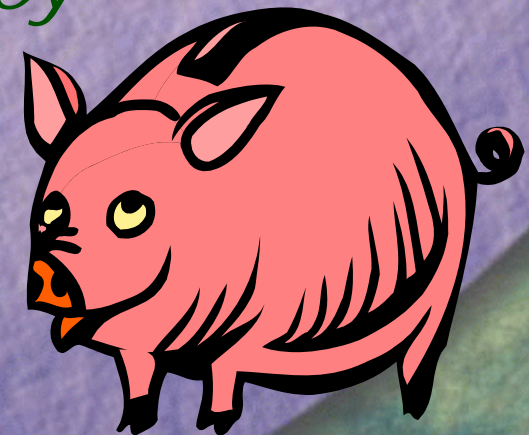


Effective Financial Oversight

*What Nonprofits Need to Know
About Managing Money*



The Board of Directors is responsible for the financial integrity of the nonprofit organization

- What must a Director know about nonprofit finances?
- Things we will learn today:
 - ▶ Basics of Nonprofit Finances
 - ▶ Basics of Budgets
 - ▶ Accountability
 - ▶ Best Practices
- Basic - Intermediate Level



What is Financial Oversight?



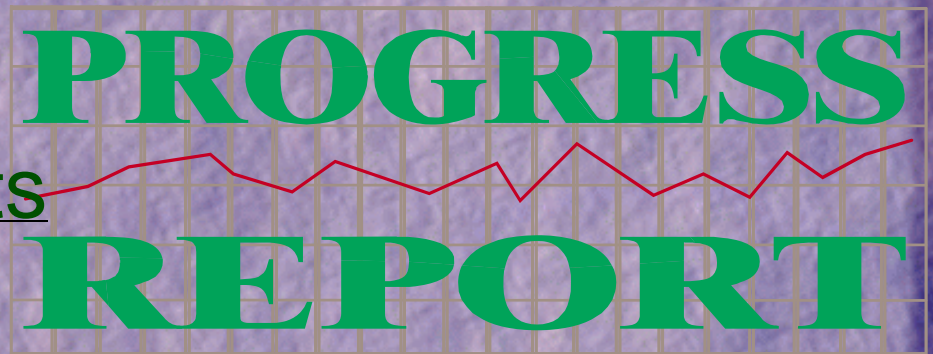
Watch the money - Watch the people

- **Financial Oversight** is the review of both finances and financial practices.
 - ▶ Ensures safe, ethical financial procedures
 - ▶ Protects the Nonprofit and the Directors/Staff
 - ▶ Provides integrity and transparency for the public
 - ▶ Catches financial difficulties before they become impossibilities

What are Financial Reports?

How Complicated Must They Be?

- Basic Reports
 - ▶ Income/Expense
 - ▶ Balance Sheet
- Intermediate Reports
 - ▶ Compilation
 - ▶ Review
- Advanced Reports
 - ▶ Audit
 - ▶ Statement of Financial Position



Basic Reports

Nonprofits < \$25,000/year annual income

■ Income/Expense

- ▶ (aka: Profit & Loss, P&L, Cash Flow)
- ▶ Reports income from all sources, all expenses
- ▶ Include Restricted Funds
- ▶ Should be provided at every board meeting
- ▶ What's missing from this one?

Small NonProfit, Inc.	
Profit & Loss	
October 2006 through September 2007	
	Oct '06 - Sep 07
<u>Income</u>	
<u>FUNDRAISING ACTIVITIES (Profit)</u>	
Nut Sales	328.58
Touch a Fleet	754.15
Home Tours	827.56
Pop Tabs	44.80
MOONLIGHT MADNESS	649.65
Total FUNDRAISING ACTIVITIES (Profit)	2,604.74
<u>SERVICE ACTIVITIES</u>	
Kids In Cars	-100.00
EASTER EGG HUNT	51.13
Total SERVICE ACTIVITIES	-48.87
<u>ADMIN INCOME</u>	
HAPPY DOLLARS/FINES	107.11
Total ADMIN INCOME	107.11
<u>MEMBERSHIP DUES</u>	2,279.50
Total Income	4,942.48
<u>Expense</u>	
<u>COMMITTEES</u>	
Youth Services	400.66
Total COMMITTEES	400.66
void check	0.00
<u>DONATIONS - LOCAL</u>	
DONATIONS - OTHER	1,050.00
SCHOLARSHIP	630.00
MISC DONATIONS	50.00
CHRISTMAS PARADE	9.66
Total DONATIONS - LOCAL	1,739.66
<u>DUES - MEMBERSHIP</u>	1,998.70
Total Expense	4,139.22
Net Income	803.26

