

Nonprofit Start Up Series

Nonprofit Finance 101

April 11, 2019

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NEW's Mission:



NEW improves the impact and performance of fellow nonprofits by working alongside leaders to create high-quality strategic solutions that advance their missions

Our Vision: Empowered leaders, flourishing nonprofits, and vibrant communities.

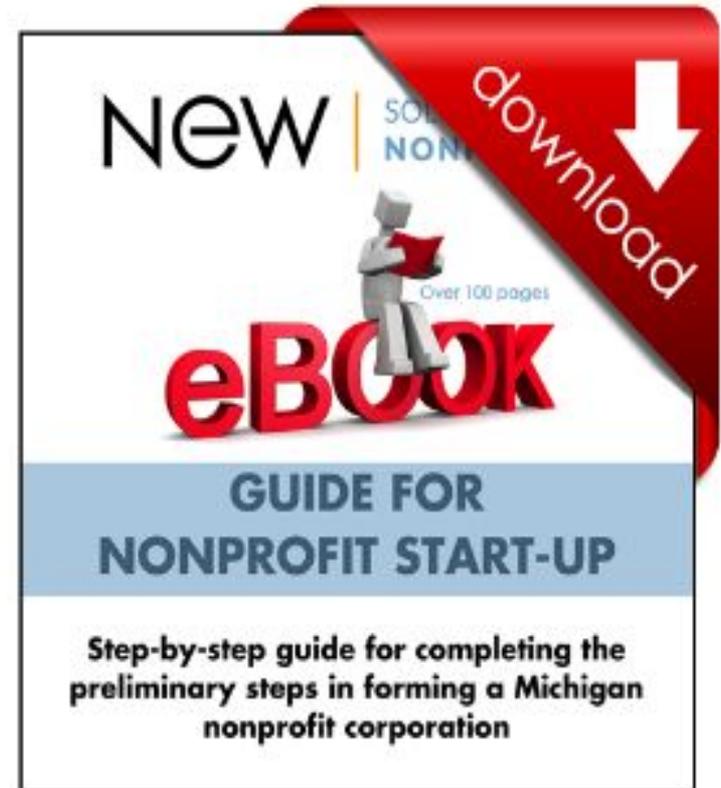
Resource for Startups

UPCOMING WORKSHOPS

Nonprofit Startup Series:

Your First Fund Development Plan

May 9, 2019 (Ann Arbor)



HELLO
my name is

1. Name & role at organization
2. Past finance or accounting exposure
3. Where are you in the “nonprofit process”
4. One or two desired takeaways

Session 2

Review

Session 2 – “It’s Your First Board”

- Selecting Board Members: a **STRATEGIC DECISION**
- Four board responsibilities:
 - **Strategic Direction**
 - **Oversight (Program / Legal / Financial)**
 - **Ambassadorship**
 - **Resource Development**
- Three legal duties of Board Members:
 - **Duty of Care**
 - **Duty of Loyalty**
 - **Duty of Obedience**
- **Confidentiality**
- **Overview of Board & Executive Director roles**

Today's Agenda

- **Accounting Principles**
 - What is accounting?
 - Why do I need accounting?
 - Cash vs. Accrual Accounting
 - Debits = Credits
- **Financial Management Reports**
 - Statement of Financial Position (“Balance Sheet”)
 - Statement of Financial Activities (“Income Statement” or “P & L”)
 - Cash Flow Statement & Forecasting
- **Budgeting**
- **Audit vs. Review vs. Compilation**
- **Financial Oversight**

What is Accounting? “The language of business”



Clearly
Understood

Transparent

Timely

Consistent

Accurate

Why do I need Accounting?

Track revenue & expenses
and predict cash flows

Determine financial
condition (Accountability &
Stewardship)

Informed decision making
(Planning & Budgeting)

Raise money for your
mission

Q: How are we doing – *really*





Accounting Policy, Principles & Terms

Generally Accepted Accounting Principles (GAAP)

- **GAAP policies are set by:**
 - Financial Accounting Standards Board (FASB) (**ASU 2016-14**)
 - American Institute of Certified Public Accountants (AICPA)
 - FASAB Handbook of Accounting Standards www.fasb.gov
 - ***GAAP policies apply to for profit and nonprofit organizations.***

- **Chart of Accounts:** basis for sorting the GL information.
- **General Ledger:** journal where all transactions are posted.
- **Journal Entries:** means for recording all GL activity.

