

Assessing Nonprofit Financial Health

Presented by:

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Nonprofit Finance Fund

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Presented in collaboration with:



A REGIONAL FORUM WITH GLOBAL IMPACT

Overview: Nonprofit Finance Fund® (NFF)



NFF connects nonprofit finance to nonprofit success. We're a nonprofit 501(c)(3) serving thousands of nonprofit and funders since 1980

- Over \$205 million in loans; over \$1 billion in capital leveraged for nonprofits
- Over 500 customized financial consultations
- Hundreds of partnerships and thought leadership to advance financial awareness and friendlier funding practices across the sector

"[NFF is]... arguably the most influential voice in the ongoing effort to reshape thinking and practice about nonprofit capitalization."

–The Nonprofit Times

Serving nonprofits nationwide from several local offices

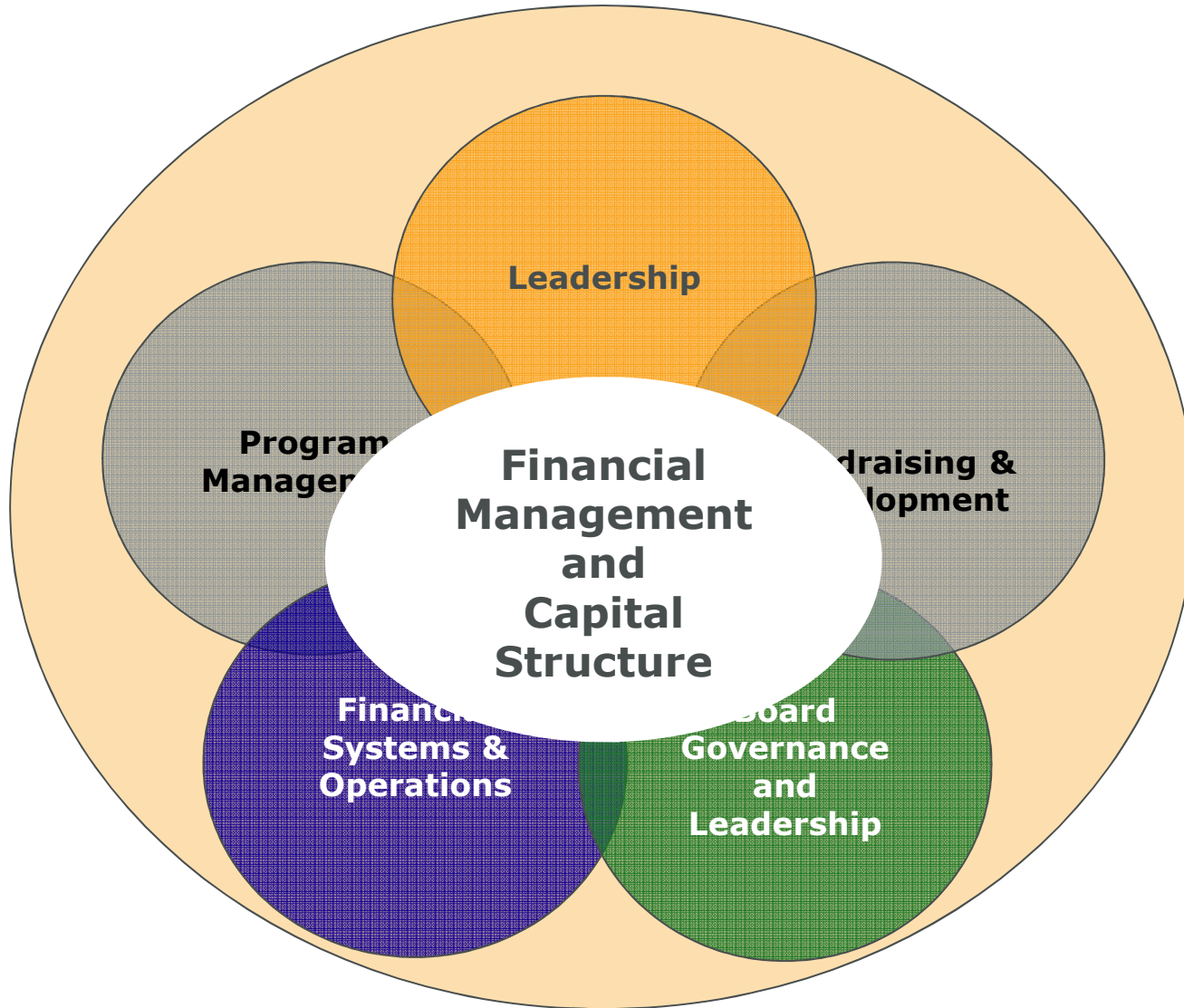
- Northeast: Boston, New York
- Mid-Atlantic: Philadelphia, Newark, NJ
- Midwest: Detroit
- West Coast: San Francisco, Los Angeles

Today's Goals



- Learn key metrics and trends to track when assessing the financial health of nonprofit organizations
- Discuss questions to ask your grantees to understand their financial story and resource needs
- Share NFF-GuideStar Financial SCAN, an online data platform for analyzing nonprofits' financial condition
- Your Questions!

Why Focus on Finance?



