

Organizational Financial Management



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Introductions

Please take a moment to share:

- the organization you are with
- your position
- and what you are hoping for in this session



Why Boards of Directors and Management need quality Financial Statements?

The Board is ultimately responsible for organizational Governance

- *Board members have legal fiduciary responsibility*
- *Including the duties of care, loyalty, good faith, obeying the law, oversight, and disclosure/candor*
- *They propose strategies, set objectives, establish policies, and make decisions*



Management staff are employed to implement day-to-day operations

- *To perform under Board guidance, constraints, and oversight*
- *To provide accurate and timely performance and financial reports for assessment and action.*



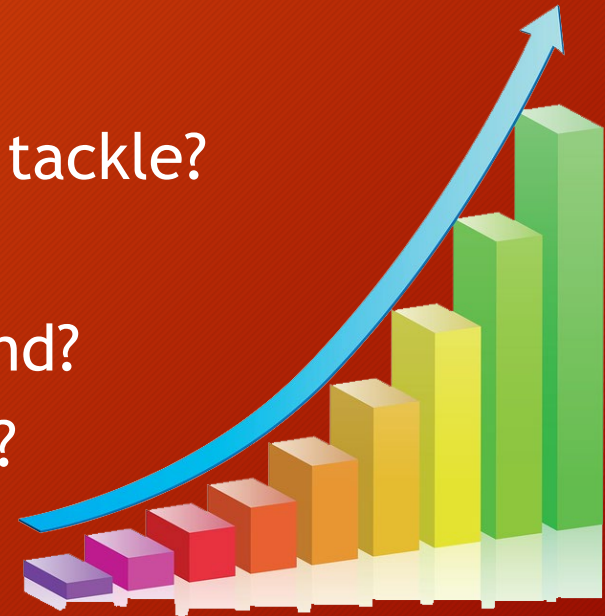
Find out what your Board of Directors wants in Financial Reports

- Ask the Board what financial information they want and need
- Ask them what format they would they like it in
- Ask how often they want to receive it
- Check in with Board members every year or so to see if they are satisfied with financial reporting or if they want changes



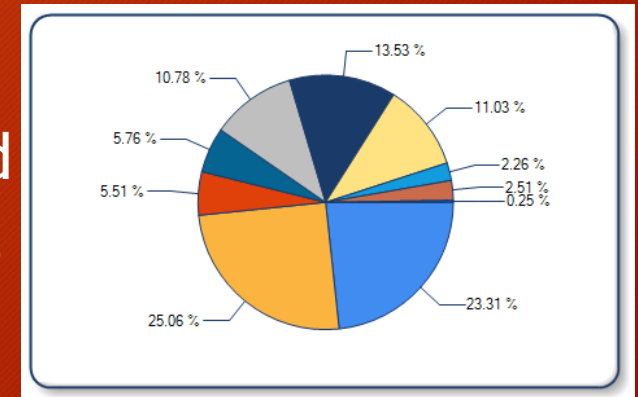
Also, discover the Board's expectations for Financial Management and Financial Health

- Are they looking for stability or growth?
- Should the organization make money each year?
- What is their attitude regarding debt?
- Are there problems to resolve or opportunities to tackle?
- What does the Strategic Plan say about finances?
- How much cash or equivalent do they want on hand?
- Does the Board want to maintain certain reserves?



Let's not ignore Management -- *What do Executives, Financial Officers, and Program Directors need in order to do their jobs?*

- Budgets to help guide spending decisions
- Resources to see if staff can be hired or raises given
- The possibility of adding a new Line of Business
- Where costs can be cut and efficiencies increased
- How are finances doing monthly and year-to-date
- How best to allocate scarce resources
- Ways to reduce risk and increase potential for success



