THE EFFI BARRY
TRAINING INSTITUTE

Legal, Financial, and Governance Fundamentals for New Nonprofits – Workshop #2

Budgeting, Sustainability, Financial Messaging and Common Pitfalls

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The Effi Barry Training Institute

WHAT IS IT?

- Regional trainings
- Individualized technical assistance

AUDIENCE

- Current & prospective HAHSTA grantees
- Community-based organizations

HOW?

- Group-level trainings
- Boot camps
- Community forums
- Individual consultation

TOPICS

- Fee-for-Service business process
- Basic HIV service competencies
- Advanced skills in health care systems
- Data and health informatics
- High-impact prevention programs
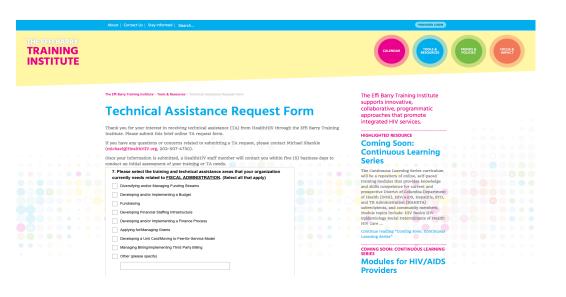
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The Effi Barry Training Institute

EffiBarryInstitute.org

- Provider Modules & Webinars
- Ryan White HIV/AIDS Program Policies
- Tools & Resources
- Training Calendar

Pulse-Point TA Needs Survey

Technical Assistance Request Form

- Organizational Infrastructure
- Fiscal Administration
- Data Collection, Management, and Reporting
- Service Provision

Learning Objectives

You will:

- Explore how to integrate budgets into daily financial and program management and discuss key budget preparation steps.

- Practice communicating financial information internally and externally in a manner that is easy to understand and digest.

- Examine essential tips, common pitfalls, and case studies that illustrate key principles to enhance the sustainability of your organization.

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Key Stakeholders

- Non-Financial Managers: (three W's)

  - Who
  - What
  - When

Key Stakeholders

- Non-Financial Managers:

  - Everyone but the Accountants:
    - Who:
      - Project Managers, Directors, Board Members, Committee Members, Even Staff of All Levels
    - What:
      - They all are making decisions that directly effect the financial health of your organization
    - When:
      - Every minute of everyday decisions both small and large are made that involve dollars and cents

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Key Stakeholders

- Non-Financial Managers:

  - Need (Must) Raise the Financial Awareness Levels 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

Budgeting for Nonprofits

- Adopt a:

  User Based Budget Approach

What's Wrong With Budgets Today???

- Conceptually

  - Budgets are most often viewed as an end product or as a static document

    - This view point is 180 degrees in the wrong direction

New Perspective On Budgeting!!!

- First Step
  - View budgeting backwards
    - Teach the importance of how to <u>use</u> a budget before how to build a budget

Glossary of Key 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**

Good Question to Ask Yourself:

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How Am [!] Doing?

(as a manager)

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More Importantly - How are [**<u>WE</u>**] Doing?

(as an organization)

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Financially - Are We OK???

- To Answer the Question:

    - Goals are the KEY

    - Budgets are critical to managing goals

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

  EQUALS =

    Improved Bottom-line Results

REMEMBER

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

EVERYDAY USE

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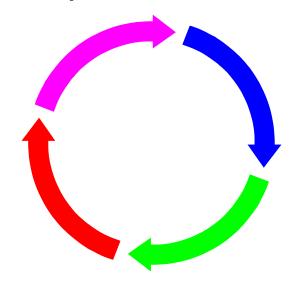Lets Now Look at a Four-Part

Budget Application Example

Budget >>>> Cycles

- Budgets From Two Points of View:

  - **Process View (traditional budget cycle)**

  - **Management View (working monthly cycle)**

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Budget >>>> Cycles

Continued

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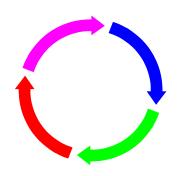

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Budget >>>> Cycles

Continued

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

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- Get:

EVERYONE INVOLVED

In the Budgeting Process

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

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Results Through >>>> Financial Reports

Continued

- Make Projections:

PART OF THE SYSTEM

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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

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

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Continued

- Painting the Perfect Picture Through:

  ENHANCED REPORT DESIGN

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Continued

- Time is the:

ENEMY

Put Time to Work

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Continued

- Political Bottom-lines:

HAVE A STRATEGY

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Continued

Do Not Forget the Three Secret Weapons:

- Monthly Budgets
- Projections
- Contingency Budgets

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- The Goal: (for your Budget)
  - A **WORKING** Budget System
  - for **EVERYDAY USE** that
  - **RAISES AWARENESS** which
  - **CHANGES** Staff **BEHAVIOR** which
  - Equals = **RESULTS**

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Preparing a Budget:
12 Steps to Success

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PREPARING A BUDGET
12 STEPS TO SUCCESS

- Step 1:
  - Where Do You start?

