FINANCIAL MANAGEMENT OF ALL VOLUNTEER ORGANIZATIONS (AVO)



AACRAO Leadership Meeting, December 1, 2012

Presentation Agenda



NONPROFIT FINANCIAL OUTLOOK FOR 2013



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2013 Financial Outlook

GROWTH EXPECTATIONS

- □ Revenue 1% 9 % increase (60%)
- Staff maintain current levels (60%); Increase staffing (39%)

OPPORTUNITIES

- Leveraging social media to grow membership
- □ Alliance with other organizations
- Geographic expansion and hiring a fundraiser



2013 Financial Outlook

- TOP FINANCIAL CHALLENGES
- **Revenue Dependability**
- □ New Non-Dues Revenue Generation
- □ Membership Recruitment and Retention
- □ Sustaining Programs with Fewer Resources
- □ Better Budgeting and Efficiency
- Dealing with Weak Economy



2013 Financial Outlook

TOP 3 FINANCIAL PRIORITIES

- Rethink revenue model and income generation strategies (47%)
- 2) Improve Program results & metrics (44%)
- 3) Expand Fundraising & Development (42%)





THE AVO BOARD





What is Governance?

- The word governance derives from the greek verb *kubemáo*, which means to steer and was used for the first time in a metaphorical sense by Plato.
- In case of a nonprofit organization, governance relates to consistent management, cohesive policies, guidance, processes and decision-rights for a given area of responsibility.



Board Responsibilities

Governance Duties

Strategic planning
 Service to constituents
 Compliance with laws
 Safeguard of assets
 Governance Structure

Management Duties

Render operational tasks
 Lend personal name
 Encourage volunteerism
 Community Ambassadors
 Provide Leadership



AVO Board Financial Duties

- Prepare Budget
- Balance Budget
- Approve Budget
- Raise funds
- Plan Conference
- Enter into contracts
- Approve bills
- Sign checks

Send invoices and collect Open bank accounts Approve budget overages Reconcile bank accounts Prepare financial reports Review financial reports File tax forms **Resolve financial issues**



UNDERSTANDING FINANCIAL INFORMATION





Financial Statements

Statement of Financial Position:

- Snapshot at a point in time
- Assets = Liabilities + Net Assets

Or

• Assets – Liabilities = Net Assets

In words,

• What the Organization owns, less what it owes and what its left with.



Statement of Financial Position

	2000	<u>1999</u>
Assets		
Cash	\$ 200,000	142,000
Pledges Receivable (net)	120,000	65,000
Investments	755,000	700,000
Prepaid Expenses	15,000	13,000
Fixed Assets (net)	220,000	40,000
Total Assets	\$ 1,310,000	\$ 960,000
Liabilities and Net Assets		
Liabilities		
Accounts Payable	50,000	60,000
Grants Payable	25,000	
Refundable Advances	20,000	
Long Term Debt	200,000	-
Total Liabilities	\$ 295,000	\$ 60,000
Net Assets		
Unrestricted	\$ 325,000	\$ 300,000
Temporarily Restricted	45,000	-
Permanently Restricted	645,000	600,000
Total Net Assets	\$ 1,015,000	\$ 900,000
Total Liabilities and Net Assets	\$ 1,310,000	\$ 960,000



Financial Statements

Statement of Activities:

- Results of operations over a period of time (monthly, quarterly, yearly).
- Shows how net assets changed from one date to another.
- Revenue Expenses = Change in Net Assets (Net Surplus or Deficit)



Statement of Activities

Changes in Unrestricted Net Assets: Revenues and Gains:	Un	restricted	nporarily estricted		manently estricted	Total
Public Contributions (net) Program Service Revenue Investment Income	\$	800,000 46,000 42,000	\$ 165,000 5,000	\$	45,000	\$ 1,010,000 46,000 47,000
Net Assets Released from Restrictions Total Revenues, Gains, Other Support	\$	125,000 1,013,000	\$ (125,000) 45,000	\$	45,000	\$ 1,103,000
Expenses and Losses: Program Services General Administration Fund-Raising Total Expenses and Losses	\$	676,000 197,000 115,000 988,000	10,000	•	10,000	\$ 676,000 197,000 115,000 988,000
Increase in Net Assets Net Assets at Beginning of Year Net Assets at End of Year	\$	25,000 300,000 \$325,000	\$ 45,000 0 \$45,000	\$	45,000 600,000 \$645,000	\$ \$115,000 900,000 1,015,000





Financial Statements

Statement of Functional Expenses:

- Categorizes expenses into three functional areas:
 - Program
 - G&A
 - Fundraising
- The categorization shows in more clearer terms how much the organization is spending directly towards achieving the objectives of its stated mission.



