets owned by the agency

IS Statement of Activities

- States revenue received and expenses paid
- Profit and loss of the operations

CF Statement of Cash Flows

- Movement of the money (cash)
- Movement of cash from normal operations (Operating)
- Purchases of plant/machinery (Investing)
- Proceeds from bank loans, dividends, etc. (Financing)

FS Statement of Functional Expenses

- Explain expenses by their function (program, management, fundraising)
- Explain expenses by their category (program, management, fundraising)

Notes Notes to the Financial Statements

- “Call footnotes”
- Additional information pertaining to the operations

BA Budget Statements

- Explain budget vs actual
- Assist with forecasting
- Helps identify problems
- (Not part of the financial statement series)

ABC ACTION ASSOCIATION
STATEMENT OF FINANCIAL POSITION
December 31, 2018

ASSETS

	2019
CURRENT ASSETS:	
Cash	50,000
Grants Receivable	300,000
Accounts Receivable	15,000
Other Assets	-
Total Current Assets	365,000
PROPERTY AND EQUIPMENT	
Land and Building	200,000
Furniture & Equipment	30,000
Total	230,000
Less Accumulated Depreciation	50,000
Net Property and Equipment	180,000
Total Assets	545,000

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Accounts Payable	10,000
Accrued Leave Payable	30,000
Deferred Revenue	20,000
Agency Payable	5,000
Accrued Liabilities	-
Total Current Liabilities	65,000
NET ASSETS:	
Without Donor Restrictions	80,000
With Donor Restrictions	400,000
Total Net Assets	480,000
Total Liabilities and Net Assets	545,000

Statement of Position

Statement of Position

In your opinion, what are the 3 most important accounts on this statement and why?

ABC ACTION ASSOCIATION
STATEMENT OF ACTIVITIES
December 31, 2018

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES:			
Grants- ZYZ	-	700,000	700,000
Grants- I5O	200,000	-	200,000
Interest Revenue	5,000	-	5,000
Fundraising Revenue	50,000	-	50,000
Donations	50,000	-	50,000
Other Revenue	-	-	-
Total Revenues	305,000	700,000	1,005,000
Net Assets Released from Resctrictions			
Satisfaction of Program Restrictions	350,000	(350,000)	-
Total Public Suppport and Revenues	655,000	350,000	1,005,000
EXPENSES:			
Program	550,000	-	550,000
Support Services:			
Management and General	45,000	-	45,000
Fundraising	30,000	-	30,000
Total Supporting Services	75,000	-	75,000
Total Expenses	625,000	-	625,000
CHANGE IN NET ASSETS	30,000	-	30,000
NET ASSETS --Beginning of Year	50,000	400,000	450,000
NET ASSETS -- End of Year	80,000	400,000	480,000

Statement of Activities

Statement of Activities

In your opinion, what are the 3 most important accounts on this statement and why?

Budget

Budget to Actuals

- Process
  - Planning
  - Monitoring
  - Decision Making
  - Control

Types of Budgeting Approaches

- Zero
- Incremental
- Top Down
- Bottom Up

ABC ACTION ASSOCIATION
Budget vs Actual
December 31, 2018

	Budget	Actual
REVENUES:		
Grants- ZYZ	700,000	700,000
Grants- I5O	200,000	200,000
Interest Revenue	2,000	5,000
Fundraising Revenue	50,000	50,000
Donations	45,000	50,000
Other Revenue	-	-
Total Revenues	997,000	1,005,000
Net Assets Released from Resctrictions		
Satisfaction of Program Restrictions	-	-
Total Public Suppport and Revenues	997,000	1,005,000
EXPENSES:		
Program	712,000	550,000
Support Services:		
Management and General	60,000	45,000
Fundraising	150,000	30,000
Total Supporting Services	75,000	75,000
Total Expenses	997,000	625,000

Budget vs Actuals

Budget vs Actuals

In your opinion, what does the above budget vs actuals statement say the operations and why?