Uncovering the Financial Story



Understand Operating **Performance**



Determine **Strength** of Balance Sheet

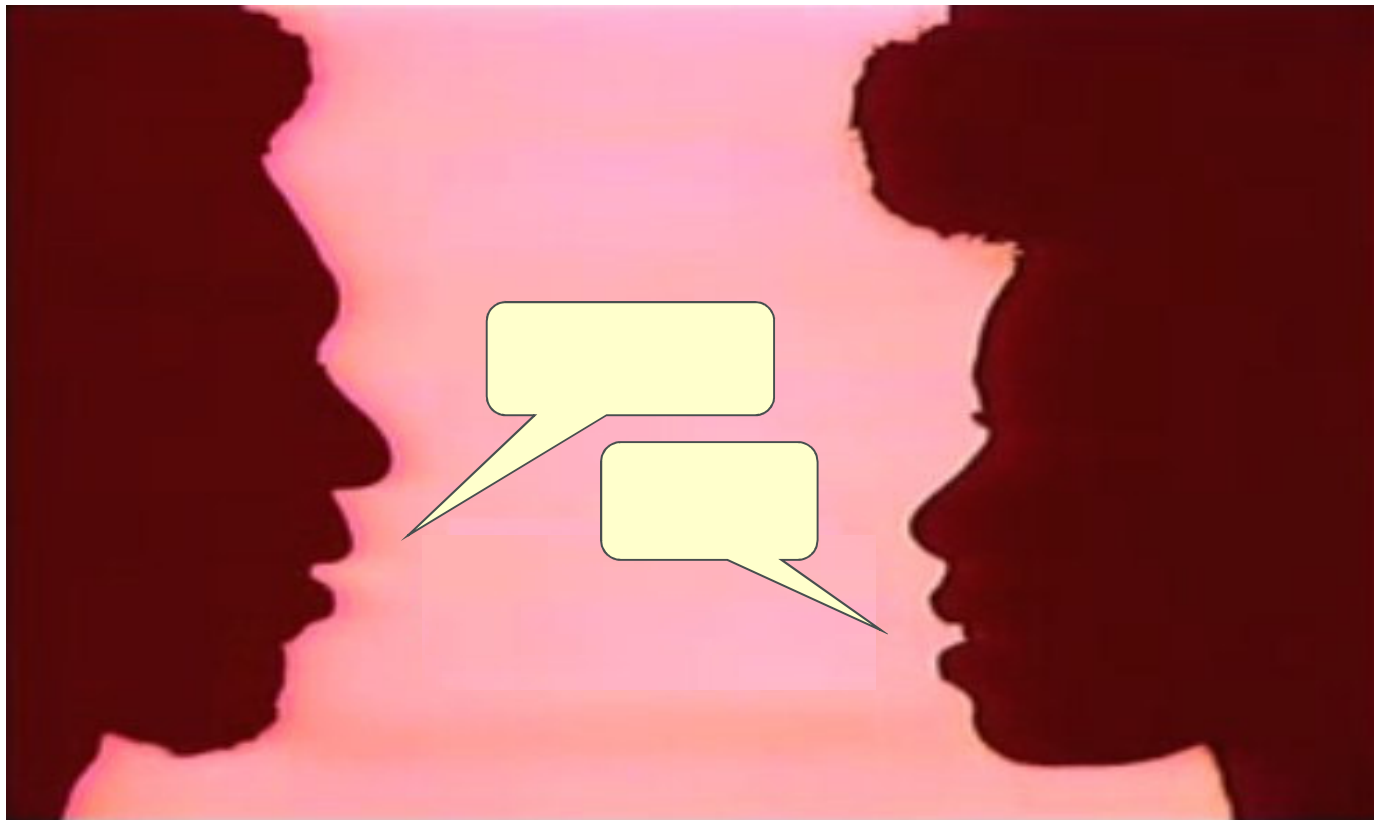


Assess Ability to Handle **Risk** and Pursue **Opportunity**



Comprehensive Financial Analysis

Always Remember...



The best analysis of the financial health of an organization will always include a dialogue with leadership about their financial condition, story and resource needs

