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## **Nonprofit Financial Leadership and Communication - Annotating Your Financial Statements for Impact**

### **Executive Summary**

As a long-time nonprofit financial practitioner, my experience tells me that Board members are often hard to engage in financial conversations at Board meetings. Members often are unfamiliar with reading and interpreting the information found on the financial statements and, instead, defer to the Board treasurer, their sentiment being “if the treasurer is okay with the financial statements, then so am I.”

However, each Board member has a fiduciary responsibility to the organization, and we, as leaders, are called to figure out ways to communicate financial information in such a way all Board members can understand and thus participate in and contribute to financial conversations in a meaningful way.

How can we achieve the goal of increased financial engagement on the part of Board members?

- 1. Recognition and acceptance that there are differing levels of preparedness Board members possess when attending meetings**
- 2. Integrate an executive summary into each financial presentation**
- 3. Format statements in a way that clearly communicates the most important information**
- 4. Present financial information in a consistent style and cadence**
- 5. Provide financial literacy training for Board members**

## **1. Recognition and acceptance that there are differing levels of preparedness Board members possess when attending meetings**

As nonprofit leaders, we seek to impart knowledge and drive engagement among our members. The leader sits at the juxtaposition of the mission and team members who fulfill it, and the members of the Board, who are responsible for the overall direction of the organization. Part of our role is to provide the Board with adequate information to effectively fulfill their roles and responsibilities and this includes financial information. That said, our volunteer leaders may be busy individuals with all the concerns of work and family life and may not always be fully prepared when arriving for a Board meeting. Their arrival at the meeting may be the first time they reviewed the meeting materials you provided in advance.

## **2. Integrate an executive summary into each financial presentation [See Page 3]**

An executive summary is a powerful tool. It has multiple applications and can be used well beyond presenting financial information.

An executive summary is a summarized version of the information you wish to convey to your Board member. As a nonprofit leader, you are familiar with telling the story of the organization and its accomplishments, challenges, and potential. The executive summary is simply another opportunity to do what you may already be familiar with – storytelling.

The organization where I spent most of my career had a Board made up largely of transplant surgeons. The first time I prepared a budget narrative, it was nearly twenty pages long, and told the story of service, reaching its conclusion on the twentieth page. When I presented the draft to my CEO, she paged through it, put it down on her desk and said, “they are never going to get there”, referring to my overall budget recommendations. You might imagine a transplant surgeon arriving at the board meeting, following hours of intense surgery, not being fully prepared for the meeting.

That was the moment I learned the power of the executive summary, and I never forgot that lesson.

Lead the financial presentation with a summarized narrative version of the WHOLE of the story. A succinct narrative – a paragraph or two – will provide the Board member with enough information to know the most important points. Are things good from a financial perspective? Are there risks that need to be addressed? *Tell the story.*

### **3. Format statements in a way that clearly communicates the most important information**

Have a look at the financial statements on pages 1 and 2. The income statement is found on page 1 and the balance sheet on page 2. This may be the normal format you use when presenting financial statements to the Board members. While accurate and complete, the Board member may not really know which statement is which, and if you are speaking to the information contained on one or both, may not even be aware of what line item you are referring to. In my experience, Board members may gravitate toward some line item they are familiar with such as office supplies as a way to demonstrate participation. And office supplies is not likely where the financial story is located.

Instead, what if you formatted your financial statements more like (the very same) statements on pages 3 and 4? On page 3 you see an executive summary, followed by the income statement with labeled columns and rows. Imagine saying to the Board members “let’s look at the results of fundraising events, found on Row 4, Column C, of the income statement...” Using headings for columns and row numbers is a simple way to direct the attention of the reader. On the far-right hand side of the statement you will see several line items which indicate a note will follow (on page 5) where the reader can locate further information.

The notes on page 5 refer to specific line items from the income statement and balance sheet and make observations about the results achieved. The notes will help Board members, before, during or after the meeting, gain clarity about the financial life of the organization.

### **4. Present financial information in a consistent style and cadence**

When presenting financial information to the Board members, be consistent with content and style from meeting to meeting. Speaking from a higher level, while ensuring all key points are made, will increase member engagement. Let the notes to the financial statements tell the more in-depth story. Making this a repeatable process and experience will enhance comprehension and learning for the member. If the Board treasurer normally presents the information, provide a script for them to speak from to ensure they are reporting on the key data points you want to make.