Cash vs. Accrual Accounting

CASH

- Records revenue the DATE that funds are **received**
- Records expenses the DATE funds are **paid**
- May not present a complete picture of financial condition at a point in time
- Small nonprofits

ACCRUAL

- Records revenue when **earned**, not received
- Records expenses when **incurred**, not paid
- “Matching principle”
- Accounts Receivable and Accrued Liabilities
- S/M/L nonprofits use
- G.A.A.P requires

How do Debits and Credits work?

The primary rule of accounting:
Debits = Credits

Asset Account:

Debit:
Increases

Credit:
Decreases

Liability Account:

Debit:
Decreases

Credit:
Increases

Revenue Account:

Credit:
Increases

Debit:
Decreases

Expense Account:

Debit:
Increases

Credit:
Decreases

What's My Offset?

ABC Organization receives a \$100 donation in cash from Generous Donor:

DEBIT: Cash ("Asset") \$100

CREDIT: Donations ("Revenue") \$100

ABC pays its monthly \$500 rent by check:

CREDIT: Cash ("Asset") \$500

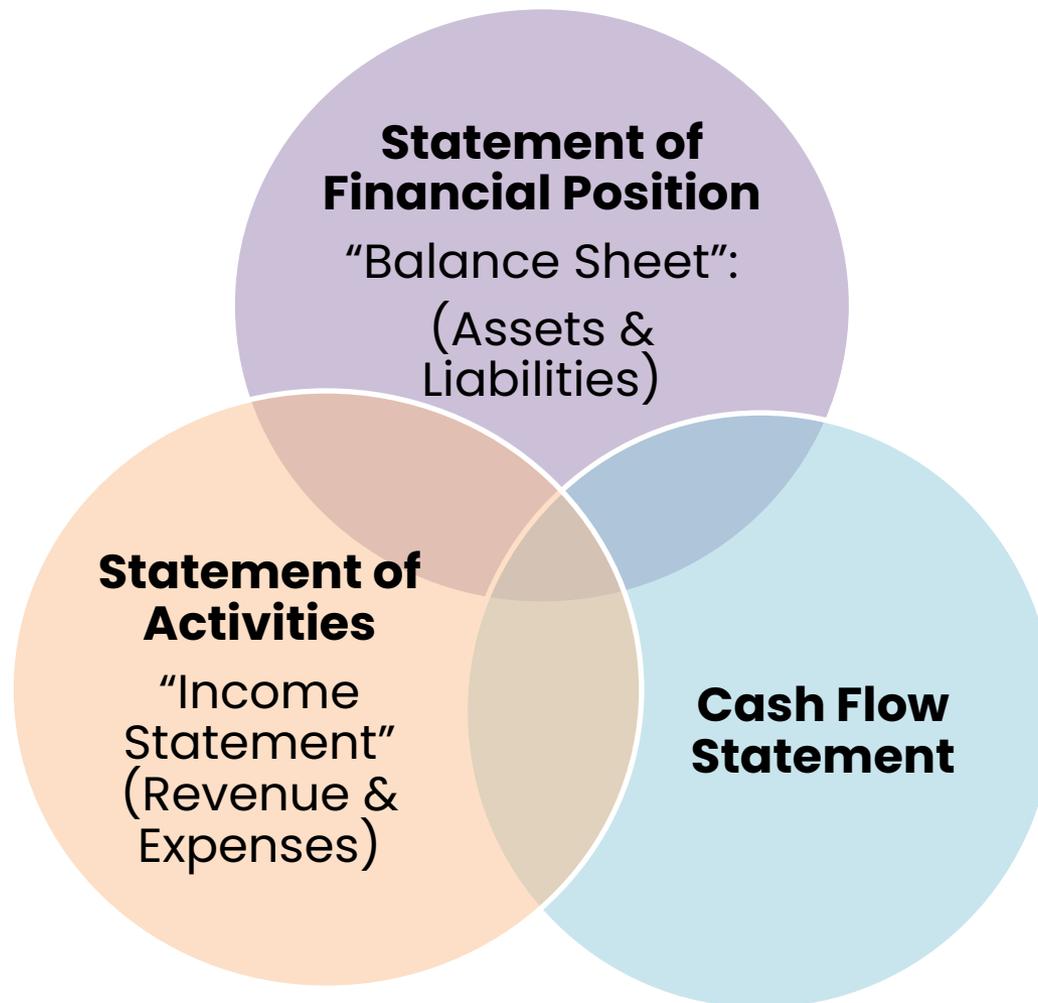
DEBIT: Rent ("Expense") \$500

“The World’s Best Cup of Coffee”

A highly simplified accounting illustration...