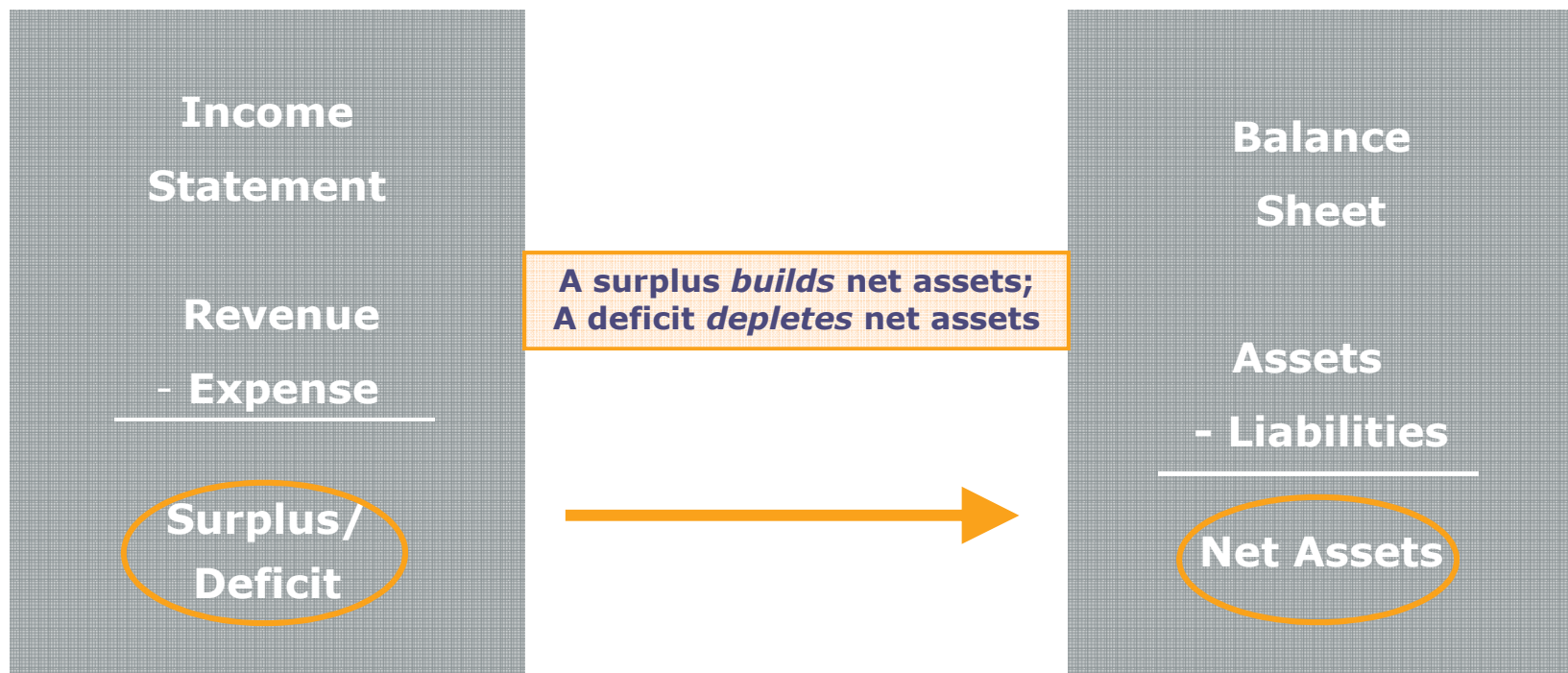
How Financial Statements Interrelate: Two Bottom Lines

Income Statement: Surplus/Deficit

- Income Statement reflects the annual results of a grantee's core business

Balance Sheet: Net Assets

- Balance Sheet provides a picture of overall financial health



Five Steps to Assessing a Nonprofit's Financial Health



- 1. Profitability**
- 2. Revenue Dynamics**
- 3. Expense Dynamics**
- 4. Composition of Balance Sheet**
- 5. Liquidity**

Understanding Operating Performance: Statement of Activities/Income Statement



Revenue Dynamics	<ul style="list-style-type: none">■ Where does the organization's money come from?■ Is it reasonably diversified? Is it at risk?■ Do revenue streams appear reliable / consistent?
Expense Dynamics	<ul style="list-style-type: none">■ How have expenses fluctuated over time?■ Are expenses adjusted in line with changes in revenue?
Profitability	<ul style="list-style-type: none">■ Does the organization regularly cover its full costs with unrestricted revenue?■ Is the agency saving? If so, is it enough

Where Do I Find the Bottom Line? (Audits & Internals)



ABC Center Statement of Activities

Years ended June 30, 2008 (\$ in thousands)

	Operating Activity			
	Unrestricted	Temp. Restricted	Perm. Restricted	Total
Revenues, Gains and Other Support				
Support				
Foundations	113	58	-	171
Government	57	-	-	57
Corporations	49	-	-	49
Individuals	248	-	-	248
Total Support	467	58	-	525
Investment Income	7	-	-	7
Tickets, Dues, Other	484	-	-	484
Net Assets Released from Restriction	749	-749	-	-
Total Revenue, Gains and Other Support	1,707	-691	-	1,016
Operating Expenses				
Program Services	1,004	-	-	1,004
Supporting Services				
Administrative	209	-	-	209
Development	49	-	-	49
Total Supporting Services	258	-	-	258
Total Expenses	1,262	-	-	1,262
Change in Net Assets	445	-691	-	-246

Where Do I Find the Bottom Line? (Form 990: Not on the Income Statement!)



Statement of Revenue: Sample Form 990

12	Total revenue. See Instructions	4,106,969
-----------	--	-----------

Statement of Functional Expenses: Sample Form 990

25	Total functional expenses. Add lines 1 through 24f	4,157,997
-----------	---	-----------

Total revenue \$4,106,969

-

Total expense \$4,157,997

Surplus/(Deficit) (\$51,028)

Where Do I Find the Bottom Line? (Form 990: On the Balance Sheet!)



