



Sobel & Co., LLC

CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS



# Critical Financial Information for Nonprofits

April 28, 2011



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**Nonprofit and Social Services Group**  
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# Accounting Basics

- Provide overview of accounting services
- Review the fundamental concepts and structure of nonprofit financial statements
- Understand how to analyze this information for your own organization
- Cash flow importance
- Budget estimates
- Understand dash board reports
- Knowledge of assessing your Organization's financial health, utilizing ratios and dash boards



# Types of Financial Statements

Prepared by outside CPA Firms:

- Audit
- Review
- Compilation



Prepared internally by organization:

- Internal Budgets
- Internal Financials
- Dash Boards



# **Audit – Highest Level of Assurance**

- Verification of specific information
- Review of internal controls
- Tests of selected transactions
- Communications with third parties



# Review – Limited Assurance

- Primarily consists of analytical procedures
- Inquiries of management team
- Good middle ground without work and expense of an audit



## **Compilation – Lowest Level of Assurance**

- Present management's information
- Express no opinion or assurance
- No inquiries of management or analytical procedures

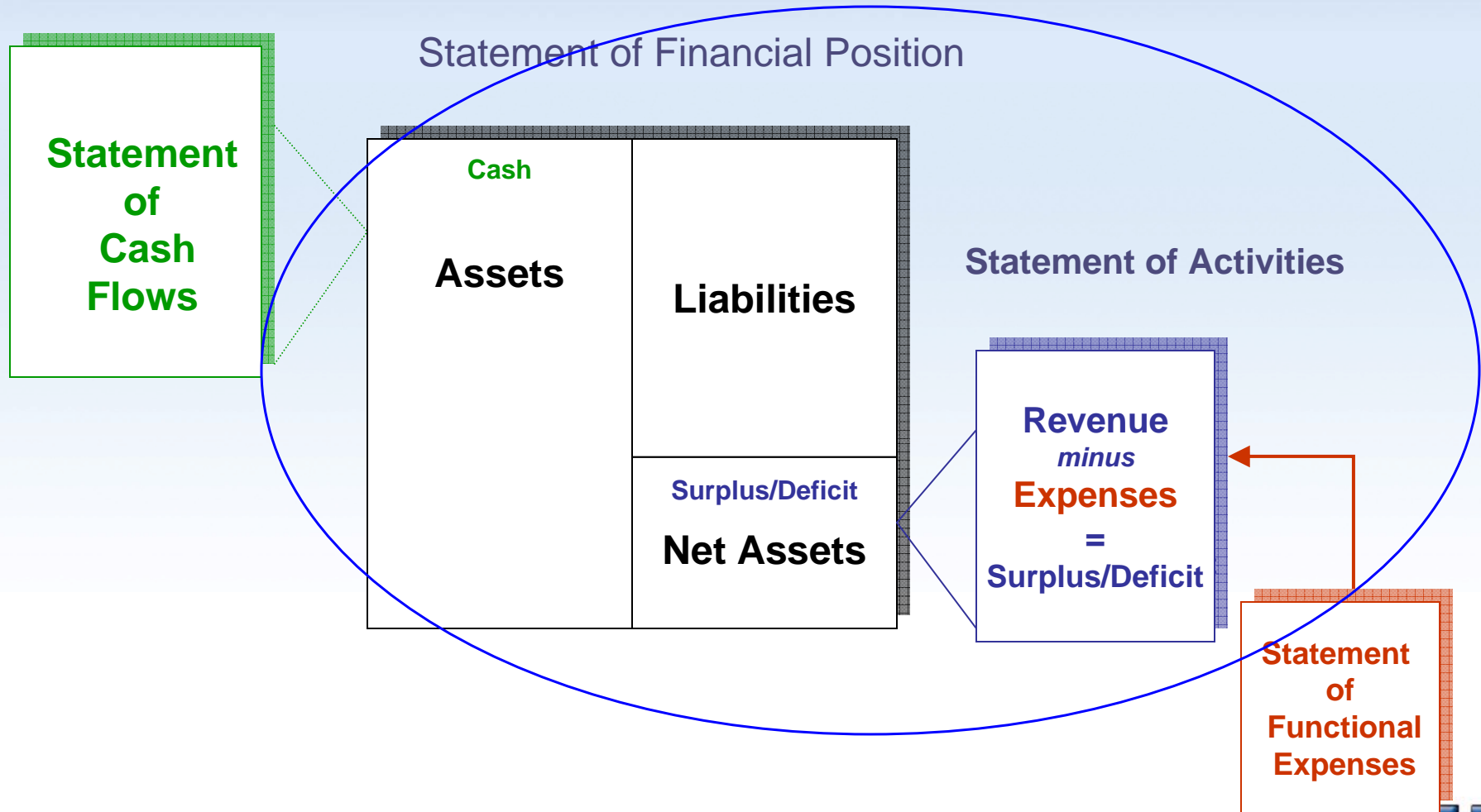


## Audited Financial Statements of Nonprofit/Social Service Organizations

- Independent Auditors' Report
  - Short Form (Lenders)
  - Long Form (GAS)
  
- Financial Statements of Not-for Profit Organizations
  - Financial Position (a.k.a. Balance Sheet)
  
  - Activities (a.k.a. Income Statement or Profit & Loss Statement)
  
  - Functional Expenses
  
  - Cash Flows
  
  - Footnotes



# Financial Statements Structure



# Financial Statements Structure

## Cash versus Accrual Accounting

- **Cash Accounting:** Very similar to balancing your checkbook. By definition there are no accounts receivable or accounts payable.
- **Accrual Accounting:** Includes receivables and payables
  - A more comprehensive look at your financial situation
  - Think with an accrual mentality

Accounts Receivable: *What others owe you*  
**NOT YET!**

Accounts Payable: *What you owe to others*  
**NOT NOW!**



# Statement of Financial Position

- $\text{Assets} = \text{Liabilities} + \text{Net Assets}$
- Snapshot at a Point in Time
- Net Assets Accounting for Contributions Received and Contributions Made
  - Permanently Restricted
  - Temporarily Restricted
  - Unrestricted