Financial Reports



Statement of Financial Position ("Balance Sheet")

A snapshot of the overall financial position of your organization ***at a given moment in time.***

Key Equation:

Assets - Liabilities = Net Assets

Assets and Liabilities

Assets

- **What you own:** Cash, Investments, Inventory, Equipment, Real Estate
- **What you are owed:** Accounts Receivable, Grant Awards
- **What is deposited with others:** Security Deposits, Prepaid Expenses
- **Short Term (“Current”) Assets:** Assets that are expected to be turned into cash in one year or less
- **Long Term (“Fixed”) Assets:** Assets that will be used for more than one year. Recorded at cost and depreciated over time.

Liabilities

- **What you owe others:** Vendors, Suppliers, Accounts Payable, Payroll Liabilities, Payroll Taxes, Bank Loans and Lines of Credit
- **Short Term Liabilities:** due in less than 1 year
- **Long Term Liabilities:** due in over 1 year

Net Assets

Total Assets – Total Liabilities = Net Assets

Recent FASB Update (first since 1993): **Net Assets** are now classified as

Without Donor Restriction (formerly “Unrestricted”) or

With Donor Restriction (formerly Temporarily or Permanently Restricted)

- Restriction classification is determined by the donor – not the Board.
- Presentation and Reporting change – NOT an accounting change.
- Internal restrictions (such as Board designated funds (i.e. a Building Fund or an Operating Fund Reserve)) are considered Without Donor Restriction.
- **DO NOT “BORROW” FROM DONOR RESTRICTED FUNDS!!!**
 - **Without Donor Restriction:** *Available for any use*
 - **With Donor Restriction:** *Purpose, time, or Endowment*

Statement t of Financial Position ("Balance Sheet")

ASU 2016-14 

				BALANCE SHEET		
				12/31/18	12/31/17	\$ Change
ASSETS						
Current Assets						
	Checking/Savings		19,000	30,000	-11,000	
	Accounts Receivable		25,000	20,000	5,000	
	Other Current Assets		25,000	20,000	5,000	
Total Current Assets				69,000	70,000	-1,000
Fixed Assets				375,000	375,000	0
TOTAL ASSETS				444,000	445,000	-1,000
LIABILITIES & EQUITY						
Liabilities						
Current Liabilities						
	Accounts Payable		8,000	9,000	-1,000	
	Bank Loan Payable		10,000	25,000	-15,000	
Total Current Liabilities				18,000	34,000	-16,000
Long Term Liabilities						
	Bank Term Loan		150,000	155,000	-5,000	
Total Long Term Liabilities				150,000	155,000	-5,000
Total Liabilities				168,000	189,000	-21,000
Net Assets						
	Net Assets - Without Donor Restriction		256,000	245,000	11,000	
	Net Assets - With Donor Restriction		0	1,000	-1,000	
	Net Income		20,000	10,000	10,000	
Total Net Assets				276,000	256,000	20,000
TOTAL LIABILITIES & NET ASSETS				444,000	445,000	-1,000



Questions to ask when looking at a Balance Sheet:

- Is this report prepared on a cash or accrual basis?
- Do we have enough cash to pay our bills?
- Is our cash balance increasing or decreasing? Why?
- Are we collecting what is owed to us in a timely way?
- Are there any account receivables which we may not collect?
- Do we have an allowance for doubtful accounts?
- Do we have too much inventory on hand? Is it stale (too old)?
- Do we need to spend money to upgrade our property & equipment or technology?
- What is the value of buildings that are listed on the balance sheet at cost?
- Are vendors being paid in a timely way?
- **Are we meeting our tax liabilities in a timely way?**
- How are we using our line of credit? Do we have the means to repay it?
- Are short-term and long-term assets appropriately financed?

Statement of Financial Activities (*“Income Statement”*)

A report of the organization’s revenue, expenses and net income or loss ***over a specific period of time.***

Key Equation:

Revenue – Expenses = Net Income (Loss)



Statement of Financial Activities ("Income Statement")

Prior Year Comparison

OPERATING REVENUE:

Money received for services rendered (earned revenue), or money from grants, contributions, gifts, or special events (contributed revenue)

OPERATING EXPENSES:

The costs incurred in delivering services and running the organization

NET INCOME (LOSS):