I5O Consulting Action Agency
Budget to Actuals
31-Mar-18

	Approved Budget	Authorized Budget Jan-Mar	Current Month (Mar)	YTD Jan-Mar	Variance $	Variance %
Revenues						
Fees	5,500.00	4,000.00	375.00	4,405.00		
Grants	450,000.00	250,000.00	150,000.00	225,000.00		
Other Revenue	8,000.00	2,000.00	998.45	2,296.54		
Total Revenue	463,500.00	256,000.00	151,373.45	231,701.54		
Expenses						
Salaries & Wages	426,000.00	106,500.00	35,229.11	105,222.13		
Membership Dues	3,500.00	875.00	225.00	985.00		
Board/Committees	6,500.00	1,625.00	626.13	1,256.24		
Rent	13,200.00	3,300.00	1,100.00	3,300.00		
Utlities	6,000.00	1,500.00	489.12	1,589.24		
Miscellaneous	4,800.00	1,200.00	195.45	4,212.85		
Volunteers	3,500.00	875.00	233.26	795.25		
Total Expense	463,500.00	115,875.00	38,098.07	117,360.71		
Surplus/deficit		140,125.00	113,275.38	114,340.83		

Exercise: Budget vs Actuals

Select 3 accounts and calculate the variance in $ and %
Then explain how you would communicate them to the Board

Ratios

Ratio

- **Better comparison over time**
- **Proactive analyses for decision-making**
- **Position of the agency**
- **Identify any issues (historical & forecasting)**

Key Ratios

Ratio	Measures	Calculation	Suggested Standard
Current Ratio	Financial Health and ability to pay short-term obligations with available resources	**Current assets / Current Liabilities**	1.0-2.0
Operating reliance	Show how much your not-for-profit is able to pay for total expenses solely from program revenues	**Divide program revenues / by total expenses**	> 1.0
Quick Ratio	How well the agency can meet its short-term obligations (used a lot by banks)	**Current assets (excluding inventory and prepaid expenses) / current liabilities**	1.0

Key Ratios

Ratio	Measures	Calculation	Suggested Standard
Operating Margin	Is the agency effective at generating a surplus	**Operating profit (revenues less expenses) / by operating revenues**	25%
Program Efficiency	How effective are funds used for programs (helping the agency fulfill its mission)	**Program costs excluding any special projects and pass through / total expenses**	66%
Fundraising Efficiency	How effective are fundraising activities (expense required to raise contribution)	**Contribution and/or fundraising revenue / fundraising expenses**	4.0

Key Ratios

Ratio	Measures	Calculation	Suggested Standard
Days Cash on Hand	# of days of operating expenses that the agency could pay with current cash availability	**First get the daily operating cost by taking Operating expense / 365 Then, / the cash by the daily operation cost**	6 months
Budget vs Actual %	Projection of anticipated revenues and expenses to actual revenue and expenses	**First, subtract the budgeted amount and the actual amount Divide the above by the original budget amount and * 100**	Varies by Mthly, Quarterly, Yearly, etc.
Debt to Asset Ratio	The percentage of the agency assets financed by creditors	**Total liabilities / Total assets**	>.5 most assets are finance via debt < .5 most assets are finance via equity

Objective

To create and display key financial indicators to help the reader understand the financial and operational condition of the agency

Dashboards

Total Participants

Dashboards

- Graphic presentation of key indicators
- Comparisons progress over time
- Proactive measures for decisions
- Trends are visible
- Forecasts are visible
- Readily identify issues

Dashboards

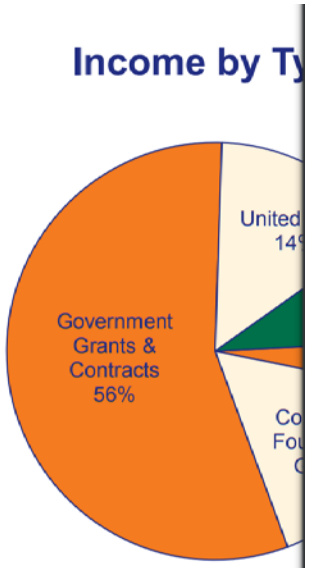
- Financial Indicators
- Program indicators
- Fundraising indicators
- Days of cash vs target cash
- Current ratio
- Budget to Actuals

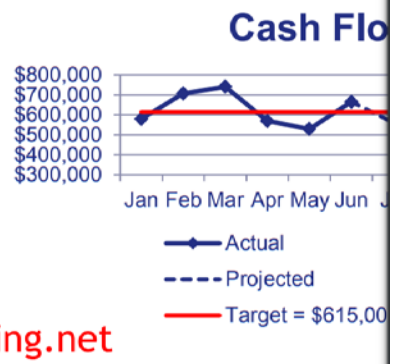
Financial Indicators

	Target	This month	Last month	Last year end
Surplus/(deficit) YTD	$270,000	$390,842	$340,908	($570,240)
Surplus/(deficit) year-end forecast	$270,000	$30,937	$250,987	($570,240)
Earned income ratio	11.5%	10.3%	11.8%	13.0%
New grants success ratio	50.0%	35.0%	33.0%	50.0%
Days cash on hand (unrestricted)	45	43	28	51
Reserve funds balance (1 month payroll)	$250,000	$200,000	$150,000	$250,000
Current ratio	2 to 1	5.8	4.2	6.2
AR aged over 90 days	15.0%	22.3%	23.5%	20.0%

