

Bridge Session: Nonprofit Financials 101

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8:30 a.m., Powerhouse South Conference Room



Nonprofit Financials 101

DISCLAIMER

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Agenda

- Introduction – why financial statements are important
- Types of Financials/Purpose
 - Internal vs External financial statements
 - Statement of Financial Position, Statement of Activities, Statement of Cash Flow
 - Budgets
- Audits, IRS Form 990
- Fiscal Sponsors
- What funders review, why they ask for financials
- Final Q&A

The Importance of Financial Statements



Why are financial statements important?

- Report financial transactions for a specific period of time
- Track and monitor revenue, expenses and cash flow
- Track (and understand) an organization's operations and overall financial performance
- Allow Boards, Executive Directors and CEOs to make informed business decisions
- Critical for audits
- Help in securing external funding

Types of Financial Statements



Internal vs External Financial Statements

Internal	External
Management Reports <ul style="list-style-type: none">• Used by CEO, CFO, other staff and boards	Reports for external stakeholders (i.e. funders, grantees, bank, IRS)
May include more detail in transactions	May include more summary information

NOTE: Internal financial reports must be consistent with an organization's external financial reporting

Internal Financial Statements

Document	What do I learn	How is it different
Internal Budget	Management's plans for current (or future) year	<ul style="list-style-type: none">• Includes assumptions• Based on goals
Internal Financial Reports	Most current financial information. May include cash flow projection	<ul style="list-style-type: none">• Interim financials may not be fully "adjusted"

External Financial Statements

Document	What do I learn	How is it different
Audited Financial Statements	Financials for most recent audited year	<ul style="list-style-type: none">• Presents revenue and net assets by restriction• Shows board designated assets• Includes notes
IRS Form 990	Financials for most recent completed year	Only applies to US-domestic, independent organizations Disclosures related to: <ul style="list-style-type: none">• Program Accomplishments• Governance• Compensation

Types of Financial Statements

STATEMENT OF FINANCIAL POSITION
(Balance Sheet)



FINANCIAL HEALTH

What an organization owes and owns

STATEMENT OF ACTIVITIES
(Income Statement)



FINANCIAL PERFORMANCE

Earnings through a period of time

STATEMENT OF CASH FLOWS



CASH MANAGEMENT

Cash In/Cash Out

Statement of Financial Position

Purpose/Information Included

- Number and type of assets
- Liabilities owed
 - Short-term (less than a year)
 - Long-term (over a year)
- Net Assets/Equity
 - Unrestricted or With Restrictions

Statement of Activities

Purpose/Information Included

- Revenue
- Expenses
- Net Income (Loss)

Statement of Cash Flow

Purpose/Information Included

- Cash In/Cash Out
- Main Components:
 - Cash flow from Operating Activities
 - Cash flow from Investing Activities
 - Cash flow from Financing Activities

Budgets



Budget Statements

BUDGET



PROJECTED ESTIMATES

Revenue/Expense projections for a
period of time

BUDGET VS ACTUAL



ANALYSIS OF PROJECTED TO
ACTUAL

Variance to analyze performance

Budgets

Purpose/Information Included

- Predicted estimate of income
- Predicted estimate of expenses
- Based on historical data and anticipated financial goals

Why a budget is important

- Help manage funds in a more effective way
- Roadmap – without a budget an organization operates with limited direction
- Board members better understand direction and programs of organization; financial stewardship

Creating a Budget

- Determine financial goals/objectives
- Look at past year (or years) financial performance
- Review previous year/years major sources of income and expenses
 - Fixed expenses vs variable expenses
- Review new revenue sources and anticipated new expenses
- Strategically allocate resources that support your financial goals/objectives
- Don't over complicate the process

Budget expense categories

Types of expenses that may be included in a budget:

- Operating (rent, staff, office expenses)
- Administrative (accounting, legal)
- Program (programs, services, initiatives)
- Fundraising (marketing, professional fees, events)
- Capital

Monitoring and Adjusting Budgets

Budget vs Actual report

- Comparison of an organization's planned activity and actual financial activity for a specific period of time (by dollar and/or percentage).
- Importance of understanding variance
 - Understand why a variance occurred
 - Changes in operations
 - Better able to project in the future

Budget adjustments should be based on organization's policy regarding budget management

Audits

IRS Form 990

Financial Audit

What's an audit?