Balance Sheet from Sample Form 990

		B.O.Y.	E.O.Y.
Net Assets or Fund Balances	Organizations that follow SFAS 117, check here <input checked="" type="checkbox"/> and complete lines 27 through 29, and lines 33 and 34.		
	27 Unrestricted net assets	3,770,516	3,527,235
	28 Temporarily restricted net assets	266,515	590,734
	29 Permanently restricted net assets	0	0
	Organizations that do not follow SFAS 117, check here <input type="checkbox"/> and complete lines 30 through 34.		
	30 Capital stock or trust principal, or current funds		
	31 Paid-in or capital surplus, or land, building or equipment fund		
	32 Retained earnings, endowment, accumulated income, or other funds		
	33 Total net assets or fund balances	4,059,031	4,117,969
	34 Total liabilities and net assets/fund balances	7,005,518	6,919,616

Form 990 (2009)

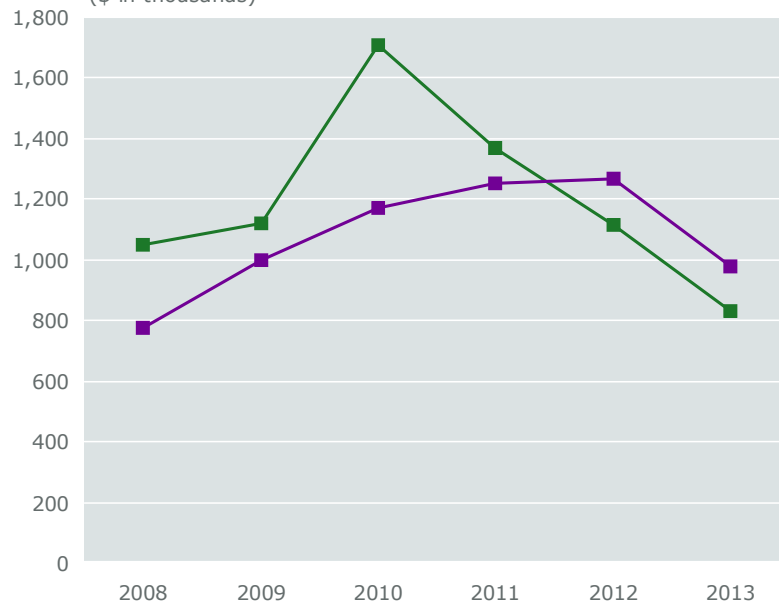
Unrestricted net assets (end of year)	\$3,527,235
Unrestricted net assets (beginning of year)	\$3,770,516
Change in unrestricted net assets	(\$243,281)

Beware! Unusual Large Surpluses May Reflect Capital



Unrestricted Revenue & Expenses (including non-operating)

(\$ in thousands)



Operating Revenue & Expenses

(\$ in thousands)



— Revenue, including non-operating — Expenses (before depreciation)

Audits rarely, and 990s never, segregate capital (i.e., for fixed asset purchases) from revenue. The unrestricted surplus may be inflated by these capital flows.

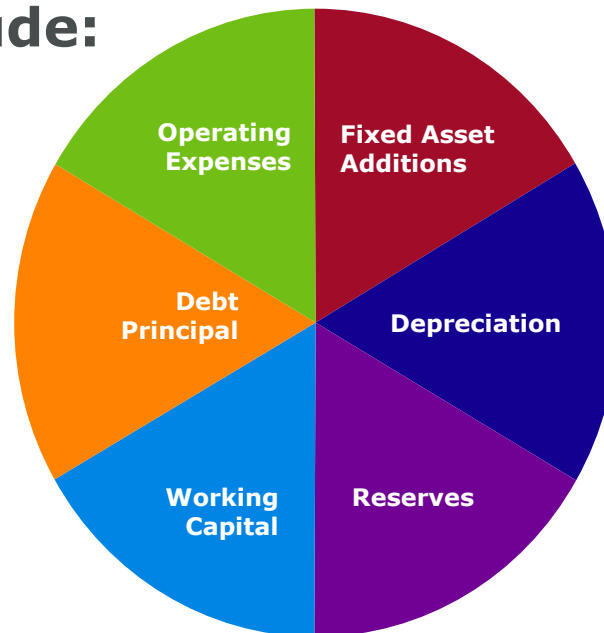
Surplus Size Matters: Breaking Even is Never Enough



Like any organization, nonprofits need to cover the 'full cost' of delivering programs

- Tax Status is NOT a Business Model
- Full costs > Operating Expenses

Full costs include:



METRIC - Operating Results: A Guideline



Financial Indicator	Healthy	Moderately Healthy	Requires Immediate Attention
<p><u>Unrestricted Surplus/Deficit</u> (as % of expenses)</p>	<p>Surpluses <i>consistently</i> cover full costs, contributing to healthy balance sheet and savings (3%+)</p>	<p>Breakeven results or periodic surpluses insufficient to cover full costs (-3% to +3%)</p>	<p>Consistent and/or growing deficits (-3%+)</p>

Understanding Balance Sheet Health: Statement of Position



Assets	<ul style="list-style-type: none"> ■ Cash – How much? How “liquid?” ■ Receivables – Are they slow to collect? ■ Fixed Assets – Are fixed assets being maintained?
Liabilities	<ul style="list-style-type: none"> ■ Line of Credit – Is cash flow being managed through a line of credit? Appropriately? ■ Debt – Is there a plan for repayment?
Net Assets & Reserves	<ul style="list-style-type: none"> ■ Unrestricted Net Assets – Does the nonprofit own more than it owes? How much is liquid? ■ Temporarily Restricted Net Assets – Do they fully support core programs? ■ Reserves – Any reserves? Suitable to needs?