Basic Reports

Nonprofits < \$25,000/year annual income

■ Account Balance

- ▶ (aka: Balance Sheet)
- ▶ Cash account balance
- ▶ Asset balance
- ▶ Should be provided at every board meeting (in some form)
- ▶ What are Retained Earnings?
 - Accumulated net income from all previous years

	Sep 30, 07
ASSETS	
Current Assets	
<u>Checking/Savings</u>	
Sand Ridge Bank	4,254.78
Total Checking/Savings	4,254.78
Accounts Receivable	
Accounts Receivable	-28.00
Total Accounts Receivable	-28.00
Total Current Assets	4,226.78
TOTAL ASSETS	4,226.78
LIABILITIES & EQUITY	
Equity	
<u>Retained Earnings</u>	3,827.04
<u>Net Income</u>	399.74
Total Equity	4,226.78
TOTAL LIABILITIES & EQUITY	4,226.78

Intermediate Reports

Annual Income \$25,000 - \$100,000

Same as Basic -PLUS:

- ▶ Internal Audit Team
- ▶ CPA Review or Audit
- ▶ Some detailed reports
- ▶ Additional Financial procedures
- ▶ IRS 990 EZ (not 990N)

OMB No. 1545-1160

2007

Open to Public Inspection

Form 990-EZ **Short Form**
Return of Organization Exempt From Income Tax
Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code
(except black lung benefit trust or private foundation)

▶ Sponsoring organizations, and controlling organizations as defined in section 512(b)(13) must file Form 990. All other organizations with gross receipts less than \$100,000 and total assets less than \$250,000 at the end of the year may use this form.
▶ The organization may have to use a copy of this return to satisfy state reporting requirements.

Department of the Treasury
Internal Revenue Service

A For the 2007 calendar year, or tax year beginning , 2007, and ending , 20

B Check if applicable:
 Address change
 Name change
 Initial return
 Termination
 Amended return
 Application pending

C Name of organization
 Number and street (or P.O. box, if mail is not delivered to street address) Room/suite
 City or town, state or country, and ZIP + 4

D Employer identification number
E Telephone number
F Group Exemption Number

G Accounting method: Cash Accrual
 Other (specify) ▶

H Check if the organization is not required to attach Schedule B (Form 990, 990-EZ, or 990-PF).

I Website: ▶

J Organization type (check only one)— 501(c)() ◀ (insert no.) 4947(a)(1) or 527

K Check if the organization is not a section 509(a)(3) supporting organization and its gross receipts are normally not more than \$25,000. A return is not required, but if the organization chooses to file a return, be sure to file a complete return.

L Add lines 5b, 6b, and 7b, to line 9 to determine gross receipts; if \$100,000 or more, file Form 990 instead of Form 990-EZ. ▶ \$

Part I Revenue, Expenses, and Changes in Net Assets or Fund Balances (See page 55 of the instructions.)

