



Nonprofit Fiscal Management (Foundational Track)

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- Attorney (MD, MN, and DC) specializing in criminal legal system reform and substance use-related law and policy
- Extensive experience with nonprofit boards and Recovery Community Organizations (RCOs)
- Certified Peer Recovery Specialist
- Certified yoga teacher and the creator of Recovery Yoga Meetings®: a yoga curriculum for individuals seeking recovery in treatment centers, yoga studios, and institutions
- Master of Science in Addiction Policy and Practice, Georgetown University



Agenda

Goal 1: Creating a Budget

Goal 2: Roles for All Levels

**Goal 3: Differences between Internal/
External Audits and Financial Reviews**

Goal 4: Financial Reports





Goal 1: Creating a Budget

A budget is:

- A planning tool that reflects a peer-based organization's programs, mission, and strategic plan.
- A financial document that provides an overview of how a peer-based organization is planning to spend its money.
- A financial depiction of what a peer-based organization expects to accomplish over a 12-month period (annual budget).
- A financial management tool for monitoring ongoing organizational activities that allows the organization to compare actual performance to the budget plan.

Budget Process

1. Determine timeline.
2. Agree on goals.
3. Assess current financial status.
4. Agree on budget approach.
5. Develop draft expense budget.
6. Develop draft income budget.
7. Review draft budget.
8. Approve budget.
9. Document budget decisions.
10. Implement budget.

Budget Expense Types

Direct costs: specific project or program

Capital expenditures: long-term assets, big purchases

Indirect/Overhead costs: postage, telephone service, internet, copier usage

In-kind contributions of goods or services (office space, utilities, parking, security, staff hours, computers, and other items provided by donors or a parent nonprofit organization [NPO]): must be included in the budget at fair market value (FMV); list the actual expense here and then list the contribution in the revenue section.

Operating Budget vs. Capital Budget

The operating (broad scope) budget reflects the organization's planned financial activities for the year ahead, showing how much revenue it expects from which sources and how much it will spend on operations.

The capital budget may include projects that will have ongoing effects on operations.

Include Nonmonetary Contributions

In-kind contributions of goods or services should be budgeted at FMV for the new Form 990.

These expenses and costs can include items such as office space, utilities, parking, security, staff hours, computers, and other items provided by donors or a parent NPO.

Don't Operate on a Shoestring Budget

Budgeting for a surplus lets you support future innovations and invest in your staff.

The goal is to avoid the “nonprofit starvation cycle” of never having enough to invest resources in infrastructure or having an overhead that is “too lean” to effectively run the organization.

Your annual unrestricted surplus should be sufficient to meet debt obligations, fund depreciation, and add to operating reserves.

Most accountants recommend a 3-5% surplus operating budget each year and 4-6 months of expenses in your operating reserves.

You may create more than one budget, a more realistic budget and a surplus budget that includes revenue not yet confirmed or greater than previous outcomes.

Make Cash Flow Your Priority

One of the most important tools for a nonprofit is a cash flow projection. This is the budget of revenues received and expenses paid, broken down monthly to ensure cash will be there when needed.

Your board members should have a direct role in developing cash flow projections, agreeing on the assumptions to use, and reviewing the projections carefully.

[How to Calculate Cash Flow](#)

Monitor the Budget Throughout the Year

- With regular monitoring, the budget becomes an effective management and operations tool.
- Compare the predicted numbers to the actual figures every month; look for differences and why they occurred. What factors you can control or change?
- This process allows you to quickly address any potential issues, enables more nimble management of staff and volunteers, and creates a more informed everyday decision-making process.

Nonprofit Budget Resources

Budgeting: A Guide for Small Nonprofit Organizations

https://www.vscpa.com/sites/default/files/resources/Budgeting2012_0.pdf

10 Step Annual Budgeting Process

https://www.propelnonprofits.org/wp-content/uploads/2017/10/10_step_annual_budgeting_checklist.pdf

Goal 2: Roles for All Levels



Role: Strong Financial Oversight

- Good stewardship of resources
- Policies and procedures to ensure prudent use of program resources
- Attend training on fiscal responsibilities as needed
- Ensures an annual audit performed by an external and certified public accounting firm
- Approval of annual budgets
- Receive and review fiscal reports on a regular basis

Role: Finance Committee

- Prepares annual budget
- Oversees financial activities and functions
- Submits monthly or quarterly financial statements/reports/records to the board of directors (BOD)
- Monitors ethical practices, donor relations, and cost effectiveness
- *If there is no fund development committee*, may help oversee overall fundraising and development work
- *If there is no fund development committee*, may establish a plan that incorporates staff input, initiates a series of activities, and involves the total board in fundraising efforts

Executive Director: Fiscal Role and Responsibilities

- Plans and operates annual budget
- Oversees committee meetings, including finance
- Reviews and approves contracts
- Reports to the board on contract terms/questions, policy decisions, fundraising, and strategic planning

Goal 3: Differences between Internal and External Audits



Audits: Similarities

- **Independence:** Auditors must be independent of the process, area, or department (internal) or the organization itself (external).
- The **process** includes: 1) planning phase, 2) fieldwork phase, and 3) reporting phase.
- **Audit reports** will be based on audit findings and results.
- **Access** to the data and resources needed to conduct the audit procedures should be unconstrained.
- The **purpose** is to provide assurance on the design and operational effectiveness related to the functioning of the organization's internal controls.