Balance Sheet	
Assets	Liabilities
	Net Assets

Financial Position Tells your Story



Evolution of your Financial Position

Statement of Financial Position

FYE 06/30/09 (\$ in thousands)

Assets		Liabilities	
Cash	296	Payables	131
Receivables	612	Debt	0
Prepaid Exp.	22		
Other	29		
P&E (Net)	256		
Long-term receivables	39	Total Liabilities	131
		Net Assets	
		Total Unres.	325
		Temp. Rest	797
		Perm. Rest	0
Total Assets	\$1,253	Total Net Assets	1,122
		Total Liab./Net Assets	\$1,253

From 7/1/09 to 6/30/10

Organization engages in operations

Statement of Activities

Statement of Financial Position

FYE 06/30/10 (\$ in thousands)

Assets		Liabilities	
Cash	191	Payables	57
Receivables	55	Debt	114
Prepaid Exp.	41		
Other	-		
P&E (Net)	760		
Long-Term receivables	-	Total Liabilities	171
		Net Assets	
		Total Unres.	771
		Temp. Rest	105
		Perm. Rest	0
Total Assets	\$1,047	Total Net Assets	876
		Total Liab./Net Assets	\$1,047

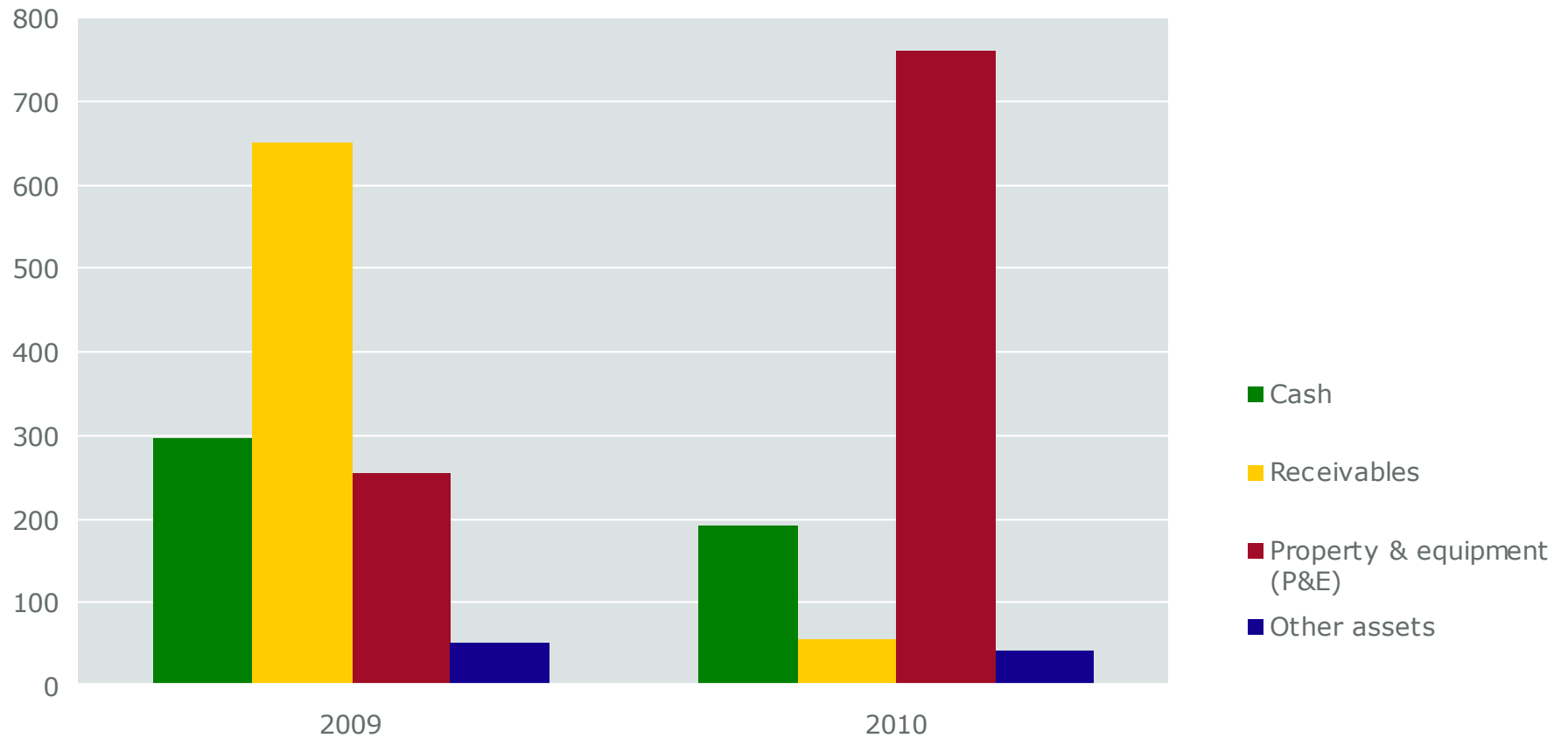
What changed? What might this mean?

What Decision Affected the Balance Sheet?



