



Show Me the Money: Evaluating the Financial Strength of a Potential Partner



A supporting organization of the Business Development Finance Corporation (BDFC).

WHO AM I?

- ☐ 32-year banker - 20 years in business and CRE lending
- ☐ 30 years as nonprofit board member and/or officer
- ☐ Relationship building in Tucson for 23 years
- ☐ Executive Director of GPAz since June 2019
- ☐ Oh, and....born and raised in Douglas, Arizona

WHO IS GPAz?

- ❑ Founded in 2012 as a 501(c)3
- ❑ Financing and technical assistance for Arizona nonprofits and small businesses
- ❑ US Treasury-certified Community Development Financial Institution (CDFI)
- ❑ Funded by CDFI Fund and investors, including banks, charitable foundations, other nonprofits, individuals, quasi-government entities

WHAT THE HECK ARE CDFIs?

- Private financial institutions (often nonprofit)
- Dedicated to responsible, affordable lending
- Help low-income / low-wealth / other disadvantaged communities access capital
- Promote job growth / retention in hard-to serve markets
- Profitable, not profit-maximizing; put community first



TODAY

1. Nondisclosure agreements - who and why
2. Organizational finance & accounting culture
3. How to analyze a balance sheet
4. What to look for in an income statement (P&L)

OBJECTIVES



WHY?

Every business decision you make is a financial decision



LET'S TALK NDAs (but I'm not an attorney)

Why?

- Lays ground rules
- Creates a confidential relationship
- Legally bound to keep information a secret
- Establishes boundaries without disclosing secrets



LET'S TALK NDAs (but I'm not an attorney)

Who?

- Use correct legal name
- Ensure signers have authorization
- Board resolution
- Internet samples



FIRST STEPS

- What do you want to know?
- What do you want them to know?
- What are you hoping to get?
 - Assets?
 - Donors?
 - Revenues?
 - Diversification?
- Look out 1, 3, 5 years



WHAT TO SHARE

- 2 years of audits / balance sheets and P&Ls
- 2 years of 990s
- YTD balance sheet and P&L
- Current budget (with comparison to actual)
- Cash flow projection
- Strategic plan



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THOUGHTS SO FAR?

NOW WHAT?

- Audit vs. Review vs. Internally Prepared
- Accrual vs. Cash
- What does it all mean?



THE BASICS - BALANCE SHEET

Assets = Things You Own

Liabilities = Things You Owe

Net Assets = Leftover

(after selling assets and paying liabilities)

MORE BALANCE SHEET

- Cash - is it really king?
 - Most had < 3 months operating reserves
 - Almost 10% had < 30 days of cash on hand
 - Before COVID!

- Restricted vs. Unrestricted
 - Grants
 - Donors

- What liabilities don't show up?



THE BASICS - P&L

Income = Revenues coming in

Expenses = Costs going out

....but this isn't the same as cash flow

(we'll cover this in our next session)

MORE ON REVENUE

- Enough to run programs?
- Overlap on funding sources?
- Often receive revenue before “producing”
- Grant details
 - may not show up
 - timing differences



THE BASICS - NET ASSETS

- What makes up net assets?
- Unrestricted vs. Restricted
- What if it's negative?



CONNECTING THE DOTS

- Balance Sheet = A specific point in time
- P&L = A period of time (mo, qtr, yr)
- Cash flow Statement
 - Connects Balance Sheet and P&L
 - Where cash came from and where it went
 - Come back next time!



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THOUGHTS?

THINGS TO THINK ABOUT

Net Surplus = A Strong Organization (maybe)

Profitability (or not) doesn't necessarily
reflect actual cash flow

Receivables, Payables
Depreciation
Debt repayment

THINGS TO THINK ABOUT

- Revenue can come with strings attached
- Revenue can come with hidden costs
- Details of grant funding don't necessarily show
- Fixed vs. variable costs



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WHAT QUESTIONS DO YOU HAVE?

KEY TAKEAWAYS

Get those NDAs

Understand finance & accounting cultures

Review financial reports

Ask LOTS of questions

Reach out to me with questions

A CATALYST FOR WHAT'S POSSIBLE

Thank you!
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