FINANCIAL MANAGEMENT FOR NONPROFITS

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  Florida Housing Coalition

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OVERVIEW OF TOPICS

- Myths about nonprofit finances
- Board of Directors role and responsibilities
- Financial policies and internal controls
- Realistic budgeting
- Tracking by funding source, grant, project, or contract
- Monthly/quarterly reporting to Board
- The annual audit
Let’s Bust Some Myths

• Nonprofit organizations should not have profit
• Nonprofit organizations budgets should always “balance” (e.g., Revenues=Expenses)
• The lower the “overhead” or “admin” the better
• As long as you can pay your bills and make payroll, you’re in good shape
• Nonprofits would be better if they operated like businesses
BOARD OF DIRECTORS FINANCIAL ROLE AND RESPONSIBILITIES

• General responsibilities: The Three D’s – (1) Duty of Care, (2) Duty of Loyalty, (3) Duty of Obedience

• Approve annual budget
• Review and monitor periodic financial reports
• Approve major non-routine financial decisions
• Select independent auditor
• Approve annual audited financial statements and annual IRS Form 990
• Approve financial policies
• Establish and implement Conflict of Interest policy
CEO’s Job: Keeping the Board on Board with Financial Responsibility

• Help create a Board with good mix of expertise
• Educate Board members on their fiduciary responsibilities
• Be transparent – risks, challenges, and wins
• Educate Board about the differences (and similarities) between for-profit and not-for-profit so they will have reasonable expectations
• Provide clear and timely financial reports
• Interpret those financial reports in ways that are understandable by all Board members (hints later)
CLARIFYING ROLES OF BOARD AND STAFF

• Consider a formal agreement to delineate Board and Staff roles re financial management, budgeting, etc.

• For an example, see:
  – http://www.blueavocado.org/content/board-staff-agreement-financial-accountability
FINANCIAL POLICIES AND INTERNAL CONTROLS

• Policies outline how your financial management and accounting system are designed to work
  – Procedures flesh out the details of that system

• Policies should be reviewed and approved by the Board of Directors, with updates as needed

• Separation of duties is critically important!
  – Being a small organization does not get you off the hook
    • Small organizations, see http://www.blueavocado.org/content/five-internal-controls-very-small-nonprofit and talk with your auditor to help you design the best system possible

• Policies should require active and timely oversight and monitoring

• A financial system that provides timely data to analyze variances – an early warning system
EXAMPLES OF FINANCIAL POLICIES

• Conflict of Interest policy
• Whistleblower policy
• Expense reimbursement and travel policies
• Policy requiring annual review of CEO and CEO compensation
• Gift acceptance policy
• Operating and capital reserves policies
• Grant management policies
• Approval policies for payroll, bank reconciliations, capital purchases, etc.
• Authority to sign legal contracts on behalf of the organization

EXAMPLES OF INTERNAL CONTROLS AND SEPARATION OF DUTIES

• The person who opens the mail (receives checks from ‘customers’) should not be the person who makes the bank deposit
  – And a different person should record the deposits in the accounting system
  – And a different person should follow up on overdue accounts receivable

• The person who generates the check from the accounting system should not be the person who signs the check
  – Similarly, all EFTs initiated by the bookkeeper should be approved by a manager
**REALISTIC AND ** **E VOLVING B UDGETING**

- The management team should establish an annual budget to be reviewed and adopted by the Board prior to the start of the fiscal year.
- Remember: A budget is nothing but an educated *guess* about the future given your plans for the year.
- Don’t ignore your budget but don’t consider it a sacred cow either:
  - In your financial policies, provide for a certain level of discretion for leadership staff to go over budget for certain situations without board approval.
- When things change, your budget projections must change!
  - In quarterly reporting to the Board, add columns for “revised projections” with comparisons to original budget, along with explanations for the new projection.
MONTHLY REPORTING TO BOARD

• Balance Sheet
  – Assets, Liabilities, Net Assets
    • May include Restricted Net Assets

• Income Statement
  – Revenues, Expenditures, Net
  – Budget versus Actual Year-to-Date
  – Show variances with explanations
  – Update projections/budget as needed
### Example: Monthly Reporting to Board