Revenue	1	Contributions, gifts, grants, and similar amounts received	1
	2	Program service revenue including government fees and contracts	2
	3	Membership dues and assessments	3
	4	Investment income	4
	5a	Gross amount from sale of assets other than inventory	5a
	5b	Less: cost or other basis and sales expenses	5b
	6c	Gain or loss from sale of assets other than inventory. Subtract line 5b from line 5a (attach schedule)	6c
	6	Special events and activities (attach schedule). If any amount is from gaming, check here <input type="checkbox"/>	
	a	Gross revenue (not including \$ of contributions reported on line 1)	6a
b	Less: direct expenses other than fundraising expenses	6b	
6c	Net income or (loss) from special events and activities. Subtract line 6b from line 6a	6c	
7a	Gross sales of inventory, less returns and allowances	7a	
7b	Less: cost of goods sold	7b	
7c	Gross profit or (loss) from sales of inventory. Subtract line 7b from line 7a	7c	
8	Other revenue (describe ▶)	8	
9	Total revenue. Add lines 1, 2, 3, 4, 5c, 6c, 7c, and 8.	9	
Expenses	10	Grants and similar amounts paid (attach schedule)	10
	11	Benefits paid to or for members	11
	12	Salaries, other compensation, and employee benefits	12
	13	Professional fees and other payments to independent contractors	13
	14	Occupancy, rent, utilities, and maintenance	14
	15	Printing, publications, postage, and shipping	15
	16	Other expenses (describe ▶)	16
	17	Total expenses. Add lines 10 through 16	17
Net Assets	18	Excess or (deficit) for the year. Subtract line 17 from line 9	18
	19	Net assets or fund balances at beginning of year (from line 27, column (A)) (must agree with end-of-year figure reported on prior year's return)	19
	20	Other changes in net assets or fund balances (attach explanation)	20
	21	Net assets or fund balances at end of year. Combine lines 18 through 20	21
Part II Balance Sheets —If total assets on line 25, column (B) are \$250,000 or more, file Form 990 instead of Form 990-EZ. (See page 60 of the instructions.)			
		(A) Beginning of year	(B) End of year
22	Cash, savings, and investments	22	22
23	Land and buildings	23	23
24	Other assets (describe ▶)	24	24
25	Total assets	25	25
26	Total liabilities (describe ▶)	26	26
27	Net assets or fund balances (line 27 of column (B) must agree with line 21)	27	27

For Privacy Act and Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 105421 Form 990-EZ (2007)

Advanced Reports

Nonprofits > \$100,000 Annual Income
Also - significant government grants

- All Reports in Basic and Intermediate
- PLUS –
 - ▶ Additional Financial Procedures
 - ▶ IRS 990 required
 - ▶ Full Audit
 - Financial Information
 - Financial Management
 - Assets and Inventory

	PAGE NO.
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS--	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Notes to Financial Statements	5-10
INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION	11
SUPPLEMENTARY INFORMATION--	
Schedule of Functional Expenses.....	12

Budgets!

Keys to Nonprofit Success



■ Why are Budgets important?

- ▶ Internal planning and control
- ▶ Grant applications require budgets
- ▶ Catch problems early

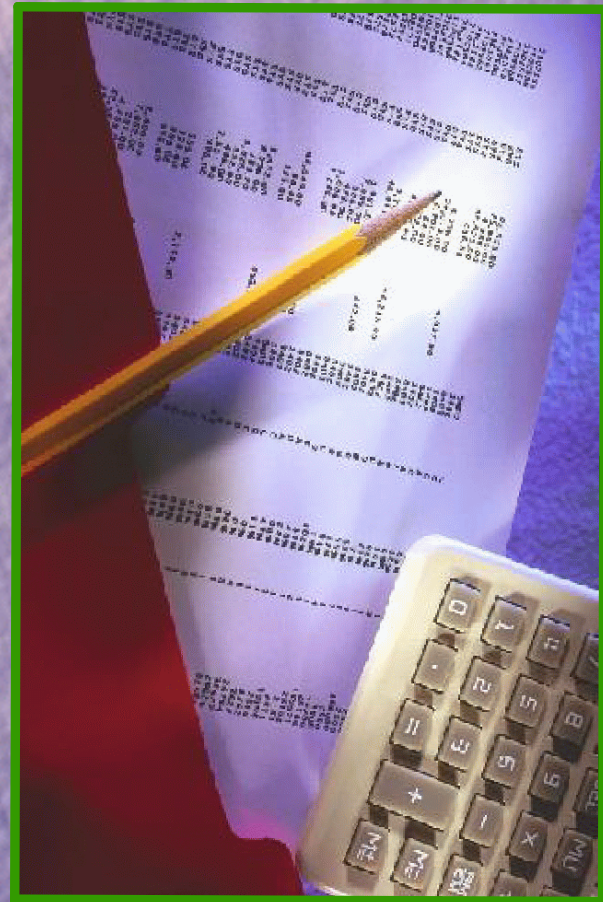
■ How do you create a Budget?

