

Navigating Non-Profit Finances

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Navigating Non-Profit Finances

Navigating Non-Profit Finances: Will give the listener information regarding important financial metrics, reporting information, what information to track, key information for financial success and how to avoid financial failure, and more.



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Misconceptions About Non-Profits

- You don't aim to be profitable
- You use up all your resources to support company purpose
- Financial Planning is optional
- Internal controls/accountabilities are not of primary importance
- Making a financial margin is counter to the purpose of a non-profit
- Having reserves hurts the mission



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Definition of a Non-Profit Organization

A Non-Profit Organization (NPO) is an organization that has been granted tax exempt status by Internal Revenue Code section 501(c)(3). They are also called '501(c)(3)' organizations, named for the IRS code section that defines them.

Typically, according to the code section, these organizations have religious, scientific, charitable, educational, literary, public safety or cruelty-prevention causes or purposes. Some examples of nonprofit organizations include hospitals, universities, national charities, churches, and foundations.



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Definition of a Non-Profit Organization

- A note of caution:
 - Title IX Decision in Maryland and California



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Definition of a Non-Profit Organization

- ASI affiliated organizations are a mixture of for-profit and non-profit, while the different church organizations are almost exclusively NPOs.
- While the focus of our discussion today is on non-profit accounting, many of the principles discussed are applicable to both for-profit and non-profit entities



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What We Will Cover

- Reading Your Balance Sheet
 - Accounts Receivable/Collections
 - Accounts Payable
 - Debt
- Importance of Cash
- Processing Donations
 - State Funds
 - Donor Restrictions
 - Donor Advised Funds
 - Donor Input
 - Taking or not taking donations
 - Accounting/Reporting Requirements
- Accountability and Internal Controls
- Important Financial Metrics and Ratios
- Making a Financial Plan
- Sales Tax
- Question and Answer



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Financial Statements

- Two types of accounting processes
 - Cash Basis
 - Accrual Basis



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Financial Statements

- Cash Basis
 - Recognizes transactions only when cash comes in or when cash goes out
 - There is no accounting recognition of benefit or obligation until it is realized through a cash transaction
 - The transaction is recorded, not on the date goods or services are received or given, but on the date cash changes hands for the goods or services.



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Financial Statements

- Accrual Basis
 - Recognizes transactions on the date income is earned or an expense obligation is incurred.
 - Transactions are recorded (via receivables and payables) even though cash has not changed hands



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Financial Statements

- For purposes of this presentation, the following are assumed:
 - You are using some sort of accounting method
 - There will be an emphasis on the accrual method



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Reading Your Balance Sheet

- Quiz Time!!
 - Current Assets went up year over year!! Is that a good thing?
 - Cash went down year over year! Is that a bad thing?



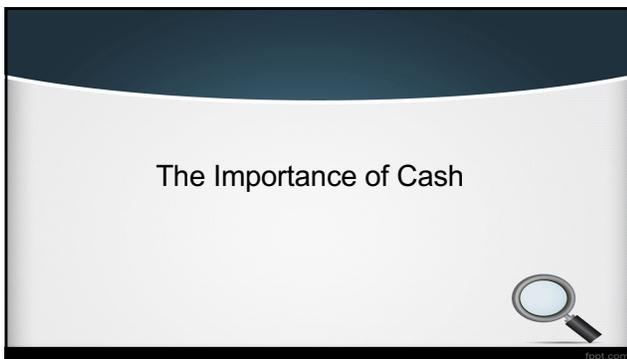
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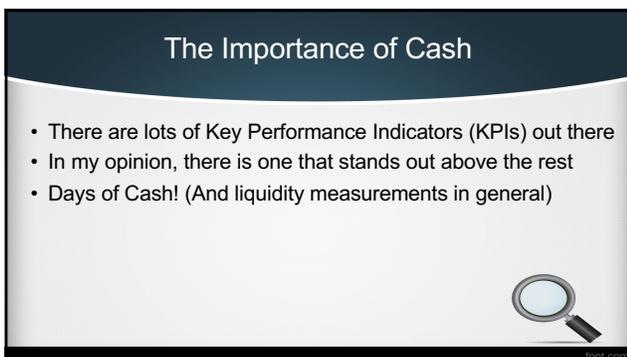
Reading Your Balance Sheet

	What can you tell me about these scenarios?	ABC Company Balance Sheet Period Ended December 31, 2021		
Assets				
Cash		\$5,000	\$25,000	\$500,000
Accounts Receivable		<u>\$1,000</u>	<u>\$30,000</u>	<u>\$10,000</u>
Total Assets		\$6,000	\$55,000	\$510,000
Liabilities				
Accounts Payable		\$500	\$40,000	\$10,000
Loans Payable		<u>\$0</u>	<u>\$10,000</u>	<u>\$600,000</u>
Total Liabilities		\$500	\$50,000	\$610,000
Net Assets		\$5,500	\$5,000	-\$100,000