Program Indicators

	Target	This month	Last month	Last year end
Weatherization Contracts (monthly goal)	20	21	22	15
Head Start enrollment	100	60	58	109
Monthly job placements	30	11	14	32





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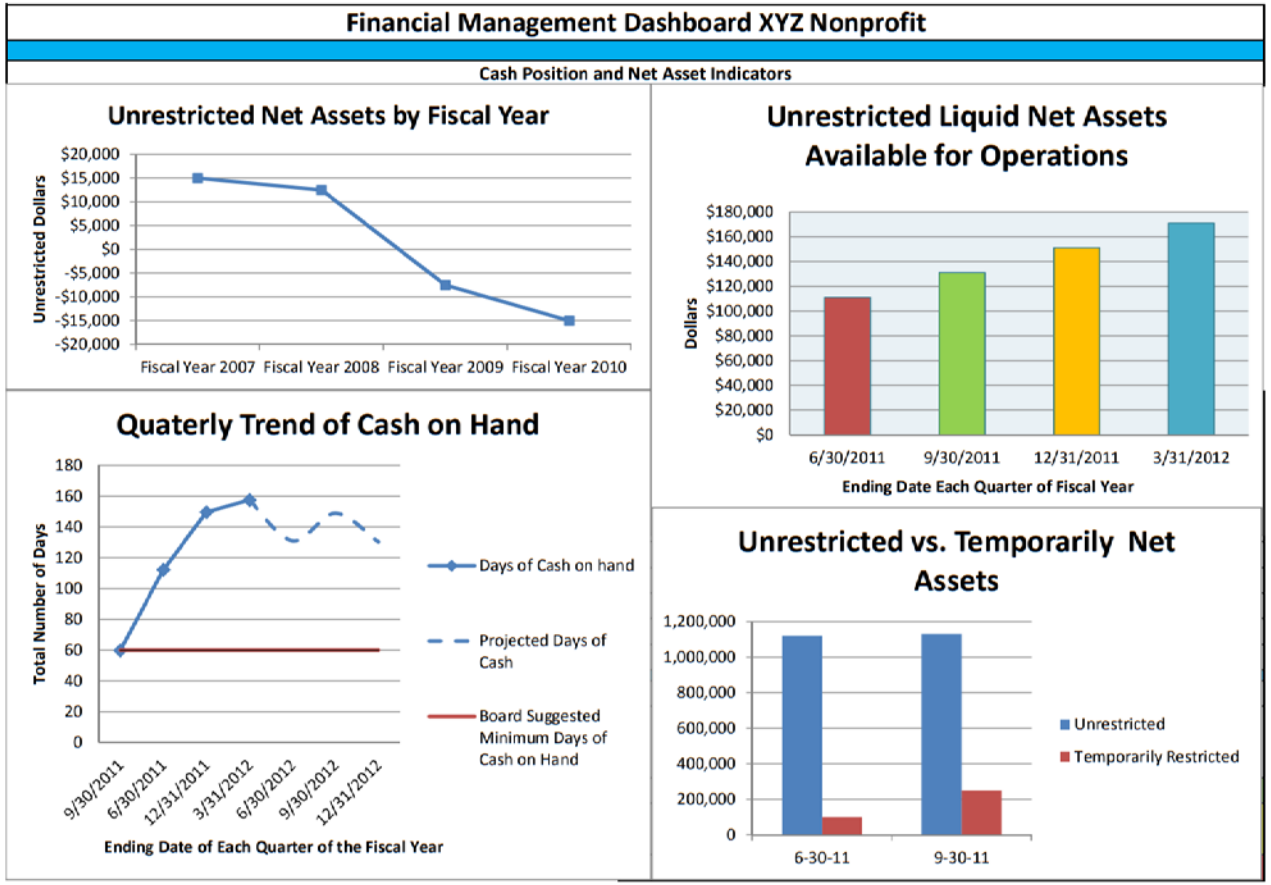
Dashboard Example



