



## Financial Leadership in Turbulent Times

Steve Zimmerman  
Spectrum Nonprofit Services

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The face behind the voice . . . .



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## Our Agenda

- What is Financial Leadership?
- Reading financial statements
- What should I really be looking for?
- But we're out of cash?
  - Cash flow projections
- Ongoing monitoring

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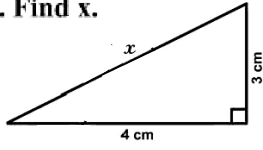
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3. Find x.



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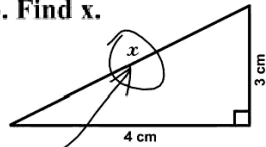
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3. Find x.



*Here it is*

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## Financial Leadership

The financial leader of your organization is .....



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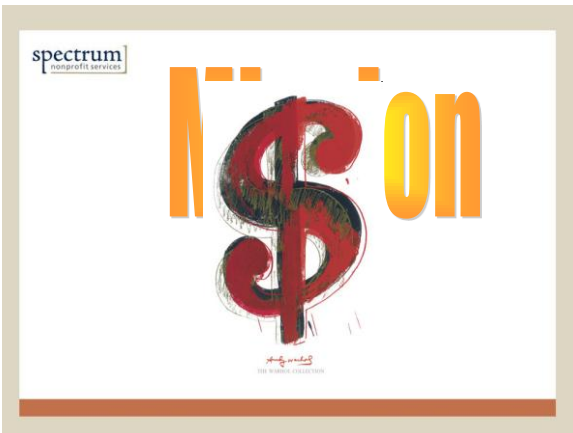
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### Who is involved?



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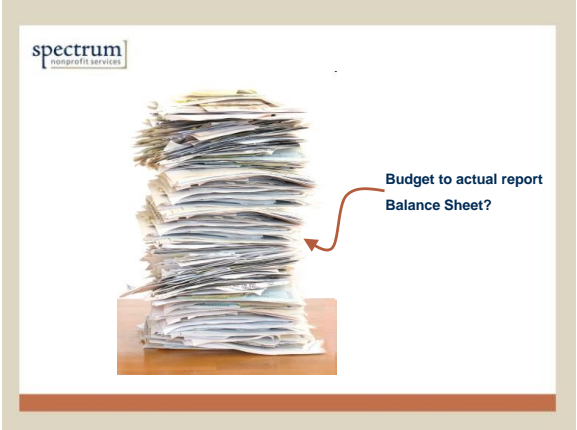
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Reporting Month/Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
<b>Assets &amp; Liabilities</b>													
Assets													
Liabilities													
<b>Income Statement</b>													
Revenue													
Expenses													
Net Income													

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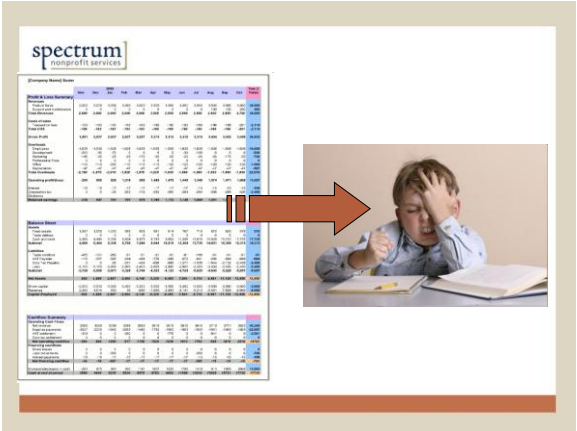
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The image shows a screenshot of the 'spectrum' nonprofit services software interface. The interface is filled with multiple columns of data, likely representing financial statements. A thought bubble above a young boy sitting at a desk with his hand on his head says, 'How do I read these things?'. A large orange arrow points from the software interface towards the boy, suggesting the complexity of the data is overwhelming for him.

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What monthly accounting reports are you getting?

The image shows a screenshot of the 'Accounting Reports' window in the software. The window lists various reports with checkboxes. Several items are circled in red: 'Of Date Balance Sheet', 'Vendor(s)', 'Current (unpaid) Vendor', 'Cash Regimens', and 'Build Report' button.

