Agenda

• 12:15-12:30 Introductions, Overview of nonprofit financial accountability
• 12:30-12:45 IRS 990 Forms vs. Audited Financial Statements
• 12:45-1:00 Determining nonprofit financial health
• 1:00-1:15 Q&A
About Nicolette

• Graduate student in the LMAS program at NIU
• Undergraduate at NIU
  – Major: Accountancy and Minor: Community Leadership and Civic Engagement
• Interned at Miller Cooper & Co.
• Conducting research with Tammy Waymire on how auditors can be better utilized for the benefit of non-profit organizations
United Way Scandal Could Embolden Many To Just Say No

April 09, 1992 | By Joan Beck.

All that damage control going on at the United Way of America may not work. The abuse of power and money was too great. The promises of change seem too quick and too slick.

The whole sorry affair hits a nerve with countless employees whose bosses arm-twist them every fall to give their "fair share" of their paycheck to a non-profit foundation that let its president spend $92,265 on chauffeured limousines and $40,762 on Concorde flights to Europe over three-year periods. Investigators say William Aramony apparently used United Way of America money to pay for much of what he calls his "lavish lifestyle." In addition to his $390,000 salary plus $73,000 in other compensation, he helped himself to a disgraceful friend, from 1988 to 1990.
Nonprofit Know Your Numbers

Purpose

People

Promote

Financial Performance

Program Performance

Your Future, Our Focus
Annual Survey

- most recent survey (2014) had 5,019 responses.
- Of the 22 organizational challenges, nine relate to nonprofit finance issues, four to program issues, and eight to overall management and governance issues.

<table>
<thead>
<tr>
<th>Issue</th>
<th>Percentage of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Achieving long term financial sustainability</td>
<td>41%</td>
</tr>
<tr>
<td>Diversifying funding sources</td>
<td>21%</td>
</tr>
<tr>
<td>Cuts in government funding</td>
<td>17%</td>
</tr>
<tr>
<td>Raising funding that covers full costs</td>
<td>16%</td>
</tr>
<tr>
<td>Raising unrestricted revenue</td>
<td>16%</td>
</tr>
<tr>
<td>Developing cash reserves</td>
<td>12%</td>
</tr>
<tr>
<td>Having regular, reliable cash flow</td>
<td>10%</td>
</tr>
<tr>
<td>Insufficient revenue</td>
<td>7%</td>
</tr>
<tr>
<td>Delays in government funding</td>
<td>4%</td>
</tr>
</tbody>
</table>
Nonprofit Organizations are graded or rated by external sources such as Charity Navigator.

“Punitive” Ratios of Program, Management and Fundraising.

Paying CEO an “unreasonable” salary
The Wallace Foundation: Helping Nonprofits Know Their Numbers

- **Fiscal Fitness**
- The Wallace Foundation and leading consultant group Fiscal Management Associates (FMA) created [StrongNonprofits.org](http://StrongNonprofits.org), a suite of more than 60 free tools, how-to’s, articles and other features.
Strong Nonprofits: Wallace Foundation

Four Key Areas of Strong Financial Management

**Planning**
With budgeting and financial analysis, you can use your resources strategically to help achieve your organization’s goals.

**Operations**
A strong infrastructure for planning and monitoring means both employees who know how to analyze information and software that helps them.

**Monitoring**
Regularly review financial results to ensure you’re using resources according to your plan – and advancing organizational objectives.

**Governance**
Your board of directors should provide the oversight and guidance to ensure the organization fulfills its obligations – and its mission.
Nonprofit Sustainability = “the double bottom line”

Financial EFFICIENCY

Money
• Are we managing our resources for maximum efficiency?
• Are we getting enough financial return/profitability to continue?
• How do we measure this?

+ Program EFFECTIVENESS

Mission
• Are we meeting our program goals and objectives (inputs, outputs, outcomes)?
• Are we having an impact on our mission?
• How do we measure this?
Financial Accountability

- To the general public
- To your donors
- To potential donors
- Signal of trustworthiness, leadership and management
<table>
<thead>
<tr>
<th>Contributed</th>
<th>Earned</th>
<th>Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual donations</td>
<td>Fee for service</td>
<td>Fee for service</td>
</tr>
<tr>
<td>Foundation / corporate contributions</td>
<td>Program fees</td>
<td>Reimbursement grants</td>
</tr>
<tr>
<td>Special events</td>
<td>Sales</td>
<td>Performance contracts</td>
</tr>
</tbody>
</table>