Formal review of an organization's financial records

- Audits always conform to GAAP (Generally Accepted Accounting Principles).
- Audits are always prepared by and outside and independent CPA (Certified Public Accountant).

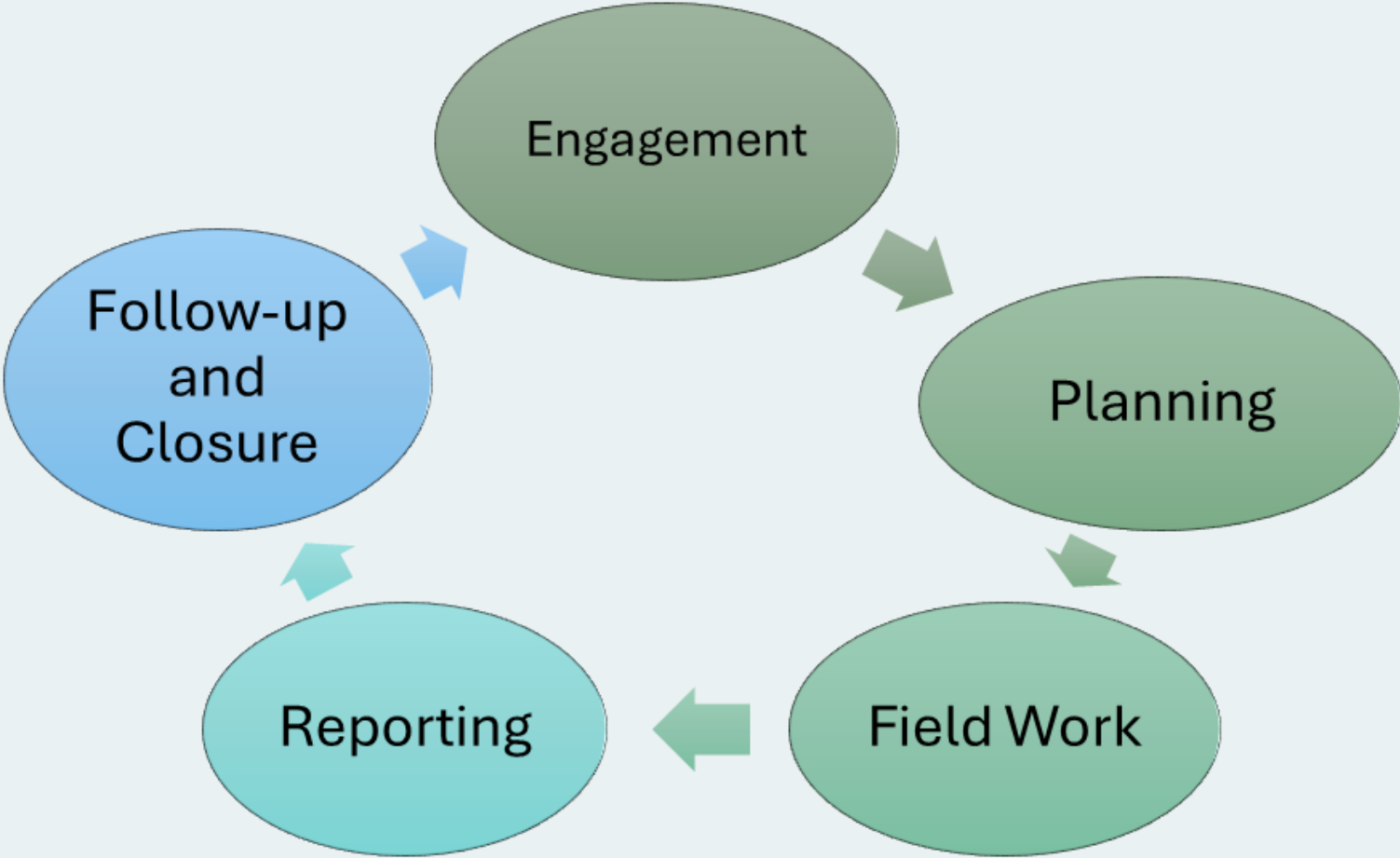
Why is an audit important?