- ▶ Look at previous years' cash flow
- ▶ Where did \$\$ come from?
- ▶ Where did \$\$ go to?
- ▶ How do grants, events, factor in?

Budgets

Elements of a Budget

- **Income**
 - ▶ Fund Raising
 - ▶ Donations
 - ▶ Memberships
 - ▶ Grants
- **Expense**
 - ▶ Cost of Fund Raising
 - ▶ Programs
 - ▶ Member Services
 - ▶ Donations



Boards, Budgets and Taxes

Why should Nonprofits worry about taxes?

- IRS Reporting Requirements
 - ▶ < \$25K – 990N
 - ▶ >\$25K – 990 EZ or 990
- State Reporting Requirements
 - ▶ NP 20 – Attach copy of 990, if one is filed
- Sometimes, taxes must be paid
 - ▶ “Unrelated Business Income Tax” (UBIT)
 - ▶ Gambling Revenue
 - ▶ Employment taxes
- Penalty for failure to report –
 - ▶ LOSS of nonprofit status!

Accountability

More than Dollars and Sense (Cents)



- *Financial Policies*

- ▶ Handling money
- ▶ Recording money
- ▶ Reporting money

- *Financial Controls*

- ▶ Deposits
- ▶ Checks
- ▶ Documentation

- *Audit-Review Process*

- ▶ Internal Team
- ▶ External (independent)



Directors & Officers Insurance

Protecting Board and Key Staff

- *D&O Insurance*
 - ▶ Breach of Duty
 - ▶ Wrongful Acts
 - ▶ Mismanagement
- *What it does*
 - ▶ Provide legal defense
 - ▶ Pay claims
- *What it doesn't do*
 - ▶ Normal liability claims
 - ▶ Criminal acts

**Read
the
Policy!**

D&O Insurance

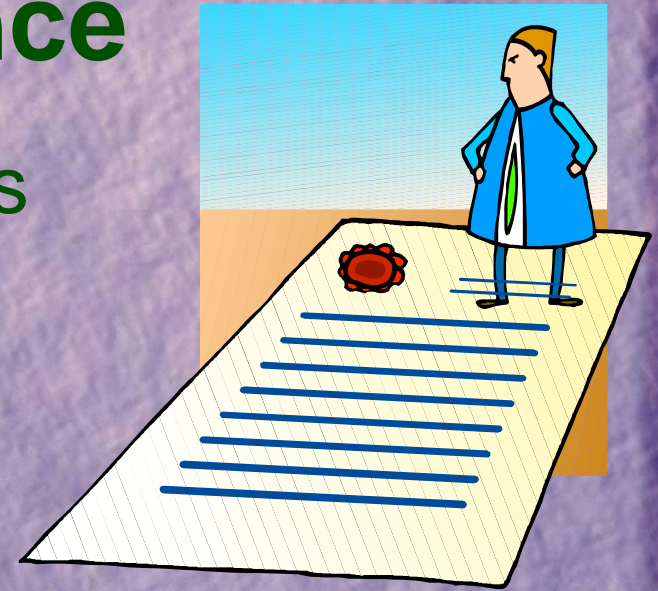
Common Myths

- *My homeowners insurance will cover it*
 - ▶ Many homeowners' policies DECLINE this
- *I'm protected by law*
 - ▶ There is some protection for volunteer boards, but it can cost \$\$ to prove it
- *We're a nonprofit - We'll never be sued*
 - ▶ You've got to be kidding!