Total Assets

(\$ in thousands)

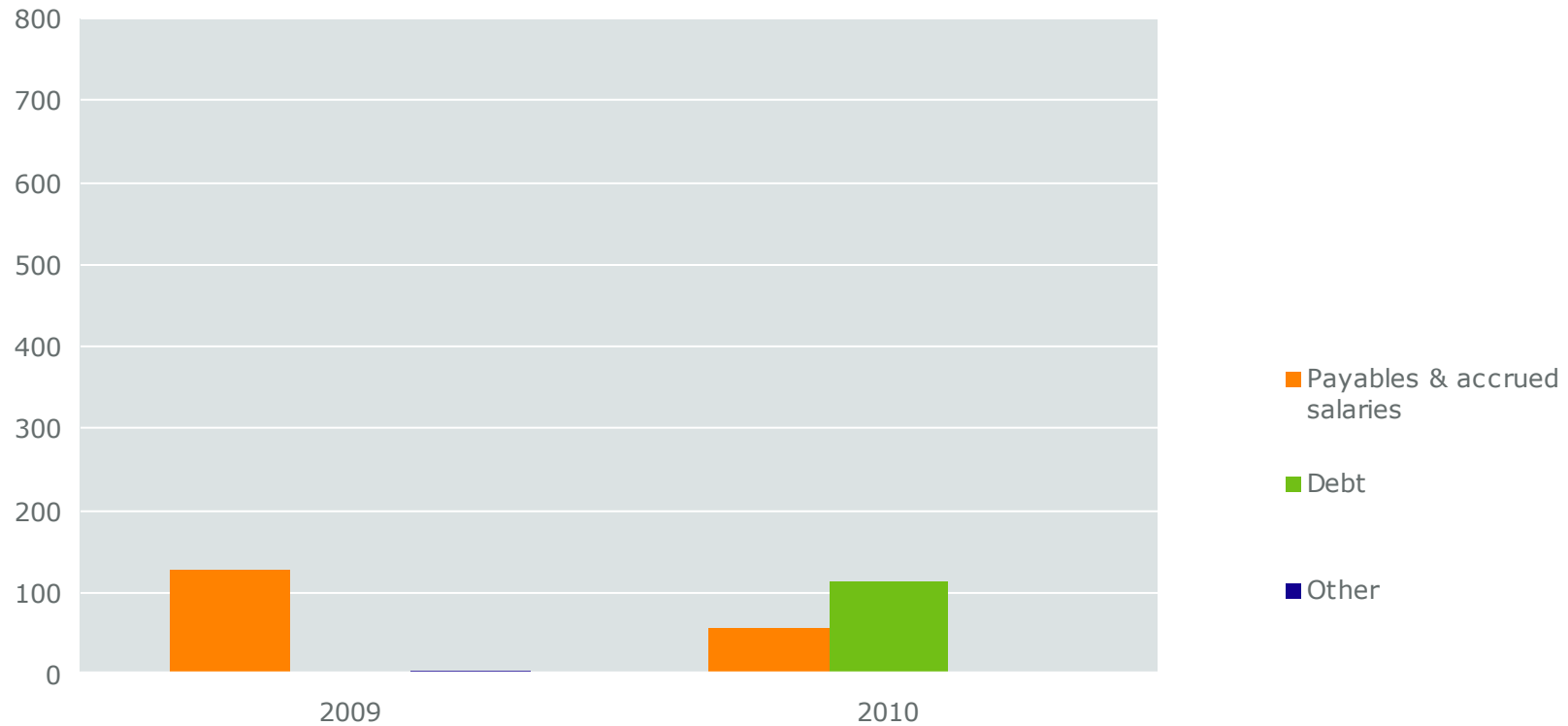


How Were the Fixed Assets Financed?