Basics of Financial Reporting

Statement of Financial Position - Balance Sheet



The wealth or value of the organization

Assets: *What the organization owns*

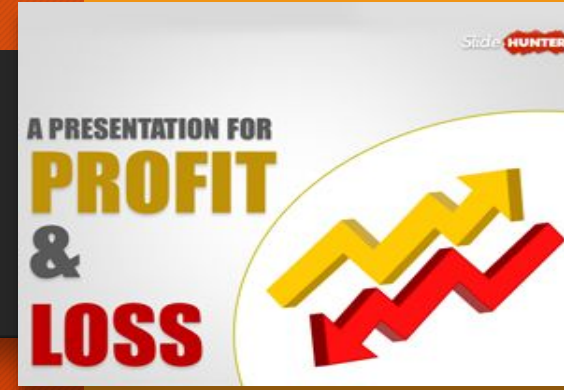
Liabilities: *What the organization owes*

Assets minus Liabilities equal Net Assets (fund balance, net worth or equity)

Net Assets *are the organization's financial resources to solve problems or take advantage of opportunities*

Assets must be greater than Liabilities or there is negative net worth

Basics of Financial Reporting -- *Statement of Revenue & Functional Expenses for Operations*



- *Shows revenue (income) received monthly and year-to date*
- *Shows monthly and YTD expenditures by budget line item*
- *Compares it to the FY budget*
- *Compare % of revenue received and expenses with % of FY expired*
- *Revenue less expenses shows monthly and YTD earnings or losses giving a snapshot of how the year is going financially*

See sample financial report handout

There is no substitute for:

Timely and accurate monthly financial reports that come from reconciled bank accounts.



There is no good excuse!

Not having it places the organization at risk

Other Financial Information to consider reporting out

- *Cash balances of organizational bank accounts*
- *A revenue breakout by type: government, state, bank, foundation, earned, donations, etc.*
- *Any capital revenue raised outside of the operating budget*
- *Larger organizations may provide a Cash Flow report or analysis*
- *Sometimes financial reports need some narrative explanation*



What are Internal Controls?

Policies and practices that ensure the financial integrity of the organization, protect the nonprofit's assets, yield reliable reporting, facilitate appropriate management, and cause compliance with laws and regulations



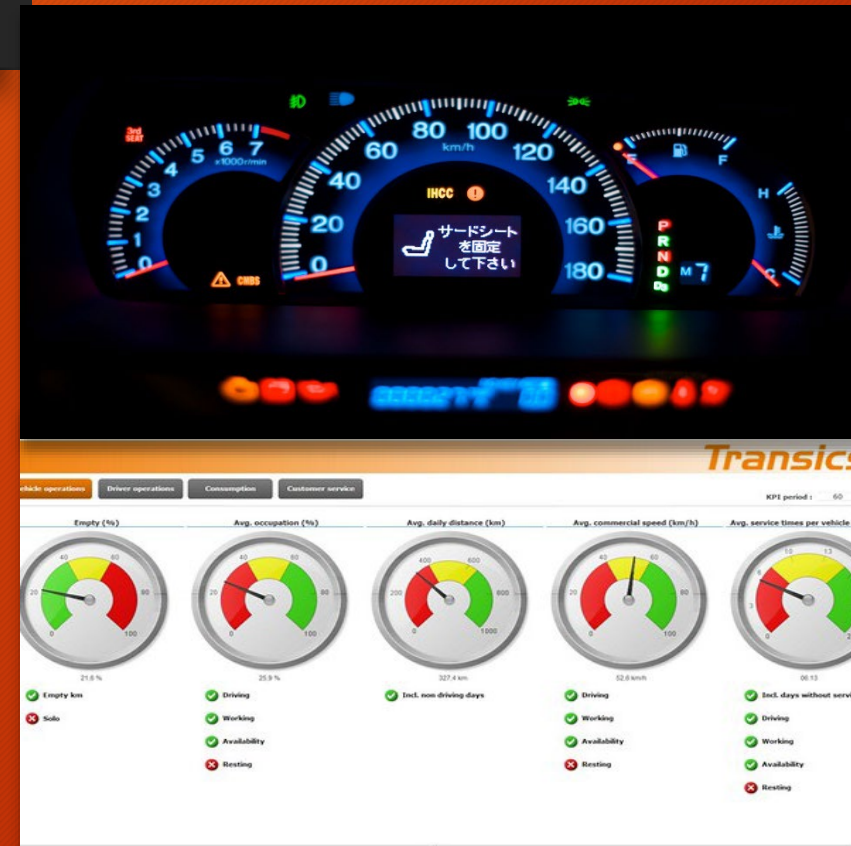
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They help stop fraud, abuse, inaccuracies, mistakes, losses, and poor decisions

