

Financial Management for Nonprofits - 102

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Mission of Pro Bono Partnership of Atlanta:

To provide free legal assistance to community-based nonprofits that serve low-income or disadvantaged individuals. We match eligible organizations with volunteer lawyers from the leading corporations and law firms in Atlanta who can assist nonprofits with their business law matters.

Pro Bono Partnership of Atlanta Eligibility & Other Information

 **In order to be a client of Pro Bono Partnership of Atlanta, an organization must:**

- ✓ Be a 501(c)(3) nonprofit organization.
- ✓ Be located in or serve the greater Atlanta area.
- ✓ Serve low-income or disadvantaged individuals.
- ✓ Be unable to afford legal services.

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“Remember, Art, statistics, credits and debits
are in the eye of the manipulator.”

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Agenda

Accounting Basics

- ✓ Balance Sheet
- ✓ Income Statement
- ✓ Cash Flow Statement

Budgeting

Internal Controls

- ✓ Accounting and Financial Policies and Procedures
- ✓ Risk Reduction Policies and Procedures
- ✓ Flow Chart

What are the Objectives in Accounting?

- 💡 **Recording Financial Transactions**
- 💡 **Classifying Financial Transactions**
- 💡 **Summarizing Financial Transactions**
- 💡 **Reporting Financial Transactions**

Recording Financial Transactions

Basic Accounting Reports

- ✓ Balance Sheet – Three Elements
 - ▲ Assets
 - Cash, vehicle, computer
 - ✓ Liabilities
 - ▲ Accounts Payable, Notes, Taxes due
- ✓ Fund Balance (or Net Assets)

Income Statement

- ✓ Revenue
 - ▲ Donations
- ✓ Expenses
 - ▲ Office supplies, rent, etc.
- ✓ Increase / Decrease in Fund Balance (Net Assets)

Recording Financial Transactions (cont.)

Statement of Cash Flows

- ✓ Purpose – to show how the changes in the balance sheet and income statement affect cash (and cash equivalents) over a period of time.
 - ▲ *Important to show liquidity (ability to pay debt)*
 - ▲ *Predict the amount of cash available in the future*
- ✓ Broken Down into Three Elements
 - ▲ *Changes in Operating Activities*
 - Example – Unrestricted Cash Received from Donors
 - ▲ *Changes in Investing Activities*
 - Example – Proceeds from the Sale of Equipment
 - ▲ *Changes in Financing Activities*
 - Example – Receipt of Permanently Restricted Donation

**Best Private Non Profit
Balance Sheet
December 31, 20XY and 20XX**

Balance Sheet Example

	20XY	20XX
Assets		
Cash	\$40,000	\$100,000
Prepaid Expenses	\$2,000	\$5,000
Fixed Assets (net of depreciation)	\$26,000	\$50,000
Total Assets	\$68,000	\$155,000
Liabilities		
Accounts Payable	\$3,000	\$5,000
Notes Payable	\$10,000	\$20,000
Fund Balance		
Unrestricted	\$30,000	\$50,000
Temporarily Restricted	\$10,000	\$45,000
Permanently Restricted	\$15,000	\$35,000
Total Liabilities and Fund Balance	\$68,000	\$155,000

**Best Private Non Profit
income Statement
For Period Ending December 31, 20XX**

Income Statement Example

Revenue

	Temporarily Permanently			Total	Budget	Variance to Budget
	Unrestricted	Restricted	Restricted			
Public Contributions	\$70,000	\$30,000	\$20,000	\$120,000	\$100,000	20.0%
Government Grants	\$100,000			\$100,000	\$150,000	-33.3%
Investment Income	\$10,000	\$5,000		\$15,000	\$12,000	25.0%
Total Revenues	<u>\$180,000</u>	<u>\$35,000</u>	<u>\$20,000</u>	<u>\$235,000</u>	<u>\$262,000</u>	-10.3%