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STEP 1: WHERE DO YOU START?

- Process View (budget cycle)
  - **<u>Preparation</u>**
  - Approval
  - Installation
  - Measurement
  - Projection

STEP 1: WHERE DO YOU START?

- Process View (budget cycle)
  - **<u>Preparation</u>**
    - Assemble Next Year's Budget

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STEP 1: WHERE DO YOU START?

- Process View (budget cycle)
  - **<u>Preparation</u>**
    - Assemble Next Year's Budget
      - » When?
      - » Mid-year
      - » Consider Meeting Schedule, Business Cycle and Funding Sources

Chart of Accounts

- Step 2:
  – Analysis of Chart of Accounts and Departments/Projects/Cost Centers

  <u>Great Results Begin Here</u>

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Chart of Accounts

- ***The Starting Point of a Good Budget and Cost Accounting System***
  - Natural Accounts
    - Line-Items Accounts
  - Project / Cost Centers
    - Departments / Sub-Departments
  - General and Administrative

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CHART OF ACCOUNTS EXAMPLE

	CHART OF ACCOUNTS AND DEPARTMENTS / PROJECTS		
	FISCAL YEAR 2019		
ACCOUNT #	**ACCOUNT DESCRIPTION**	**DEPT/PROJ #**	**DEPT / PROJECT DESCRIPTION**
	REVENUE		
4010	INDIVIDUAL CONTRIBUTIONS		
4020	CORPORATE CONTRIBUTIONS		
4030	FOUNDATION CONTRIBUTIONS AND GRANTS		
4120	FEDERAL GRANTS		
4160	PROGRAM FEES		
4400	MISCELLANEOUS INCOME		
4500	INTEREST AND DIVIDEND INCOME		
	EXPENSES		
5100	GRANTS		
6010	ACCOUNTING AND LEGAL SERVICES		
6030	BANK CHARGES		
6035	COMPUTER SERVICES		
6036	COMPUTERS AND SOFTWARE		
6037	COMPUTER CONSULTING		
6040	CONFERENCE FEES		
6050	CONSULTING SERVICES		
6070	DELIVERY SERVICES		
6080	DEPRECIATION		
6100	DUES AND SUBSCRIPTIONS		
6110	SPECIAL EVENTS / PROJECTS		
6150	EMPLOYEE BENEFITS		
6200	EQUIPMENT RENTAL		
6250	INSURANCE		
6300	LIBRARY / BOOKS / SUBSCRIPTIONS		
6350	MAINTENANCE CONTRACTS & REPAIRS		
6400	MEALS AND ENTERTAINMENT		
6450	MISCELLANEOUS		
6460	NEWSLETTER		
6500	OFFICE EXPENSE		
6600	POSTAGE		
6700	PRINTING / PUBLICATIONS		
6800	PROMOTION		
6900	RENT		
7100	SALARIES		
7200	TAXES - PAYROLL		
7300	TAXES - OTHER		
7350	TEMPORARY SERVICES		
7400	TELEPHONE		
7500	TRAVEL		
7700	OUTSIDE COUNSEL		