Functional Expenses

	Program Services		rvices	Supporting Services						
	Edu	Educational/ Recreational			General		und-	Total		
	Scholarships Programs		Adm	inistration	R	aising	E	Expenses		
Salaries	\$	65,000	\$	88,000	\$	82,000	\$	15,000	\$	250,000
Employee Benefits		15,000		22,000		20,000		3,000		60,000
Payroll Taxes		7,000		11,000		10,000		1,500		29,500
Total Personnel Costs	\$	87,000	\$	121,000	\$	112,000	\$	19,500	\$	339,500
Professional Fees		-		-		-		45,500		45,500
Supplies		45,000		10,000		8,000		8,000		71,000
Telephone		10,000		15,000		7,000		7,000		39,000
Postage		10,000		5,000		5,000		3,000		23,000
Occupancy Costs		20,000		20,000		15,000		3,000		58,000
Equipment Rental and										
Maintenance		5,000		5,000		20,000		-		30,000
Printing and Publications		20,000		45,000	\$	2,000		26,000		93,000
Travel		40,000		40,000	\$	1,000		3,000		84,000
Conferences and Meetings		20,000		15,000		7,500		-		42,500
Scholarships		143,000		-		-		-		143,000
Interest		-		-		14,500		-		14,500
Total before										
Depreciation	\$	400,000	\$	276,000	\$	192,000	\$1	15,000	\$	983,000
Depreciation		-		-		5,000		-		5,000
Total Expenses		400,000		276,000		197,000	1	15,000	\$	988,000



Financial Statements

Statement of Cash Flows:

- Provides information on cash inflows and outflows over a period of time.
- Separated into three categories:
 - Operating
 - Investing
 - Financing
- Prepared under Direct or Indirect Method.



Statement of Cash Flows

Cash Flows from Operating Activities: Cash Received from Unrestricted and	
Temporarily Restricted Contributors	\$ 930,000
Cash Received from Service Recipients	46,000
Grants Paid	(118,000)
Cash paid to Employees and Suppliers	(837,500)
Interest Paid	(14,500)
Interest and Dividends Received	37,000
Net Cash from Operating Activities	\$ 43,000
Cash Flows from Investing Activities:	A
Purchase of Investments	\$ (45,000)
Fixed Asset Purchases	(185,000)
Net Cash Used for Investing Activities	\$ (230,000)
Cash Flows from Financing Activities:	
Addition to Endowment	\$ 45,000
Issuance of Long Term Debt	200,000
Net Cash from Financing Activities	\$ 245,000
Net Increase in Cash	\$ 58,000
Beginning Cash Balance	142,000
Ending Cash Balance	\$ 200,000





FINANCIAL ANALYSIS



Analyzing Financial Data

Key Questions for Boards when reviewing reports:

- ✓ Are the reports accurate and complete?
- ✓ Does the information make sense?
- How does the data relate to the Association's program?
- ✓ How does the information compare against expectations?
- ✓ Is the Association financially stable?
- ✓ What do the reports tell me about the future?



Analyzing Financial Data

Several ways to analyze financial data:

- 1) Trend Analysis
- 2) Budget vs. Actual Comparisons
- 3) Benchmarking
- 4) Common-sizing Financial Statements
- 5) Ratio Analysis



Analyzing Financial Data

Significant indicators of financial instability:

- Declining profit margins
- Excessive overhead costs
- Shrinking asset positions
- ➢ High revenue source concentrations
- > Negative cash flows from operating activities



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			90, 990-EZ, or 990-PF).	
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		ure to file a complete return.		
		7b, to line 9 to determine grose redelpts. Wonse receipts are \$200,000 or more, or if total assets (Part 8,		
		w) are \$500,000 or more, file Farm 990 instead of Form 990-EZ	► s	
P		ue, Expenses, and Changes in Net Assets or Fund Balances (see the instru-		
_		If the organization used Schedule O to respond to any question in this Part I		
		ions, gifts, grants, and similar amounts received	1	
		service revenue including government fees and contracts	2	
		np oues and assessments	4	
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ģ.		ome from fundraising events (not including \$ of contributions traising events reported on line 1) (attach Schedule G if the		
		characteris reported on line 1) (attach Schedule G if the ich gross income and contributions exceed \$15,000) 6b		
		ct expenses from gaming and fundraising events 6c		
		ne or floss) from gaming and fundraising events (add lines 6a and 6b and subtract		
			64	
		es of inventory, less returns and allowances		
	7a Gross sa	t of goods sold		
	b Less: cos		Sector	
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-	3 Number of voting members of the governing body (Part VI, line 1a)	1			3	
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2	5 Total number of employees (Part V, line 2a)				. 5	
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	Ta Total gross unrelated business revenue from Part VIII, column (C),	line 12.			7a	
+	b Net unrelated business taxable income from Form 990-T, line 34,		-	Evine Ye	70	Corrent Year
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8	 Program service revenue (Part VIII, line 2g) 10 Investment income (Part VIII, column (A), lines 3, 4, and 7d) 		-			
	11 Other revenue (Part VII, column (A), lines 5, 6d, 8c, 9c, 10c, and 1	Tel 1	-			
	12 Total revenue-add lines 8 through 11 (must equal Part VIII, column (A		1			
	13 Grants and similar amounts paid (Part IX, column (A), lines 1-3) ,					
	14 Benefits paid to or for members (Part IX, column (A), line 4)					
	15 Salaries, other compensation, employee benefits (Part IX, column (A), lin		8 <u> </u>			
Due	16a Professional fundraising fees (Part IX, column (A), line 11e)		-		_	
	b Total fundraising expenses (Part IX, column (D), line 25) ►					
	17 Other expenses (Part IX, column (A), lines 11a–11d, 11f-24f)					
	18 Total expenses. Add lines 13–17 (must equal Part IX, column (A), I 19 Revenue less expenses. Subtract line 18 from line 12	ne 25),	-			
38	the contraction of the second se	Arriston	Beg	inning of Ca	reef You	End of Year
18	20 Total assets (Part X, line 16)					
11	21 Total liabilities (Part X, line 26)	111				
	22 Net assets or fund balances. Subtract line 21 from line 20					
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	Under penalties of perjury, I declare that I have examined this return, including accor and belof. It is true, correct, and comparise. Declaration of preparer other than offic	repanying so per) is beping	checkies d on all I	and statem	ents, and of which a	I to the best of my know preparer has any knowle
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TAX REPORTING