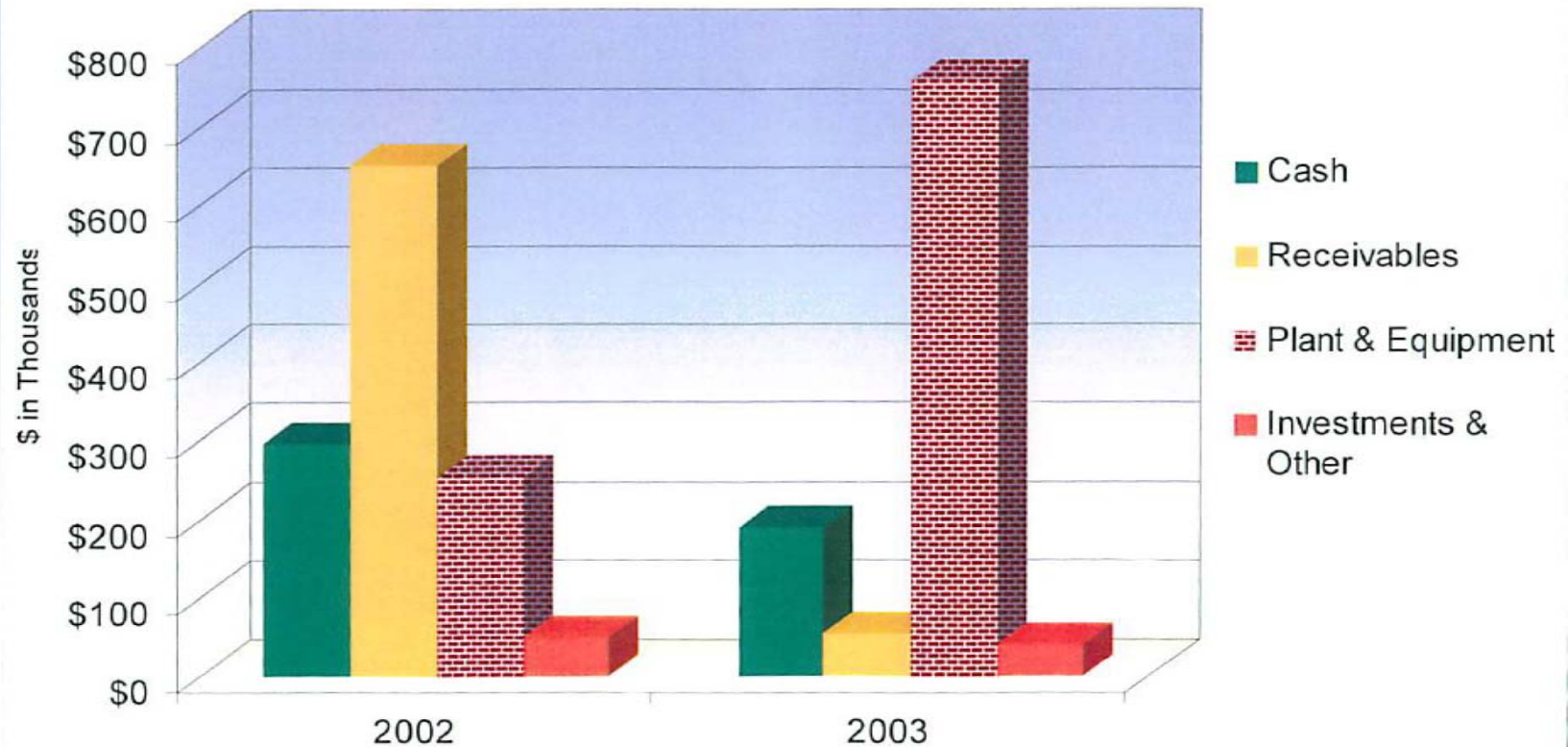
# Statement of Financial Position

	December 31, 2007
<b>ASSETS</b>	
<b>CURRENT ASSETS:</b>	
Cash and cash equivalents	\$ 146,559
Accounts receivable, net of reserve for bad debts of \$31,080 and \$58,050, respectively	505,054
Pledges receivable	150,000
Prepaid expenses	124,248
Total Current Assets	<u>925,861</u>
<b>PROPERTY AND EQUIPMENT, NET</b>	<u>2,437,225</u>
<b>OTHER ASSETS:</b>	
Investments at market	1,131,385
Pledges receivable - noncurrent net of unamortized discount of \$88,046	436,954
Bond refinancing costs, net	40,885
Security deposits	3,500
Other receivables	1,050
Due from affiliated organizations	3,727
Investment in partnership	-
Total Other Assets	<u>1,617,501</u>
	<u>\$ 4,980,587</u>
<b>LIABILITIES AND NET ASSETS</b>	
<b>CURRENT LIABILITIES:</b>	
Accounts payable and accrued expenses	\$ 794,958
Due to government agencies	20,167
Deferred revenue	1,225
Executive compensation arrangement	-
Current portion of long-term debt	113,543
Total Current Liabilities	<u>929,893</u>
<b>LONG-TERM LIABILITIES:</b>	
Notes payable, net of current portion	1,465,178
Due to government agencies, net of current portion	40,275
Total Long-term Liabilities	<u>1,505,453</u>
Total Liabilities	2,435,346
<b>COMMITMENTS AND CONTINGENCIES</b>	
<b>NET ASSETS:</b>	
Unrestricted	<u>2,545,241</u>
	<u>\$ 4,980,587</u>