Expenses

Office Expenses	\$50,000			\$50,000	\$60,000	-16.7%
Rents	\$70,000			\$70,000	\$70,000	0.0%
Other Expenses	\$40,000			\$40,000	\$45,000	-11.1%
Total Expenses	<u>\$160,000</u>	<u>\$0</u>	<u>\$0</u>	<u>\$160,000</u>	<u>\$175,000</u>	-8.6%

Increase / Decrease in Fund Balance

Fund Balances Beginning of Year	\$20,000	\$35,000	\$20,000	\$75,000
	<u>\$30,000</u>	<u>\$10,000</u>	<u>\$15,000</u>	<u>\$55,000</u>

Fund Balance (Net Assets) End of Year	<u>\$50,000</u>	<u>\$45,000</u>	<u>\$35,000</u>	<u>\$130,000</u>
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Cash Flow Statement Example

**Best Private Non Profit
Statement of Cash Flows
For Period Ending December 31, 20XX**

Cash Flows from Operating Activities

Cash Received from Unrestricted Donors	\$70,000
Cash Received through Government Grants	\$100,000
Investment Income	\$15,000
Cash Received from Temporary Restricted Donors	\$35,000
Net Cash Paid to Suppliers	<u>-\$160,000</u>

Total Cash Flows from Operating Activities **\$60,000**

Cash Flows from Investing Activities

Purchases of Equipment	<u>-\$30,000</u>
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Total Cash Flows from Investing Activities **-\$30,000**

Cash Flows from Financing Activities

Additions to Endowment	\$20,000
Additional Long Term Debt	<u>\$10,000</u>

Total Cash Flows from Financing Activities **\$30,000**

Total Net Cash Flows \$60,000

Beginning Cash Balance \$40,000

Ending Cash Balance **\$100,000**

How are Transactions Recorded...

Accrual vs. Cash Accounting

- ✓ Difference
 - ⤴ *Income is recognized when it is committed, not received. (i.e. - Legally enforceable, unconditional pledges)*
 - ⤴ *Expenses are recognized when they are incurred, not paid. (i.e. payment on credit card)*
- ✓ Once entity chooses methodology, it is difficult to change.

Other Components of Accounting Systems

Chart of Accounts

- ✓ List of each item the accounting system tracks (Assets, Liabilities, etc)

General Ledger

- ✓ Organizes all transactions by account

Journals and Subsidiary Journals

- ✓ Cash Disbursements – A chronological record all cash paid and checks written, categorized using the chart of accounts
- ✓ Cash Receipts Journal – A chronological record all cash and checks received, categorized using the chart of accounts
- ✓ General Journal – Records all non-cash transactions
- ✓ Payroll Journal – Records all payroll related transactions

Check Reconciliations

- ✓ Should be performed each month and tied to the cash account



“Financial planning requires long-term thinking. Especially if you get caught.”

Budgeting

- 💡 A budget depicts what you expect to earn and spend over a time period.
- 💡 Steps in preparing a budget include:
 - ✓ Review program & management achievements & fiscal performance over the prior year.
 - ✓ Estimate expenses expected to achieve the future years objectives.
 - ✓ Estimate revenue expected for the future year based upon best & most realistic expectations.
 - ✓ Compare revenue & expenses to determine if there is an expected deficit, surplus or break-even.
 - ✓ Make adjustments to program expenses or revenue to meet entity objectives.
- 💡 Other facts to consider:
 - ✓ Be conservative.
 - ✓ Consider timing of cash flows and expenses.
 - ✓ Many times it is best to create a month to month budget for an entire year.

Budgeting (cont.)