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STEP 2: Create your Form 990.8 (e.Postcard)	Edit/View Existing e-Postcard							
Once you have a login ID, you can access the system and create your e-Postcard. Click the link above to begin the process.	Technical Support							
STEP 3: Submit your Form 999-N (e-Postcard)	Enquently Asked Questions Privacy Policy							
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Tax Filing Requirements

- Three types of 990 forms:
 - 1. 990N
 - 2. 990EZ
 - 3. 990
- Only required to file one form.



Tax Form Comparison

• Form 990N

- Shortest 990 form (requires basic information), filed electronically, and only filed by organizations that normally collect \$50,000 or less in annual gross receipts.
- Form 990EZ
 - Second longest form (6 parts with 3 schedules), requires financial disclosure; used by organizations with annual gross receipts < \$200,000 and total assets < \$500,000.

• Form 990

 Longest form (11 parts with 16 schedules), requires significant disclosure of financial information, and used by organizations with annual gross receipts > \$199,999 or total assets > \$499,999.



RISK MANAGEMENT





Risk Management

- □ Insurance Coverage
- Conflict of Interests
- □ Related party transactions
- Compliance with Tax Exempt laws
- □ Fraud risk considerations



Minimizing Fraud Risk

4 Easy Ways to Implement Controls:

- 1) Establish Control Environment
- 2) Define Responsibilities
- 3) Segregate duties
- 4) Monitor Cash





ASSURANCE SERVICES



Assurance Services

Audits, Reviews, Compilations, Agreed Upon Procedures:

- 1) <u>Audits:</u> An intensive examination with the highest level of assurance
- 2) <u>Reviews:</u> Analytical Procedures resulting in more limited assurance
- 3) <u>Compilations:</u> Presenting client-provided information in the form of financial statements
- 4) <u>Agreed Upon Procedures:</u> Reviewing specific financial elements to determine their accuracy or functionality



Assurance Services

Agreed Upon Procedures - Examples:

- 1) Review of internal controls
- 2) Verification of accounts receivable, inventory, accounts payable
- 3) Cash and investment account reconciliations
- 4) Revenue testing and major expense account reconciliations



Assurance Services

Agreed Upon Procedures – A Case Study

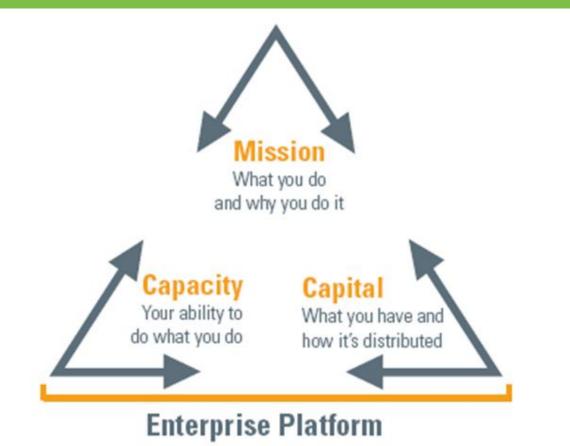




SELF-ASSESSMENT



Know Your Strengths and Weaknesses





Core Areas of Nonprofit Finance

- Revenue: Predictability and Reliability
- Expenses: Accurate and complete Cost Estimation (Hint: Budget)
- Profitability & Reserves: Breakeven is not enough!
- Healthy Balance Sheet: Ability to Manage Risk and Pursue Growth
- Liquidity: Cash remains King! But watch out for Restrictions
- Financial Planning: Plan for the Unexpected Events



References

- All Hands on Board BoardSource E-Book Series
- How to Assess Nonprofit Financial Performance NASAA
 Training
- Wikipedia (<u>http://en.wikipedia.org/wiki/Governance</u>).
- Nonprofit Financial Outlook for 2013 Survey Results by Veris & Brittenford Systems
- Nonprofit Finance Fund Self-Assessment Landscape
- National Council of Nonprofits Resources