Total Liabilities

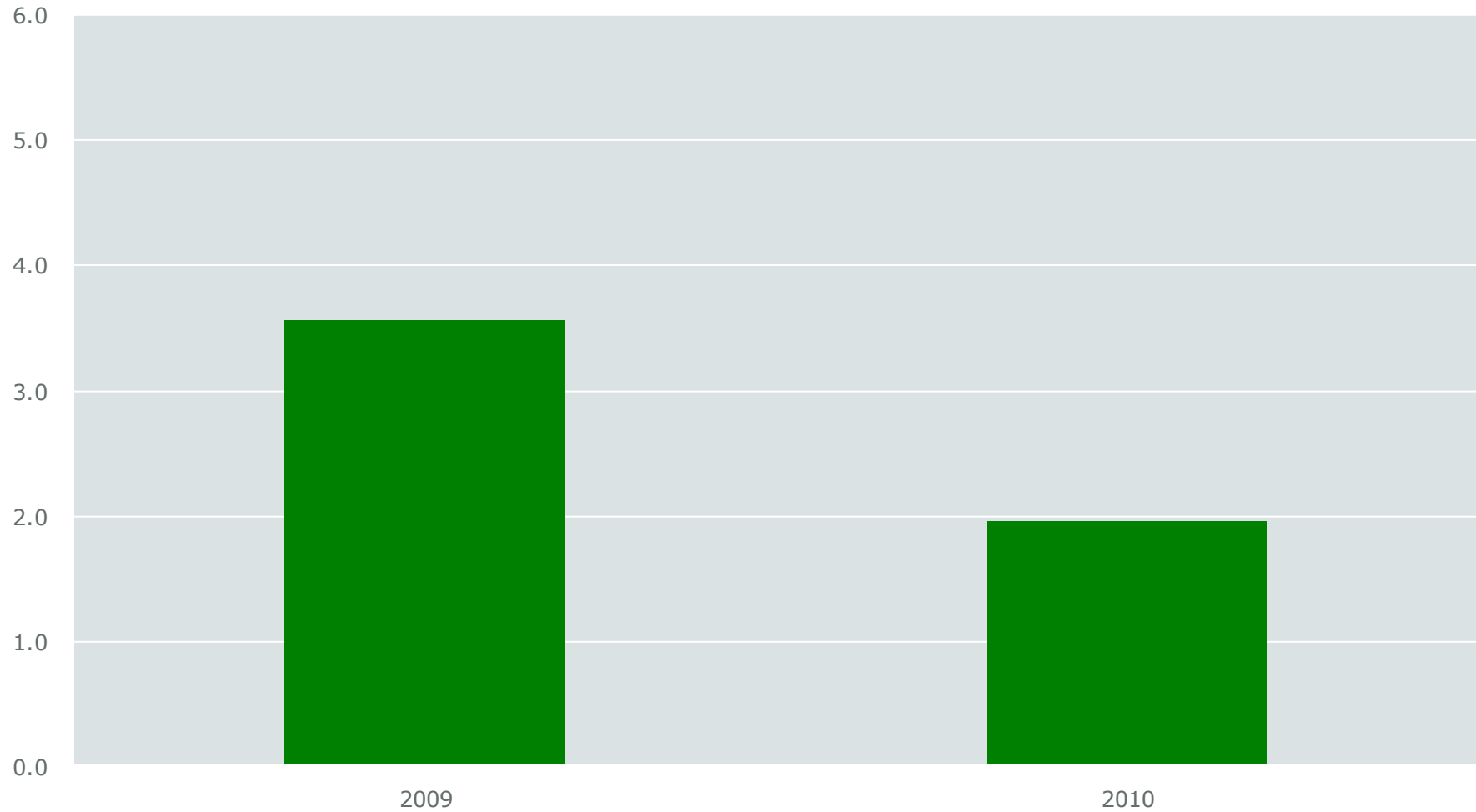
(\$ in thousands)



What Affected Liquidity?



Months of Expenses Covered by Cash



Measuring Liquidity (Take-Home)



$$\text{Months of Cash} = \frac{\text{Total Cash}}{(\text{Total Expenses} / 12)}$$

**Months of
Unrestricted Liquid
Net Assets =**

$$\frac{\text{Unrestricted Net Assets} - (\text{PPE} - \text{PPE Debt})}{(\text{Total Expenses} / 12)}$$

*portion of net assets
available for operations*

$$\text{Working Capital} = \text{Current Assets} - \text{Current Liabilities}$$

METRICS - Liquidity: A Guideline



Financial Indicator	Healthy	Moderately Healthy	Requires Immediate Attention
Months of Liquidity	<p>3+ months cash and working capital</p> <p>One ore more board designated reserves for risk or opportunity</p>	<p>Sufficient to cover cyclical of cash flow (aim for 3 months)</p>	<p>Less than one month and declining</p>

Risk – Cash = Crisis

A Financial Health Checklist



- ✓ Operating results are consistently positive (surpluses!)
- ✓ Full costs are regularly covered by reliable revenue
- ✓ Reinvestment in fixed assets to offset depreciation
- ✓ Evidence of ability to manage debt
- ✓ Liquidity is sufficient to withstand risk and pursue new opportunities

Financial SCANSM

Situation & Comparables ANalysis



Why now?



- The sector lacks a common language and understanding of what it takes to keep a nonprofit in business and in balance
 - Existing ratings platforms focus on metrics like “overhead” that have no bearing on nonprofit efficiency or effectiveness
 - Funder/donor expertise in various mission areas, not necessarily finance
 - There is little agreement on what to measure, why it matters and how it links to mission success

- Financial data collection, reporting and analysis is time and skills intensive
 - Everyday demands of running a nonprofit compete with funder/donor demands for myriad reports and data sets
 - Data-crunching can supersede data-driven decision making in grant management and due diligence



Financial SCAN At a Glance



WHAT	Data platform for assessing nonprofit financial health and informing grantmaker-grantee dialogue (280K orgs)
WHO	Private and public grantmakers, individual donors, nonprofit organizations, philanthropic advisors, consultants and media
HOW	Draws data directly from IRS Forms 990,* presenting complex information in an easy-to-analyze and communicate format

***Note: Financial SCAN v. 1.0 does not include data from Form 990 EZ**



"I need a systematic way to identify areas of financial strength and opportunity for a potential grantee that avoids the pitfalls of overhead ratios, rating systems and other quick-fixes that fail to tell an accurate and holistic non-profit fiscal story. If non-profit finance was less daunting, my peers and the foundation as a whole would be more likely to focus on fiscal health as part of the applicant review and grantee management processes."