Specific Revenue Line Items to Consider

- ✓ Restricted Donations

Categories for Expense Budgeting

- ✓ Program, Administrative, Fundraising

Specific Expense line items to Consider

- ✓ Insurance – D&O, General Liability
- ✓ Registration Fees – corporate, fundraising
- ✓ Salaries & related employment costs

Cash Reserves



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Developing an Internal Controls System

- 💡 What is an Internal Control System?
 - ✓ It is a series of procedures designed to promote and protect sound management practices, both general and financial.
- 💡 What is critical for a good internal control system?
 - ✓ Proper Segregation of Duties – no financial transaction is handled by only one person from beginning to end.
 - ⤴ *Cash Disbursements – if possible, different people authorize payment, sign checks, record payments in books and reconcile bank account. May need use of board member or dedicated volunteer to perform some functions.*
 - ⤴ *Authorization Policies – Ensure good policies are in place related to authorization of payments.*
 - ⤴ *Restricted Funds – ensure restricted funds are separated from unrestricted funds.*
 - ⤴ *Check Signing – ensure procedures are in place for proper check signing*

General Elements of Segregation of Duties

Authorization

- ✓ Person who authorizes purchases & payments

Documentation

- ✓ Person who documents transactions (the bookkeeper)

Asset Custody

- ✓ Person who makes deposits, / writes checks


Document Control

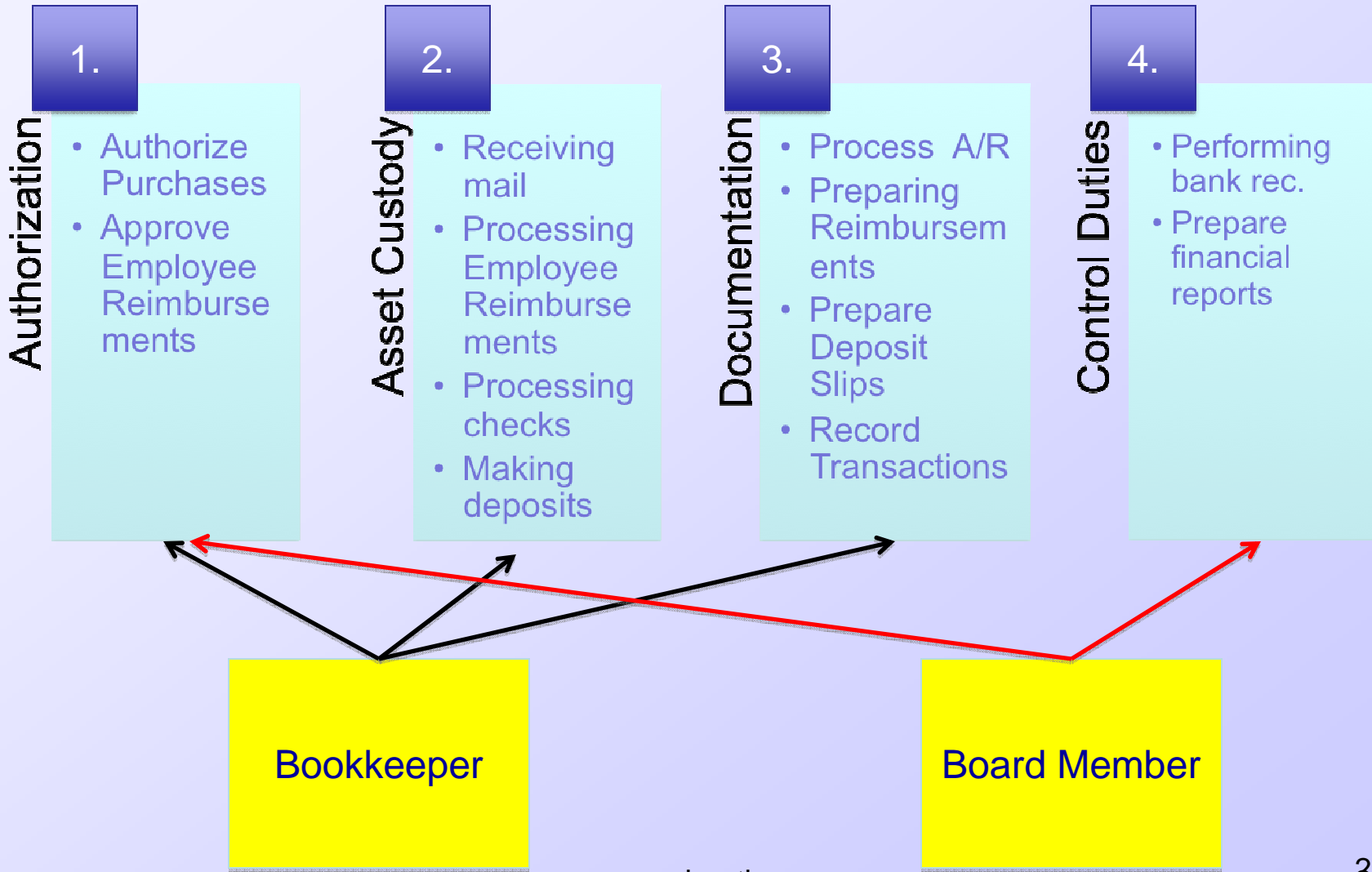
- ✓ Person who performs financial analysis, bank reconciliation, etc.