Dashboard Example

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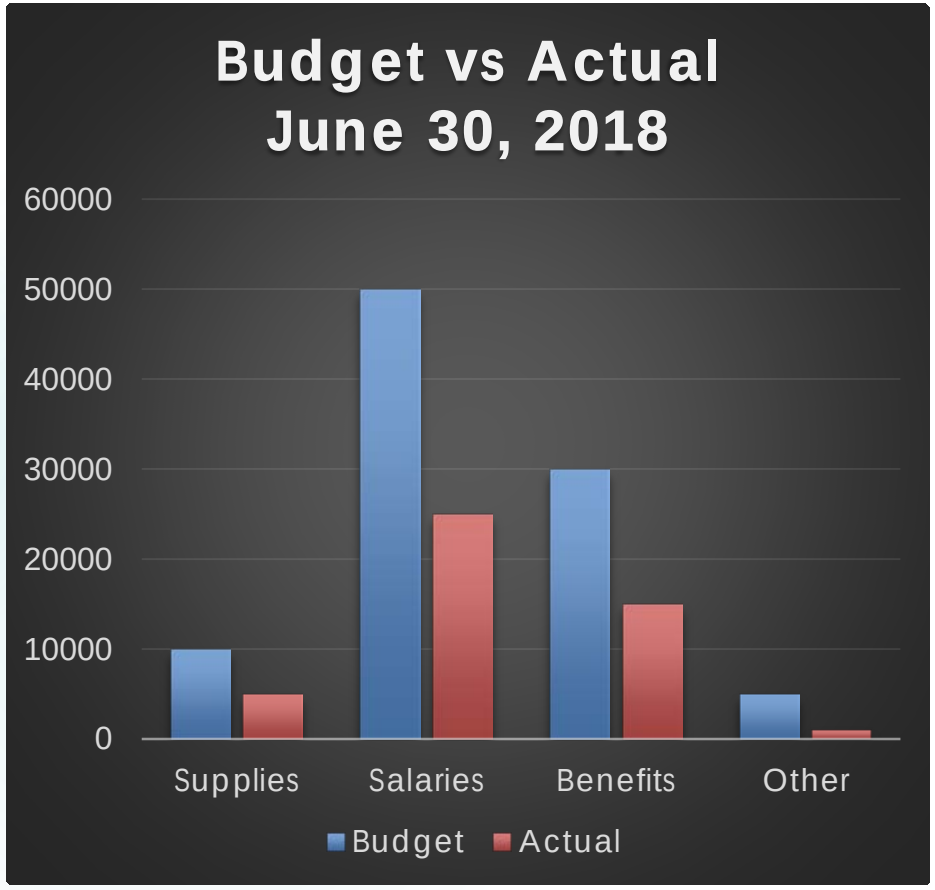
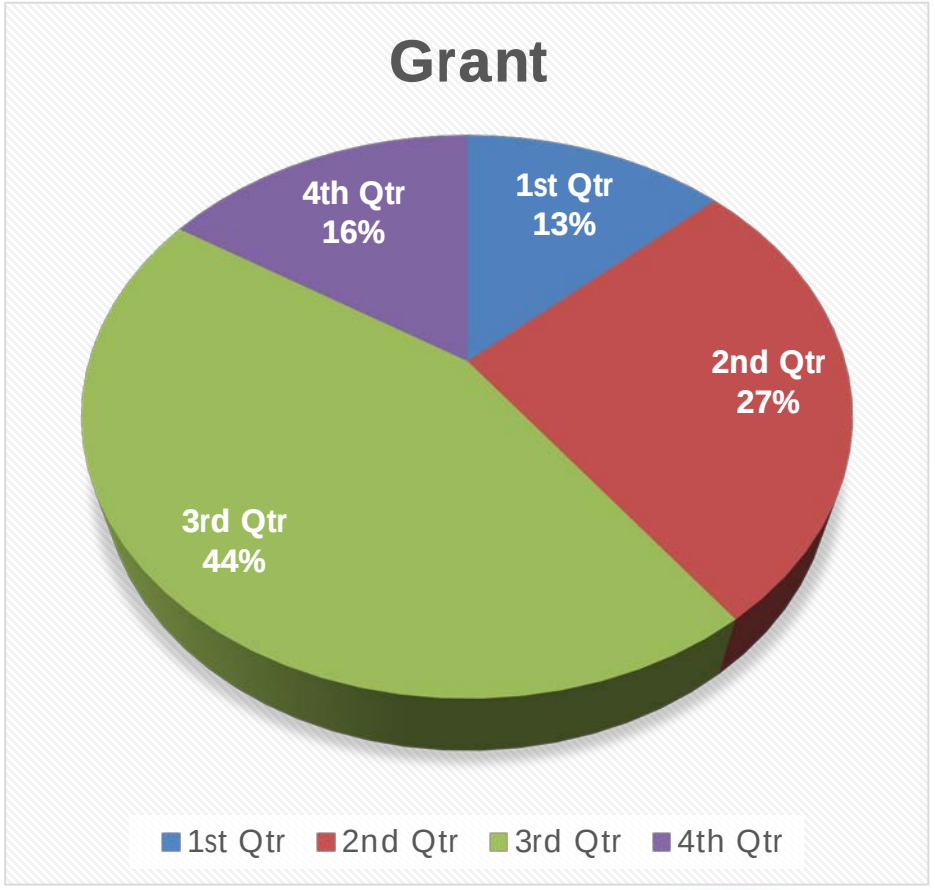