### **5. Provide financial literacy training for Board members**

Financial literacy training is the “long-game” for increasing engagement and understanding of financial information for Board members. Once the Board members are trained, include the financial literacy training into the Board orientation process to ensure all members have

received it. There are many resources available to provide succinct financial training for Board members.



# EXAMPLE NONPROFIT ORGANIZATION

## INCOME STATEMENT

Category	BUDGET		% Change	\$ Change
	YTD THROUGH 12/31/23	THROUGH 12/31/23		
<b>Revenue</b>				
Contributions & grants				
Fundraising Events	\$ 183,606	\$ 174,650	5%	\$ 8,956
Government grants	\$ 664,048	\$ 725,000	-8%	\$ (60,952)
All other contributions	\$ 313,064	\$ 367,800	-15%	\$ (54,736)
Total Contributions, Gifts, & Grants	\$ 1,160,718	\$ 1,267,450	-8%	\$ (106,732)
Investment income	\$ 1,423	\$ 1,000	42%	\$ 423
Total other revenue	\$ 363	\$ 250	45%	\$ 113
<b>Total revenue</b>	<b>\$ 1,162,504</b>	<b>\$ 1,268,700</b>	<b>-8%</b>	<b>\$ (106,196)</b>
<b>Expense</b>				
Compensation officers and directors	\$ 229,422	\$ 205,000	12%	\$ 24,422
Other salaries and wages	\$ 458,821	\$ 600,000	-24%	\$ (141,179)
Employee benefits	\$ 14,779	\$ 17,000	-13%	\$ (2,221)
Payroll taxes	\$ 36,883	\$ 40,000	-8%	\$ (3,117)
Accounting	\$ 38,168	\$ 37,500	2%	\$ 668
Advertising and promotions	\$ 172,716	\$ 127,500	35%	\$ 45,216
Office expenses	\$ 912	\$ 1,000	-9%	\$ (88)
Information technology	\$ 16,744	\$ 20,000	-16%	\$ (3,256)
Occupancy	\$ 75,317	\$ 75,000	0%	\$ 317
Conferences, conventions, meetings	\$ 17,421	\$ 21,000	-17%	\$ (3,579)
Insurance	\$ 3,413	\$ 3,250	5%	\$ 163
Fundraising	\$ 9,662	\$ 10,000	-3%	\$ (338)
Supplies	\$ 4,801	\$ 5,500	-13%	\$ (699)
<b>Total functional expenses</b>	<b>\$ 1,079,059</b>	<b>\$ 1,162,750</b>	<b>-7%</b>	<b>\$ (83,691)</b>
<b>Net surplus (deficit)</b>	<b>\$ 83,445</b>	<b>\$ 105,950</b>	<b>-21%</b>	<b>\$ (22,505)</b>

## EXAMPLE NONPROFIT ORGANIZATION

## BALANCE SHEET

Category	YTD THROUGH 12/31/23	YTD THROUGH 12/31/22	% Change	\$ Change
Cash - non-interest bearing	\$ 342,610	\$ 345,684	-1%	\$ (3,074)
Savings and temporary cash investments	\$ 280,161	\$ 178,739	57%	\$ 101,422
Pledges & grants receivable, net	\$ 125,100	\$ 338,711	-63%	\$ (213,611)
Accounts receivable, net	\$ 79,861	\$ 17,642	353%	\$ 62,219
Prepaid expenses and deferred charges	\$ 7,139	\$ 17,363	-59%	\$ (10,224)
Investments	\$ 4,400	\$ 9,200	-52%	\$ (4,800)
Other assets	\$ 1,960	\$ 1,960	0%	\$ -
<b>Total assets</b>	<b>\$ 841,231</b>	<b>\$ 909,299</b>	<b>-7%</b>	<b>\$ (68,068)</b>
Accounts payable	\$ 31,203	\$ 22,971	36%	\$ 8,232
Other liabilities	\$ 7,650	\$ 149,250	-95%	\$ (141,600)
<b>Total liabilities</b>	<b>\$ 38,853</b>	<b>\$ 172,221</b>	<b>-77%</b>	<b>\$ (133,368)</b>
Unrestricted net assets	\$ 623,126	\$ 369,651	69%	\$ 253,475
Restricted net assets	\$ 179,252	\$ 367,427	-51%	\$ (188,175)
<b>Total net assets</b>	<b>\$ 802,378</b>	<b>\$ 737,078</b>	<b>9%</b>	<b>\$ 65,300</b>
<b>Total liabilities and net assets</b>	<b>\$ 841,231</b>	<b>\$ 909,299</b>	<b>-7%</b>	<b>\$ (68,068)</b>