Case Study 2 – Mary Mac


 **Mary Mac has worked with Lovey Dovey NFP for 10 years. Because she has been with the organization for many years, she has been entrusted to handle a variety of finance functions. Mary Mac's current responsibilities include:**

- ✓ Receiving, handling, opening, and reading all mail
- ✓ Processing all Contributions Received and Accounts Payables
- ✓ Processing and preparing employee and volunteer reimbursements
- ✓ Processing, signing, and mailing checks for Accounts Payables
- ✓ Making deposits and taking them to the bank
- ✓ Performing bank reconciliations
- ✓ Preparing annual budgets and financial reports as needed for Board and funders

 **Mary Mac's responsibilities have evolved over time, but nothing has been created to document the finance policies that she is expected to follow. The Executive Director has not expressed concern over the lack of documentation. Mary Mac has proven that she can manage her time well; however, she has had unexpected situations arise from time to time, both personal and with work, that have made it difficult to handle all of her responsibilities on a timely basis. Mary Mac does not have the time to prepare monthly reconciliations. She is often behind on preparing the nonprofit's quarterly financial statements, and she is not sure that she is doing them properly given her lack of training.**



Developing an Internal Controls System

-  Principles for follow for small non-profits:
- ✓ Policies are clearly written, understood and are followed from the top!
 - ✓ Clearly define who is responsible for what.
 - ✓ Have Strong Physical Controls
 - ✓ Monitor Cash
 - ✓ Reconcile the bank accounts monthly

Internal Control Policies and Procedures

- 💡 **Bank Statements**
 - ✓ Who & How
- 💡 **Credit Cards**
 - ✓ Holder, Access, Use, Payment Process
- 💡 **Expenditures**
 - ✓ Limits & Approvals
- 💡 **Accounting and Controls of Checks**
 - ✓ Flow Chart of who, how and when
- 💡 **Payroll Direct Deposit**
- 💡 **Segregation of Duties**
- 💡 **Wire Transfers**

Accounting & Financial Policies and Procedures

Accounting

- ✓ Define:
 - ▲ Method,
 - ▲ Frequency of financial statements,
 - ▲ Level of independent review of financial statements

Budgets

- ✓ When, How & Who

Investment Policy

- ✓ Goals, Who & How

Contributions

- ✓ IRS compliance & When

Accounting & Financial Policies and Procedures (cont.)

Expense Reimbursement

- ✓ Travel – what, when & how
- ✓ Meals
- ✓ Petty Cash
- ✓ Loans to Employees

Check Preparation & Mailing

- ✓ Flow Chart – who, when and how

Sales Tax Collection

- ✓ State regulation compliance

IRS Form 1099 – Independent Contractors

IRS Form 990

- ✓ Completion & Submission
- ✓ Public Disclosure

For More Information:

If you would like more information about the services of Pro Bono Partnership of Atlanta, contact us at:

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