What type of revenue drives the business model? How reliable/predictable are these revenue streams?
Revenue Mix Important

- Diversity protects against risk
- Keeps fundraising central to efforts
- Control your own destiny through earned revenue
- Individual contributions safest bet because they have the highest loyalty to your cause
Types of Reporting

- Mandatory
  - IRS 990
  - Audited Financial Statements
  - Board Minutes

- Voluntary
  - Annual Report
  - Audited Financial Statements
  - Strategic Plans
  - Meetings
  - Budgets
  - Website
  - Ads

- External
  - Performance Data Reports

- Internal
IRS 990 FORM VS AUDITED FINANCIAL STATEMENTS
Public Reporting of Finances

- **Audited financial statements:** voluntary for organization’s under $300,000 in Illinois but required for above

- **IRS 990 Information Return:** self-reported financial data available to the public through Guidestar.org and to researchers through the National Center for Charitable Statistics
Major Reports

- **External financial reports** (but also useful to internal users): Statement of Activities, Statement of Financial Position (or balance sheet), Statement of Cash Flows, and information return sent to the IRS (Form 990)

- **Internal financial reports**: budget variance reports, percentage breakdown reports (“common-size” statements), financial ratios, and possibly fundraising evaluation reports
External Reports

- (a) Statements of Activity(ies), Financial Position, and Cash Flows
- (b) Form 990 and Other Public Reports
  - Forms 990, 990-EZ, and 990-T
  - Donor Mailings and “Publicly Available” Reports
  - State Requirements
  - Granting Agency Reports

- What reports should we prepare and how often?
IRS 990 Forms for Nonprofits

- Organizations must file one of the following forms for the 2010 tax year according to the following eligibility criteria:
  - **Form 990.** Nonprofit organizations with at least $200,000 in annual gross receipts or at least $500,000 in total assets are required to file Form 990 with the IRS.
  - **Form 990-EZ.** Organizations that have gross receipts between $50,000 and $199,999 and total assets of less than $500,000 at the end of the year must either file Form 990-EZ or file the full Form 990.
  - **Form 990-PF.** This form is filed by private foundations of any size. However, since some funders require Form 990, some smaller nonprofit organizations file Form 990 even though the IRS does not require them to do so.
  - **Form 990-N** (also known as the e-Postcard). Small tax-exempt organizations whose annual gross receipts are normally $50,000 or less may choose to submit Form 990-N instead of completing Form 990 or Form 990-EZ.
Information on a Form 990

- Qualitative information
  - Mission, values
  - 3 largest program services accomplishments measured by expenses
- Compensation of key employees, board members, independent contractors over $100,000
- Classification of expenses by program services, management and general, and fundraising
- Schedules A-R for specific information disclosure
IL Audit Requirements

- Audit Required: Yes
- Statute and Description: 225 Ill. Comp. Stat. § 460/4
- A charitable organization with annual contributions over $300,000 must file an audited financial statement prepared by an independent CPA.
- A charitable organization with contributions less than $300,000 and more than $25,000 is only required to file an audited financial statement prepared by an independent CPA if a professional solicitor engages in fundraising.
- [https://www.councilofnonprofits.org/nonprofit-audit-guide/state-law-audit-requirements#IL](https://www.councilofnonprofits.org/nonprofit-audit-guide/state-law-audit-requirements#IL)
Information in an Audit

• Assurance that the financial statements are free from material misstatement
• Comparative years for income statement and functional expenses
• Classification on restriction of assets
• Additional statements such as cash flows
• Disclosures on certain account and significant accounting policies
Is an Audit Worth it?

• Ensure the financial statements are correct
  – Effective decision making
  – Disclosure of specific information
• Trust with donors
  – Donors that give large amounts of money prefer reliable financial data
• Auditor is there as a financial expert
### Alternatives to an Audit

| **Review**          | - Moderate assurance provided  
|                    | - Less procedures performed   |
| **Compilation**    | - No assurance provided       |
|                    | - Compile data to present the financial statements in accordance with standards |
| **Agreed-Upon Procedures** | - Specific procedures    |
|                    | - Auditor reports on findings |
DETERMINING FINANCIAL HEALTH
Whether your organization is “support-worthy” will be assessed from your financials and certain financial ratios by...

- Donors
- IRS and possibly state attorney general offices
- Charity rating services such as...
  - BBB Wise Giving Alliance
  - Charity Navigator
  - American Institute on Philanthropy
  - Philanthropic Research, Inc.
Ratios

What are ratios? Why are ratios used?