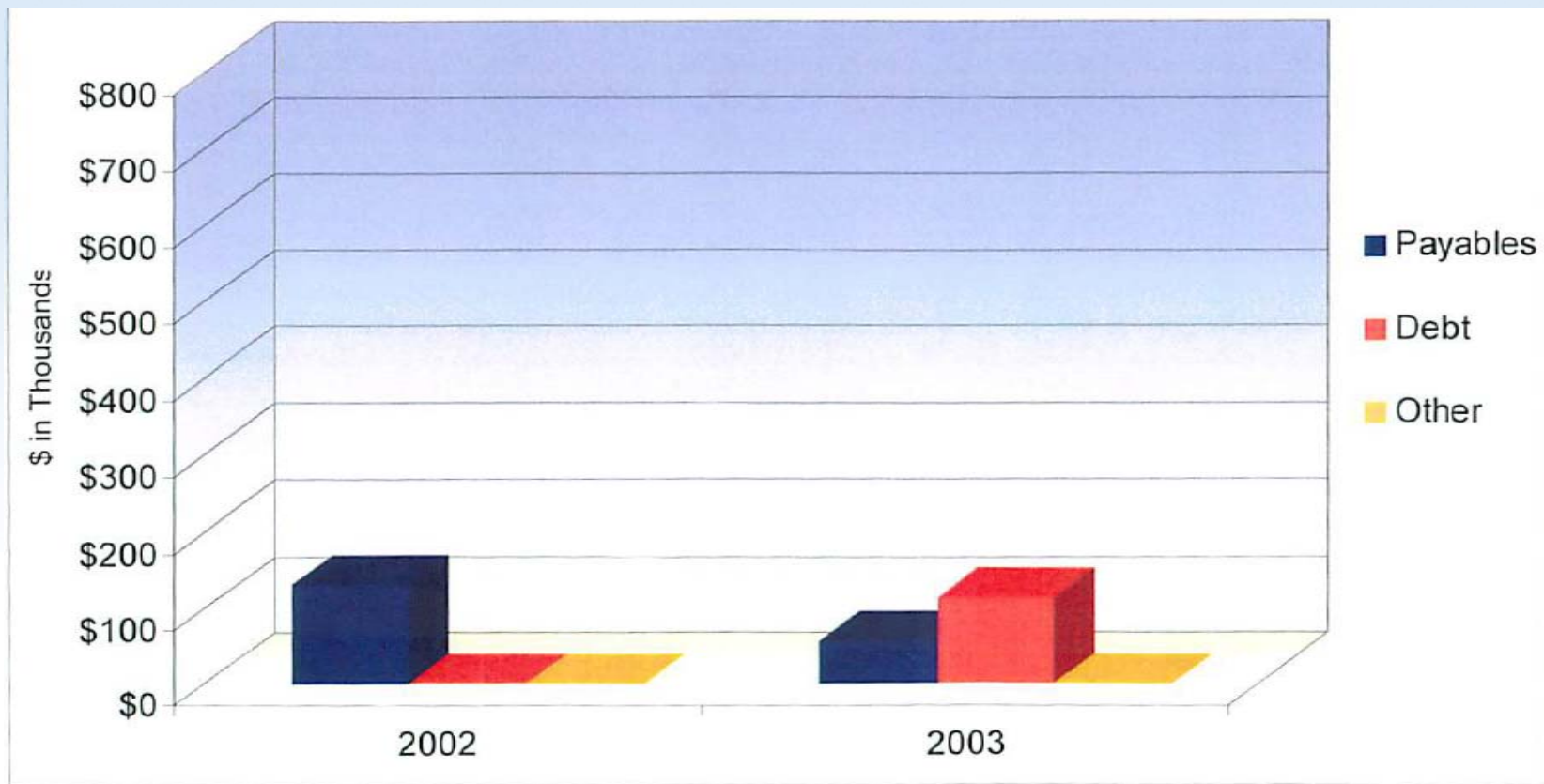
# Asset Composition

At Fiscal Year end December 31st



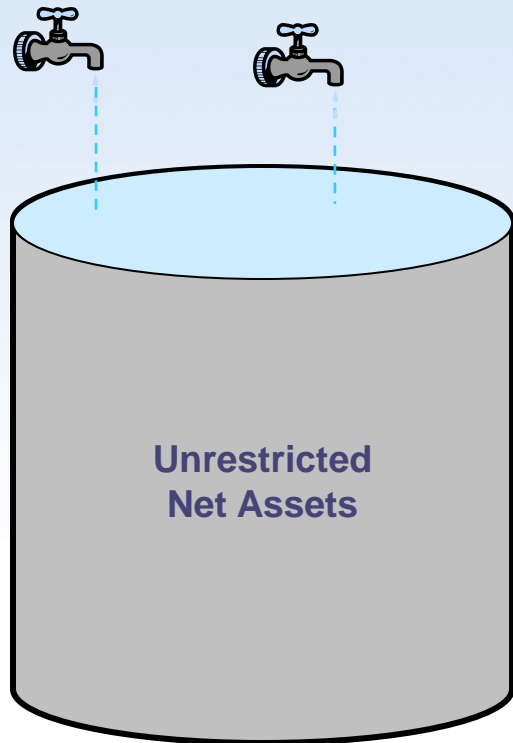
# Liability Composition

At Fiscal Year End December 31st

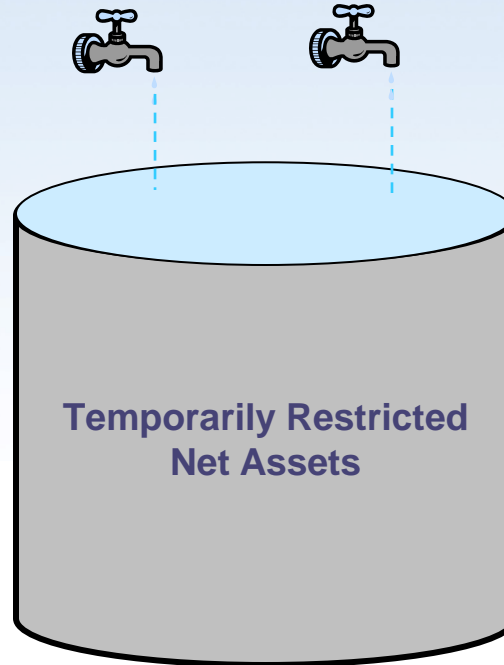


# A Primer on Net Assets: The 3 Buckets

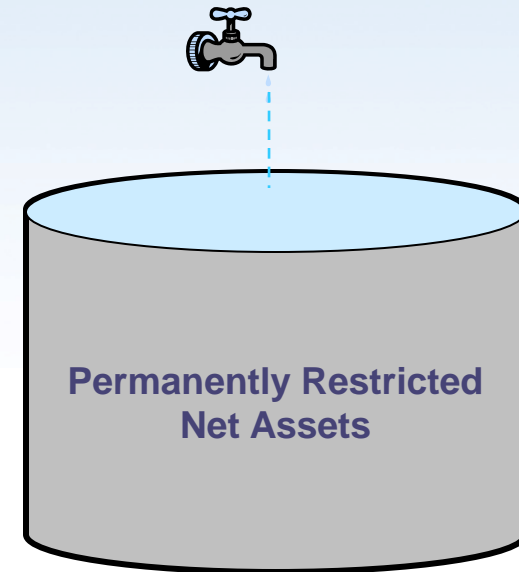
**Unrestricted Revenue**  
Earned      Contributed



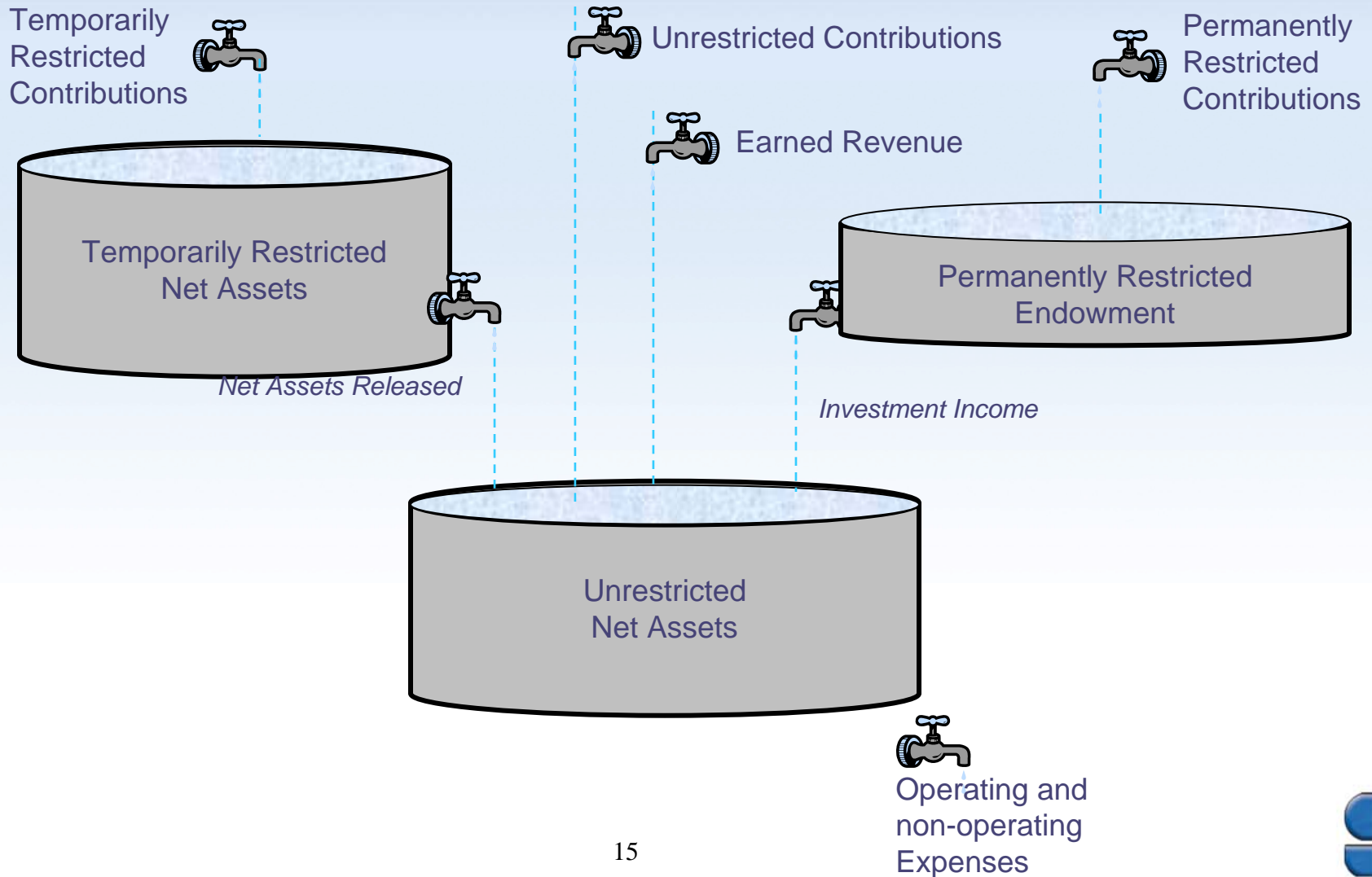
**Temp. Restricted Revenue**  
Purpose      Timing



