

THE EFFI BARRY TRAINING INSTITUTE

NONPROFIT FINANCIAL BASICS

Financial Oversight and Sustainability Related to
Nonprofit Organization Fiscal and Financial Management

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Effi Barry HIV/AIDS Institute

The Effi Barry HIV/AIDS Institute, led by HealthHIV, provides:

- Capacity Building
- Technical Assistance
- Support

How?

- Through a series of group-level trainings, boot camps, community forums, and individual consultation.

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Learning Objectives

Part I:

- Non-Financial Managers
- Budgets and Oversight – Behavioral Based Budget Techniques

Part II:

- Difference between Accrual Basis Accounting and Cash Basis Accounting
- Components of accounting system and basic nonprofit financial statements

Part III:

- Increased financial scrutiny – covering the bases of financial accountability
 - General public
 - Fiduciaries
 - Staff and management
 - Federal Form 990

Key Stakeholders

- Non-financial managers: (three W's)
 - Who
 - What
 - When

Key Stakeholders

- Non-financial managers:
 - Everyone but accountants:
 - Who:
 - Project managers, directors, board members, committee members, staff of all levels
 - What:
 - They all make decisions that directly affect the financial health of your organization
 - When:
 - Everyday decisions both small and large involve dollars and cents

Key Stakeholders

- Non-financial managers:
 - Must raise financial awareness of non-financial managers
 - How:
 - Incorporate budgets into their EVERYDAY decision making process

Key Stakeholders

- Even better:
 - Get non-financial managers to:
 - Interact with:
 - Each other
 - Budgets
 - » Interact implies a high level sharing and giving of information with an outcome to improve results

Key Stakeholders

- End result:
 - Get non-financial managers to take:
 - Ownership
 - Responsibility
 - Leads to:
 - » Accountability

Key Stakeholders

- Method:
 - Get non-financial managers to adopt:
 - An effective budget tool that will help them to safeguard operational results and predict outcomes of programs and efforts that will allow them to improve results and performance.
 - Give them a tool they can work with.

Budgeting for Nonprofits

- Adopt a:

User Based Budget Approach

Glossary: Budget Terms

CONCEPTS

- Use
- Everyday
- Simple
- Understandable
 - A Tool for Improvement

TECHNICAL

- Projections
- Time is on Our Side
- Raise Awareness
- Change Behavior
 - Behavioral Based Budgeting

Financially: Are we okay?

Good question to ask yourself:

Financially: Are we okay?

How am [] doing?
(as a manager)

Financially: Are we okay?

More Importantly - How
are [**WE**] Doing?
(as an organization)

Financially: Are we okay?

- To Answer the Question:


- Goals are the KEY



- Budgets are critical to managing goals

Managing Through: Financial Reports

- This is How it Works:
 - Raise Awareness
 - Change Behavior

EQUALS =  Improved Bottom-line Results

Managing Through: Financial Reports

REMEMBER

- Re-direct the Budget System to Gear it Towards:

EVERYDAY USE

Everyday Use: Example

- Lets now look at a four-part budget application example

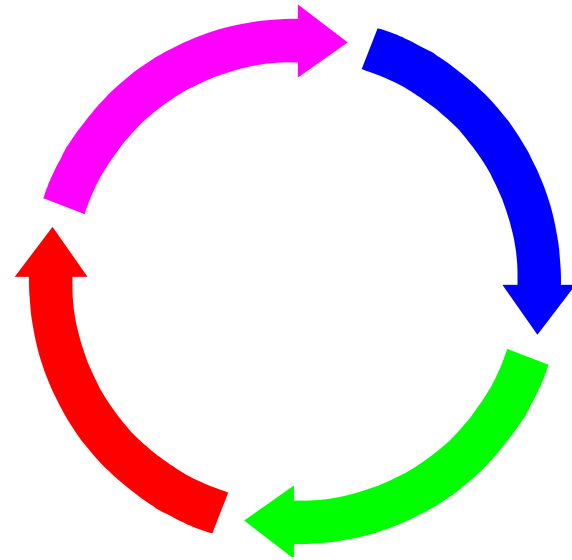
Budget: Cycles

- Budgets from two points of view:
 - Process View (traditional budget cycle)
 - Management View (working monthly cycle)