Ratio Cautions:
- Ratios must be used together and with the financial statement data to develop a pattern. No one ratio is sufficient!
- GAAP may make comparisons difficult across organizations.
- Ratio analysis should be focused on potential problems. Ratios are not calculated for their own sake.
- Ratios that are useful for health and not-for-profit organizations may not be appropriate for governments.
- Use common sense! Focus on the order of magnitude of the ratio, rather than on carrying the calculation out many decimal places.
- Think about what the ratio means. Should it be higher or lower than the average? Rising or falling?
# Program Ratio

- Watchdog groups provide various guidelines for nonprofit management and fundraising activity.

<table>
<thead>
<tr>
<th>Organization</th>
<th>Recommended/required minimum spending on program activity as a percent of total budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>BBB Wise Giving Alliance</td>
<td>65%</td>
</tr>
<tr>
<td>American Institute of Philanthropy</td>
<td>60%</td>
</tr>
<tr>
<td>The United Way of the National Capital Area</td>
<td>80%</td>
</tr>
</tbody>
</table>
The Overhead Myth

The Cycle That Starves Nonprofits

Three forces intertwine to deprive organizations of much-needed overhead funding.

- Nonprofits neglect infrastructure and misrepresent data
- Funders have unrealistic expectations
- Nonprofits feel pressure to conform

Your Future, Our Focus
REAL Costs of Nonprofit Operations

• The Overhead Myth [http://overheadmyth.com/](http://overheadmyth.com/)

---

**Sources:**
- BBB Wise Giving Alliance
- Charity Navigator
- GuideStar
Get Comparative Data

- Compare the ratios to:
  - the organization over time,
  - comparable organizations, and
  - the industry.

- Focus on trends:
  - Should the ratio be higher or lower than average?
  - Is it better for the ratio to be increasing or decreasing?

- Remember that it is hard to find exact comparables.
Five Key Financial Ratios

1. Net Income
2. Fund Balance
3. Leverage ratio
4. Revenue mix
5. Liquidity ratio
1. Net Income

Revenue versus expenses annually and 5 year trend

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Revenue</th>
<th>Total Expenses</th>
<th>Net Gain/Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>$278,306</td>
<td>$263,549</td>
<td>$14,757</td>
</tr>
<tr>
<td>2009</td>
<td>$357,897</td>
<td>$348,331</td>
<td>$9,566</td>
</tr>
<tr>
<td>2010</td>
<td>$306,237</td>
<td>$291,396</td>
<td>$14,841</td>
</tr>
<tr>
<td>2011</td>
<td>$317,331</td>
<td>$303,844</td>
<td>$13,487</td>
</tr>
<tr>
<td>2012</td>
<td>$357,401</td>
<td>$333,588</td>
<td>$23,813</td>
</tr>
</tbody>
</table>

Net Income
2. Fund Balance

Total assets versus total liabilities annually and 5 year trend

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets</td>
<td>$2,208,819</td>
<td>$2,153,183</td>
<td>$2,043,435</td>
<td>$2,059,754</td>
<td>$2,192,785</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>$573,318</td>
<td>$539,346</td>
<td>$317,794</td>
<td>$265,324</td>
<td>$276,769</td>
</tr>
<tr>
<td>Fund Balance</td>
<td>$1,635,501</td>
<td>$1,613,837</td>
<td>$1,725,641</td>
<td>$1,794,430</td>
<td>$1,916,016</td>
</tr>
</tbody>
</table>
3. Leverage Ratio

Total debt/total assets expressed as a %. High values indicate future liquidity problems or reduced capacity for future borrowing.

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets</td>
<td>$2,208,819</td>
<td>$2,153,183</td>
<td>$2,043,435</td>
<td>$2,059,754</td>
<td>$2,192,785</td>
</tr>
<tr>
<td>Loans and Notes</td>
<td>$494,925</td>
<td>$450,500</td>
<td>$275,437</td>
<td>$209,617</td>
<td>$190,472</td>
</tr>
<tr>
<td>Leverage Ratio</td>
<td>22.41%</td>
<td>20.92%</td>
<td>13.48%</td>
<td>10.18%</td>
<td>8.69%</td>
</tr>
</tbody>
</table>
4. Revenue Mix

