

LITERACY ADVANCE OF HOUSTON

*Nonprofit Management:
Financials*

2017 Literacy Texas Annual Conference



Literacy Advance of Houston

Agenda

- Who is in the room?
- What should the budget process look like?
- What are your responsibilities?
- How do you track progress?
- What kind of reports are needed?
- Where can I find more information?



Money, Money, Money



New Transaction		Edit Transaction		Bank Balance: \$5,782.59		
				Account Balance: \$3,911.37		
<i>First National Bank - Checking Account</i>						
Date	Check	Pay To / Deposit From	P r i n t	Category	Amount	Balance
8-Feb-2006	1851	Market Day Food	✓	Food	-\$115.10	\$4,091.53
10-Feb-2006	+	First National Bank - Deposit Linda's Check and Rebate Checks		Miscellaneous Income	\$140.32	\$4,231.85
11-Feb-2006	1852	St. Peter Church Weekly Collection	✓	Charity: Cash	-\$10.00	\$4,221.85
12-Feb-2006	1853	SRAP&R Ski Trip for Kevin to Mountain View	✓	Entertainment	-\$41.00	\$4,180.85
14-Feb-2006	1854	Dominion Peoples Gas Bill	✓	Utilities: Gas	-\$155.49	\$4,025.36
14-Feb-2006	1855	Allegheny Power Electric Bill	✓	Utilities: Electric	-\$90.19	\$3,935.17
14-Feb-2006	1856	Prudential Linda's Insurance	✓	Life Insurance	-\$23.80	\$3,911.37



Your Strategic Plan is the
starting point -
But don't forget – PICK THREE!
(or even just two)...



Program Operations Drive the Budget

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- Will a new program be added?
- Will we need additional staff?
- Is rent going up? Will we need a new roof?
- Does equipment need to be replaced?
- What is the projection on utility or postage rates?
- Do we need to make any cuts?



Be REALISTIC!



Expenses: Accounts Payable

What will you need to run your programs?



Expenses: Accounts Payable

Don't forget the lights...
& liability!



Sample Expense Budget

Appreciation/Recognition			Postage	\$	2,000
Student	\$	1,000	Professional Fees	\$	8,000
Volunteer	\$	500	Property Maintenance	\$	33,300
Auto Allowance	\$	1,200	Salaries		
Community Outreach	\$	3,600	Administrative	\$	30,500
Computer Lab	\$	10,000	Program	\$	138,000
Conferences & Mtgs.	\$	5,500	Supplies		
Continuing Education	\$	3,000	Classroom	\$	500
Dues and Subscriptions	\$	500	Office Supplies	\$	4,000
Employee Benefits			Misc. Occupancy	\$	2,000
Health Insurance	\$	5,000	Testing Materials	\$	1,000
Fund Development	\$	10,000	Tutoring Materials	\$	750
Furniture and Equipment	\$	1,000	Telephone	\$	2,750
Insurance	\$	6,000	Travel	\$	5,000
Maintenance of Equipment	\$	1,000	Utilities	\$	<u>10,000</u>
Misc. Expense	\$	20			
Payroll Taxes	\$	13,880	TOTAL EXPENSES	\$	300,000



Income: Accounts Receivable



Income: Accounts Receivable

Every penny
counts!



- United Way
- Federal/State Grants
- Temporarily Restricted Grants
- Unrestricted Grants
- Contributions – Individual
- Contributions – Corporate
- Contributions – Civic Organizations
- Fundraisers
- Investment Income
- Sale of Materials
- Workshop Registration Fees
- Fees for Services
- Membership Dues



Sample Income Budget

Contributions		
Non-Restricted Grants	\$	75,000
Donations	\$	31,984
Government Agency Grants	\$	29,336
Investment Income	\$	2,000
Misc. Income	\$	400
Restricted Grants	\$	42,500
Sale of Materials	\$	6,000
Special Events – Fundraisers	\$	50,000
United Way		
Allocation	\$	60,480
Designated Funds	\$	2,000
Workshop Registration Fee	\$	<u>300</u>
TOTAL INCOME	\$	300,000



In-Kind Contributions

SAMPLE: IN-KIND CONTRIBUTIONS

Equipment & supplies	\$	40,000
Donation of space*	\$	3,600
Volunteer tutors **	\$	<u>321,937</u>
TOTAL CASH AND IN-KIND CONTRIBUTIONS	\$	800,586

* Value of space equals 150 sq. ft. @ \$2.00/sq. ft. (as determined from local rent prices) = \$300/monthly

** Value of specialized/trained volunteer tutor calculated at the rate of \$21.36/hour @ 15,072 tutor hours
(www.independentsector.org - 2010)



Responsibilities

Under nonprofit law and regulation, the board ultimately is responsible for the organization and everything it does, including accounting for its money and reporting to the IRS.