Budget: Cycles

Continued

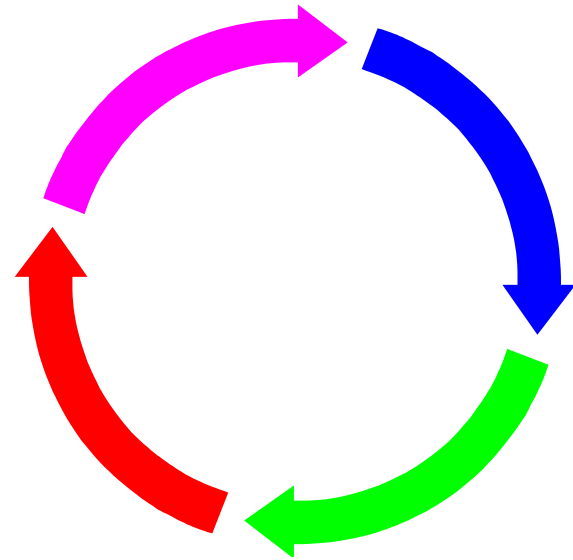
- Process View (budget cycle)
 - Preparation
 - Approval
 - Installation
 - Measurement
 - Projection



Budget: Cycles

Continued

- Management View (monthly cycle)
 - Monitor
 - Feedback
 - Override
 - React



Results Through: Financial Reports

- Get:



EVERYONE INVOLVED

in the budgeting process

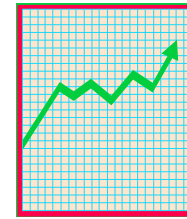
Results Through: Financial Reports

BUDGETS:
NOT A DOCUMENT,
A **PROCESS**

Results Through: Financial Reports

Continued

- Make Projections:



PART OF THE SYSTEM

Results Through: Financial Reports

Continued

- Projections - the Magic
 - View current transactions in terms of year-end results
 - A clearer picture
 - Achieving goals through projections
 - How they work
 - Projections are flexible budgets in disguise

Results Through: Financial Reports

Continued

- History - Has Its Place
 - What role does history play?
 - History is FREE
 - History cannot be changed
 - Is history a direct predictor of the future?
 - NO
 - Can be misleading

Results Through: Financial Reports

Continued

- Painting the perfect picture through:

ENHANCED REPORT DESIGN

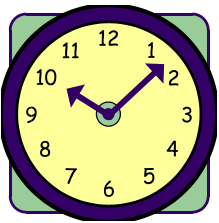
Results Through: Financial Reports

Continued

- Time is the:

ENEMY

Put Time to Work



Results Through: Financial Reports

Continued

- Political Bottom-lines:

HAVE A STRATEGY

Results Through: Financial Reports

Continued

- Do not forget the Three Secret Weapons:
 - Monthly Budgets
 - Projections
 - Contingency Budgets

Unlocking Results by Using Budgets

Summary

- The Goal: (for your Budget)
A **working** budget system for **everyday use** that **raises awareness**, which **changes** staff **behavior**, which equals **results**.

Basic Financial Management

Accrual Basis Accounting vs. Cash Basis Accounting

Components of Accounting System and Financial Statements

Assets

➔ Revenue

Liabilities

➔ Expenses

Net Assets

Assets

- Current assets
 - Cash
 - Cash equivalents
 - Investments
 - Accounts receivable
 - Pledges receivable
 - Other receivables
 - Prepaid expenses
 - Inventory

Assets

- Non-current assets
 - Fixed assets
 - Deposits
 - Other assets

Liabilities

- Current liabilities
 - Accounts payable
 - Accrued expenses
 - Deferred income
 - Deferred liabilities
 - Grants payable
 - Debt

Liabilities

- Non-current liabilities
 - Accrued expenses
 - Deferred income
 - Deferred liabilities
 - Grants payable
 - Debt

Net Assets

- How different from for-profits?
 - Three classes
 - Unrestricted
 - Undesignated/designated
 - Temporarily restricted
 - Permanently restricted
 - Endowments

Support and Revenue

- Support
 - Contributions
 - Grants
- Revenue
 - Memberships dues
 - Registrations
 - Fees for service
 - Publication sales
 - Interest income
 - Miscellaneous

Expenses

- Three categories:
 - Programs
 - Fundraising
 - General and administrative

Financial Accountability
for
Senior Management,
Staff and Board of
Directors

Financial Accountability Everyone is Watching

- Four Bases to cover:
 - Outsiders looking in
 - How the general public sees you
 - Insiders looking in
 - How board members and fiduciaries see you
 - Transparency from staff
 - Policies and procedures to be proud of
 - Federal form 990 and governance