- Can help identify inefficiencies
- Can help identify ways to improve operations
- Fraud prevention
- May be required for some grants/funding
- Financial transparency

What happens during an Audit

- Review of Accounting Practices
- Evaluation of financials reports
 - Review bank balances
 - Fixed assets
 - Liabilities
- Internal control review/test
- Review policies and procedures
- Adjustments based on GAAP

Audit Process



Engagement Phase

- Identify what services will be performed
- Identify where services will be performed
- Identify organization staff responsible for audit process
- Scope of services for Auditors
- Fees
- Start and completion date

Planning

- Develop timeline and deadlines
- Document gathering – this will be a long list
- May have pre-audit meeting
 - Which staff members are involved?
 - Manage expectations of audit process including field work
 - Logistics

Field Work

- Review of documentation (not an exclusive list):
 - Bank statements, deposits, reconciliations
 - Grant documents
 - Leases, contracts
 - Fixed assets, depreciation schedule
 - Board minutes, policies
- Interview management, key staff, board members
- Internal control testing
- Time intensive!

Reporting

- Review of draft audit report by staff and audit committee
- Ask questions, changes made if needed
- Management Letter
 - Identifies possible areas for improvement
 - Material weaknesses or significant deficiencies

Follow-Up and Closure

- Board meets with Auditors
 - Was management forthcoming with information and cooperative
 - Review of accounting policies, recommendations
 - Material weaknesses addressed from previous audits
- Board accepts audit report

What's in the Audit Report?

- Audit Opinion
- Statement of Financial Position
- Statement of Activities
- Statement of Functional Expenses
- Statement of Cash Flows
- Footnotes
 - Includes subsequent events

Tips for managing an audit

- Find a firm early (RFP process, interviews)
- Audits take time!
 - Manage staff time
 - Set appropriate schedule
- Keep financial records in order, make adjustments as needed
- After the first year, audit prep happens throughout the year
- Rely on your audit team, don't be afraid to ask questions or clarification
- RELAX

IRS Form 990

- IRS Form 990 is a required filing.
- Various forms – 990N, 990-EZ, 990
- Contains management and governance information
- Often completed by audit firm
 - Management responsible for review and understanding

Fiscal Sponsor

What's a fiscal sponsor?

