

Financial Management 101

Basic Financial Literacy
for Nonprofit Board Members and Staff



MNA 2008 Annual Conference
Helena - September 22-24

Goals for Today

- Who are you and what do you want from me?
- Explain basic financial terms as they relate to nonprofit organizations
- Learn to navigate standard nonprofit financial statements
- Questions and Answers
- Evaluate

Key Financial Terms

- Assets
 - Financial resources for use in accomplishing our organization's mission. These can be either Current Assets which are readily accessible (like cash), or Long-Term Assets which take more time and effort to access (like certain stock investments or property and equipment).
- Liabilities
 - Financial obligations owed by our organizations. These can take many forms such as accounts payable, salaries payable, payroll taxes payable, deferred revenue for work not yet performed, or any other service or money owed to another party.

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Key Financial Terms

- Support and Revenue
 - For nonprofits, the important question is:
 - When do we count the income as income?
 - Hoped for vs. Pledged vs. Committed vs. Received
 - Is it restricted to a specific purpose or condition?
 - Is it restricted to a specific time?
- Expenses
 - Like revenue, we need to know when to report:
 - Did we receive an invoice?
 - When did the activity covered by the expense occur?
 - Was the expense related to a specific grant or other specific source of revenue?

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Key Financial Terms

- Net Assets and Their Classifications
 - Unrestricted
 - Contributions received that have no donor-imposed restrictions. Often referred to as general support.
 - May also refer to the amount released from a temporary restriction.
 - Temporarily Restricted
 - Contributions received which have restrictions placed on their use by the donor. These restrictions can be satisfied by passage of specified time or fulfillment of specified purpose.
 - Permanently Restricted
 - Most often associated with endowments, these contributions are permanently restricted such that the principal balance of the gift may not be invaded. Examples could include a) endowed funds whose principal is allowed to accrue interest or income for the use of the organization or b) a gift of a building for permanent use as the organization's offices but not to be sold.

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What to Watch?

One of the most important line items to monitor for any nonprofit organization is the **Unrestricted Fund Balance** or **Total Unrestricted Net Assets**

You may find this line item on both the Statement of Activities and Statement of Financial Position

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Basic Types of Reports

- **Statement of Financial Position**

Basic financial report showing assets and liabilities as of a given date. This is a snapshot of your available resources and outstanding obligations, showing you what you have to work with.

This report is the equivalent of a balance sheet in a for-profit business and this information is recorded on the IRS Form 990 in the “Balance Sheet” section.

This report is required in order for your audited financial statements to be prepared in accordance with generally accepted accounting standards (GAAP).

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MNA Statement of Financial Position as of December 31, 2006

| | Dec 31, 06 | Dec 31, 05 | \$ Change | % Change |
|---|----------------|---------------|----------------|-------------|
| ASSETS | | | | |
| Current Assets | | | | |
| Checking/Savings | 145,819 | 35,644 | 110,174 | 309% |
| Accounts Receivable | 19,478 | 9,014 | 10,465 | 116% |
| Other Current Assets | 58,000 | 138 | 57,862 | 42051% |
| Total Current Assets | 223,297 | 44,796 | 178,502 | 398% |
| Fixed Assets | 524 | 294 | 230 | 78% |
| TOTAL ASSETS | 223,821 | 45,090 | 178,732 | 396% |
| LIABILITIES AND NET ASSETS | | | | |
| Liabilities | | | | |
| Accounts Payable | 3,725 | 946 | 2,779 | 294% |
| Other Current Liabilities | 12,536 | 8,081 | 4,456 | 55% |
| Total Liabilities | 16,262 | 9,026 | 7,235 | 80% |
| Net Assets | | | | |
| Unrestricted Net Assets | 45,107 | 26,916 | 18,191 | 68% |
| Temporarily Restricted Net Assets | 162,453 | 9,147 | 153,305 | 1676% |
| Total Net Assets | 207,560 | 36,063 | 171,496 | 476% |
| TOTAL LIABILITIES AND NET ASSETS | 223,821 | 45,090 | 178,732 | 396% |

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Basic Types of Reports

•Statement of Activities

Basic financial report showing support and revenue, expenses, and the net effect on total assets for a given period. This is an historical record of activity for a given time period.

Similar to Income Statement or Profit & Loss Statement found in for-profit businesses, except that activity is separated based on its net asset classification: unrestricted, temporarily restricted, and permanently restricted. The unrestricted column of this report is reported in the “Statement of Revenue” section of the IRS Form 990.

This report is required in order for your audited financial statements to be prepared in accordance with generally accepted accounting standards (GAAP).