- The Board hires (and fires) the Executive Director.
- It is your responsibility to know enough to ask good questions and know when to seek help.
- Help the Board help you!



Responsibilities

- Work with the Finance and Fund Development Committees to prepare the annual budget, as well as monthly financial statements to be reviewed by the Board of Directors.
- Supervise the maintenance of a record of income and expenditures.
- Provide proper safeguards for the custody of private, public and corporate funds.



Responsibilities

- Assume responsibility for the care and maintenance of all financial records of the organization (Bylaws, Minute Books, Audits, Form 990s).
- Assume responsibility for reporting to all funding sources (foundations, federal/state, corporate, individuals).
- Seek, develop and prepare, with the Finance and Fund Development Committees, proposals for additional funding through private, state or federal grants, donations, or corporate gifts



Internal Accounting Controls

- **Cash receipts**

To ensure that all cash intended for the organization is received, promptly deposited, properly recorded, reconciled, and kept under adequate security.

- **Cash disbursements**

To ensure that cash is disbursed only upon proper authorization of management, for valid business purposes, and that all disbursements are properly recorded.

- **Petty cash**

To ensure that petty cash and other working funds are disbursed only for proper purposes, are adequately safeguarded, and properly recorded.



Internal Accounting Controls

- **Payroll**

To ensure that payroll disbursements are made only upon proper authorization to bona fide employees, that payroll disbursements are properly recorded and that related legal requirements (such as payroll tax deposits) are complied with.

- **Grants, gifts, and bequests**

To ensure that all grants, gifts, and bequests are received and properly recorded, and that compliance with the terms of any related restrictions is adequately monitored.

- **Fixed assets**

To ensure that fixed assets are acquired and disposed of only upon proper authorization, are adequately safeguarded, and properly recorded.



Basic Definitions

Assets: Things of value held by the business. Assets are balance sheet accounts. Examples of assets are accounts receivables, furniture and bank accounts.

Liabilities: What your business owes creditors. Examples are accounts payables, payroll taxes payable, and loans payable

Net Income: Also called net profit, it is equal to income minus expenses. Net income is the bottom line of the income statement (also called the profit and loss statement).

Depreciation: An annual write-off of a portion of the cost of fixed assets, such as vehicle and equipment. Depreciation is listed among the expenses of the income statement.



Basic Definitions

Accrual Based Accounting: With the accrual method, you record income when the sale occurs, not necessarily when you receive payment. You record an expense when you receive goods or service, even though you may not pay for them until later.

Cash Based Accounting: If you use the cash method, you record income only when you receive cash from your customers. You record an expense only when you write the check to the vendor.



Restricted and Unrestricted Funds

Three categories of recording funds:

Unrestricted: free from any external restrictions and available for general use; general operating

Temporarily Restricted: donor-imposed restrictions that can be fulfilled in one of two ways – passage of a *defined period of time* (time restriction) or by *performing defined activities* (purpose restriction); most often received to operate a specific program or project

Permanently Restricted: restricted by the donor for a designated purpose or time restriction that will never expire; the intent is that the principle balance of the contribution will remain as an investment forever, and the nonprofit will utilize the interest and investment returns, such as with an endowment

Restrictions can only legally be placed on funds by their donors.



Track Your Progress

- A list of each account that the accounting system tracks, should be designed to capture the financial information you need to keep track of your financial information and make good financial decisions.
- Only information recorded with an account code from the chart of accounts will be recorded into the financial records, and from there into financial reports.
- A good rule of thumb is to keep the chart of accounts as simple as possible, and revise it as your need for information increases over time.
- Unified Chart of Accounts toolkits available at the National Center for Charitable Statistics at <http://nccs.urban.org/projects/ucoa.cfm#Toolkit>



Track Your Progress

Contributions

Contributions – individuals	4000
Contributions – foundations	4100
Contributions – corporations	4200
Grants – government	4300
Transfers to/from temp. restricted fund	4400

In-kind contributions

In-kind contributions – goods	4500
In-kind contributions – services	4600

Program service fees

Program service fees	4700
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Special events

Special event #1 – net	5400
Special event #2 – net	5410

Investment income

Dividends and interest	5600
Realized gain/loss on sale	5610

Other revenue & support

Miscellaneous revenue	5900
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Reporting

- Report monthly to your Board
- Submit your monthly payroll taxes
- Submit your quarterly TWC unemployment taxes
- File your annual 990



Reporting

Balance Sheet (also called a statement of financial position): It is a financial "snapshot" of your business at a given point in time. It lists your assets, your liabilities, and the difference between the two, which is your equity, or net worth.

