

FINANCIAL MANAGEMENT OF ALL VOLUNTEER ORGANIZATIONS (AVO)

Presentation Agenda

**Nonprofit
Financial
Outlook**

**Governance
Role**

**Understanding
Financial
Information**

**Financial
Analysis**

Tax Reporting

**Risk
Management**

**Assurance
Services**

**Self-
Assessment**

NONPROFIT FINANCIAL OUTLOOK FOR 2013



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

- 1) 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
- $\text{Assets} = \text{Liabilities} + \text{Net Assets}$

Or

- $\text{Assets} - \text{Liabilities} = \text{Net Assets}$

In words,

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

Statement of Financial Position

	<u>2000</u>	<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	<u>\$ 1,310,000</u>	<u>\$ 960,000</u>
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	<u>\$ 295,000</u>	<u>\$ 60,000</u>
Net Assets		
Unrestricted	\$ 325,000	\$ 300,000
Temporarily Restricted	45,000	-
Permanently Restricted	645,000	600,000
Total Net Assets	<u>\$ 1,015,000</u>	<u>\$ 900,000</u>
Total Liabilities and Net Assets	<u>\$ 1,310,000</u>	<u>\$ 960,000</u>

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:	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Gains:				
Public Contributions (net)	\$ 800,000	\$ 165,000	\$ 45,000	\$ 1,010,000
Program Service Revenue	46,000			46,000
Investment Income	42,000	5,000		47,000
Net Assets Released from Restrictions	125,000	(125,000)		0
Total Revenues, Gains, Other Support	<u>\$ 1,013,000</u>	<u>\$ 45,000</u>	<u>\$ 45,000</u>	<u>\$ 1,103,000</u>
Expenses and Losses:				
Program Services	\$ 676,000			\$ 676,000
General Administration	197,000			197,000
Fund-Raising	115,000			115,000
Total Expenses and Losses	<u>\$ 988,000</u>			<u>\$ 988,000</u>
Increase in Net Assets	<u>\$ 25,000</u>	<u>\$ 45,000</u>	<u>\$ 45,000</u>	<u>\$115,000</u>
Net Assets at Beginning of Year	300,000	0	600,000	900,000
Net Assets at End of Year	\$325,000	\$45,000	\$645,000	\$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		Supporting Services		Total Expenses
	Educational/ Scholarships	Recreational Programs	General Administration	Fund- Raising	
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	\$ 115,000	\$ 983,000
Depreciation	-	-	5,000	-	5,000
Total Expenses	400,000	276,000	197,000	115,000	\$ 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	<u>\$ 43,000</u>
Cash Flows from Investing Activities:	
Purchase of Investments	\$ (45,000)
Fixed Asset Purchases	(185,000)
Net Cash Used for Investing Activities	<u>\$ (230,000)</u>
Cash Flows from Financing Activities:	
Addition to Endowment	\$ 45,000
Issuance of Long Term Debt	200,000
Net Cash from Financing Activities	<u>\$ 245,000</u>
Net Increase in Cash	\$ 58,000
Beginning Cash Balance	142,000
Ending Cash Balance	<u>\$ 200,000</u>



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

990-EZ Return of Organization Exempt From Income Tax

OMB No. 1545-0047

2010 Open to Public Inspection

Part I Revenue, Expenses, and Changes in Net Assets or Fund Balances (Use the instructions for Part I.)

1	Contributions, 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
a	Gross amount from sale of assets other than inventory	5a
b	Less: cost or other basis and sales expenses	5b
c	Gain or (loss) from sale of assets other than inventory (Subtract line 5b from line 5a)	5c
d	Gaming and fundraising events	6
e	Gross income from gaming (attach Schedule G if greater than \$10,000)	6a
f	Gross income from fundraising events (not including 5) from fundraising events reported on line 11 (attach Schedule G if the sum of such gross income and contributions exceed \$10,000)	6b
c	Less: direct expenses from gaming and fundraising events	6c
d	Net income or (loss) from gaming and fundraising events (Add lines 6c and 6d and subtract line 6f)	6d
7a	Gross sales of inventory, less returns and allowances	7a
b	Less: cost of goods sold	7b
c	Gross profit or (loss) from sales of inventory (Subtract line 7b from line 7a)	7c
8	Other revenue (describe in Schedule O)	8
9	Total revenue. Add lines 1, 2, 3, 4, 5c, 6d, 7c, and 8	9
10	Grants and similar amounts paid (see Schedule O)	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 in Schedule O)	16
17	Total expenses. Add lines 10 through 16	17
18	Excess or (shortfall) 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 (describe in Schedule O)	20
21	Net assets or fund balances at end of year. Combine lines 18 through 20	21