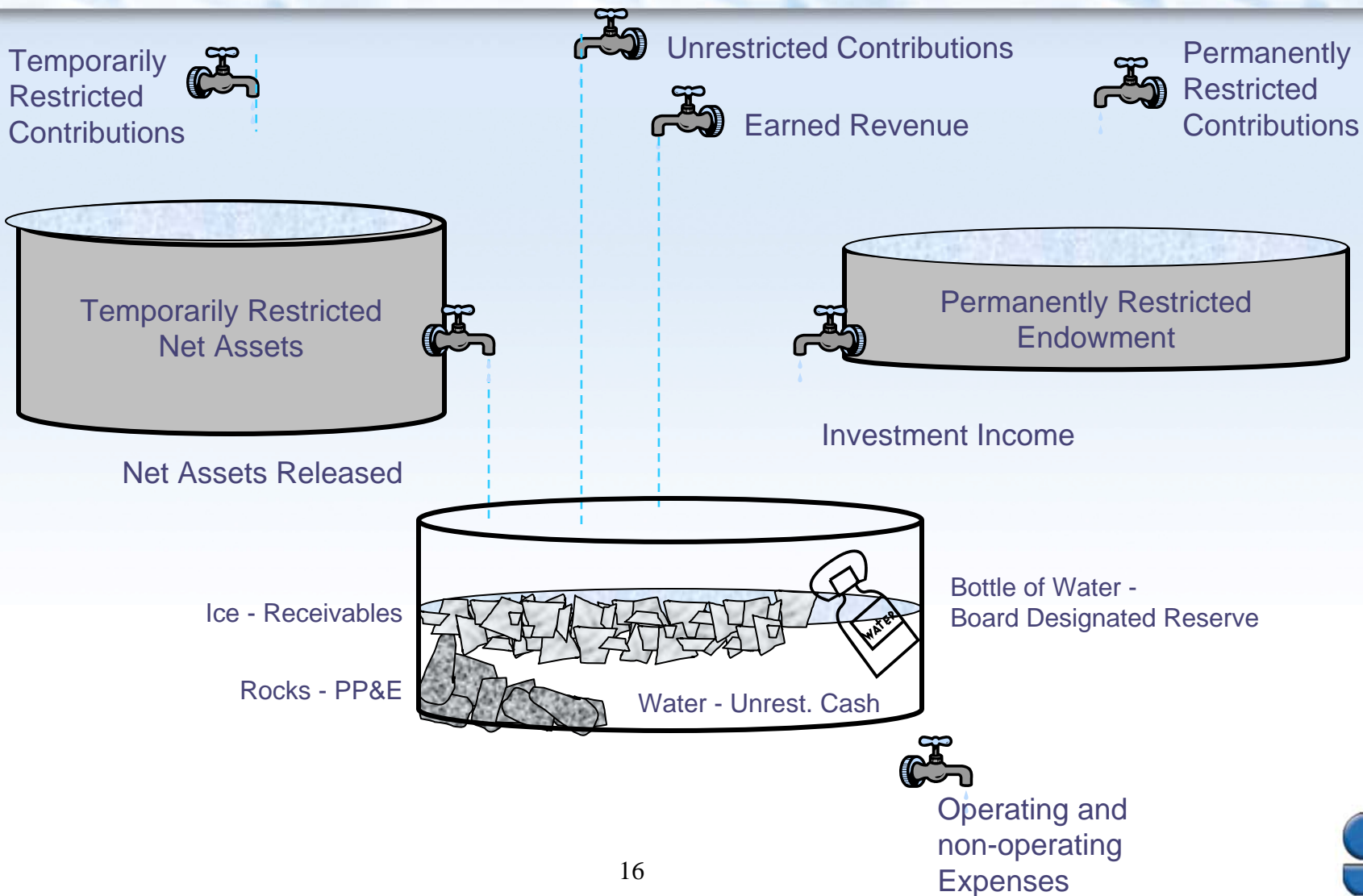
**Perm. Restricted Revenue**  
Endowment



# A Primer on Net Assets: The 3 Buckets



# A Primer on Net Assets: The 3 Buckets



# Statement of Activities

- Revenues, Gains, Other Support
- Expenses
  - Program services
  - Management and general
  - Fund raising
- Activity for the reporting period



# Financial Statements Structure

**How the Statement of Activities influences the Statement of Financial Position:** The change in Net Assets over the course of a fiscal period (i.e. month, quarter, year) will either increase or decrease your total Net Assets, which appears on the Statement of Financial Position.

**Statement of Financial Position  
FYE 06/30/02**

<b>Cash</b>	
<b>Assets</b>	<b>Liabilities</b>
	<b>Surplus/Deficit</b>
	<b>Net Assets</b>

**Statement of Activities  
FY 2003**

<b>Revenue</b>
Earned Contributed
<b>Expenses</b>
Personnel Professional Occupancy Interest Support
<b>Change in Net Assets</b>

**Statement of Financial Position  
FYE 06/30/03**

<b>Cash</b>	
<b>Assets</b>	<b>Liabilities</b>
	<b>Surplus/Deficit</b>
	<b>Net Assets</b>



# Statement of Activities

	Year Ended December 31, 2007			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>REVENUES, GAINS AND OTHER SUPPORT:</b>				
Public Support:				
Contributions and grants	\$ 787,012	\$ 164,212	\$ -	\$ 951,224
Grants from government agencies	46,545	3,608,076	-	3,654,621
Other Revenues:				
Fees and other	7,817	116,609	-	123,826
Interest and dividends	117,115	-	-	117,115
Realized gain on investments	-	-	-	-
Gain on sale of limited partnership	634,636	-	-	634,636
Unrealized gains and losses on investments	(54,714)	-	-	(54,714)
Other income	123,127	-	-	123,127
	<u>1,661,538</u>	<u>3,888,297</u>	<u>-</u>	<u>5,549,835</u>
Fundraising Events:				
Wine tasting	19,137	-	-	19,137
Less: Cost of event	7,639	-	-	7,639
	<u>11,498</u>	<u>-</u>	<u>-</u>	<u>11,498</u>
Net assets released from restrictions:	<u>3,888,297</u>	<u>(3,888,297)</u>	<u>-</u>	<u>-</u>
Total Revenues, Gains and Other Support	<u>5,561,333</u>	<u>-</u>	<u>-</u>	<u>5,561,333</u>
<b>EXPENSES:</b>				
Program services	2,835,161	-	-	2,835,161
Fund raising	82,305	-	-	82,305
Management and general	830,527	-	-	830,527
Total Expenses	<u>3,747,993</u>	<u>-</u>	<u>-</u>	<u>3,747,993</u>
CHANGE IN NET ASSETS	<u>1,813,340</u>	<u>-</u>	<u>-</u>	<u>1,813,340</u>
NET ASSETS - Beginning of year	<u>731,901</u>	<u>-</u>	<u>-</u>	<u>731,901</u>
NET ASSETS - End of year	<u>\$ 2,545,241</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,545,241</u>



# Financial Reports

“Accounting for Contributions Received and Made”

- Unconditional transfers or promises to give
- Contributions must be recorded as revenue
- Unconditional promises recorded at present value
- Defines recognition of contributed services



# Most Common Problems on Statement of Activities

- Overstatement or misallocation of revenues
- Understated or misallocated expenditures
- Aggressive accounting policies
- Related party transactions



# Aggressive Accounting Policies

- Use of very aggressive accounting principles or practices for income recognition, deferred revenues, capitalization and deferral of costs, amortization
- Lack of supporting documentation



# Statement of Functional Expenses

- Report Expenses by Functional Categories
  - Program Types
  - Management
  - G & A
  - Fund Raising