The difference between revenue and expenses

		INCOME STATEMENT vs. PRIOR YEAR			
		FY 2018	FY 2017	\$ Change	% Change
Revenue					
	Earned: Programs	190,000	205,000	-15,000	-7.3%
	Contributed: Grants	160,000	125,000	35,000	28.0%
Total Revenue		350,000	330,000	20,000	6.1%
Expense					
	Personnel Expenses	288,500	270,750	17,750	6.6%
	Office Expenses	23,500	22,000	1,500	6.8%
	Marketing & Promotion	5,000	6,500	-1,500	-23.1%
	Utilities/Bldg	6,000	5,500	500	9.1%
	Repairs & Maintenance	2,000	2,750	-750	-27.3%
	Depreciation Exp	5,000	5,000	0	0.0%
	Bad Debt Expense	0	500	-500	0.0%
Total Expense		330,000	313,000	17,000	5.4%
Net Income		20,000	17,000	3,000	17.6%



Statement of Financial Activities ("Income Statement")

Budget Comparison

OPERATING REVENUE:

Money received for services rendered (earned revenue), or money from grants, contributions, gifts, or special events (contributed revenue)

OPERATING EXPENSES:

The costs incurred in delivering services and running the organization

NET INCOME (LOSS):

The difference between revenue and expenses

		INCOME STATEMENT vs. BUDGET			
		FY2018	2018 Budget	\$ Over Budget	% of Budget
Revenue					
	Earned: Programs	190,000	210,000	-20,000	90.48%
	Contributed: Grants	160,000	130,000	30,000	123.08%
	Total Revenue	350,000	340,000	10,000	102.94%
Expense					
	Personnel Expenses	288,500	280,500	8,000	102.85%
	Office Expenses	28,500	28,000	500	101.79%
	Utilities/Bldg	6,000	5,000	1,000	120.0%
	Repairs & Maintenance	2,000	2,500	-500	80.0%
	Depreciation Exp	5,000	5,000	0	100.0%
	Bad Debt Expense	0	0	0	0.0%
	Total Expense	330,000	321,000	9,000	102.8%
	Net Income	20,000	19,000	1,000	105.26%

What is Depreciation?

- A *non-cash* expense on the Income Statement that accounts for the decline in value of long term (“fixed”) assets over time.
- Spreads the cost of wear and tear over the life of the asset.
- ***Accumulated Depreciation***
 - ❑ The running total of the decline in asset value.
 - ❑ Subtracted from original cost on the Balance Sheet.



Questions to ask when looking at an Income Statement:

- How does the current period revenue compare to last year? Why did it change?
- Where is our revenue coming from? Is it from a variety of sources or is it concentrated from a limited number of sources?
- Are current income and expense trends expected to continue?
- Is there seasonality to revenue or expense items?
- Are expenses increasing as a percentage of our revenue? If so – why?
- Are expenses being properly allocated?
- What does it cost us to deliver our programs or services?
- What is the annual budget for this year? How do actual income and expenses compare to budget?
- How do we expect to end the year? How does that compare to the budget?
- What are the reasons for the significant variances in revenues or expenses?
- What revenue or expenses are not captured in this financial report?²⁴
(Important to ask this question if on “Cash” basis of accounting /

Cash Flow Statement

Key Equation:

Beginning Cash + Cash Received – Cash Spent = Cash at End of Period

- Shows flow of cash over a past period of time.
- Includes changes in the balance sheet and income statement.
- Operating Activities, Investing Activities, Financing Activities

Helps answer the question – *“We made a profit but why don’t we have any money to pay our bills?”*

Cash Flow Forecast

Q: We're showing a budget surplus – but will we have cash?

Forward Looking

Forecast the Receipt or Payment of Cash over a period of time (*not just revenue and expenses*)

Cash Flow forecasting tool

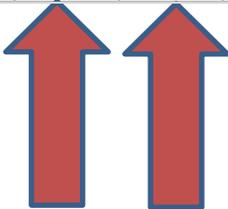
- **Likely Case**
- **Best Case**
- **Worst Case**
- **Monthly or Quarterly**