For Paperwork Reduction Act Notice, see the separate instructions. Cat No. 10842 Form 990-EZ 2010

990 Return of Organization Exempt From Income Tax

OMB No. 1545-0047

2009 Open to Public Inspection

Part I Summary

1. Revenue: Total Part I, line 9 Part I, line 9

2. Expenses: Total Part I, line 17 Part I, line 17

3. Net assets or fund balances: Total Part I, line 21 Part I, line 21

4. Number of employees: Total Part I, line 26 Part I, line 26

5. Total number of volunteers: Total Part I, line 27 Part I, line 27

6. Total gross unrelated business revenue: Total Part I, line 12 Part I, line 12

7. Total unrelated business taxable income: Total Part I, line 14 Part I, line 14

8. Contributions and grants: Total Part I, line 1 Part I, line 1

9. Program service revenue: Total Part I, line 2 Part I, line 2

10. Investment income: Total Part I, line 4 Part I, line 4

11. Other revenue: Total Part I, line 8 Part I, line 8

12. Total gross unrelated business revenue: Total Part I, line 12 Part I, line 12

13. Total unrelated business taxable income: Total Part I, line 14 Part I, line 14

14. Grants and similar amounts paid: Total Part I, line 10 Part I, line 10

15. Benefits paid to or for members: Total Part I, line 11 Part I, line 11

16. Salaries, other compensation, employee benefits: Total Part I, line 12 Part I, line 12

17. Total fundraising expenses: Total Part I, line 16 Part I, line 16

18. Total expenses: Total Part I, line 17 Part I, line 17

19. Revenue less expenses: Total Part I, line 18 Part I, line 18

20. Total assets (Part X, line 19): Part I, line 19 Part I, line 19

21. Total liabilities (Part X, line 20): Part I, line 20 Part I, line 20

22. Net assets or fund balances: Total Part I, line 21 Part I, line 21

Part II Sign Here

Preparer's Use Only

TAX REPORTING

e-Postcard file your electronic IRS Form 990-EZ

File your electronic Form 990-EZ (e-Postcard)

Click here for more information on who uses the Form 990-EZ (e-Postcard)

NOTE: If you are a subordinate organization, be sure to use your own employer identification number (EIN). Do not use the EIN of your parent organization or another subordinate organization.

This system automatically generates the 990-EZ (e-Postcard) for the organization's most recently audited tax period and will not allow the filing of a prior year e-Postcard. Although filing a prior year e-Postcard is not required by the IRS, a prior year e-Postcard may be filed for a file through an IRS approved online provider. Click [here](#) for a list of IRS approved providers.

STEP 1: Register as a New User

To file Form 990-EZ (e-Postcard), you must register and obtain a sign ID. Click the link above to request a sign ID. If you already have a sign ID, either recently created or from a previous year, go to Step 2.

STEP 2: Update your Form 990-EZ (e-Postcard)

Once you have a sign ID, you can access the system and create your e-Postcard. Click the link above to begin the process.

STEP 3: Submit your Form 990-EZ (e-Postcard)

Once you complete your e-Postcard, click the "Submit Filing to IRS" button.