CHART OF ACCOUNTS EXAMPLE

	CHART OF ACCOUNTS AND DEPARTMENTS / PROJECTS		
	FISCAL YEAR 2019		
ACCOUNT #	**ACCOUNT DESCRIPTION**	**DEPT/PROJ #**	**DEPT / PROJECT DESCRIPTION**
	REVENUE		
		100	DEVELOPMENT
4010	INDIVIDUAL CONTRIBUTIONS		
4020	CORPORATE CONTRIBUTIONS	120	FUNDRAISING
4030	FOUNDATION CONTRIBUTIONS AND GRANTS	150	SPECIAL EVENTS
4120	FEDERAL GRANTS		
4160	PROGRAM FEES		
4400	MISCELLANEOUS INCOME	200	EDUCATION
4500	INTEREST AND DIVIDEND INCOME		
		230	WORKSHOPS
	EXPENSES	250	CAREER DAY
		270	SPECIAL ED PROGRAMS
5100	GRANTS		
6010	ACCOUNTING AND LEGAL SERVICES		
6030	BANK CHARGES	300	ANNUAL MEETING
6035	COMPUTER SERVICES		
6036	COMPUTERS AND SOFTWARE		
6037	COMPUTER CONSULTING	400	GRANTS
6040	CONFERENCE FEES		
6050	CONSULTING SERVICES	410	YOUTH
6070	DELIVERY SERVICES	430	ADULT
6080	DEPRECIATION	470	SPECIAL ED
6100	DUES AND SUBSCRIPTIONS		
6110	SPECIAL EVENTS / PROJECTS		
6150	EMPLOYEE BENEFITS	500	PROGRAMS
6200	EQUIPMENT RENTAL		
6250	INSURANCE	510	BOOKS TO KIDS
6300	LIBRARY / BOOKS / SUBSCRIPTIONS	520	CLOTHS TO KIDS
6350	MAINTENANCE CONTRACTS & REPAIRS	530	MEALS ON WHEELS
6400	MEALS AND ENTERTAINMENT		
6450	MISCELLANEOUS		
6460	NEWSLETTER	00	GENERAL AND ADMINISTRATIVE
6500	OFFICE EXPENSE		
6600	POSTAGE		
6700	PRINTING / PUBLICATIONS		
6800	PROMOTION		
6900	RENT		
7100	SALARIES		
7200	TAXES - PAYROLL		
7300	TAXES - OTHER		
7350	TEMPORARY SERVICES		
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CHART OF ACCOUNTS EXAMPLE

CHART OF ACCOUNTS AND DEPARTMENTS / PROJECTS			
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ACCOUNT #	**ACCOUNT DESCRIPTION**	**DEPT/PROJ #**	**DEPT / PROJECT DESCRIPTION**
	REVENUE		
		100	DEVELOPMENT
4010	INDIVIDUAL CONTRIBUTIONS		
4020	CORPORATE CONTRIBUTIONS	120	FUNDRAISING
4030	FOUNDATION CONTRIBUTIONS AND GRANTS	150	SPECIAL EVENTS
4120	FEDERAL GRANTS	151	Spring 10K Race
4160	PROGRAM FEES	152	Fall Gala Dinner
4400	MISCELLANEOUS INCOME		
4500	INTEREST AND DIVIDEND INCOME		
		200	EDUCATION
	EXPENSES		
		230	WORKSHOPS
5100	GRANTS	232	Workshops - Youth Series
6010	ACCOUNTING AND LEGAL SERVICES	234	Workshops - Adult Series
6030	BANK CHARGES	250	CAREER DAY
6035	COMPUTER SERVICES	270	SPECIAL ED PROGRAMS
6036	COMPUTERS AND SOFTWARE	275	Sp Ed - HHS Grant
6037	COMPUTER CONSULTING	277	Sp Ed - DOE Grant
6040	CONFERENCE FEES		
6050	CONSULTING SERVICES		
6070	DELIVERY SERVICES	300	ANNUAL MEETING
6080	DEPRECIATION		
6100	DUES AND SUBSCRIPTIONS		
6110	SPECIAL EVENTS / PROJECTS	400	GRANTS
6150	EMPLOYEE BENEFITS		
6200	EQUIPMENT RENTAL	410	YOUTH
6250	INSURANCE	430	ADULT
6300	LIBRARY / BOOKS / SUBSCRIPTIONS	470	SPECIAL ED
6350	MAINTENANCE CONTRACTS & REPAIRS	475	Sp Ed - HHS Grant
6400	MEALS AND ENTERTAINMENT	477	Sp Ed - DOE Grant
6450	MISCELLANEOUS		
6460	NEWSLETTER		
6500	OFFICE EXPENSE	500	PROGRAMS
6600	POSTAGE		
6700	PRINTING / PUBLICATIONS	510	BOOKS TO KIDS
6800	PROMOTION	520	CLOTHS TO KIDS
6900	RENT	530	MEALS ON WHEELS
7100	SALARIES		
7200	TAXES - PAYROLL		
7300	TAXES - OTHER	00	GENERAL AND ADMINISTRATIVE
7350	TEMPORARY SERVICES		
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Responsibility Budgets

- ## Step 3:

  – Assign Areas of Budget Responsibility

  <u>Who and Where</u>

  <u>"A Budget in Name Only"</u>

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Assemble Budget Packages

- ## Step 4:
  - Budget Packages for Staff Use
    - Forms
    - Time-line/Work Plan
    - Financial Reports
    - Sample Data
    - Instructions/Memo from the President

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Document Assumptions

- ## Step 5:
  - ### Assumption Worksheet
    - #### Most Important Form
      - Documentation Behind the Budget