## EXECUTIVE SUMMARY

At Year-End 2023 the Organization performed well from a financial perspective, achieving a 6% net margin or \$83K as compared to budget projection of 8% or \$106K. 57% of revenue is derived from government grants, nearly 43% in contributed revenue, coupled with <1% investment & other revenues. *[NOTE: the statements presented are from FY2023. Approximately 50% of the organization's revenues are related to government grants. In 2023 this organization was financially healthy, even at this level of government funding. In 2025, the commentary would likely change and instead state the risks associated with government funding at this level.]* The positive net income variance was achieved through cost controls nearly matching revenue shortfalls. From a balance sheet perspective, the organization is in a strong cash position with 207 days cash as compared to Finance Committee goal of 180 days. The high current ratio indicates an opportunity to reduce the amount of cash and savings and increase investments, such as certificates of deposit or money market. Additionally there is an opportunity to evaluate the organization's ability to attract multi-year grants.

## EXAMPLE NONPROFIT ORGANIZATION

NOTES

A	B	C	D	E	F	
INCOME STATEMENT						
		ACTUAL THROUGH 12/31/23	YTD THROUGH 12/31/23	BUDGET THROUGH 12/31/23	% Change	\$ Change
1	Category					
2	Revenue					
3	Contributions & grants					
4	Fundraising Events	\$ 183,606	\$ 174,650	5%	\$ 8,956	1
5	Government grants	\$ 664,048	\$ 725,000	-8%	\$ (60,952)	2
6	All other contributions	\$ 313,064	\$ 367,800	-15%	\$ (54,736)	3
7	Total Contributions, Gifts, & Grants	\$ 1,160,718	\$ 1,267,450	-8%	\$ (106,732)	
8	Investment income	\$ 1,423	\$ 1,000	42%	\$ 423	4
9	Total other revenue	\$ 363	\$ 250	45%	\$ 113	
10	Total revenue	\$ 1,162,504	\$ 1,268,700	-8%	\$ (106,196)	5
12	Expense					
13	Compensation officers and directors	\$ 229,422	\$ 205,000	12%	\$ 24,422	
14	Other salaries and wages	\$ 458,821	\$ 600,000	-24%	\$ (141,179)	6
15	Employee benefits	\$ 14,779	\$ 17,000	-13%	\$ (2,221)	
16	Payroll taxes	\$ 36,883	\$ 40,000	-8%	\$ (3,117)	
17	Accounting	\$ 38,168	\$ 37,500	2%	\$ 668	
18	Advertising and promotions	\$ 172,716	\$ 127,500	35%	\$ 45,216	7
19	Office expenses	\$ 912	\$ 1,000	-9%	\$ (88)	
20	Information technology	\$ 16,744	\$ 20,000	-16%	\$ (3,256)	
21	Occupancy	\$ 75,317	\$ 75,000	0%	\$ 317	
22	Conferences, conventions, meetings	\$ 17,421	\$ 21,000	-17%	\$ (3,579)	
23	Insurance	\$ 3,413	\$ 3,250	5%	\$ 163	
24	Fundraising	\$ 9,662	\$ 10,000	-3%	\$ (338)	
25	Supplies	\$ 4,801	\$ 5,500	-13%	\$ (699)	
26	Total functional expenses	\$ 1,079,059	\$ 1,162,750	-7%	\$ (83,691)	8
27	Net surplus (deficit)	\$ 83,445	\$ 105,950	-21%	\$ (22,505)	9



