

Estimated timeline of project: 3-4 months

Number of BVA consultants on project: 3

Potential Deliverables

- Creating/updating cash flow documents pertinent to the organization
- Identifying true program costs and contribution margin by program
- Developing system for financial forecasting
- Creating financial policies/manual/best practices
- Plan for building cash reserves

Background materials that your BVA team may request (if you have them)

- Budget
- Organizational chart with responsibility centers/job descriptions
- Board Minutes
- Financial policies

How to know if you're ready for a financial planning project

- You have the time and resources to commit to your team of consultants during the project
- You've been relying on your own money to keep things running and cover initial costs
- You get small donations but haven't been able to get a larger grant due to not having a financial plan in place
- You aren't familiar with profit loss, cash flow, etc. and your budget is operating off of an Excel spreadsheet
- You want to expand and grow programs but aren't sure where to get the necessary resources for it

Glossary of Terms

501(c)(3) – Many nonprofit organizations meet the requirement to be exempt under the Internal Revenue Code Section 501(c)(3). Organizations described in Section 501(c)(3) are referred to as charitable organizations and must have charitable, religious, educational or scientific purposes.

Accounts Payable

Money owed by an organization to its suppliers and/or vendors for goods or services purchased.

Accounts Receivable

Money owed to an organization for goods and services it has sold or that has been committed to it as a grant or donation. Also called grants receivable.

Accrual Accounting

A Basis of accounting that records revenues and expenses in the period incurred that provides better matching of operating cash flow that is not distorted by the timing of related cash receipts and disbursements.

Accrued Expenses or Liabilities

Items incurred during an accounting period for which payment has not been made. Examples include accrued salaries, accrued sales tax payable, and accrued rent payable.

Business Model

How an organization plans to fund program costs and sustain operations through development efforts, board engagement and demonstrated outcomes.

Cash Flow

The receipt and disbursement of monies.

Cash Flows From Financing Activities

Payments and/or receipts from lines of credit, notes payable, term loans.

Cash Flows From Operating Activities

Operating surplus or deficit adjusted for changes in working capital items, such as accounts and grants receivable, inventory, accounts payable, accrued liabilities and deferred revenue.

Change in Net Assets

The change in total assets less the change in total liabilities for a given period.

Conditional promise to give – A promise from a donor to give an organization a specific amount of money if certain criteria is met. For example, a donor may promise to give an organization \$50,000 if the organization first raises \$25,000 of other funds.

Contributed Revenue/Income

Revenue or income received from individual, foundation, corporate, or government donations with no products or services provided by the organization in direct exchange for the funds.

Deferred Revenue/Income

Payment received for which there is a future performance obligation (e.g., subscription purchase for performances held on future dates).

Earned Revenue/Income

Revenue or income received by an organization in exchange for its products or services, e.g., tuition or performance-based government contracts for which there is no future performance obligation or conditional promise.

Feasibility Study

A determination of the likelihood that a proposed idea, plan or project will fulfill certain economic and operational objectives. Often undertaken to predict the viability of a new venture, facility project or capital campaign.

Form 990 – IRS Form 990, *Return of Organization Exempt from Income Tax*, must be filed annually by tax-exempt organizations to report information on organization's programs and activities. An alternate form, Form 990-EZ or 990-N, may be filed if the organization meets specific requirements.

Form 1023 – IRS Form 1023, *Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code*, is the required form for a nonprofit to file with the IRS to receive its tax-exempt status under 501(c)(3) of the Internal Revenue Code.

Functional expenses allocation - A method of dividing expenses between program services, management and general, and fund raising categories using a reasonable and consistent basis. This allocation is required by Generally Accepted Accounting Principles and the IRS.

Generally Accepted Accounting Principles (GAAP) – The standard framework of guidelines for financial accounting established by the Financial Accounting Standards Board (FASB) to help ensure accuracy and consistency in financial statements.

Income Statement/Statement of Activity

A summary of the revenue and expenses of an organization during an accounting period. Also known as statement of activities or profit and loss statement.

In-kind contribution – A contribution of goods or services rather than cash.

Net assets – The difference between an organization's total assets and total liabilities as of a reporting date. Similar to a for profit entity's equity, net assets represent an organization's net financial worth.

Operating Debt - Debt to support the organization's main business or program activities, and day-to-day operations (e.g. [line of credit](#)).

Permanently restricted contributions – Contributions received by an organization that cannot be spent by the organization and must be maintained in perpetuity. The most common permanently restricted funds are endowments that are invested with any earnings available to be spent by the organization.

Pledge receivable – A promise from a donor to give an organization a specific amount of money at a future time.

Statement of activities – Summary of the revenue and expenses of an organization during an accounting period. Also known as income statement or profit and loss statement.

Statement of Cash Flows – Summary of the sources and uses of cash that reconciles cash at the beginning of the year with cash at the end of the year, organized into three categories: cash flows from operating activities, cash flows from financing activities, and cash flows from investing activities.

Statement of financial position (balance sheet) – A required statement in a nonprofit organization's financial statements under GAAP. The statement of financial position reports an organization's assets, liabilities and net assets. Net assets are reported by class (unrestricted, temporarily restricted and permanently restricted) and total. Similar to a for profit entity's balance sheet.

Tax exempt – A status granted by the Internal Revenue Service (IRS), granting a nonprofit organization exemption from federal income taxes upon IRS approval of 1023 application which requires annual reporting to IL attorney general and IRS to maintain.

Temporarily restricted contributions – Contributions received by an organization that have been restricted by the donor to be used for a specific purpose or for a period of time.

True Program Cost Allocation

An analysis to determine the total of direct and indirect costs by program after allocation of administrative and fundraising costs that provides a more useful foundation for budgeting forecasting .

Unrestricted contributions – Contributions to an organization that have no limitations or restrictions as to their use.

Sources: <https://www.nonprofitfinancefund.org/glossary>

<http://www.nonprofitaccountingbasics.org/reporting-operations/budgeting-terms-concepts>

<http://dwdcpa.com/blog/nonprofit-accounting-terminology/>