Audits: Differences

	Internal	External
Frequency	Continuous	Annually
Objective	Feedback for improvement	Compliance with guidelines & regulations
Who	Employees	Third-party CPA firm
Scope	Determined by BOD	Outside authority
Reporting	To Audit Committee of BOD	To public and external parties
Users	Staff managing subject area of audit	Public, investors, lenders, partners, grantors
Requirement	Not mandatory	Discretionary unless required/requested by outside agencies
Purpose	Improvement	Compliance
Skills	Certifications not required	CPA firms are required when issuing opinions on financial audits

Goal 4: Financial Reports



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Financial Statements

- General Ledger Accounts/Chart of Accounts
- Statement of Financial Position
- Statement of Activities
- Statement of Functional Expenses
- Statement of Cash Flows
- Notes to Financial Statements

([Chazin & Company](#), 2021)

General Ledger Accounts/Chart of Accounts

Transactions are recorded in accounts in the general ledger; the list of the titles of the general ledger accounts is called the chart of accounts.

Statement of financial position accounts

- Asset accounts
- Liability accounts
- Net asset accounts

Statement of activities accounts

- Revenues and gains
- Expenses and losses

Statement of Financial Position (SOP)

- Nonprofit's equivalent of a for-profit company's balance sheet
- Usually prepared at the end of the fiscal year
- Provides a snapshot of your RCO's finances, listing:
 - Assets in order of liquidity—the speed at which they can be converted to cash
 - Liabilities in order of length of obligation

([Chazin & Company](#), 2021)

Statement of Financial Position (SOP)

- Assets include cash and cash equivalents, such as gift cards or certificates, grants receivable, or depreciable furnishings or equipment.
- Liabilities include accounts payable, grants due to other organizations, or debts.
- Your net assets are those remaining assets after liabilities have been subtracted from assets.
- The "accounting equation" (assets = liabilities + net assets) demonstrates that your nonprofit has enough cash or cash equivalents on hand to equal its outstanding debts.

([Chazin & Company](#), 2021)

Statement of Activities

- The nonprofit equivalent of a for-profit income statement
- Shows how your net assets change over time, increasing as revenue comes in and decreasing as expenses are paid
- Revenues, gains, other support, and releases from donor restrictions
- Contributions
 - Membership dues
 - Program fees
 - Fundraising events
 - Grants
 - Investment income

([Chazin & Company](#), 2021)

Statement of Functional Expenses

Nonprofit ABC Statement of Functional Expenses For FY2023

	Program #1	Program #2	Overhead (management and general)	Fundraising	Total
Salaries and benefits	\$44,000	\$92,000	\$29,000	\$9,000	\$174,000
Rent and utilities	\$11,000	\$19,000	\$4,000	\$4,000	\$38,000
Printing and Supplies	\$5,000	\$9,000	\$3,000	\$4,000	\$21,000
Depreciation	\$4,000	\$7,000	\$2,000	\$1,000	\$14,000
Total	\$64,000	\$127,000	\$38,000	\$18,000	\$247,000

Statement of Cash Flows

- Provides a picture of the cash coming in and going out in a given period
- Usually consists of three sections, net cash from:
 - Operating activities (such as unrestricted funds raised from fundraising activities or cash fees from fee-for-service operations).
 - Investing activities (such as expenses or earnings from the purchase or sale of equipment or other long-term investments).
 - Financing activities (such as earnings from issuing or redeeming bonds).

([Chazin & Company](#), 2021)

Notes to the Financial Statements

Integral part of the Statement of Financial Position, the Statement of Activities, and the Statement of Cash Flows.

The Accounting Standards Update No. 2016-14 requires important additional disclosures regarding liquidity, restrictions, etc. for creditors, donors, and others.

([FASB](#), 2016)

Sources for Nonprofit Accounting

The U.S. generally accepted accounting principles (US GAAP) are established by the Financial Accounting Standards Board (FASB).

The FASB's website, [FASB.org](https://www.fasb.org), contains its original and revised statements of accounting standards as well as a recent codification of accounting standards.

How Program Management Staff Can Implement Findings from Financial Reports

Financial reports are important:

- To track past performance and record all income and expenses.
- To allow program management staff to make informed operational and financial decisions based on real data.
- To help managers to improve their financial visibility and predict future outcomes. Making decisions based on data often leads to improvement in program effectiveness and results.

([AccountsIQ](#), n.d.)

Review of Session Goals

Goal 1: Creating a Budget

Goal 2: Roles for All Levels

**Goal 3: Differences between Internal/
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Q&A





Thank You

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