# Statement of Functional Expenses

	PROGRAM EXPENSES															Fund Raising	Management and General	Total Expenses
	Group Home	Strong Foundation	Project Home	CPHE	ABC	Community		Family		Supervised Visitation	Neighborhood Reconciliation	Domestic Violence Services	Family Mentoring	Youth Entrepreneur Program	Total			
						Project Count	Economic Development	Family Advocacy	Supportive Services									
Salaries and wages	\$ 298,474	\$ 16,913	\$ 171,122	\$ 93,939	\$ (1,814)	\$ 251,296	\$ -	\$ 110,306	\$ 42,288	\$ 166,027	\$ 2,777	\$ 231,688	\$ (773)	\$ -	\$ 1,498,621	\$ 66,468	\$ 374,128	\$ 1,933,209
Payroll taxes and employee benefits	53,074	10,840	48,900	13,364	-	46,218	-	17,930	8,906	35,114	392	48,531	582	-	208,880	12,188	50,463	319,478
Salvage	350,328	76,793	212,112	107,273	(1,414)	247,514	-	(28,236)	71,287	212,191	1,679	349,619	(71)	-	1,761,307	76,657	434,521	2,272,487
Professional and consulting	9,131	2,880	3,534	2,813	-	4,423	-	4,711	4,992	4,308	-	9,821	-	-	48,235	-	7,604	53,874
Outside services and staffing	101,208	-	528,105	-	-	-	-	-	-	-	-	-	-	-	421,414	-	-	421,414
Supplies	1,178	23,249	25,118	710	-	2,998	-	-	137	587	99	2,818	33	-	76,139	133	4,285	40,677
Postage and shipping	892	75	-	8,477	-	69	-	124	74	188	-	244	-	-	18,993	375	3,622	14,996
Telephone	8,809	217	3,846	79	-	6,100	-	338	100	387	-	1,479	-	-	21,351	-	28,491	41,842
Insurance	16,232	(3,763)	6,611	2,734	-	11,748	-	3,538	(8,144)	28,985	-	(16,870)	4,994	-	48,801	-	1,654	30,251
Occupancy	18,238	900	-	1,430	-	9,362	28,669	4,264	2,744	2,854	-	10,617	135	-	79,348	-	57,222	136,570
Traavel and auto expense	1,980	25	1,479	207	-	3,333	-	448	188	17,185	-	1,433	-	-	28,489	-	3,993	32,482
Advertising	58	-	-	31	-	23	-	30	-	-	50	-	-	-	200	107	324	531
Printing	-	-	77	90	-	1,314	-	-	35	-	-	-	-	-	1,406	1,326	39	2,661
Conventions, training and fees	2,852	63	4,049	404	-	832	-	3,749	425	200	350	4,187	-	-	19,111	-	4,892	24,003
Equipment lease	-	221	3,771	921	-	9,963	-	2,860	1,317	1,541	-	3,898	-	-	25,168	-	18,426	43,594
Specific assistance to individuals	23,800	4,982	48,640	427	-	583	60	1,794	9	216	43	23,084	103	488	113,643	-	10,429	123,472
Repairs and maintenance	1,415	2,543	8,714	864	-	864	-	3,203	1,937	2,074	-	6,948	-	-	33,011	-	27,396	60,316
Trips and activities	-	-	-	-	-	-	-	3,444	-	-	-	-	-	-	3,444	-	-	3,444
Interest expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	84,719	84,719
Miscellaneous expense	40	90	-	-	-	-	-	-	40	-	-	831	403	-	1,697	-	53,830	57,525
Settlement or law suit	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	25,000	25,000
Bad debt expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	31,080	31,080
Total before Depreciation and amortization	573,701	105,164	628,066	123,254	(1,814)	306,256	28,725	198,421	75,341	240,796	3,621	445,349	5,931	480	2,780,246	78,708	391,000	3,149,944
Depreciation	23,434	5,017	31,642	6,234	-	14,800	1,425	3,856	3,736	(2,913)	181	22,284	204	20	133,974	3,888	29,328	177,281
Amortization	132	24	132	36	-	71	7	28	18	62	-	107	-	-	441	19	189	540
Total Expenses	\$ 597,267	\$ 108,205	\$ 660,840	\$ 132,124	\$ (1,814)	\$ 315,211	\$ 36,157	\$ 106,215	\$ 79,095	\$ 273,791	\$ 3,801	\$ 471,740	\$ 6,225	\$ 430	\$ 2,915,161	\$ 82,615	\$ 420,517	\$ 3,337,678



# Statement of Cash Flows

- Operating Activities
- Financing Activities
- Investing Activities
- Cash and Cash Equivalents
- Non-Cash Financing and Investing Activities