      "ITS ALL IN THE DETAILS"

Timeline/Work Plan

- ## Step 6:
  - ## Work Plan by Due Dates
    - Training and Kick-off Meeting
    - Preparation
    - First Draft
    - Budget Interviews
    - Second Draft
    - Management Meeting
    - Final Proposed Budget – Ready for Board Presentation
    - Budget Summary Analysis for the Board

Training and Meetings

- Step 7:
  - Training
    - Individual
    - Group
- Step 8:
  - Meetings
    - Group Kick-off Meeting
    - Individual Budget Interviews

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Budget Summary Analysis

- ## Step 9:
  - Prepare Budget Summary Analysis for the Board
    - Highlight:
      - Significant Changes
      - Major Challenges
      - Goals
      - Contingencies

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Approval Process

- Step 10:
  - Prepare for the Approval Process:
    - Set Dates
    - Decide Who Will Make the Presentation
      - Staff or Treasurer
    - Script the Presentation
    - Get Budget/Finance Committee Approval
    - Get Board Approval
    - What About Changes?
    - What About Contingencies?

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Installation

- Step 11:
  - Load Approved Budget into Accounting System
  - Update Chart of Accounts and Financial Statements

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The Last Step

- Step 12:
  - PUT THE BUDGET TO USE
    - WHEN?
  - EVERYDAY!!!!!!!

Effective Financial Messaging

to

Management and Staff

Board of Directors and Leadership

Funders and the General Public

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Essential Financial Communication and Messaging: <u>Finding the Perfect Balance</u>

- Providing financial information and reports to your organization's board of directors is a well-known and expected best practice.

- How this is done varies widely and is often poorly performed, with little thought to the platform used and the ultimate absorbability of the information provided.
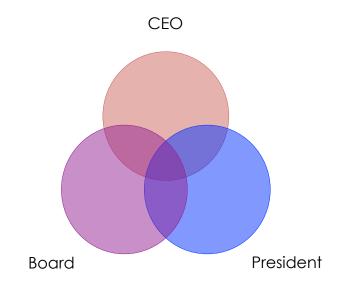
Three Dimensions of Financial Messaging

- Find the three dimensions
- Different for each audience/situation
- Consolidate, compromise, and balance are the keystones
- Think/process three-dimensionally

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Think/Process Three-Dimensionally

Try to incorporate

- three perspectives

- three points of view

- three reference points

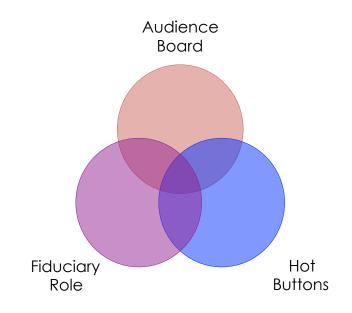into your messaging vehicle.

CEO

Board

President

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Financial Messaging Core Goals

- Connecting with the audience

- Helping board members fulfill their fiduciary role related to finance

- Include hot buttons
    - theirs
    - yours

- Consolidate, compromise, balance
    - less is better than more

Audience Board

Fiduciary Role
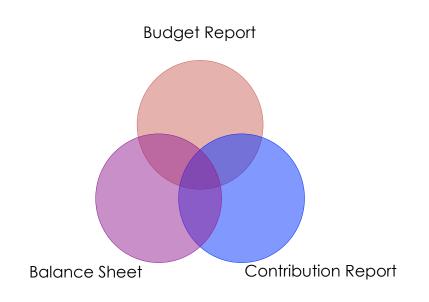
Hot Buttons

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Financial Messaging Tools: Dashboards

3-D Approach:

- ultra condense reports
  - remove noise
  - include all the hot buttons
- enhance peripheral vision
  - interaction of hot buttons
- use three different metrics

Messaging in Three Dimensions:

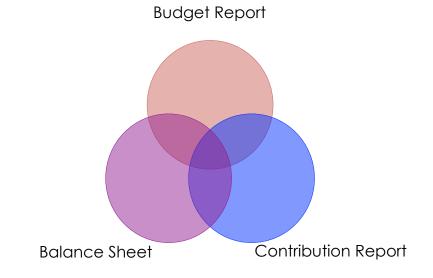- budget report
- balance sheet
- contribution report

Budget Report

Balance Sheet

Contribution Report

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Financial Messaging Tools: Dashboards

Explore Sample Dashboard

Budget Report

Balance Sheet

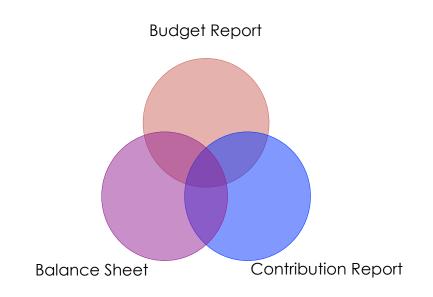Contribution Report

Financial Messaging Tools: Dashboards

Individually these reports only tell part of the story:

- budget report vs.

