



Secure Needed Resources To Further Your Nonprofit Mission

By Clearly Communicating Your Organization's Fiscal Health

By Paul R. Ballasy, CPA, J.H. Cohn

In the current economy, donors and other funders are increasingly interested in the financial operations and viability of not-for-profit (NFP) organizations prior to making a contribution. As the drive to capture funding and contributions continues, the need to remain as transparent as possible is critical.

Acknowledging this need, The Giving Institute, a not-for-profit organization committed to advancing philanthropy through research and education, has detailed a "donor bill of rights" which emphasizes, among other messages, that NFP financial statements should be made available to donors and other funders. It is, in turn, leadership's responsibility to make these reports easy

to understand, regardless of the reviewer's comprehension of financial statements and principles. Specifically, we believe the clear communication of four key areas will serve as strong indicators to the NFP's overall fiscal health and outlook: *liquidity, capital expenditures, net assets, and cash flow management.*

Liquidity

Liquidity is generally measured in two ways:

- Working capital, or the difference between current assets and current liabilities. Strong NFPs will maintain a cash reserve to continue meeting financial obligations during times of decreased cash flow. The size of this

reserve will vary by organization.

- Current ratio, or the organization's current assets divided by current liabilities. For example, a two-to-one ratio would mean that for every \$1 of short-term liabilities, the organization has \$2 in current assets available to fulfill those liabilities when they come due.

Effectively communicating the organization's liquidity – that is, demonstrating that the NFP has sufficient cash on hand to meet its obligations—reinforces the message of sustainability and commitment, which should not be underestimated.

Capital Expenditures

Appropriately budgeting capital expenditures—or, the funds expended for the acquisition of long-term assets whose benefits will be realized in the future—may help the organization properly plan when to purchase those items while managing cash flow.

When purchasing capital items while assuming debt, an executive director needs to determine if there will be revenue generated to properly pay the debt associated with the purchase of the capital items. If the items to be purchased are covered under a capital campaign, the leader must consider the validity of the pledges and timing of payments when funding the capital costs.

When explaining capital expenditures in a financial statement to donors and other funders, it is important that they are detailed in terms of the organization's mission and how funds will be used to achieve the organization's goals. Successfully detailing that the funds were available to cover these expenditures, rather than relying on debt accumulation, serves as reinforcement to donors that the NFP has leaders with financial acumen who are able to successfully run the organization "in the black" and who are worthy of contribution.

Net Assets

A detailed explanation of net assets provides critical insight into the organization's fiscal health. At times, donors have a very specific short- and long-term goal for their donations and specifically request that their funds are allocated in one of three ways:

- Permanently restricted net assets are permanently restricted based on the donor's intent. They are invested in perpetuity and while the investment's earnings may be used, the corpus usually must be maintained.
- Temporarily restricted net assets represent contributions made by donors who have provided restrictions based on time or a particular purpose. These are often included on financial statements as cash, receivables, or investments. Since these amounts must be expended in accordance with the donor's request, they should be considered when calculating liquidity of the organization.
- Unrestricted net assets are the result of operating activities which have no "strings" attached. While these offer the

GOOD NEWS: Your Organization Is Growing.

BAD NEWS: You've Outgrown QuickBooks®.

- **Imagine** being able to break down your budget by each grant, program or project directly in your accounting system.
- **Imagine** if grant management and allocations were built directly into your financial management system.
- **Imagine** what it would be like if you could easily generate the reports you need – spending hours instead of days each month!

That's exactly what **Sage MIP Fund Accounting** can offer. Call us today for an on-site demonstration.

For more information, contact us at:

The Technology Group, LLC
147 Charter Oak Avenue
Hartford, CT 06106
860-524-4400
www.thetechnologygroup.com

When your business relies on technology, you can rely on us.

Empowering your donors and other funders to understand where their money is going has unmistakable reach when searching for contribution dollars.

greatest flexibility, they may not actually be available since they are frequently used for general operating expenses.

Showing a manageable debt-to-unrestricted net asset ratio proves that an organization is able to perpetuate itself. An acceptable ratio will vary from organization to organization based on such factors as complexity and size. NFP leaders should consult with their professional advisors as to what would be a proper ratio for their organization.

Cash Flow Management

As donors and other funders continue

to demand more from the NFPs in which they invest, it is critical that these organizations prove they are operated like a business. They must strive for consistent, positive cash flow from operations in order to repay any debt and invest in assets. Failure to generate positive cash flow from operations will lead to a lack of contribution as well as limit the organization's ability to fund potential opportunities in the future.

Empowering your donors and other funders to understand where their money is going has unmistakable reach when searching for contribution dollars. If they grasp the four key elements of a financial statement—liquidity, capital expenditures, net assets, and cash flow—they will be confident that, under your leadership, the organization has sufficient financial resources to meet its mission. ■

Paul R. Ballasy, CPA, is a J.H. Cohn partner and a member of the Firm's Not-for-Profit Industry Practice. He may be reached at pballasy@jhcohn.com or 860-368-5244.