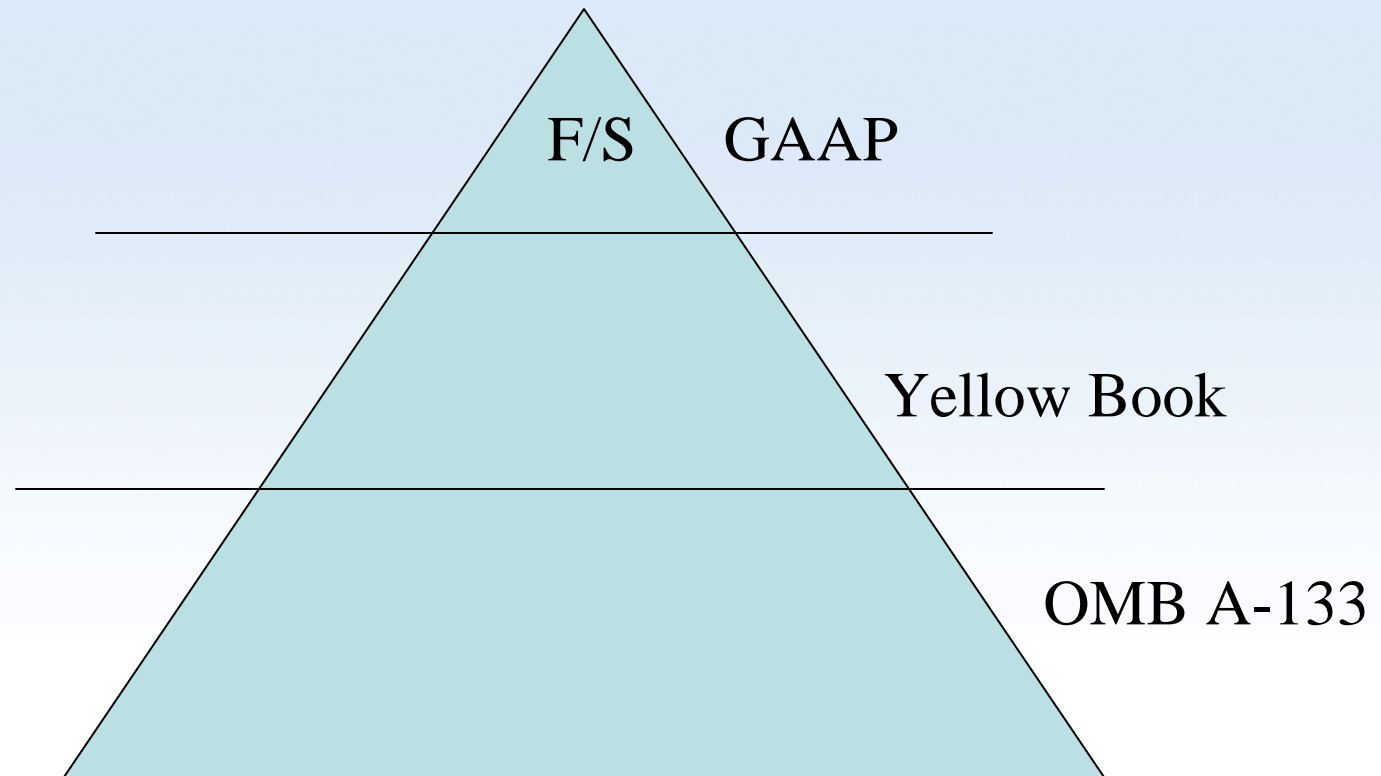


# Statements of Cash Flow

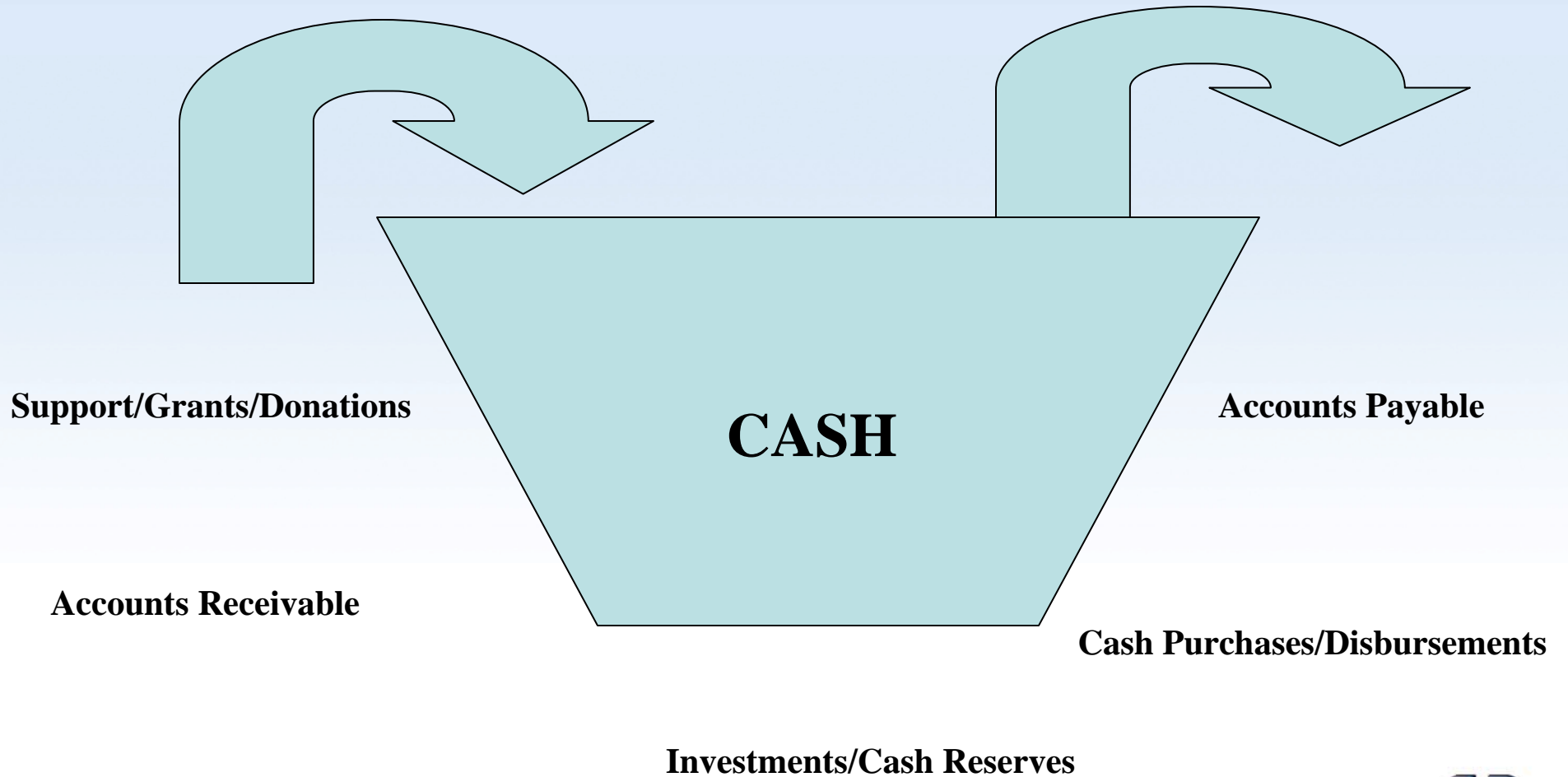
	2007
<b>CASH FLOWS PROVIDED BY (USED FOR):</b>	
<b>OPERATING ACTIVITIES:</b>	
Change in net assets	\$ 1,813,340
Adjustments to reconcile change in net assets to net cash used for operating activities:	
Depreciation	177,200
Amortization of bond financing costs	849
Realized and unrealized gains on investments	54,714
Gain on the sale of partnership	(634,636)
Bad debt expense	31,080
Changes in certain assets and liabilities:	
Accounts receivable	(246,917)
Pledges receivable	(586,954)
Due from government agencies	-
Prepaid expenses	(37,715)
Due from affiliates	(3,727)
Other receivables	(1,050)
Security deposit	-
Accounts payable and accrued expenses	(417,639)
Due to government agency	(41,730)
Executive compensation agreement	(239,700)
Deferred revenue	(48,550)
Net Cash Used for Operating Activities	<u>(181,435)</u>
<b>INVESTING ACTIVITIES:</b>	
Purchase of investments	-
Proceeds from the sale of partnership	659,636
Disposal of limited partnership	-
Purchase of property and equipment	(367,241)
Net Cash Provided by Investing Activities	<u>292,395</u>
<b>FINANCING ACTIVITIES:</b>	
Payments on notes payable	<u>(109,854)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>1,106</b>
<b>CASH AND CASH EQUIVALENTS:</b>	
Beginning of year	145,453
End of year	<u>\$ 146,559</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:</b>	
Cash paid during the year for interest	<u>\$ 92,477</u>



# Levels of Audits



# Cash Flow Cycle



# Cash Budget

**Definition:** A cash map showing the amount and the timing of cash receipts and cash disbursements on a daily, weekly, or monthly basis.



# Cash Flow Warning Signs

- Decreased liquidity
- Missed trade discounts
- Late vendor payments
- Slow collections
- Less “safety” cash in bank



## Why is Managing Cash Flow Critical for Nonprofits?

- Government payments may be late
- Foundation grants are usually paid in one lump sum
- Many nonprofits experience a “seasonal” demand for program services
- Time gap between providing service and receiving payment for service



# Big Three of Cash Management

- Accounts Receivable collect early
- Accounts Payable stretch payments
- Programs don't tie up cash in wrong (monetary losing) programs



# Cash Flow Concerns

- Collecting A/R 35%
- Paying bills on time 26%
- Having enough cash to attract new programs 22%
- Tracking cash flow 11%
- Meeting payroll 6%

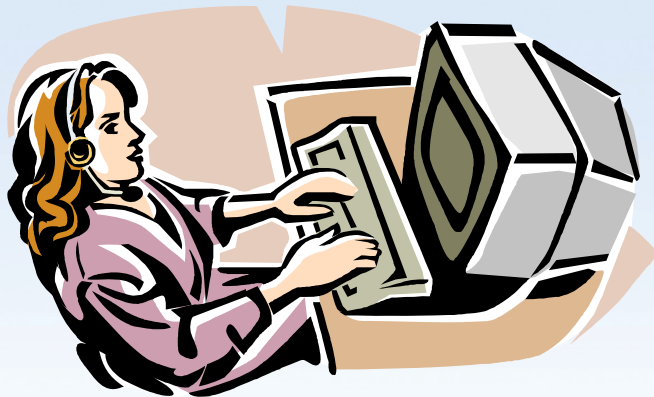


# Accounts Receivable

- ❑ Encouraging prompt payment
  - Clear, accurate, timely invoices
  - Clear description and account number
  - Prices and language that agree with the contracts/agreements
  - Highlight balance due and terms
  - Contact information



# Increasing A/R Collections



- Reduce the number of days A/R outstanding improves cash flow
- Risk of collection is decreased as days outstanding decreases





# Communication with Key People

- Make sure your critical vendors and key employees understand that cash flow is tight and you are working to improve it. Share your plan!



# Cash Flow Analysis

- Should be performed at least once a month
- Analysis should answer:
  - How much do we need?
  - Where is it coming from?
  - When does the money come in from each income source and go out for each resource?



# Cash Flow Projection

- A tool that is used to facilitate cash flow analysis
- It is a forecast of all cash received and expended over some future period, ideally 12 months
  - A “roll forward” 12 months (e.g. June to May then July to June, etc.)
- Based on Agency’s annual operating and capital budgets
- Takes into account Agency’s cash reserves
  - Funds invested in short-term securities, savings, and money market accounts



# Cash Flow Projection

- Is dynamic – constantly changing
- Essential tool in the financial decision making process of the Board of Directors and Finance Committee
- Provides timely information for Agency leadership to proactively make decisions and provide guidance



# Managing Cash Deficits

- Increase or accelerate cash inflows
- Decrease and/or slow down cash outflows
- Access additional cash through financing
  - Line of credit
  - Bridge loan



# Managing Cash Surpluses

- Cash balances that are not needed in the immediate future should be put to work earning interest
- Factors to consider:
  - The degree of liquidity desired (ability to convert the investment to cash)
  - The return provided by the interest rate
  - The degree of risk



# Create a Cash Flow Forecast

- A cash flow forecast will assist you managing through the period of tight cash
- A good (free) cash flow Excel-based cash flow forecast with directions can be downloaded here:

[www.nonprofitsassistancefund.org](http://www.nonprofitsassistancefund.org)

or

[www.lesliethacker.com/resources.htm](http://www.lesliethacker.com/resources.htm).