Some organizations use a “Dashboard” Summary Report

While not a substitute for full financial reporting, a dashboard can provide an “at a glance” picture of organizational health

- A dashboard often includes “bottom lines” and less detail
- It can provide a more “visual” picture of performance or trends
- Management and Board can choose what to measure on the dashboard: speed, rpms, fuel, temperature, oil pressure, etc. **OR** assets, debt, revenue, expenses, year to date, reserves, days cash on hand, etc.



Let's share what we know in discussion groups and report back to all

Internal Control Discussion Group: *List financial internal controls and policies important to safeguard the organization's assets and assure financial integrity*

Best Financial Practise Discussion Group: *List financial related best practices that will help assure financial health*

Take 15 minutes to discuss and list, and select a reporter



Use of Ratios to Determine Financial Health - Current Ratio (Liquidity)

Current Ratio:

$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$



Current ratio compares assets expected to be available as cash within the next year with current liabilities that will become due in the next 12 month period. 2.0 to 4.0 is considered healthy and higher is preferred.

Use of Ratios to Determine Financial Health - Quick Ratio(Liquidity)

Quick Ratio:

$$\frac{\text{Cash + Cash Equivalents}}{\text{Current Liabilities}}$$



A more conservative calculation than the Current Ratio since assets other than cash and cash equivalents are excluded. The Quick Ratio indicates whether the organization can meet its near term (30 to 90 days) payment obligations. Higher is preferred.

Use of Ratios to determine Financial Health - Days Cash On Hand(Liquidity)

Days Cash On Hand

$$\frac{\text{Cash} + \text{Cash Equivalents}) \times 365}{\text{Operating Expenses} - \text{Depreciation}}$$



Number of days that average cash disbursements can be made without any additional cash inflow. Higher value is better. This is sometimes called the days survival ratio.

Use of Ratios to Determine Financial Health - Debt to Equity Ratio

Debt to Equity Ratio:

$$\frac{\text{Total Liabilities}}{\text{Total Net Assets}}$$



The Debt to Equity ratio tells you the proportion of debt versus assets being used to support the organization. This shows what percentage of your assets are tied up in liabilities. A lower ratio implies a more financial stable organization. *(Note, some debt is good/necessary -debt that allows you to lend out at a higher rate, increase organizational earnings, or carry out mission)*

Use of Ratios to Determine Financial Health - Earned Income Ratios

Earned Income Ratio:

$$\frac{\text{Total Earned Revenue}}{\text{Total Revenue}}$$

Self-Sufficiency Ratio:

$$\frac{\text{Total Earned Revenue}}{\text{Total Expenses}}$$



Shows how much of your revenue is earned and how much of your expenses are earned. Start measuring and increasing your earnings - fees, interest, interest from loans, rent, contracts, etc. The goal is to trend upward over the years with less reliance on grants.

Ask your CPA which Ratios to use



Your organization's CPA probably uses certain ratios to determine financial health.

- *Ask which ratios they use, why, and what they mean.*
- *See what he/she suggests you use for the Board of Directors and Management.*

Preparing for your Annual Audit and CPA

Good audits are the foundation of a successful nonprofit

- *The Audit is a key 3rd party confirmation of financial health*
- *Take time, be prepared, have everything your CPA needs*
- *Being prepared saves money and builds confidence*
- *Doing all regular accounting tasks makes this easy*
- *Be available for any audit questions*
- *Resolve any issues promptly*
- *Utilize CPA for TA during the year*

See handout on preparing for audits



Some Final Thoughts

For sound organizational financial management, should have:

- A quality Finance Director and Finance Department
- Financial management software to facilitate operations
- A detailed, written Financial Management Guide
- An engaged Board of Directors and Management



Thank You and Best Wishes!

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