Financial Literacy

- Reading financial statements

Assessing Financial Health

- Ratios
- Cash flow projections
- Reserves

Today's Conversation

- Financial Literacy
- Assessing Financial Health

Financial Leadership

- Ensuring Accuracy
- Financial Literacy
- Assisting Financial Health
- Planning and Communicating
- Organizational Sustainability
Nonprofit Financial Statements

- Statement of Financial Position
- Statement of Activities

Financial Statements

Statement of Financial Position (Balance Sheet)
- Cumulative performance
- What do we own?
- What do we owe?

Statement of Activities (Income Statement)
- Year to date performance
- Where we’re investing resources

Financial Literacy

Statement of Financial Position (Balance Sheet)

Financial Literacy

Statement of Activities (Income Statement)
Financial Literacy

Ensuring Accuracy

Assessing Financial Health

Financial Leadership

Organizational Sustainability

Planning and Communicating

Cash to pay bills - Ratios

Cash flow projections

Reserves
Two Types of Accounting

Cash Basis Accounting: Items recorded when you actually have the cash.

Accrual Accounting: Items recorded when they are earned or incurred.

Cash vs. Accrual: An Example

For a reimbursable government contract, the usual process looks something like this:
- Work performed: July
- Bill sent to government: August
- Check received from government: October

<table>
<thead>
<tr>
<th>Month Recorded</th>
<th>Cash Basis</th>
<th>Accrual Basis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>October</td>
<td>July</td>
</tr>
<tr>
<td>Expense</td>
<td>When Paid</td>
<td>July or August</td>
</tr>
</tbody>
</table>

Do we have enough cash to pay our bills?

Quick Ratio

Cash & Equivalents
Total Current Liabilities
Financial Health

Cash & Cash Equivalents: $122,290
Total Current Liabilities: $56,870

Financial Ratio: 2.15

Trending Tools

How does our cash flow projection look?
## Financial Health

### How does our cash flow projection look?

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Opening Cash Balance</th>
<th>Revenues Collected</th>
<th>Contributions Received</th>
<th>Budgeted Income</th>
<th>Total Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/1 - 3/31</td>
<td>135,940</td>
<td>65,180</td>
<td>161,180</td>
<td>102,200</td>
<td></td>
</tr>
<tr>
<td>4/1 - 6/30</td>
<td>45,150</td>
<td>15,000</td>
<td>60,180</td>
<td>100,000</td>
<td></td>
</tr>
<tr>
<td>7/1 - 9/30</td>
<td>44,150</td>
<td>60,180</td>
<td>100,000</td>
<td>150,000</td>
<td></td>
</tr>
<tr>
<td>10/1 - 12/31</td>
<td>122,290</td>
<td>34,000</td>
<td>150,000</td>
<td>180,000</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Total Income</th>
<th>Personnel</th>
<th>Operating</th>
<th>Capital</th>
<th>Total Outflows</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/1 - 3/31</td>
<td>1,095,000</td>
<td>625,000</td>
<td>380,000</td>
<td>29,790</td>
<td>1,034,790</td>
</tr>
<tr>
<td>4/1 - 6/30</td>
<td>165,250</td>
<td>156,250</td>
<td>100,000</td>
<td>75,000</td>
<td>296,040</td>
</tr>
<tr>
<td>7/1 - 9/30</td>
<td>295,250</td>
<td>156,250</td>
<td>95,000</td>
<td>75,000</td>
<td>256,250</td>
</tr>
<tr>
<td>10/1 - 12/31</td>
<td>337,390</td>
<td>156,250</td>
<td>95,000</td>
<td>75,000</td>
<td>251,250</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Cash Available</th>
<th>From (To) Line of Credit</th>
<th>From (To) Investments</th>
<th>Closing Cash Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/1 - 3/31</td>
<td>60,210</td>
<td>-40,000</td>
<td>(50,000)</td>
<td>45,150</td>
</tr>
<tr>
<td>4/1 - 6/30</td>
<td>5,150</td>
<td>(8,000)</td>
<td>(42,000)</td>
<td>44,150</td>
</tr>
<tr>
<td>7/1 - 9/30</td>
<td>84,150</td>
<td>-</td>
<td></td>
<td>122,290</td>
</tr>
<tr>
<td>10/1 - 12/31</td>
<td>130,290</td>
<td></td>
<td></td>
<td>194,150</td>
</tr>
</tbody>
</table>

## Financial Health

### Do we have an adequate reserve?

### Understanding the Reserve
Calculating the Reserve

Net Assets Without Donor Restrictions
Typical Monthly Expenses

Net Assets Without Donor Restrictions
– Fixed Assets
Typical Monthly Expenses

Calculating the Reserve:

\[
\text{Net Assets Without Donor Restrictions} - \text{Fixed Assets} = \text{Typical Monthly Expenses}
\]

\[
\$196,665 - \$101,980 = \$81,408
\]

Total Monthly Expenses

\[
\text{# of Months} = \frac{\text{Total Monthly Expenses}}{\text{Typical Monthly Expenses}} = \frac{\$732,675}{\$81,408} = 9
\]

What is a good reserve?
How do you build a reserve?

Organization

Surplus
Deficit
Deficit
Surplus
Deficit
Surplus
Deficit

Do we have enough cash to pay its bills?

How does our cash flow projection look?

Do we have an adequate reserve?

How are our programs performing financially?
Next Webinar

✓ December 13, 2019
✓ Determining True Program Cost & Profitability
  - Classifying expenses
  - Cost and revenue allocation
  - Calculating programmatic profitability

<table>
<thead>
<tr>
<th>Subsequent Topics</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Strategy</td>
<td>January 17, 2020</td>
</tr>
<tr>
<td>The Art &amp; Science of Budgeting</td>
<td>February 21, 2020</td>
</tr>
<tr>
<td>Telling Your Financial Story, Dashboard Driving</td>
<td>March 20, 2020</td>
</tr>
<tr>
<td>The Sustainability Mindset</td>
<td>April 16, 2020</td>
</tr>
</tbody>
</table>

Follow Up

✓ A recording of this session will be available for 2 weeks.
✓ You will receive a link by email to key slides and templates.
✓ Please complete our evaluation so we can continue to improve our sessions.

Steve Zimmerman
stevez@spectrumnonprofit.com
www.spectrumnonprofit.com
414.226.2322