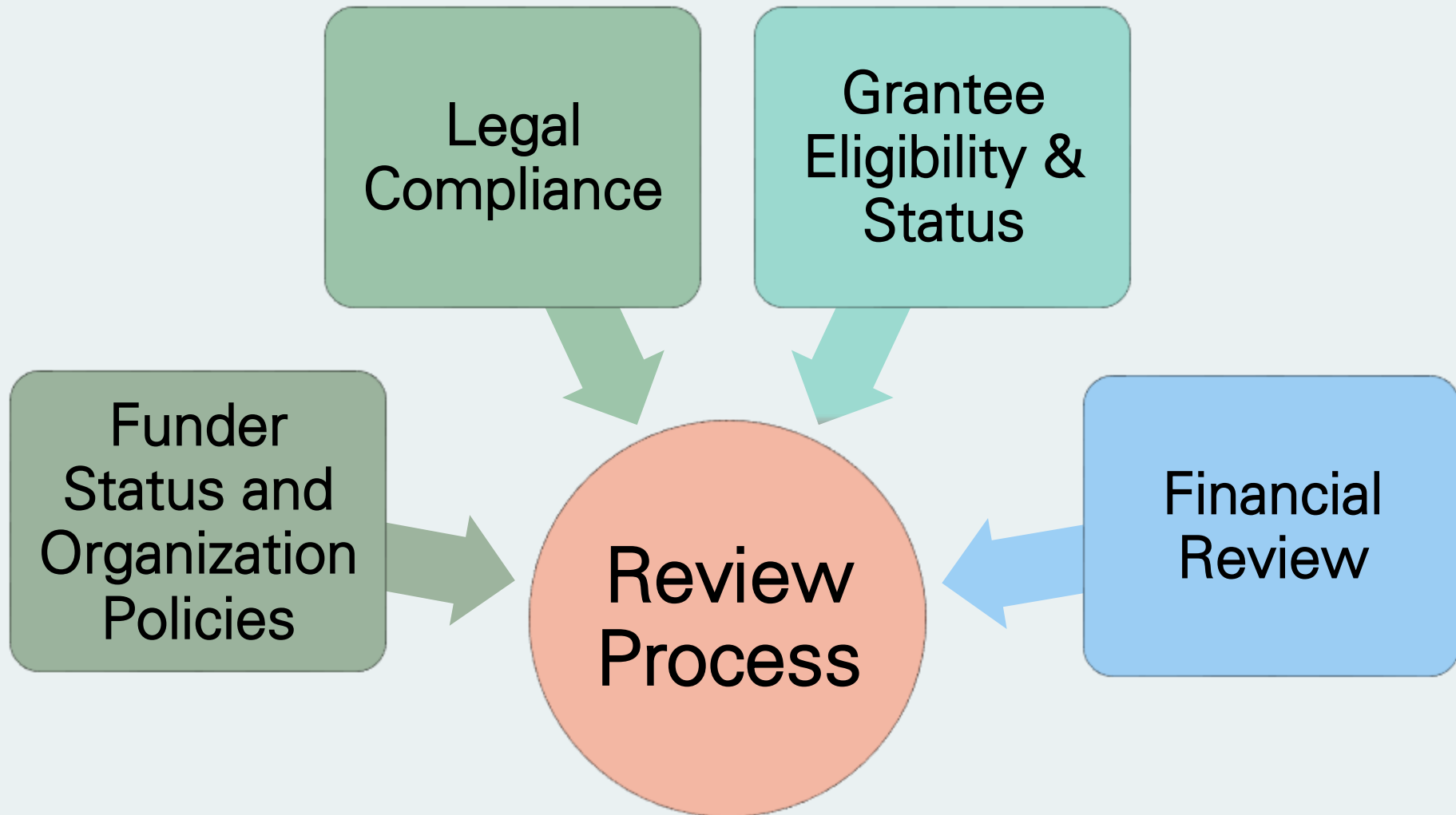
- Fiscal Sponsors are an established nonprofit organization taking responsibility for a grant or fund.
- Typically this is done when an organization seeks funds prior to obtaining their 501c3 status.
- Provide fiduciary oversight and financial management.
- Fiscal sponsors maintain control over funds.

Why choose a fiscal sponsor?

- Start-up, new organizations
- Have not obtained nonprofit status with the IRS
- Utilization of “back office” tasks (typically all volunteer run organizations)
- Sophistication of fiscal organization
- Written agreement, memorandum of understanding

What
Funders
Review/Why
they ask for
financials

Review Process



Funder Status and Organization Policies

- Type of funder
 - Community Foundation
 - Private Foundation
 - Public Charity
- Policies
 - Conflict of Interest
 - Funding requirements

Legal Compliance

- Tax-exempt status
- OFAC (Office of Foreign Assets Control) requirements
- Tax filings up to date – 990, Secretary of State annual reports

Grantee Eligibility & Status

- Review applicant organization's operations, programs and overall fit
- Strategies
 - Request for Proposal (RFP)
 - Letter of Intent
 - Site Visit

Financial Review

- Review financial health of organization – long term and short term
- Sources of Revenue
- Financial trends and history
- Debt to Income ratio
- Asset to liability ratio
- Program budgets
- “Tipping” potential

Final Q&A

Thank
you