- balance sheet vs.

- contribution report

Three dimensions together tell a more complete story.

Budget Report

Balance Sheet

Contribution Report

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Top Ten List for Fiscal Health and Financial Sustainability

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Top Ten List for Fiscal Health and Financial Sustainability

Fiscal and Financial Sustainability Improvement:

1. Increase the financial acumen of senior management and project managers.

2. Connect senior management and project managers to financial reports and budgets and foster an environment for sharing financial information throughout the organization.

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Top Ten List for Fiscal Health and Financial Sustainability

Fiscal and Financial Sustainability Improvement:

3. Integrate budget and projection reports into the financial reporting systems and include cash-flow projections.

4. Make sure financial systems are always current and monthly internal financial reports and external grant reporting is timely and completed within 25 days of the close of the previous month-end.

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Top Ten List for Fiscal Health and Financial Sustainability

Fiscal and Financial Sustainability Improvement:

5. Provide financial reports to the board of directors in a regular and timely manner so board members can fulfill their fiscal fiduciary role.

6. Healthy sustainability organizations must monitor their balance sheets closely paying close attention to building an Operating Reserve and ensuring that cash and other assets are managed effectively while liabilities are not allowed to expand out of control.

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Top Ten List for Fiscal Health and Financial Sustainability

Fiscal and Financial Sustainability Improvement:

7. Install a complete accounting policies and procedures manual and regularly update the manual to meet the ever changing compliance requirements of grant funders.

8. Plan for an Independent Annual Financial Statement Audit and Federal Uniform Guidance Audit when required and have an Audit Committee (if possible) or Finance Committee oversees the audit process and function.

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Top Ten List for Fiscal Health and Financial Sustainability

Fiscal and Financial Sustainability Improvement:

9. Regularly review all grant agreements to ascertain that you are meeting all fiscal compliance requirements.

10. Schedule quarterly update and compliance meetings with your external granting officers and maintain a transparent fiscal relationship with them that fosters a culture for sharing compliance and financial information.

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Top Ten List for Fiscal Health and Financial Sustainability

Fiscal and Financial Sustainability Improvement:

- Select One Fiscal and Financial Sustainability Tip and Discuss Why it is Important and How You Can Implement Better Controls and Enhance Accounting Policies and Procedures in this Area:

- Tip #_____ Selected

- Discussion:_____

  _____

  _____

  _____

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Common Pitfalls

Common Pitfalls

7 Areas of Consideration to Enhance Sustainability and Avoid Common Pitfalls

(refer to Sustainability Checklist)

1. Conflicts of Interest and Other Sensitive Areas
2. Internal Controls and Risk Assessment
3. Employment and Human Resources
4. Financial Reporting and Audits
5. Government Grants
6. Governance and Corporate Records
7. Key Risk Management Areas

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Common Pitfalls

1. Conflicts of Interest and Other Sensitive Areas

- Failure to maintain and comply with conflict of interest policy
- No conflict of interest disclosures

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Common Pitfalls

2. Internal Controls and Risk Assessment

- Lack of healthy attitude about internal controls, originating at the top of the organization
- Lack of adequate written procedures for finances, operations, and cash management

3. Employment and Human Resources

- Failure to use a reputable payroll administrator
- Not fully and timely making payroll tax deposits
- Lack of employee handbook with key provisions
- Improper worker classification (employee vs. independent contractor)

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4. Financial Reporting and Audits

- Audit problems
- Failure to maintain a calendar of important filings
- Inadequate Board review of Form 990 and not using the Form 990 to tell a complete, confident, and compelling story

5. Government Grants

- Failure to follow OMB Uniform Guidance
- Not prepared for required audits

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6. Governance and Corporate Records

- No Board orientation
- Inadequate corporate record book
- Failure to periodically review and update Bylaws and policies

7. Key Risk Management Areas

- Inadequate insurance
- Not analyzing cash flow for possible problems and risks
- No risk assessment by an attorney knowledgeable about the laws applicable to nonprofits

Case Studies

Case Study #1
(refer to handout)

Case Study #2
(refer to handout)

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Case Study #3
(refer to handout)

Case Study #4
(refer to handout)

Case Study #5
(refer to handout)

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