Income Statement (also called a profit and loss statement or a "P&L."): It lists your income, expenses, and net profit (or loss). The net profit (or loss) is equal to your income minus your expenses. It is often referred to as a Statement of Activities. Allows for tracking of projections against budget performance.

Cash Flow Statement: Provides aggregate data regarding all cash inflows an organization receives from both its ongoing operations and external revenue/investment sources, as well as all cash outflows that pay for business activities and investments during a given quarter.

Budget Performance Statement: An optional internal report that shows the monthly and Year-to-Date (YTD) budget variances for all activities (account line items).



Reporting

Program Expenses: goods and services distributed to fulfill the purpose of the organization. Should not fall less than 75%, with the watchdogs sometimes looking for closer to 80% or higher.

Administrative Expenses (Management & General): costs of business management, record keeping, budgeting, and finance and other management and administrative activities.

Fundraising Expenses: costs of fund-raising campaigns and events.

Two common financial indicators:

Program-Spending Ratio: calculated by dividing total program expenses by total expenses

Fundraising-Efficiency Ratio: calculated by dividing fundraising costs by total contributions



Barriers Facing Nonprofit Impact

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Uncharitable - Dan Pallotta

*The Starvation Cycle of
Nonprofits - SSIR*



Audits

- A review by an independent person/firm of an organization's accounting and recordkeeping. It often serves as a seal of approval that a nonprofit is responsible in its handling of its financial and other resources.
- Ensures that financial records are in accordance with generally-accepted accounting principles (GAAP).
- Good planning and budgeting tool for your agency.
- Good public relations tool for what it says about your organization's financial integrity.
- For a grant application - granting agencies may use the information in evaluating an organization applying for funds.



Form 990

Transparency, Governance, and Accountability

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All tax-exempt organizations are required to file an annual information return (Form 990, 990-EZ, 990-PF, 990-N, etc.) on the 15th day of the fifth month following the end of their fiscal year.

What organizations are required to file Form 990?

Most federally tax-exempt organizations, with the exception of churches and state institutions. See www.irs.gov for a full list.

All 501 (c)(3) private foundations, regardless of income

- Beginning with tax filings for 2007, any organization that fails to file the required information return for three consecutive years faces automatic revocation of its tax-exempt status.
- The IRS and the Urban Institute's National Center for Charitable Statistics provide searchable lists of organizations in danger of having their tax-exempt status revoked.



Form 990

Transparency, Governance, and Accountability

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Beginning in year 2010:

- Organizations with annual revenues UNDER \$50,000 are required to file a Form 990-N, also known as an e-Postcard.
- Organizations with annual revenues GREATER than \$50,000 and LESS than \$200,000 are required to file a Form 990 or a Form 990-EZ.
- Organizations with annual revenues GREATER THAN \$200,000 are required to file a Form 990.
- Private foundations (as described under section 509(a) of the tax code) are required to file Form 990-PF.
- Organizations with unrelated business income may be required to file a Form 990-T in addition to the Form 990 or Form 990-N.



Document Retention

- How long should I keep my cancelled checks?
Generally at least 7 years, with some exceptions.
- What types of documents do I need to keep?
Employee Records, Inventory Reports, Purchase Orders, Insurance Policies, and the list goes on & on...
- What do I do with old audits?
Keep full history!
- Model Policy found at Blue Avocado -
<http://www.blueavocado.org/content/model-document-retention-policy-nonprofits>



Compliance and the Law

How much do you know and how much do you need to learn?

Nonprofit Management Self-Assessment Tool -

<http://www.nonprofitoregon.org/sites/default/files/uploads/file/Fin%20Mgmt%20Self%20Assessment.pdf>

Bookkeeping Assessment –

<http://www.blueavocado.org/content/nonprofit-bookkeeping-test>



Compliance and the Law

How are you training your board members?

- Board Source
- National Council of Nonprofits



RESOURCES

Alliance for Nonprofit Management – www.allianceonline.org

Blue Avocado: Practical, Provocative and Fund Food-for-Thought for Nonprofits – www.blueavocado.org

Free Management Library: All About Financial Management in Nonprofits –
http://managementhelp.org/finance/np_fnce/np_fnce.htm

Free Management Library: The Free Nonprofit e-MBA –
http://managementhelp.org/np_progs/org_dev.htm

Nonprofit Risk Management Center –
www.nonprofitrisk.org

Nonprofits Assistance Fund –
<http://www.nonprofitsassistancefund.org/pages/resources>



THANK YOU!



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