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



| | 10253 | 2010 | | |
|-------------|--|--|---|--|
| ur, | 990-E2 | | | |
| | atment of the Treasury | Sponsoring organizations of doors advaced hund, coganizations that openate one or more hasplat locari and outrian controlling organizations as advaced history; 13 multi form 900 poles instructions All other organizations with gross receipt less than 1200,000 and total issets less has 5500,000 all the world "the vale than table than 5500.000 | Open to Pub Inspection | |
| tie | nal Plavanua Santos | The organization may have to use a copy of this return to satisfy state reporting redurements. | | |
| | or the 2010 calor | dar year, or tax year beginning . 2010, and ending | .20 | |
| | hack if applicable | | loger identification number | |
| 3 | Address change | A 3 A | | |
| | toma changa | Number and abset (or P.O. box, if mak is not desivered to bleef address) Roombulte 2 See | phone number | |
| | forminalish | | | |
| | Amended rature | | up Exemption | |
| | Apploation panding | | nber 🕨 | |
| | Accounting Method Nebsite: ► | | If the organization is to attach Schedule B | |
| | | | 90, 990-EZ, or 990-PF). | |
| | | he organization is not a section 50% al33 supporting organization and its gross receipts are normally | | |
| ï | form 990-EZ or Fo | m 990 return is not required though Form 990-N is postcard) may be required (see instructions). If | But if the organization choo | |
| | | 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 | |
| | | ount from sale of assets other than inventory | 4 | |
| | | t or other basis and sales expenses | | |
| | | css) from sale of assets other than inventory (Subtract line 5b from line 5a) | 50 | |
| | | fundraising events | Part of the second s | |
| e | | ome from garning (attach Schedule G if greater than | | |
| 10×0LX10 | | · · · · · · · · · · · · · · · · · · · | | |
| 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 | |
| | b Less: cor c Gross pr | fit or (loss) from sales of inventory (Subtract line 7b from line 7a) | 7c | |
| | b Less: cor c Gross pr 8 Other rev | rfit or (loss) from sales of inventory (Subtract line 7b from line 7a) | 8 | |
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| | 990 Return of Organization Exempt Under section 601(c), 527, or 4047(a)(1) of the Internal R benefit trust or private foreign | exercise Ca | | | | 2009 |
|--------------|--|--------------------------------|------------------------|--------------|----------------------|---|
| Depart | Part of the Transity (Revenue Servers) The organization may have to use a copy of this return to | | ate repo | orting requi | irements | Open to Publi Inspection |
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| | Vobsite: Committee Corporation Total Association: Other | Year of for | | HIS Group a | | of least domicile. |
| | 1 Summary | Tear of the | mation | _ | M othe | of legal donscial. |
| - | Briefly describe the organization's mission or most significant activ | | | | | |
| | Bitery describe the organization is mitstion or most significant activity | 00005: | | | | |
| 2 | | | | | | |
| 2 | | | | | | |
| 00wmance | 2 Check this box + [] If the organization discontinued its operations or disposed of | more than | 25% of | its nel asse | ts. | |
| - | 3 Number of voting members of the governing body (Part VI, line 1a) | 1 | | | 3 | |
| Activities & | 4 Number of independent voting members of the governing body (P) | art VI, line | o tb) | | 4 | |
| 2 | 5 Total number of employees (Part V, line 2a) | | | | . 5 | |
| 2 | 6 Total number of volunteers (estimate if necessary) | | | | 6 | |
| | 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 |
| | 8 Contributions and grants (Part VIII, line th) | | - | 2107.10 | | Corrent Year |
| | | | - | | | - |
| 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 | | | | | |
| Par | | | | | | |
| | 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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| File your electronic Form 990-N (e-Postcard). Click <u>http</u> for more infermation on who must file Form 199 A (e Postcard) | | | | | | | | |
| NOTICE: If you are a sub-ordinate organization, be sure to use your rean employer identification number (EN), Do not use the EN of your parent regarization or another sub-refinate organization. | | | | | | | | |
| This space antimatically generates the 290 K is Poncard; for the regarization's mean recently ended tax period and will not allow the Hing of a prior year a Pontant. Mitsoph Hing a prior year a Pontant Is not required by the HSL, a prior year a Pontant may be filed for a few framping when HSL approved and may recent prior the prior the pontant. Child <u>Hings</u> to a the of HSL approved prior the pontant of the HSL approved and the pontant may be filed for a few framping when HSL approved and the products. Child <u>Hings</u> to a the of HSL approved prior the pontant of the pontant of the pontant may be filed for a few framping the HSL approved and the products. Child <u>Hings</u> to a the of HSL approved and the pontant of the po | | | | | | | | |
| STEP 1: Register as a New User | Ouick Mater | | | | | | | |
| To Six Form 990.N (x-Postcard), you must supjeter and obtain a login ID. Click the link above to request a login ID. If you adveady have a legim ID, either recently created or from a provisus year, go to Stop 2. | Register as a New User Update Email/User Information Create New a Postcard | | | | | | | |
| 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

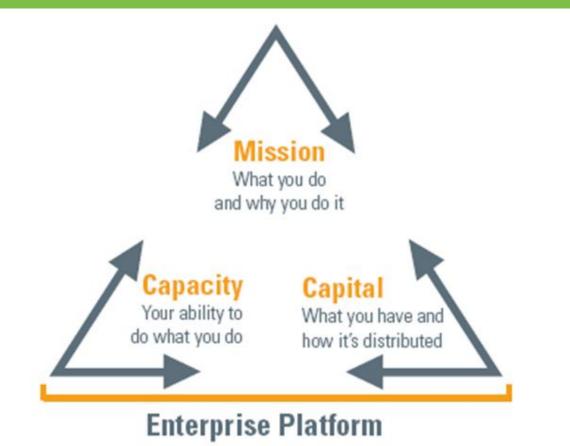




SELF-ASSESSMENT



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
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 Training
- Wikipedia (<u>http://en.wikipedia.org/wiki/Governance</u>).
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