## EXAMPLE NONPROFIT ORGANIZATION

NOTES

A	B	C	D	E	F	
BALANCE SHEET						
1	Category	ACTUAL THROUGH 12/31/23	YTD BUDGET THROUGH 12/31/23	% Change	\$ Change	
	<b>Assets</b>					
2	Cash - non-interest bearing	\$ 342,610	\$ 345,684	-1%	\$ (3,074)	10
3	Savings and temporary cash investments	\$ 280,161	\$ 178,739	57%	\$ 101,422	10
4	Pledges & grants receivable, net	\$ 125,100	\$ 338,711	-63%	\$ (213,611)	11
5	Accounts receivable, net	\$ 79,861	\$ 17,642	353%	\$ 62,219	
6	Prepaid expenses and deferred charges	\$ 7,139	\$ 17,363	-59%	\$ (10,224)	
7	Investments	\$ 4,400	\$ 9,200	-52%	\$ (4,800)	4
8	Other assets	\$ 1,960	\$ 1,960	0%	\$ -	
9	<b>Total assets</b>	<b>\$ 841,231</b>	<b>\$ 909,299</b>	<b>-7%</b>	<b>\$ (68,068)</b>	
	<b>Liabilities</b>					
10	Accounts payable	\$ 31,203	\$ 22,971	36%	\$ 8,232	
11	Other liabilities	\$ 7,650	\$ 149,250	-95%	\$ (141,600)	12
12	<b>Total liabilities</b>	<b>\$ 38,853</b>	<b>\$ 172,221</b>	<b>-77%</b>	<b>\$ (133,368)</b>	
	<b>Net Assets</b>					
13	Unrestricted net assets	\$ 623,126	\$ 369,651	69%	\$ 253,475	13
14	Restricted net assets	\$ 179,252	\$ 367,427	-51%	\$ (188,175)	14
15	<b>Total net assets</b>	<b>\$ 802,378</b>	<b>\$ 737,078</b>	<b>9%</b>	<b>\$ 65,300</b>	
16	<b>Total liabilities and net assets</b>	<b>\$ 841,231</b>	<b>\$ 909,299</b>	<b>-7%</b>	<b>\$ (68,068)</b>	



## NOTES

### INCOME STATEMENT

1	Fundraising Events: the Bloom into Spring event performed 5% over budget projection due to increased ticket sales.
2	Government Grants: we underperformed in government grants due to delays in hiring for grant funded positions. See Note 5. Members should keep in mind that government grants do not fully fund the intended service and the organization must raise additional funding to support the full costs associated with the service delivery area. <i>[NOTE: the statements presented are from FY2023. Approximately 50% of the organization's revenues are related to government grants. In 2023 this organization was financially healthy, even with this level of government funding. In 2025, the commentary would likely change and instead would state the risks associated with government funding at this level.]</i>
3	All Other Contributions: the organization did not achieve budget expectations with the annual year-end appeal.
4	Investment revenue is not significant. There is an opportunity to increase investment revenue. Please refer to Note 4 on the balance sheet and Days Cash, below.
5	Total Revenue is 8% below budget expectation due to the factors cited in Notes 1, 2 and 3.
6	Other Salary and Wages: 24% below budget projection due to changes in strategy for approved general operating funded hiring and delays in hiring for government funded positions.
7	Advertising and Promotions are 35% over budget projection; monies from unfilled general operating positions was reallocated to promoting our services to feeder-systems to increase our profile in the community.
8	Total Expense is controlled at 7% below budget projection, supporting a net margin of 6% as compared to budget of 8%.
9	The actual net margin of 6% compares to 8% budget projection.

### BALANCE SHEET

10	Cash and savings increased by \$98K during FY23.
11	Pledges and grants receivable declined by 62% from FY22 to FY23 and accounts for some of the cash increase year over year. Attention needs to be paid to the organization's ability to attract multi-year grants as restricted net assets have also declined from FY22 to FY23.
4	Investments are relatively low, compared to cash and savings. The days cash at 274, is 152% of the stated goal of 180. There is an opportunity to increase investments, such as certificates of deposit or money market, and earn a higher rate of return than available with checking and savings accounts provide. See Days Cash below.
12	Other Liabilities declined due to the payment of the note due mid-year FY23.
13	Unrestricted Net Assets have increased from FY22 to FY23 in part due the release of restricted net assets during FY23.
14	Restricted Net Assets have declined from FY22 to FY23 and as cited in Note 10 attention needs to be paid to multi-year grants.

RATIO ANALYSIS	YTD THROUGH 12/31/23	YTD THROUGH 12/31/22	COMMENTS
Current ratio	27	39	The current ratio describes how many dollars in current assets the organization possesses to cover every one dollar in current liabilities. The ideal ratio is 1.5-2. This ratio indicates the organization needs to focus more on longer term investments and maintain less ready cash. See Note 4.
Net margin	6%	31%	While the net margin declined in FY23 as compared to FY22, it must be noted FY22 contained the last of the COVID money and was an aberrant year.
Days cash	208	275	The Finance Committee set a goal of 180 days cash on hand, including investments; the organization can operate for 208 days without any further influx of cash, and this is a strong cash position for our organization.