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The Importance of Cash

	What observations would you make about this? Is there anything wrong or that would concern you?	ABC Company Balance Sheet Period Ended December 31, 2021		ABC Company Income Statement Year to date Jan 1 – Jun 30, 2022
Assets			Income	\$400,000
	Cash	\$500,000		
	Accounts Receivable	<u>\$10,000</u>	Expenses	<u>\$275,000</u>
	Total Assets	\$510,000		
Liabilities			Net Income	\$125,000
	Accounts Payable	\$10,000		
	Loans Payable	<u>\$600,000</u>	181 days	\$1,520 Exp/day
	Total Liabilities	\$610,000	329 days cash	
Net Assets		-\$100,000		

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The Importance of Cash

		ABC Company Balance Sheet Period Ended December 31, 2021		ABC Company Income Statement Year to date Jan 1 – Jun 30, 2022
Assets			Income	\$400,000
	Cash	\$500,000		
	Accounts Receivable	<u>\$10,000</u>	Expenses	<u>\$275,000</u>
	Total Assets	\$510,000		
Liabilities			Net Income	\$125,000
	Accounts Payable	\$10,000		
	Loans Payable	<u>\$600,000</u>	What happens if your definition of cash excludes your known obligations?	
	Total Liabilities	\$610,000		
Net Assets		-\$100,000		

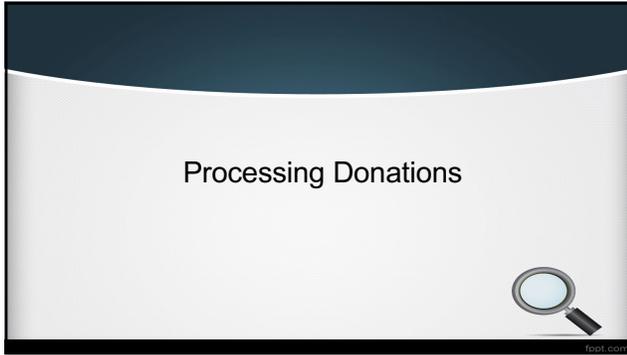
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The Importance of Cash

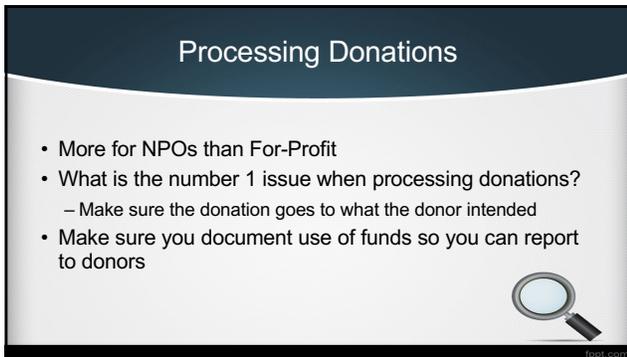
- Real Life Example
 - Pandemic appropriation



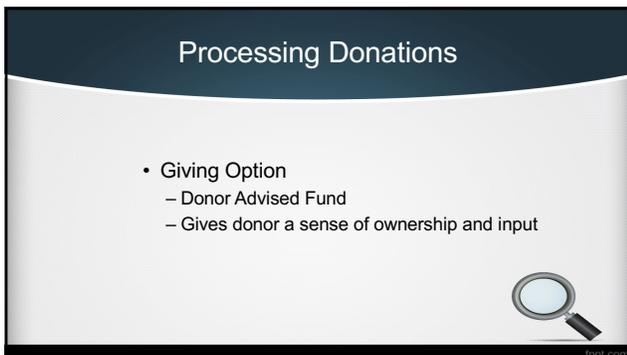
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Processing Donations

- Are there times when you do not accept a donation?
 - Donation restriction is at odds with your purpose/mission
 - Donation obligates you to responsibilities outside the scope of your purpose/mission/capabilities
 - Donation is not adequate to accomplish the purpose for which it is given
 - Stale Funds (What do I do if I have stale funds?)



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Accounting and Reporting



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Accounting and Reporting

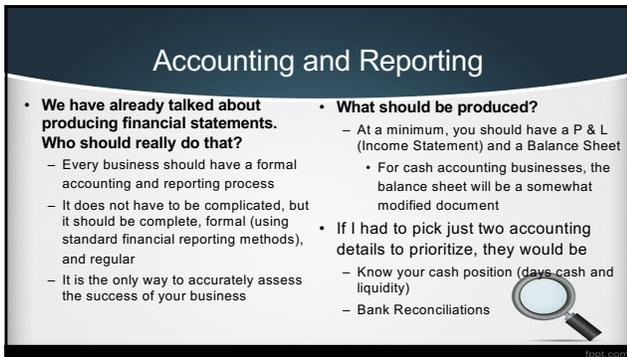
- **If your business has a board, what should you do?**
 - Present a monthly/periodic report to the board.
 - Include your balance sheet and income statement
 - Also report on trends, significant one-time events, and projections
 - If your business is large enough and has a board, consider an outside audit
 - If you are a NPO with donors, an audit is a good idea and promotes transparency



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Accountability and Internal Controls

- Most important when you have a board or is donor based
 - Having these is not mistrust, but protective
 - Requires the following:
 - Reporting
 - Timeliness
 - Transparency
 - Accuracy
 - Measurable expectations
 - Accountable ethical behavior
- Example if time permits