# Cash Flow Worksheet

Nonprofits Assistance Fund Cashflow Projections

Month:															Year total
Cash at hand, beginning cash	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
RECEIPTS from Support															
Grants - confirmed															0
Grants - anticipated															0
Individual contributions															0
Special events															0
Funds retained from activities															0
RECEIPTS from Revenue															0
Fees of time of service															0
Accounts receivable collection															0
Membership fee															0
Accounts															0
Contract services															0
RECEIPTS from other sources															0
Loan/line of credit proceeds															0
<b>TOTAL RECEIPTS</b>	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
DISBURSEMENTS for Operations															
Payroll															0
Payroll taxes															0
Benefits and stipend															0
<b>TOTAL STAFFING</b>	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Rent															0
Utilities															0
Maintenance, repair															0
<b>TOTAL OCCUPANCY</b>	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Office and phone, postage, supplies															0
Printing and mailing															0
Equipment/lease															0
Insurance															0
<b>TOTAL OTHER OPERATING</b>	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Legal															0
Accounting & audit															0
<b>TOTAL PROFESSIONAL SERVICES</b>	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>TOTAL PROGRAM RELATED</b>	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>TOTAL OPERATING DISBURSEMENTS</b>	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
COMMITMENTS for Financing															
Overage payments															0
Lease payments															0
Payments on paid due obligations															0
COMMITMENTS for Capital Expenses															0
<b>TOTAL DISBURSEMENTS</b>	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>NET CASH FOR THE PERIOD</b>	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>ENDING CASH</b>	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Cashflow.XLS

Download available at: [www.nonprofitsassistancefund.org](http://www.nonprofitsassistancefund.org) in the Resources and Tools section



# “Gottchas” to Remember

- Make sure you know your true costs of expenditures
- Make sure you know what your true gross margin is by program (lowest revenue component)



# “Gottchas” to Remember

- Never, ever, ever use the IRS as an “unauthorized lender”
  - File 941 tax reports on time
  - Pay 941 taxes on time
- Monetary penalties are very high for:
  - Failing to file 941 tax returns on time
  - Failing to pay tax on time



# A Word on Budgeting

- Build realistic (conservative) budgets
  - Underestimate revenue and overestimate expenses
- Do not ‘plug’ budgetary gaps with unidentified or unlikely revenue sources
  - Prioritize incremental expenses so that “if” new revenue sources materialize management has a predefined defined plan to use the revenue strategically
- Start by reviewing the Statement of Activities from the prior year and make adjustments based on what management expects to be different
- Organizations should be encouraged to:
  - Budget for a surplus rather than breakeven (or at least *manage* to a surplus)
  - Monitor actual results against budget on a monthly/quarterly basis
  - Prepare and monitor balance sheet on a regular basis
  - Prepare monthly/quarterly cash flow projections



# Budgeting

- It is an estimate of the money the organization will earn and spend
  - Usually during a specific period
  - 12 month period used for financial purposes is called a fiscal year
- It is today's plan for tomorrow's operations
- It represents the allocation of resources based on the planning process
  - Normally a nonprofit would aim to budget for at least a small surplus



# Budget Elements

- The budget process begins when the annual strategic planning starts
- The budget is the tool for accomplishing the plan
- Planning steps include:
  - Board Vision
  - Mission Statement
  - Goals
  - Objectives
- Planning steps feed the long and short range planning cycles



# Budget Steps

- Identify expected revenues before expenses
- Diversify revenue sources
- Match the costs to the revenue budget
- Build the budget on accurate estimates



# Budget Steps

- Develop an ongoing budget narrative
- Relate the budget to the strategic plan
- Establish fiscal controls to ensure budget compliance
- Review fiscal performance at specified times and develop new budgets based on gained experience



# Budget Preparation Phase

- Usually takes place in the last quarter of a fiscal year
- Includes a written plan of action on how to achieve goals and objectives
- The revenue side of the work plan may be called the financial development plan
  - It specifies how and why you are seeking the revenue sources



# Budget Comparisons

- Budget estimates should be compared to actual expenditures at least monthly
- Variances to budget are normal
  - Emergencies do happen
  - Positively approach lessons learned
  - Adjust accordingly
- A flexible budget should be flexible in both revenue and expenditures
- A fixed budget may result in major adjustments if the comparison shows expenses outpacing income



# Assessing Financial Health

*How do this year's numbers compare with last year's?  
What trends do you see? What are the amazement numbers?*

- 1. Profitability & Savings:** *Does the agency cover its costs? How large are surpluses/deficits relative to revenue? Is the agency saving? If so, is it enough?*
- 2. Revenue Dynamics:** *Where does the organization's money come from? Is revenue well diversified; at risk? Do the revenue streams appear reliable/consistent?*
- 3. Expense Dynamics:** *What levers does the agency have in its control to manage expenses? How hard is it to tighten the belt? Is management responsive to operating changes and prepared to make difficult decisions?*
- 4. Health of Balance Sheet:** *Is the distribution of assets appropriate, given the core business? Is the organization investing in its fixed assets? How leveraged are they? What is the composition of net assets? How much is unrestricted and liquid?*
- 5. Liquidity:** *Does the agency have enough cash to cover current obligations? How well are they managing receivables? Are they asking others to pay the bills?*



# Take Aways

- Reliable, accurate and timely financial data is the first step to owning your numbers and telling your financial story.
- Even with good data, it is important to know what to look for (e.g. indicators that reveal the degree or risk an enterprise can tolerate, given its future plans and goals).
- Key stakeholders need to have a common understanding of your financial story.
- Ask questions often!



# Types of Ratios

- Liquidity
- Profitability
- Leverage



# Liquidity

Sufficient current assets that can be easily converted into cash to cover maturing debts and meet cash needs of the organization.

- Examples:
  - Months of cash
  - Working capital
  - Current ratio
  - Quick ratio (Acid ratio)
  - Days cash in reserve
  - Accounts receivable turnover
  - Profit margin



# Months of Cash: A Measure of Liquidity

- **What is it?**
  - The number of months the organization could operate with current cash reserves
  - The cash position at some point in time (usually at fiscal year end) divided by the average monthly operating expense
- **Example**
  - One organization had \$300,000 in cash at the fiscal year end
  - Its annual operating expenses for that same year equaled \$1.2 million
  - One month of expenses =  $\$1.2 \text{ million} / 12 \text{ months} = \$100,000$
  - Months of cash =  $\$300,000 / \$100,000 = 3 \text{ months}$
- Most organizations should retain at least one month of cash and aim for three to six months through a combination of cash on hand and access to cash through a line of credit
  - Line of credit should be used to address cash flow problems, NOT cash problems



# Snapshot of Financial Health

## Comparison to Other Similar Organizations Estimated Days Cash in Reserve

<b>Organization</b>	<b>Net Assets At Year End*</b>	<b>Total Expenses**</b>	<b>Cash</b>
A	\$ 2,545,000	\$3,748,000	20
B	\$ 5,114,000	\$5,462,000	28
C	\$16,450,000	\$7,061,000	70
D	\$ 6,184,000	\$3,464,000	54

\*Does not include available or unused lines of credit.

\*\*Includes depreciation; a non-cash expense.

Data derived from Charity Navigator; latest year available.



# Working Capital

$$\begin{aligned} & \text{Current Assets} \\ & - \text{Current Liabilities} \\ \hline & = \text{Working Capital} \end{aligned}$$

Provides some indication of ability to pay existing current obligations



# Current Ratio

Current Assets

---

Current Liabilities

Measures short-term debt-paying ability



# Comparison to Other Similar Organizations

## Current Ratio\*

<u>Organization</u>	<u>Current Ratio</u>
A	1.00
B	1.18
C	1.52
D	1.38

\*Current Assets divided by Current Liabilities

Data derived from Charity Navigator or Guide Star;  
used latest year available.



# Quick Ratio (Acid Test)

$$\frac{\text{Cash} + \text{Marketable Securities} + \text{Net Receivables}}{\text{Current Liabilities}}$$

Measures immediate short-term liquidity



# Profit Margin

Change in Net Assets

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Revenues

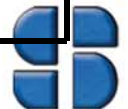
Measures change in net assets generated by each dollar of revenues



# How Much Cash Do I Need?

“Rule-of-Thumb” Impact of Working Capital Levels on Operations  
**NOTE: Reality can be different**, especially if funders are reliable and cash flow is even

Mos. of Expenses Covered by Cash	Operating Situation
0	<b>Crisis</b> - management is scrambling for cash. Delaying vendors. Checking over-draft.
Less than 1 month	<b>Cash is tight</b> - Line of credit source of liquidity. Delaying vendors.
1-3 months	<b>Room to breath</b> – Can do some long-term thinking. Little room for “rainy days”
3+ months	<b>Handles risk</b> – Ability to withstand shocks such as large facility repairs, funding cuts and possibly recessions.