Cash Flow Forecast

Organization Name													
For Period January 1, 2019 - December 31, 2019	Jan 19	Feb 19	Mar 19	Apr 19	May 19	Jun 19	Jul 19	Aug 19	Sep 19	Oct 19	Nov 19	Dec 19	
Revenue (Cash):													
Individual Contributions	\$150	\$150	\$150	\$200	\$200	\$5,000	\$250	\$250	\$250	\$300	\$300	\$300	
Corporate Contributions	\$0	\$0	\$1,000	\$0	\$0	\$5,000	\$0	\$0	\$1,000	\$0	\$0	\$5,000	
Foundations & Grants	\$0	\$0	\$0	\$0	\$0	\$0	\$10,000	\$0	\$0	\$25,000	\$0	\$0	
Earned Income	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,500	\$5,500	\$5,500	\$6,000	\$6,000	\$6,000	
Other Income	\$0	\$0	\$0	\$0	\$0	\$500	\$0	\$0	\$0	\$0	\$0	\$500	
Total Revenues	\$5,150	\$5,150	\$6,150	\$5,200	\$5,200	\$15,500	\$15,750	\$5,750	\$6,750	\$31,300	\$6,300	\$11,800	
Expenses (Cash):													
Salaries & Wages	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,250	\$5,250	\$5,250	\$5,250	\$5,250	\$5,250	
Payroll taxes	\$383	\$383	\$383	\$383	\$383	\$383	\$402	\$402	\$402	\$402	\$402	\$402	
Program Expenses	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$5,000	\$5,000	\$2,500	\$0	\$0	
Fundraising Expenses	\$500	\$1,000	\$2,500	\$1,000	\$500	\$500	\$0	\$0	\$0	\$0	\$250	\$250	
General & Administrative Expenses	\$2,500	\$2,500	\$2,500	\$2,500	\$2,500	\$2,500	\$2,800	\$2,800	\$2,800	\$2,800	\$2,800	\$2,800	
Other Expenses	\$0	\$0	\$0	\$0	\$0	\$495	\$0	\$0	\$0	\$0	\$0	\$500	
Total Expenses	\$8,383	\$8,883	\$10,383	\$8,883	\$8,383	\$8,878	\$8,452	\$13,452	\$13,452	\$10,952	\$8,702	\$9,202	
Projected Surplus / Deficit	-\$3,233	-\$3,733	-\$4,233	-\$3,683	-\$3,183	\$6,623	\$7,298	-\$7,702	-\$6,702	\$20,348	-\$2,402	\$2,598	
Cash - Beginning of Period	\$12,000	\$8,768	\$5,035	\$803	-\$2,880	-\$6,063	\$560	\$7,858	\$157	-\$6,545	\$13,804	\$11,402	
Cash End of Period	\$8,768	\$5,035	\$803	(\$2,880)	(\$6,063)	\$560	\$7,858	\$157	(\$6,545)	\$13,804	\$11,402	\$14,000	
Starting Cash	\$12,000.00												

Beginning Cash



Ending Cash

Budgeting 101

Why and What?

Why do a Budget?

- **Planning tool that reflects organization's programs, mission, and strategic plan.**
- **Monitor progress towards goals (monthly, YTD)**
- **Provide context for financial reporting**
- **Clear accountability: mission *and* margin**

What's in a Budget?

- ***Realistic* estimates of Revenues and Expenses**
- **Sound, well-documented assumptions**
- **Correlate to Chart of Accounts**

Audit / Review / Compilation

- **Audit**

- Highest level of assurance on financial statements.
- Presented in accordance with GAAP.
- Includes:
 - Confirmation with outside parties
 - Testing supporting documents
 - Completing physical inspections and observations
 - Considering and evaluating the internal controls

- **Review**

- Limited assurance that no material modifications are necessary.
- Financial statements are in conformity with GAAP.
- “Does it make sense” analysis, limited inquiry into procedures.

- **Compilation**

- No assurance on an organization’s financial statements.
- CPA compiles a nonprofit’s financial information to comply with GAAP.
- No testing or analytical procedures.

Financial Oversight

"...don't provide opportunities to be opportunistic!"

- **Responsibility of the BOARD, not staff**
- **Procedures and Processes for:**
 - **Cash Receipts**
 - **Cash Disbursements**
 - **Approval Authorities**
 - **Account Reconciliation**
 - **Financial Reporting**
- **Code of Conduct, Training**

Financial Oversight

"...don't provide opportunities to be opportunistic!"

- **IRS Form 990 – General Requirements**
 - **Gross receipts \leq \$50k: 990N**
 - **Gross receipts $<$ \$200k *and* Total Assets $<$ \$500k: 990 EZ or 990**
 - **Gross receipts $>$ \$200k *or* Total Assets $>$ \$500k: 990**
 - **www.irs.gov and/or your CPA**
- **Pitfalls and Potholes:**
 - **Payroll Tax Withholdings**
 - **Restricted Funds**
 - **The "Two E's"**
- ***"Not in the weeds – but in the know"***



Suggested Resources:

www.nonprofitaccountingbasics.org

www.nonprofitsassistancefund.org

www.StrongNonprofits.org

www.nonprofitquarterly.org

www.nonprofithub.org

www.councilofnonprofits.org

www.mnaonline.org



Thank you for participating!

Please complete a survey!

Next Session: "Your First Fund Development Plan" in May 2019

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