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MNA Statement of Activities

January 1, 2006 to December 31, 2006

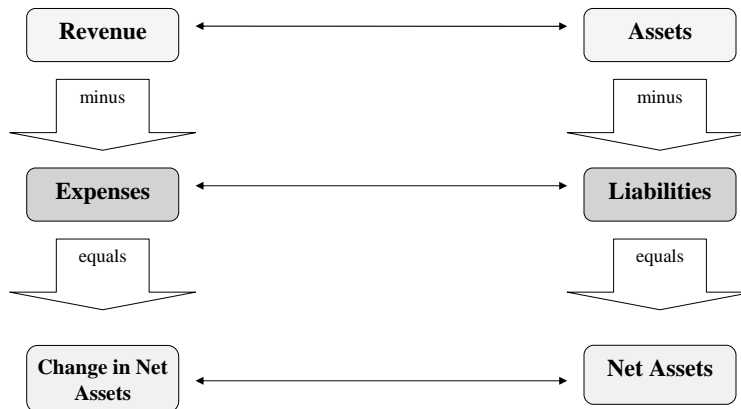
| | Unrestricted | Temp Restricted | Total |
|--|----------------|-----------------|----------------|
| Support and Revenue | | | |
| Membership Dues | 58,180 | 0 | 58,180 |
| Conference / Training Revenue | 79,201 | 0 | 79,201 |
| Program Fees | 14,368 | 0 | 14,368 |
| Foundations | 0 | 200,832 | 200,832 |
| All other sources | 17,336 | 0 | 17,336 |
| Net assets released from restrictions | 47,527 | (47,527) | 0 |
| Total Support and Revenue | 216,611 | 153,305 | 369,916 |
| Expenses | | | |
| Payroll Expenses | 113,898 | 0 | 113,898 |
| Contracted Services | 40,842 | 0 | 40,842 |
| Travel | 8,344 | 0 | 8,344 |
| Occupancy | 7,513 | 0 | 7,513 |
| All other expenses | 27,823 | 0 | 27,823 |
| Total Expenses | 198,420 | 0 | 198,420 |
| Increase (decrease) in net assets | 18,191 | 153,305 | 171,496 |
| Net assets at beginning of year | 26,916 | 9,147 | 36,063 |
| Net assets at end of year | 45,107 | 162,453 | 207,560 |

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Relationship of Statement of Activities to Statement of Financial Position

Statement of Activities

Statement of Financial Position



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Other Basic Types of Reports

- **Budget vs. Actual**
Report comparing actual expenses for a given period to the budget for that same period. The actual expense column of this report is basically the same as the "Unrestricted" column on the Statement of Activities.
- **Statement of Functional Expenses**
Basic report listing expenses by function: programs services, fundraising, and management and general (administration). This report is required on IRS Form 990 and is commonly included in audited financial statements.

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MNA Budget vs. Actual

January 1, 2006 to December 31, 2006

| | Actual | Budget | \$ Variance | % Variance |
|--|----------------|----------------|-----------------|---------------|
| Support and Revenue | | | | |
| Membership Dues | 58,180 | 48,500 | 9,680 | 20.0% |
| Conference / Training Revenue | 79,201 | 49,000 | 30,201 | 61.6% |
| Program Fees | 14,368 | 13,000 | 1,368 | 10.5% |
| Foundations | 0 | 69,500 | (69,500) | -100.0% |
| All other sources | 17,336 | 6,750 | 10,586 | 156.8% |
| Net assets released from restrictions | 47,527 | 60,000 | (12,473) | -20.8% |
| Total Support and Revenue | 216,611 | 246,750 | (30,139) | -12.2% |
| Expenses | | | | |
| Payroll Expenses | 113,898 | 107,958 | 5,940 | 5.5% |
| Contracted Services | 40,842 | 49,300 | (8,458) | -17.2% |
| Travel | 8,344 | 21,650 | (13,306) | -61.5% |
| Occupancy | 7,513 | 6,216 | 1,297 | 20.9% |
| All other expenses | 27,823 | 45,170 | (17,347) | -38.4% |
| Total Expenses | 198,420 | 230,294 | (31,874) | -13.8% |
| Increase (decrease) in net assets | 18,191 | 16,456 | 1,735 | 10.5% |

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MNA Statement of Functional Expenses

January 1, 2006 to December 31, 2006

| | Total | Program Services | Supporting Services | |
|-------------------------------------|----------------|---------------------|-------------------------|--------------|
| | | | Management & General | Fundraising |
| Functional expenses | | | | |
| Salaries and wages | 99,139 | 90,023 | 6,389 | 2,726 |
| Benefits and taxes | 14,759 | 14,174 | 417 | 168 |
| Contracted services | 1,050 | 939 | 90 | 21 |
| Supplies | 2,566 | 2,427 | 133 | 6 |
| Telephone | 2,314 | 2,170 | 118 | 27 |
| Postage and shipping | 1,957 | 1,901 | 6 | 50 |
| Occupancy | 7,638 | 7,015 | 464 | 159 |
| Equipment rental and maintenance | 328 | 309 | 15 | 4 |
| Printing and publications | 7,954 | 7,940 | 0 | 13 |
| Travel | 6,324 | 6,285 | 35 | 4 |
| Conferences, conventions & meetings | 41,035 | 41,035 | 0 | 0 |
| Depreciation expense | 294 | 269 | 17 | 8 |
| Other expenses | 13,063 | 12,855 | 168 | 40 |
| Total functional expenses | 198,420 | 187,341 | 7,852 | 3,226 |

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Questions and Answers

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