

FINANCIAL MANAGEMENT FOR NONPROFITS



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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

For a simple template and guide, see:

<https://www.compasspoint.org/sites/default/files/documents/Guide%20to%20Fiscal%20Policies%20and%20%20Procedures.pdf>



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 *EVOLVING* BUDGETING

- 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			
ASSETS			
Cash in Bank		\$ 35,000	
Receivables		\$ 30,000	
Total Current Assets			\$ 65,000
Property, Plant, and Equipment		\$ 4,000,000	
Accumulated Depreciation		\$ (1,000,000)	
Net Property, Plant, and Equipment		\$ 3,000,000	
Long-Term Investments		\$ -	
Total Noncurrent Assets			\$ 3,000,000
Total Assets			\$ 3,065,000
LIABILITIES AND NET ASSETS			
Accounts Payable		\$ 45,000	
Long-Term Debt		\$ 400,000	
Total Liabilities			\$ 445,000
Temporarily Restricted Net Assets		\$ 50,000	
Unrestricted Net Assets		\$ 2,570,000	
Total Net Assets			\$ 2,620,000
Total Liabilities and Net Assets			\$ 3,065,000



EXAMPLE: MONTHLY REPORTING TO BOARD

REVENUES & EXPENSES

DREAM ON, Inc. Statement of Revenues and Expenses			
For the six months ended 9/30/16			
	Actual YTD	Budget YTD	Variance
REVENUES			
Program Income	\$ 50,000	\$ 100,000	\$ (50,000)
Grants and Contributions	\$ 500,000	\$ 250,000	\$ 250,000
Total Revenue	\$ 550,000	\$ 350,000	\$ 200,000
EXPENSES			
Personnel Costs	\$ 180,000	\$ 150,000	\$ (30,000)
Operating Expenses	\$ 120,000	\$ 100,000	\$ (20,000)
Total Expenses	\$ 300,000	\$ 250,000	\$ (50,000)
Net	\$ 250,000	\$ 100,000	\$ 150,000

WHAT DO YOU SEE?



FINANCIAL DASHBOARD: TRAFFIC LIGHTS OR EMOJIS

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

Source: <http://www.blueavocado.org/content/nonprofit-dashboard-and-signal-light-boards>



TRACKING BY GRANT, PROJECT, AND/OR CONTRACT

- 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

	DREAM COMMUNITY						SUCCESS Services			
	City GR	County GR	City CDBG	Community Foundation	Other	Total	City GR	Medicaid	Childrens Board	Total
Grant income	\$ 18,000	\$ 150,000	\$ 25,000	\$ 275,000		\$ 468,000	\$ 200,000		\$ 100,000	\$ 300,000
Donations					\$ 25,000	\$ 25,000				\$ -
Program income					\$ 57,000	\$ 57,000				\$ -
Medicaid					\$ -	\$ -		\$ 150,000		\$ 150,000
Total income	\$ 18,000	\$ 150,000	\$ 25,000	\$ 275,000	\$ 82,000	\$ 550,000	\$ 200,000	\$ 150,000	\$ 100,000	\$ 450,000
Payroll expenses	\$ 6,200	\$ 100,000		\$ 225,000	\$ 50,000	\$ 381,200	\$ 40,000	\$ 150,000	\$ 25,000	\$ 215,000
Facilities	\$ 10,000	\$ 10,500	\$ 25,000			\$ 45,500				\$ -
Direct client support						\$ -	\$ 140,000			\$ 140,000
Other operating expenses		\$ 32,000		\$ 22,500		\$ 54,500				\$ -
Administrative expenses	\$ 1,800	\$ 7,500	\$ -	\$ 27,500		\$ 36,800	\$ 20,000		\$ 75,000	\$ 95,000
Total expenses	\$ 18,000	\$ 150,000	\$ 25,000	\$ 275,000	\$ 50,000	\$ 518,000	\$ 200,000	\$ 150,000	\$ 100,000	\$ 450,000
Net	\$ -	\$ -	\$ -	\$ -	\$ 32,000	\$ 32,000	\$ -	\$ -	\$ -	\$ -
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
 - \$1million or more in contributions – Audit
 - Between \$500,000 and \$1million – 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&mc=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

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