D&O Insurance

Types of Claims

- Board misconduct
- Employee issues
 - ▶ Misconduct
 - ▶ Sexual (or other) harassment
 - ▶ Wrongful termination (or failure to hire)
 - ▶ Criminal conduct by employees
- Mishandling funds
 - ▶ Negligence
 - ▶ Deliberate (versus criminal)



Nonprofit Financial “Best Practices”

Compliance, Competence and Confidence

- Practice clear, decisive financial governance
- Adopt Ethics and Conflict of Interest Policies
- Implement Financial Controls
- Engage regular, independent financial review
- Promote transparency of Reporting
- Develop a Risk Management Plan
- Know emerging nonprofit financial issues

Clear, Decisive Governance

Best Practices for Conduct

- Proper policies in place
- Review all financial documents
- Procedures to verify data
- Safeguard Nonprofit assets
- Compliance with legal and tax reporting



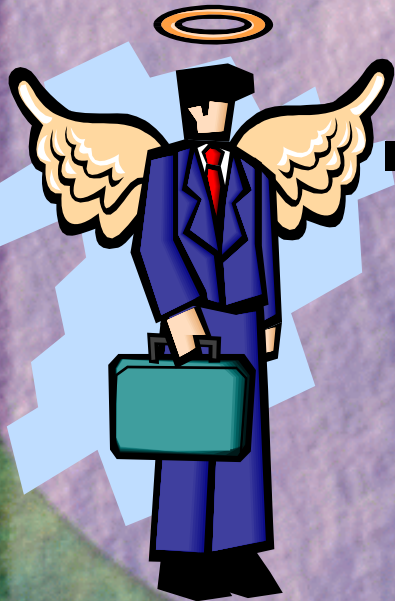
Ethics/Conflict of Interest

Best Practices for Integrity

- *Conflict of Interest Policy*
 - ▶ Signed by Board and Staff annually
 - ▶ Practiced openly
 - ▶ Transparency critical to credibility!

- *Ethics*

- ▶ Newspaper Headline Test
- ▶ Appearance of Impropriety



Ethics/Conflict of Interest

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Financial Controls

Best Practices for Management

- GAAP Standards
- Financial Procedures Manual
- Restrictions documented and honored
 - ▶ Donor restrictions
 - ▶ Grant requirements
 - ▶ Commingling Funds
- Training program for Staff and Board
- Document Retention Policy

Independent Review

Best Practices for Accountability

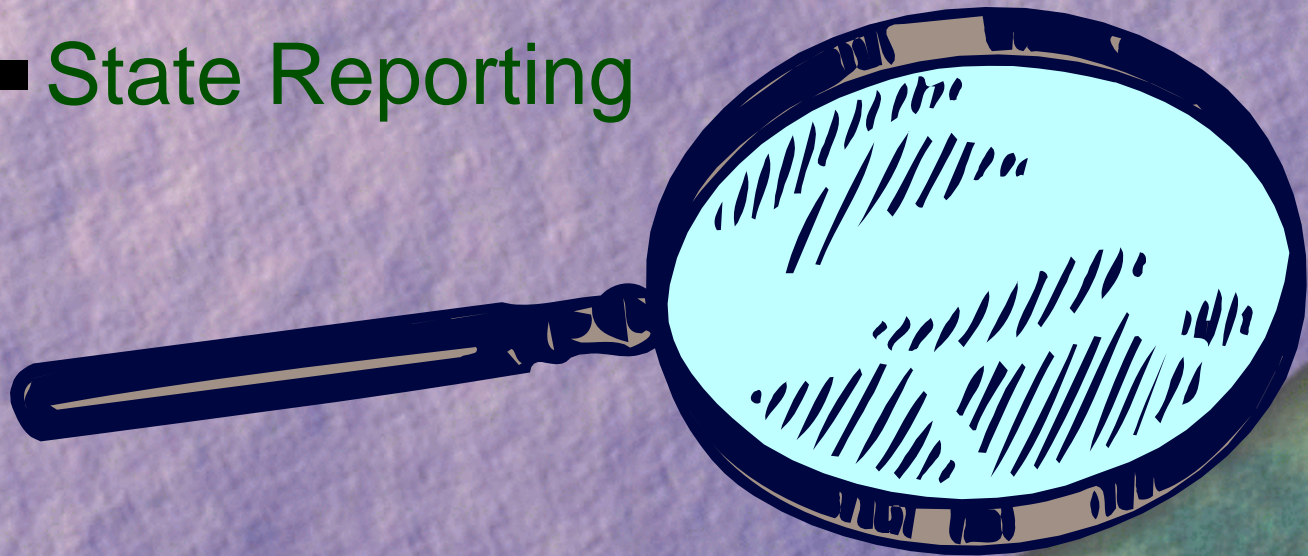
- Internal Audit Team
 - ▶ Board Members
 - ▶ “Friends of Nonprofit”
 - ▶ Report to Treasurer, Board
- External Audit
 - ▶ Independent review of books
 - Does not also provide bookkeeping
 - ▶ Independent review of practices
 - ▶ Notes issues with methods
 - ▶ Suggests reforms