**Balance Sheet**

#### Dream On, Inc. Balance Sheet as of 9/30/16

<table>
<thead>
<tr>
<th>ASSETS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash in Bank</strong></td>
<td>$35,000</td>
</tr>
<tr>
<td><strong>Receivables</strong></td>
<td>$30,000</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>$65,000</td>
</tr>
<tr>
<td><strong>Property, Plant, and Equipment</strong></td>
<td>$4,000,000</td>
</tr>
<tr>
<td><strong>Accumulated Depreciation</strong></td>
<td>$(1,000,000)</td>
</tr>
<tr>
<td><strong>Net Property, Plant, and Equipment</strong></td>
<td>$3,000,000</td>
</tr>
<tr>
<td><strong>Long-Term Investments</strong></td>
<td>$-</td>
</tr>
<tr>
<td><strong>Total Noncurrent Assets</strong></td>
<td>$3,000,000</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$3,065,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LIABILITIES AND NET ASSETS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Accounts Payable</strong></td>
<td>$45,000</td>
</tr>
<tr>
<td><strong>Long-Term Debt</strong></td>
<td>$400,000</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>$445,000</td>
</tr>
<tr>
<td><strong>Temporarily Restricted Net Assets</strong></td>
<td>$50,000</td>
</tr>
<tr>
<td><strong>Unrestricted Net Assets</strong></td>
<td>$2,570,000</td>
</tr>
<tr>
<td><strong>Total Net Assets</strong></td>
<td>$2,620,000</td>
</tr>
<tr>
<td><strong>Total Liabilities and Net Assets</strong></td>
<td>$3,065,000</td>
</tr>
</tbody>
</table>
**Example: Monthly Reporting to Board**

**Revenues & Expenses**

<table>
<thead>
<tr>
<th></th>
<th>Actual YTD</th>
<th>Budget YTD</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program Income</td>
<td>$50,000</td>
<td>$100,000</td>
<td>$(50,000)</td>
</tr>
<tr>
<td>Grants and Contributions</td>
<td>$500,000</td>
<td>$250,000</td>
<td>$250,000</td>
</tr>
<tr>
<td>Total Revenue</td>
<td>$550,000</td>
<td>$350,000</td>
<td>$200,000</td>
</tr>
<tr>
<td><strong>EXPENSES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personnel Costs</td>
<td>$180,000</td>
<td>$150,000</td>
<td>$(30,000)</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>$120,000</td>
<td>$100,000</td>
<td>$(20,000)</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>$300,000</td>
<td>$250,000</td>
<td>$(50,000)</td>
</tr>
<tr>
<td><strong>Net</strong></td>
<td>$250,000</td>
<td>$100,000</td>
<td>$150,000</td>
</tr>
</tbody>
</table>
WHAT DO YOU SEE?
# Financial Dashboard: Traffic Lights or Emojis

## Finance

<table>
<thead>
<tr>
<th></th>
<th>Target</th>
<th>6 months ago</th>
<th>Now</th>
</tr>
</thead>
<tbody>
<tr>
<td>Days of unrestricted cash on hand</td>
<td>45 days</td>
<td>65 days</td>
<td>18 days</td>
</tr>
<tr>
<td>Net surplus or deficit YTD compared with YTD budget</td>
<td>Within 25K or better</td>
<td>$42,500 worse than budget</td>
<td>$28,000 worse than budget-to-date</td>
</tr>
<tr>
<td>Government funding year-to-date (52% of budget)</td>
<td>Within 3%</td>
<td>$39,000 worse than budget</td>
<td>$3,200 worse than budget, 24 days</td>
</tr>
<tr>
<td>Days from end of month to financial statements</td>
<td>24 days</td>
<td>87 days</td>
<td>48 days</td>
</tr>
</tbody>
</table>

Avoid disaster. It is absolutely essential to track income, expenditures, and match by category – project, contract, funder, grant, etc.