# Dash Board Reports

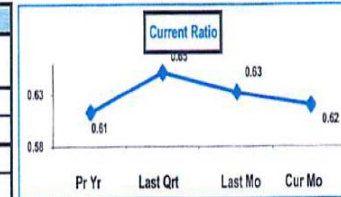
Summary: Statement of Activities					
Description	Month	YTD	Budget	Variance	%
Operating Revenues	\$ 1,004,271	\$ 8,907,129	\$ 9,199,577	\$ (292,448)	-3.2%
Operating Expenses	\$ 1,109,015	\$ 9,139,053	\$ 9,100,886	\$ 38,167	0.4%
Operating Surplus/(Loss)	\$ (104,744)	\$ (231,924)	\$ 98,691	\$ (330,615)	-335.0%
Non-Operating Revenues	\$ -	\$ -	\$ -	\$ -	
Non-Operating Expenses	\$ 32,215	\$ 257,720	\$ 253,333	\$ 4,387	1.7%
Total Change in Net Assets	\$ (136,959)	\$ (489,644)	\$ (154,642)	\$ (335,002)	



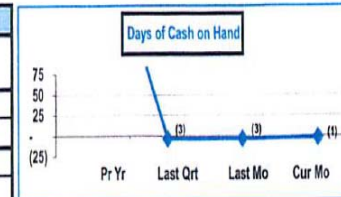
Contribution Margin by Site/Service					
Description	Plainfield	Phillip/Burg	E-Port	Newton	Total
Operating Revenues	\$ 588,205	\$ 23,851	\$ 79,981	\$ 35,559	\$ 727,596
Operating Expenses	\$ 1,051,862	\$ 34,457	\$ 8,158	\$ 14,538	\$ 1,109,015
Operating Surplus/(Loss)	\$ (463,657)	\$ (10,606)	\$ 71,823	\$ 21,021	\$ (381,419)
Federal 330 Grant Allocation	\$ 251,225		\$ 25,450		\$ 276,675
Surplus/(Loss) after Grant	\$ (212,432)	\$ (10,606)	\$ 97,273	\$ 21,021	\$ (104,744)



Current Ratio: Minimum 1.0 - Preferred 2.0					
Description	Prior Yr	Last Quarter	Last Month	Current Month	Target
Current Assets	\$ 2,741,155	\$ 1,848,729	\$ 2,066,051	\$ 2,183,364	
Current Liabilities	\$ 4,468,435	\$ 2,838,214	\$ 3,266,335	\$ 3,521,578	
Working Capital	\$ (1,727,280)	\$ (989,485)	\$ (1,200,284)	\$ (1,338,214)	\$ -
Current Ratio	0.61	0.65	0.63	0.62	



Days of Cash on Hand, Defense Interval, and Days in Accounts Receivable					
Description	Prior Yr	Last Quarter	Last Month	Current Month	Target
Cash	\$ 876,659	\$ (156,439)	\$ (143,978)	\$ (53,529)	
Accounts Receivable	\$ 1,549,200	\$ 1,896,618	\$ 2,094,862	\$ 2,091,118	
Days of Cash on Hand	302	(3)	(3)	(1)	-
Days in A/R	602	1,028	1,136		-



# Dash Board Reports

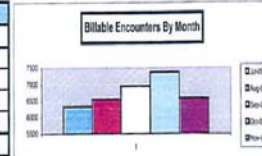
Net Assets, Debt Management Ratio, and Debt Equity Ratio					
Description	Prior Yr	Last Quarter	Last Month	Current Month	Target
Total Assets	\$ 10,919,052	\$ 10,219,233	\$ 10,565,666	\$ 10,650,764	
Total Liabilities	\$ 6,088,351	\$ 5,492,738	\$ 5,865,442	\$ 6,088,351	
Net Assets	\$ 4,830,701	4,726,495	4,699,224	4,562,413	-
Debt Mgmt Ratio < 0.50	0.56	0.54	0.56	0.57	
Debt/Equity Ratio	1.26	1.16	1.25	1.33	



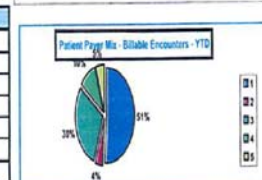
Days in Accounts Payable					
Description	Prior Yr	Last Quarter	Last Month	Current Month	Target
Accounts Payable	\$ 3,094,148	\$ 1,879,861	\$ 2,225,726	\$ 2,413,874	
Non-Payroll Expenses/Day	\$ 4,260	\$ 7,234	\$ 12,001	\$ 8,587	
Days in AP	723	260	185	281	



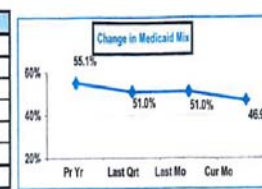
Billable Patient Encounters by Service					
Description	Month	YTD	Target	Variance	%
Medical Encounters	4,155	39,751	41,513	(1,762)	-4.2%
Hospital Encounters	16	249		249	#DIV/0!
Hospital Deliveries	-			-	#DIV/0!
Dental Encounters	829	11,475	11,752	(277)	-2.4%
Total Encounters	5,000	51,475	53,265	(1,790)	-3.4%



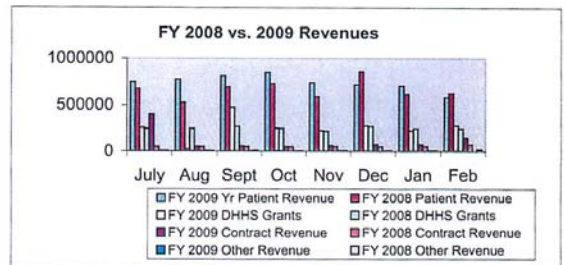
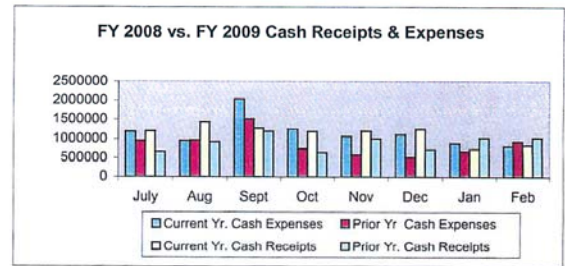
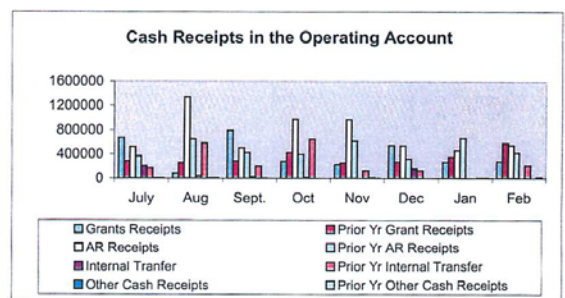
Billable Encounters by Payer Mix					
Description	Month	YTD	Target	Variance	%
Medicaid	2,347	26,268	28,763	(2,495)	-8.7%
Medicare	229	2,141	2,131	10	0.5%
Other Public (LOA)	1,484	15,559	14,382	1,177	8.2%
Commercial/Private Ins.	681	4,925	3,198	1,729	54.1%
Self/Slide	259	2,582	4,793	(2,211)	-46.1%
Total Encounters	5,000	51,475	53,265	(1,790)	-3.4%



Patient Payer Mix as a Percent of Total Patients					
Description	Prior Yr	YTD	QTD	MTD	Target
Medicaid	55.1%	51.0%	51.0%	46.9%	39.2%
Medicare	5.3%	4.2%	4.2%	4.6%	6.4%
Other Public	26.4%	30.2%	30.2%	29.7%	9.8%
Commercial (Private Ins.)	7.9%	9.6%	9.6%	13.6%	8.7%
Self/Slide	5.0%	5.0%	5.0%	5.2%	35.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%



# Dash Board Reports



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