Transparency of Reporting

Best Practices for Public Access

- Audited Financial Statements
- IRS Tax returns
- State Reporting



Risk Management Plan

Best Practices to Prevent Financial Crisis

- Identifies risk
- Ranks risk
- Identifies policies
- Implements protections
- Provides procedures in event of crisis



Risk Management Plan

Types of “Risk” to “Manage”

- **People** -- board members, volunteers, employees, clients, donors, the public.
- **Property** -- buildings, facilities, equipment, materials, copyrights, trademarks.
- **Income** -- sales, grants, contributions, sponsors, fund raising
- **Goodwill** -- reputation, stature in the community, and the ability to raise funds and appeal to prospective volunteers

Know Emerging Nonprofit Issues

Best Practices to Staying Current

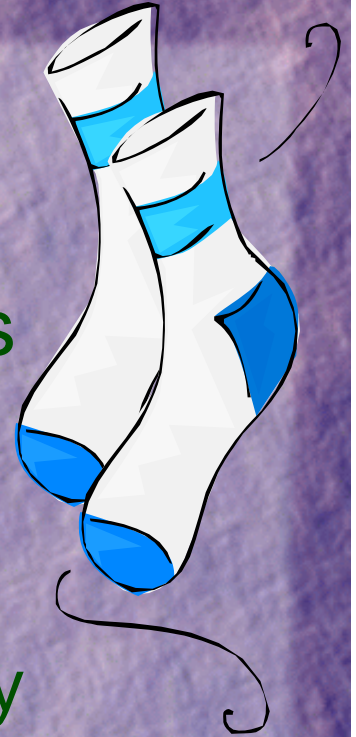
- Subscribe to Nonprofit forums
 - ▶ Board Source, INRN workshops
- Listen to your stakeholders
 - ▶ What concerns affect them?
- Listen to your professionals
 - ▶ Attorney, CPA



A Word About SOX

Sarbanes-Oxley Act and Nonprofits

- History of SOX
- Nonprofits (voluntary) adoption
 - ▶ Greater threshold of accountability
 - ▶ More formal review structure
 - Internal Controls
 - Internal Audit Team
 - Procedures, Policies in place
 - FOLLOW procedures and policies
- SOX and the future of Nonprofits



So...
What did we learn?

Case Study



Effective Financial Oversight

Managing Nonprofit Finances

- *Nuts-and-bolts*
 - ▶ Financial Statements, P&L, Balance Sheet
 - ▶ Reporting requirements - State and Fed
- *Philosophy of effective financial governance*
 - ▶ Financial Policies
 - ▶ Financial Procedures
 - ▶ Risk Management Policy
 - ▶ Board and Staff Conduct Policy

Effective Financial Oversight

Managing Nonprofit Finances



ACHIEVE SUCCESS!