- A time-saving annual financial "check-up" for nonprofits you plan to or already support
- Standard peer comparison section for benchmarking one grantee against similar organizations
- Visual presentation of financial trends with guide for interpreting results—demystify nonprofit finance for program experts
- A meaningful starting place for engaging grantees in a dialogue about their financial health and resource needs
- Supporting documentation for recommendations to board members on funding decisions





“Non-profit financial analysis is inconsistent and misunderstood. I need a sophisticated, consistent way to talk to donors, foundations, board members, trustees and staff to ensure that our fiscal strategy aligns with our mission and that we are vigilantly managing risk as our organization evolves.”

- An annual financial check-up for review at management and board levels
- Visual and compelling **report for communicating financial story and funding requirements to grantmakers and donors**
- Historical context to inform the annual budgeting process and strategic/business planning
- A quick way to educate consultants engaged for financial planning and other capacity-building efforts
- A training resource for new executives and board members



GUIDESTAR



Nonprofit
Finance Fund®

What's in a Financial SCAN?



Organizational Dashboard: Five years of key financial trends and ratios for a selected organization

Graphs & Explanatory Text: More detailed overview of the nonprofit's:

- Expenses
- Revenue
- Profitability
- Balance Sheet
- Liquidity

Peer Comparison Dashboard: Comparison with up to five peer nonprofits you select

Big Brothers and Big Sisters of Greater Miami 2005 - 2009

<http://www.wementor.org>
EIN: 59-0166904

Report Generated On: February 14, 2012 at 10:08 AM EST
Financial SCAN brought to you by Nonprofit Finance Fund (NFF) and GuideStar



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How To Use The Report

This Financial SCAN uses IRS Form 990 data to provide a comprehensive overview of the selected organization's financial condition, incorporating Nonprofit Finance Fund's (NFF) philosophy and approach. It demystifies nonprofit finance, helping you understand how and what financial data to measure and comparing one organization's situation to up to five others. It can be used by nonprofits, boards, funders, consultants, and other stakeholders to plan for the future, communicate resource needs and make better decisions.

Remember that no one ratio or metric defines financial health for all nonprofits. NFF recommends that you enlist the help of experts to interpret the numbers and make sure you're drawing the right conclusions—the numbers always tell a story, but it is incomplete without an understanding of internal and external context.

Helpful Links

nonprofitfinancefund.org
guidestar.org
guidestar.org/nffscanhome
guidestar.org/nffscanfaqs
guidestar.org/nffscanabout
guidestar.org/nffscanuses

GuideStar/NFF FinancialScan Report for *Big Brothers and Big Sisters of Greater Miami*
EIN: 59-0166904
Report Generated: February 14, 2012



Financial SCAN Demonstration



Brought to you by [Nonprofit Finance Fund](#) and [Guidestar](#)

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[View Financial Health Dashboard](#)
[Select Peers](#)
[View Comparables Analysis](#)

Financial SCAN Financial Health Dashboard for [Organization]

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[Next: Select Peers](#)

Children's Hospital of Greater Neptune [Show Details](#)

	2006	2007	2008	2009
Income Statement				
Expenses				
Expenses before depreciation	\$2,112,345	\$1,123,456	\$1,234,567	\$2,345,678
Growth rate (%)	0%	1%	2%	3%
Personnel	\$12,345	\$123,456	\$234,567	\$345,678
Growth rate (%)	0%	1%	2%	3%
Revenue Sources				
Memberships dues	0%	1%	2%	3%
Government grants	0%	1%	2%	3%
All other grants and contributions	0%	1%	2%	3%
Program services revenue	0%	1%	2%	3%
Investment income	0%	1%	2%	3%
Other revenue	0%	1%	2%	3%
Total revenue (unrestricted & restricted)	\$123,456	\$234,567	\$345,678	\$456,789
Growth rate (%)	0%	1%	2%	3%



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Select Organization

Ut placerat eros vitae metus tempus accumsan. Pellentesque ac euismod elit. Sed placerat eleifend feugiat. Mauris accumsan rutrum nibh, in dignissim magna accumsan non. Quisque viverra laoreet lincidunt.

Keywords:

[Show Advanced Search Options](#)

Your search for "search terms entered" produced 40,000 results
Viewing 1 - 25 of 1,000 results

Your Selections: Tampa Williamsburg Florida Assets less than \$100K

Sort Results By: Relevancy [Start](#) [Previous](#) [1](#) [2](#) [3](#) [4](#) [5](#) [6](#) [Next](#) [End](#)

Organization	Most Recent Financials	Action
Name of Organization (29-1828392) City, State Zip National Headquarters Parent Organization	For Fiscal Year 2008 Income: \$10,000 Expenses: \$1,000 Assets: \$100,000	<input type="button" value="Use This Organization"/>
Name of Organization (29-1828392) City, State Zip National Headquarters Parent Organization	For Fiscal Year 2008 Income: \$10,000 Expenses: \$1,000 Assets: \$100,000	<input type="button" value="Use This Organization"/>
Name of Organization (29-1828392) City, State Zip	For Fiscal Year 2008	<input type="button" value="Use This Organization"/>

Refine Your Search

State
Alabama (514)
Alaska (270)

City
Alabama (514)
Alaska (270)



Thank you!

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To learn more:

www.guidestar.org/financialSCAN