- For management purposes
- For grant compliance purposes
- For reporting purposes
- May need to track on multiple classifications
### Example:
**Tracking by Funder and Project**

<table>
<thead>
<tr>
<th></th>
<th>DREAM COMMUNITY</th>
<th>SUCCESS Services</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>City GR</td>
<td>County GR</td>
</tr>
<tr>
<td>Grant income</td>
<td>$ 18,000</td>
<td>$ 150,000</td>
</tr>
<tr>
<td>Donations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medicaid</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total income</td>
<td>$ 18,000</td>
<td>$ 150,000</td>
</tr>
<tr>
<td>Payroll expenses</td>
<td>$ 6,200</td>
<td>$ 100,000</td>
</tr>
<tr>
<td>Facilities</td>
<td>$ 10,000</td>
<td>$ 10,500</td>
</tr>
<tr>
<td>Direct client support</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>$ 32,000</td>
<td>$ 22,500</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>$ 1,800</td>
<td>$ 7,500</td>
</tr>
<tr>
<td>Total expenses</td>
<td>$ 18,000</td>
<td>$ 150,000</td>
</tr>
<tr>
<td>Net</td>
<td>$ -</td>
<td>$ -</td>
</tr>
</tbody>
</table>

Note: Also track required match amounts and sources by line item
AUDITS ETC.

• Three levels of assurance by independent CPA – (1) Audit, (2) Review, or (3) Compilation
• Florida Statute 496.407 – when registering with the State as a nonprofit
  – $1 million or more in contributions – Audit
  – Between $500,000 and $1 million – Review or Audit
  – Less than $500,000 – Compilation, Review, or Audit
• Lenders and grantmakers typically require Audit
• Types of audit opinions: (1) Unqualified, (2) Qualified, (3) Adverse, and (4) Disclaimer; some variations (e.g., “going concern”)
MORE ABOUT AUDITS

• The CPA firm should be selected by the Board of Directors, not by management; change audit firms periodically

• The Board of Directors should review and approve the audited financial statements prior to finalizing

• The “Management Letter” outlines material internal control issues (“deficiency,” “significant deficiency” or “material weakness”) and/or general suggestions for improvements
  – Consider this a guide to improving your system
  – Management should review and respond prior to the letter being provided to the Board, so any inaccuracies or questions about characterization can be addressed
  – Funders and other stakeholders often request the Management Letter in addition to the Audited Financial Statements
OMB “SUPERCIRCULAR”

UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS

• New federal Office of Management and Budget (OMB) “supercircular” consolidated eight previous OMB circulars
  – Important if your organization receives any federal funding
  – Sections on conflict of interest, internal controls, procurement, match, cost accounting, direct/indirect costs, subrecipient monitoring, and more!
  – Includes provisions applicable to nonprofit organizations that are recipients, subrecipients, or pass-through organizations
  – New “Single Audit” provisions – requires “single audit” for nonprofits that expended over $750,000 in federal funds in a year; includes compliance issues, etc.
  – [http://www.ecfr.gov/cgi-bin/retrieveECFR?gp=&SID=803ac41c28e2c291274389362fd6b6c8&m=c=true%n=pt2.1.200&r=PART&ty=HTML](http://www.ecfr.gov/cgi-bin/retrieveECFR?gp=&SID=803ac41c28e2c291274389362fd6b6c8&m=c=true%n=pt2.1.200&r=PART&ty=HTML)
ADDITIONAL TIPS – PUTTING THE “MANAGEMENT” IN FINANCIAL MANAGEMENT

• Invest in great finance staff – but don’t give them carte blanche
• Invest in good nonprofit accounting software (e.g., Abila MPI, QuickBooks for Nonprofits)
• Consider program performance outcomes when budgeting
• Manage cash flow - plan for delays with cost reimbursement grants
• Read contracts and grants
• Commit to, and, fund operating reserves and capital reserves

An excellent resource on financial leadership for the CEO: https://nonprofitsassistancefund.org/sites/naf-prod/files/publications/financialleadership.pdf
Contact Us

• Technical Assistance Hotline: 1-800-677-4548

• Contact the presenter, Susan, at pourciau@flhousing.org