First Base: Outsiders Looking In



- Follow best practices
- Let Sarbanes-Oxley (SOX) be your guide
- Do not cut corners
- Transparency

First Base: Outsiders Looking In



- Five Sarbanes-Oxley (SOX) - Guidelines to consider:
 - Create an audit committee
 - Whistle blower policy
 - Publicly attest to accuracy of financial statements
 - Adopt a code of ethics
 - Conflict of interest policy
 - Non-audit work by outside auditors
 - Insider transactions

Second Base: Insiders Looking in

- Consider Performing an Annual Financial Check-UP for Board Review:
 - Improves confidence
 - Provides for periodic oversight
 - Enables fiduciaries to feel empowered
 - Meets best practices
 - The healthy thing to do



Second Base: Insiders Looking in

- Nonprofit Organization – Financial “Check-Up”
 - Related Parties and Other Sensitive Areas
 - Transactions with related parties
 - Key management compensation
 - Board approval of sensitive transactions
 - Internal Controls and Risks
 - Is there a healthy attitude about internal controls?
 - Do we have adequate written financial policies and procedures?
 - What are the major internal controls in place to safeguard cash, investments and other assets?
 - Are assets protected against theft?
 - Has the auditor made recommendations for improvements in internal controls and have they been implemented?



Second Base: Insiders Looking in



- Nonprofit Organization – Financial “Check-Up”
 - Internal controls and risks (continued)
 - At the end of each monthly accounting period, is a budget to actual comparison made and are significant variances investigated?
 - Are projections prepared to make sure the organization is on the right course?
 - Have computer security and back-up been reviewed?
 - Has someone knowledgeable about nonprofit taxes reviewed for possible exposure to:
 - UBIT (unrelated business income tax)
 - Private inurement
 - Excess lobbying/political activity
 - Issues related to exempt status
 - Employee vs. Independent contractor status

Second Base: Insiders Looking in



- Nonprofit Organization – Financial “Check-Up”
 - Government Grants and Awards
 - Are you Following OMB Circulars A-110 and A-122
 - Do you have Adequate Time Records
 - Are Adequate Procedures and Controls in Place
 - Have all Reports been Filed Timely
 - Financial Reporting and Audits
 - Have you arranged to have an independent audit?
 - Have you received clean (unqualified) audit reports?
 - Do the auditors have unrestricted access to board and audit committee
 - Have all government reports (Form 990, state filings, etc.) been filed in a timely manner?

Second Base: Insiders Looking in



- Nonprofit Organization – Financial “Check-Up”
 - Other
 - Have you made all payroll tax deposits on a timely basis?
 - Do you carry adequate insurance?
 - Has the board adopted a reserve policy?
 - Has the board reviewed and updated the investment policy?
 - Has a code of ethics been adopted?

Second Base: Insiders Looking in



- Nonprofit Organization – Financial “Check-Up”
 - Other
 - Has a Whistle Blower Policy been Adopted
 - Has a Knowledgeable Attorney Reviewed Your Activities for Possible Legal Risks
 - Are there any Chapters, Committees, Task Forces Acting on Behalf of the Organization
 - Is there a Board Orientation for New Board Members
 - Are By-Laws and Operating Policies Adhered to and Periodically Reviewed and Updated
 - Have you Analyzed Cash Flows for Possible Problems and Risks

Third Base: Transparency from Staff



- Clear lines of communication
- Accounting and financial policies and procedures
- Financial reporting
- Budgets and projections
- Strategic goals matched to operating objectives

Third Base: Transparency from Staff



- Accounting and Financial Policies and Procedures Manual – Checklist
 - Chart of accounts
 - Financial statements and management reports
 - Accounting procedures
 - Financial policies
 - Annual review and approval

Home Plate: Federal Form 990 & Governance



- Governance Policies, Compliance Issues and Best Practices
 - Independence of voting members
 - Family or business relationships between the officers, directors, trustees and key employees
 - Minutes of meetings
 - Board review of Form 990
 - Whistleblower policy
 - Document retention policy
 - Compensation approval process
 - Affiliations and joint ventures
 - Compliance with other tax filings
 - Disclose fraud if occurred
 - Annual conflict of interest disclosures
 - Document disclosures: financial statements, governing documents and conflict of interest policy