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Important Financial Metrics/Ratios/Measurements



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Important Financial Metrics/Ratios/Measurements

- What are some of the financial metrics you need to pay attention to:
- Liquidity Ratios:
 - **Days cash available** - How many days can you operate if income stopped
 - cost per day/available cash – larger is normally better
 - **Working Capital** – Your ability to pay off current liabilities with current assets
 - current assets - current liabilities – larger is normally better
 - **Current Ratio** – Ability to pay off short term liabilities with current assets (a way to describe working capital)
 - current assets/current liabilities – larger is normally better



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Important Financial Metrics/Ratios/Measurements

- What are some of the financial metrics you need to pay attention to:
- Leverage Ratios:
 - **Debt Ratio** – How much debt do you have relative to your assets
 - $\text{total debt} / \text{total assets}$ – smaller is normally better
 - **Debt to Net Assets Ratio** – Debt load against the value of your company
 - $\text{Debt} / \text{Net Assets}$ – smaller is normally better



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Important Financial Metrics/Ratios/Measurements

- What are some of the financial metrics you need to pay attention to:
- Efficiency Ratios:
 - **Receivable turnover** – How many times a year do you collect your average receivables
 - $\text{Net Annual Sales} / \text{Average A/R}$ – larger is normally better
 - **Inventory turnover ratio** – How many times inventory is sold and replaced during a given period
 - $\text{Cost of goods sold} / \text{average inventory}$
 - **Days Sales in Inventory** – How long sales sits in inventory before it is sold
 - $365 / \text{Inventory Turnover Ratio}$



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Important Financial Metrics/Ratios/Measurements

- What are some of the financial metrics you need to pay attention to:
- Profitability Ratios:
 - **Gross Margin Ratio** – How much do you make after paying cost of goods/cost of operation
 - $\text{Gross profit} / \text{net sales or net income}$ – larger is normally better
 - **Return on Assets Ratio** – How efficiently you use your assets to generate a profit
 - $\text{Net income} / \text{Total Assets}$



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Important Financial Metrics/Ratios/Measurements

- When you look at the following slide, how fast can you tell if things are good or bad?
- Why?



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Important Financial Metrics/Ratios/Measurements

- Describe to me what you see...
- What questions would you ask of me?

March YTD Days Cash Available

Year	Days Cash Available
2017	151
2018	194
2019	185
2020	171
2021	214
2022	262

Goal is 200 days

Total YTD Cash = \$302,471; Total Cash Goal is \$63,300,000
Actual YTD Cash is \$79,357,676

March: Current Ratio

Year	Current Ratio
2017	3.38
2018	5.38
2019	4.86
2020	3.33
2021	2.42
2022	3.28

This slide only shows March 2022. For more data on this slide, see the following slides 35 and 36 in our presentation.

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Making a Plan

AKA – A Budget



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Making a Plan

- J.R.R. Tolkien, in his classic book, 'The Hobbit', wrote, "It does not do to leave a live dragon out of your calculations, if you live near one."
- The point is, you need to know who you serve, how you are going to serve them, and the factors you need to understand to accomplish that.
- And part of that means you need a budget. You need a financial plan.



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Making a Plan

1. Look at this information for a few seconds and tell me what you see?
2. What questions would you ask?
3. What value does a budget provide to your organization?

March: YTD Expense Summary

Departmental Expenses	2022	Budget	Dollar Variance	% Var.	2021
Church Ministries	\$1,528,148	\$1,274,103	(\$254,045)	-20%	\$2,451,209
Educational	\$7,708,365	\$7,832,388	(\$124,023)	-2.1%	\$7,486,456
Publishing	\$138,222	\$172,906	(\$34,684)	-20.0%	\$195,275
Health and Humanitarian	\$417,648	\$598,381	(\$180,733)	-30.4%	\$614,654
Administration	\$3,408,059	\$3,571,087	(\$163,028)	-4.7%	\$2,789,304
Retirement Contributions	\$44,510	\$775,363	(\$730,853)	-94.3%	\$729,710
Conventions and Meetings	\$4,710	\$43,750	(\$39,040)	-89.2%	\$990
Office Operations/Market	(\$107,000)	\$18,833	(\$125,833)	-669.2%	\$88,360
Other *	\$10,866,118	\$13,202,963	(\$2,336,845)	-18.7%	\$10,432,674
Total Expenses	\$27,222,387	\$17,738,207	(\$9,484,180)	-34.8%	\$24,089,724

* Includes: PII, Chaplaincy Ministry, Religious Liberty, Communication/Media, A.C., Special Assistance Appropriation, NAZRE, MA



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Making a Plan

- What should you consider when making your plan?
 - Projected income sources
 - List your projected expenses
 - Evaluate market conditions that may affect the above
 - Build in a margin
 - Know the customer experience
 - Follow up during the year where there are significant variances



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Sales Tax

- A quick word about sales taxes
 - Relatively new reality of taxing online sales
 - Using a service
 - Avalara



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Questions



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