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2 Key Financial Statements

Balance Sheet  
AKA: Statement of Financial Position

Income Statement  
AKA: Statement of Activities

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Balance Sheet

- Snapshot as of a particular date.
- Cumulative history from the beginning of the company.
- Tells you:
  - How much cash do I have?
  - How much do I owe to people?
  - What is my net worth?

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## 3 Parts to a Balance Sheet

Assets	Liabilities	Net Assets
Things you own	Things you owe	Your net worth
Listed in order of liquidity. How quickly can I get my hands on the cash?	Current liabilities represent those liabilities that are payable in the next year.	Broken out by restriction: <ul style="list-style-type: none"> <li>• Unrestricted</li> <li>• Temporarily restricted</li> <li>• Permanently restricted</li> </ul>

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Income Statement

- For a specified range of time: Usually the fiscal year to date.
- Typically compared with budget to see performance
- Tells you:
  - How much revenue have we earned?
  - Where are we spending our money?
  - What is the "bottom line"?

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I can read the financial statements, but how do I know if I have enough cash in the bank to pay my bills?

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**Immediate Financial Health**

Current Ratio

$$\frac{\text{Total Current Assets}}{\text{Total Current Liabilities}}$$

Quick Ratio

$$\frac{\text{Cash \& Equivalents}}{\text{Total Current Liabilities}}$$

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### What should the ratio be?

- Ideally greater than 1.
- This is a TRENDING tool.
- What if it is not greater than 1?

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What about the long term? Am I financially secure?

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### Assessing Long-Term Health: The Reserve



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## Assessing Long-Term Health: The Reserve



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## Calculating the Reserve

$$\frac{\text{Unrestricted Net Assets}}{\text{Typical Monthly Expenses}}$$
$$\frac{\text{Unrestricted N.A.} - \text{Fixed Assets}}{\text{Typical Monthly Expenses}}$$

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## What is a good reserve?



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## What is a good reserve?



3 months is fairly common.

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## Paper Rich but Cash Poor



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## Two Types of Accounting

Cash Basis Accounting



Accrual Accounting



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## Two Types of Accounting

### Cash Basis Accounting

- Items recorded when you actually have the cash.

### Accrual Accounting

- Items recorded when they are earned or incurred.

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## Cash vs. Accrual: An Example

We have a reimbursable government contract, the usual process looks something like this:

- Work performed: July
- Bill sent to government: August
- Check received from government: October.

Month Recorded	Cash Basis	Accrual Basis
Revenue	October	July
Expense	When Paid. July or August	July

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- Look at your Accounts Payable
- If it increases, it could mean that you are having cash flow issues.

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### Temporarily Restricted Net Assets

- Are we using restricted net assets for operations?

$$\frac{\text{Cash + Grants Receivable}}{\text{Temporarily Restricted Net Assets}}$$

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### Ways to Adjust Cashflow

- Investments
- Line of Credit
- Moving Big Expenses
- Revenue Shifts

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## Key Ratios to Watch Over

**Immediate Health**

- Budget to Actual
  - Look at Revenue
- Current Ratio
  - Payroll Ratio:  
Payroll Expenses / Cash

**Long-Term Health**

- Reserve
- Restricted Cash

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## These are . . .




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## Create a Dashboard to Monitor

XYZ Organization  
2009 Dashboard

Key	Red	Act Now
	Yellow	Monitor
	Green	Celebrate

Performance Indicators	Targets	Current Indicator	Trend		
			3 mos ago	6 mos ago	9 mos ago
Current Ratio	2 or more	1.5	0.8		
Surplus / deficit compared to budget	within 3%	5%	8%		
Reserve	3 months	2.8 months	3.00		
Temp. Restricted Ratio	1 or more	3.20	3.50		

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## The Dashboard Opportunity

- Agreement AHEAD OF TIME on what matters
- Agreement AHEAD OF TIME on targets
- Agreement AHEAD OF TIME on when action is needed
- Ability to monitor and update strategic plan

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## Two Saviors

DUE DILIGENCE  
THE EASY WAY!



Global Center Operations, all rights reserved

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## Two Saviors



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Financial Leadership in Turbulent Times

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