- Expressed as a %, to determine reliability of revenue

### Revenue Mix

<table>
<thead>
<tr>
<th>Revenue</th>
<th>2012* (990)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions</td>
<td>$163,808</td>
</tr>
<tr>
<td>Government Grants</td>
<td>$122,665</td>
</tr>
<tr>
<td>Investments</td>
<td>$1,022</td>
</tr>
<tr>
<td>Other</td>
<td>$69,906</td>
</tr>
<tr>
<td>Total Revenue</td>
<td>$357,401</td>
</tr>
</tbody>
</table>
5. Liquidity Ratio

Cash and liquid assets/total expenses to determine how many days or months of cash on hand to cover expenses

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Expenses</td>
<td>$263,549</td>
<td>$348,331</td>
<td>$291,396</td>
<td>$303,844</td>
<td>$333,588</td>
</tr>
<tr>
<td>Cash &amp; Equivalent</td>
<td>$193,080</td>
<td>$141,002</td>
<td>$166,616</td>
<td>$173,554</td>
<td>$205,353</td>
</tr>
<tr>
<td>Days of Cash</td>
<td>267.40</td>
<td>147.75</td>
<td>208.70</td>
<td>208.49</td>
<td>224.69</td>
</tr>
</tbody>
</table>

Days of Cash Graph
<table>
<thead>
<tr>
<th>Category</th>
<th>Key Performance Indicator (KPI)</th>
<th>Last Period</th>
<th>Current Period Actual</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance Sheet Strength</td>
<td>Months of Liquid Unrestricted Net Assets (LUNA)</td>
<td>2.2</td>
<td>2.5</td>
<td>&gt; 3 mos Meets Target</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1-3 mos Within Range</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>&lt; 1 mos Off Target</td>
</tr>
<tr>
<td>Operating Results</td>
<td>Fiscal YTD Operating Margin (Surplus/Deficit as % of Revenue)</td>
<td>2%</td>
<td>8%</td>
<td>&gt;5% Meets Target</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2-5% Within Range</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>&lt;2% Off Target</td>
</tr>
<tr>
<td>Program Financial Performance</td>
<td>Median Revenue per Performance</td>
<td>$10K</td>
<td>$13K</td>
<td>&gt; $15K Meets Target</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$12-15K Within Range</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>&lt; $12K Off Target</td>
</tr>
<tr>
<td>Program Financial Performance</td>
<td>Percentage of Performance Weeks with Free Public Show</td>
<td>12%</td>
<td>10%</td>
<td>&gt; 20% Variance Meets Target</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>15% to 20% Within Range</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>&lt; 15% Off Target</td>
</tr>
<tr>
<td>Program Financial Performance</td>
<td>Summer Workshop Enrollment</td>
<td>325</td>
<td>310</td>
<td>&gt;= 315 Meets Target</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>&lt; 315 Off Target</td>
</tr>
<tr>
<td>Program Financial Performance</td>
<td>Academy Retention Rate</td>
<td>88%</td>
<td>96%</td>
<td>&gt; 95% Meets Target</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>85% to 95% Within Range</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>&lt; 85% Off Target</td>
</tr>
</tbody>
</table>

**Legend:**
- Meets or Exceeds Target
- Within Range of Target
- Significantly off Target
AND NOW FRED WILL GIVE US THE TREASURER'S REPORT.

"...SO IN CONCLUSION, WE PROJECT A DEFICIT OF TWICE THAT OF THE PREVIOUS PERIOD."

THIS IS SO SERIOUS THAT THERE'S A REAL QUESTION WHETHER OR NOT WE CAN KEEP OUR DOORS OPEN BEYOND TOMORROW!

THANK YOU, FRED, FOR THAT NICE REPORT. NOW LET'S MOVE ON TO THE NEXT TOPIC.

Copyright Grantland Enterprises: www.grantland.net
Challenges to Measuring and Communicating Nonprofit $ Health

• Board members knowledge and awareness of organization’s finances, indicators of financial health
• Organizational leadership to address financial health problems
• Donor education on nonprofit financial objectives
• Communicating financial information to the public
Reporting Financial Health

- IRS 990
- Audited Financial Statements
- Board Minutes
- Performance Data Reports
- Strategic Plans
- Meetings
- Budgets
- Annual Report
- Website
- Ads

Mandatory

Voluntary

External

Internal

Your Future, Our Focus
Alicia Schatteman, Associate Professor
Center for NGO Leadership & Development
and the Department of Public Administration
School of Public and Global Affairs
Northern Illinois University
DeKalb, IL 60115
815-753-0942
aschatteman@niu.edu