Registration and tips for using this website:

Questions or problems regarding this web site should be directed to [Jack-Support](#).
 Download about your privacy? [View our privacy policy](#).
 We recently had issues with Microsoft Internet Explorer 5.0 on Mac OS X. Please visit with a screen resolution of 1024 x 768.
 Last modified: October 7, 2010

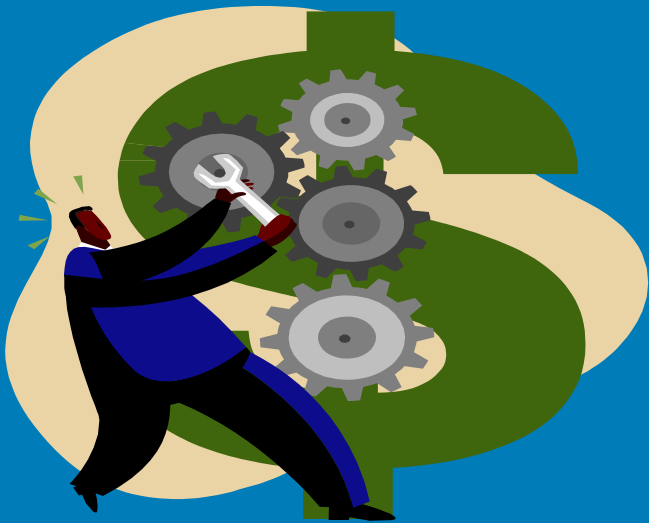
Tax Filing Requirements

- 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) Audits: An intensive examination with the highest level of assurance
- 2) Reviews: Analytical Procedures resulting in more limited assurance
- 3) Compilations: Presenting client-provided information in the form of financial statements
- 4) Agreed Upon Procedures: 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

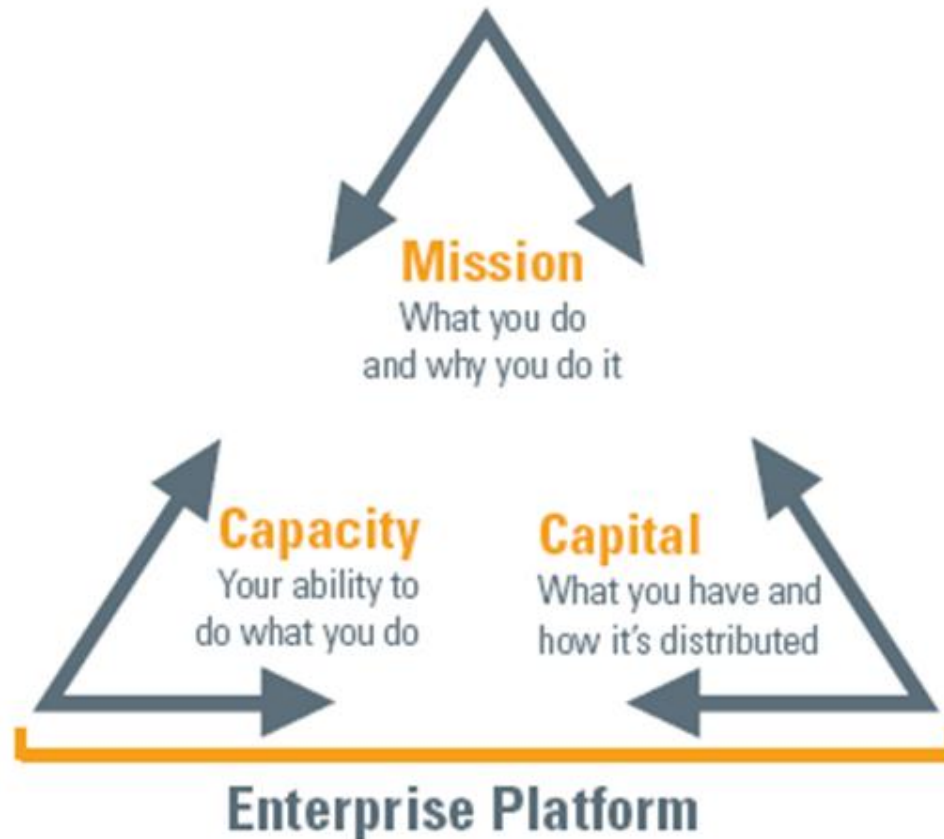
Assurance Services

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 (<http://en.wikipedia.org/wiki/Governance>).
- Nonprofit Financial Outlook for 2013 Survey Results by Veris & Brittenford Systems
- Nonprofit Finance Fund Self-Assessment Landscape
- National Council of Nonprofits Resources



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