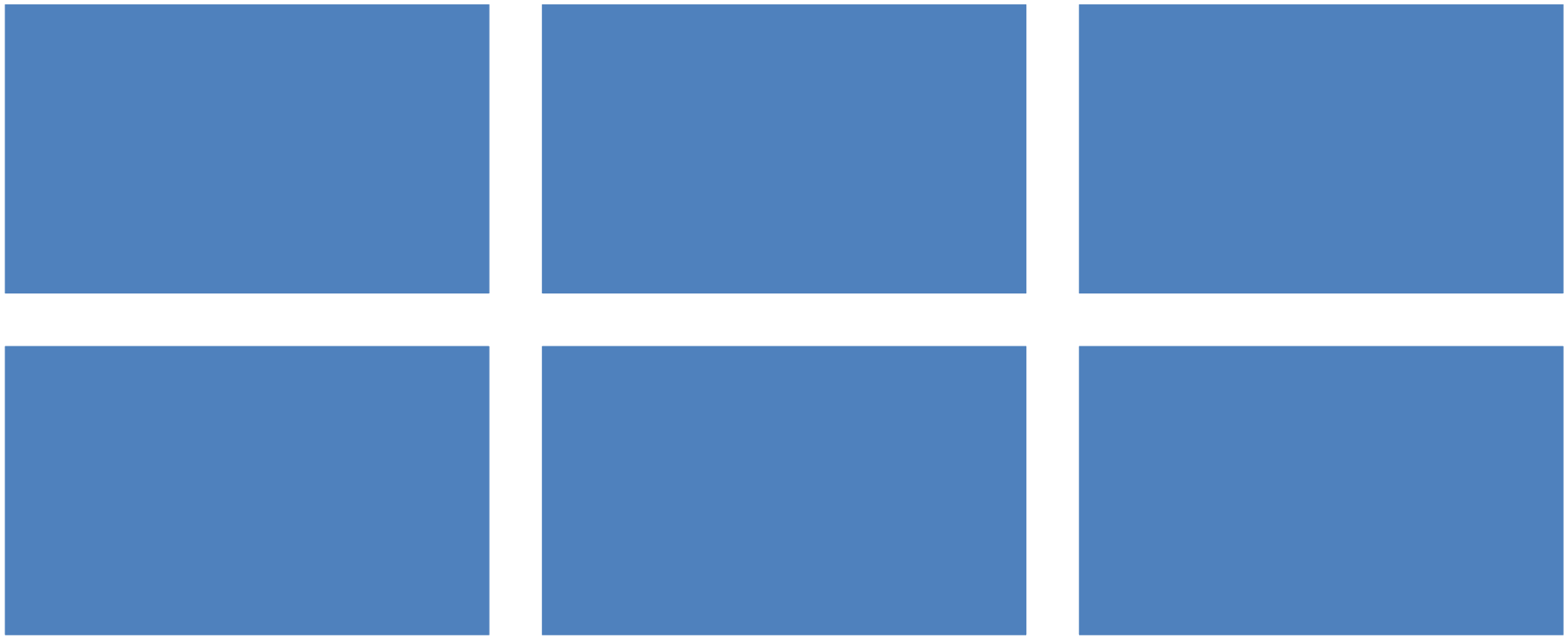




Exercise: Creating a Dashboard Presentation



Source Documentation

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