

Kerkering, Barberio & Co.

**Four Things Every Nonprofit Leader
Should Know About Finance**

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Introductions

- Facilitators
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Survey Results

Topic	Most Important	Important	Somewhat Important	Not Important
Financial statement basics	58.3%	29.2%	12.5%	0.0%
Managing your budget	50.0%	37.5%	8.3%	4.2%
Annual audit basics	30.4%	52.2%	17.4%	0.0%
The role of your board treasurer & finance committee	30.4%	47.8%	21.7%	0.0%

Survey Results

- What keeps you up at night?
 - Cash flow
 - Budgeting
 - Financial Statements
 - Reporting rules and regulations
 - Reputation
 - Lack of backup personnel

Survey Results

- What do you most want to get out of this session?
 - Financial statements and performance reporting
 - Budget and financial management basics
 - Finance committees and treasurers
 - Speak the language

Financial Statement Basics

How do financial statements for a nonprofit entity differ from for profit?

Nonprofit Entity	For Profit Corporation
Statement of Financial Position	Balance Sheet
Statement of Activities	Income Statement
Statement of Functional Expenses (certain entities)	n/a
Statement of Cash Flows	Statement of Cash Flows
n/a	Statement of Stockholders' Equity
Notes to Financial Statements	Notes to Financial Statements

Financial Statement Basics

- Cash basis
 - Revenues are recognized when cash is received
 - Expenses are recognized when cash is paid
- Accrual basis
 - Revenues are recognized when it is earned and realized or realizable
 - Expenses are recognized when it is owed and in the period in which the related revenue is recognized

Financial Statement Basics

- The Statement of Financial Position reports the following:
 - Assets
 - Liabilities
 - Net Assets

Financial Statement Basics

- Unique assets for nonprofit entities include:
 - Pledges receivable or promises to give
 - Split interest agreements
- Unique liabilities for nonprofit entities include:
 - Liabilities related split interest agreements
 - Agency liabilities

Financial Statement Basics

- Net Assets are classified into the following categories based on restrictions made by the donor:
 - Unrestricted
 - Temporarily Restricted
 - Permanently Restricted
- Funds set aside by boards for a specific purpose are board designated and unrestricted

Financial Statement Basics

- Statement of Activities
 - Reports revenues and expenses according to three classifications of net assets
 - Can be presented in different formats
 - One column
 - Three columns
 - Two statements

Financial Statement Basics

- Contributions where the donor does not specify a restriction (purpose or time) are classified as unrestricted
- Contributions where the donor restricts it for a particular use or to be used at a certain time are classified as temporarily restricted
- Contributions where the donor stipulates it must be held in perpetuity are classified as permanently restricted

Financial Statement Basics

- Typical revenues for nonprofit entities include:
 - Contributions
 - Membership dues
 - Program fees
 - Fundraising events
 - Grants
 - Investment Income
 - Gain on sale of investments
 - Released from restrictions
- Billed revenue vs. buy revenue

Financial Statement Basics

- Expense categories for nonprofit entities include:
 - Program expenses
 - Supporting services expenses

Financial Statement Basics

- Statement of Cash Flows
 - Reports the change in cash and cash equivalents during the accounting period
 - Indirect or direct method
 - Consists of three sections:
 - Net cash from operating activities
 - Net cash from investing activities
 - Net cash from financing activities

Financial Statement Basics

- Statement of Functional Expenses
 - Matrix format reporting expenses by their natural classification and by function
 - Required for voluntary health and welfare entities, but encouraged for all nonprofit entities
 - All entities are required to present a total for each functional classification (in statement of activities or the notes to the financial statements)

Managing Your Budget

- A budget is:
 - An entity's mission plan
 - A financial plan that lists estimates of revenues and expenditures for a period of time
 - A tool to translate an entity's strategic plans into measurable quantities
 - A tool to forecast and monitor an entity's financial health
 - Used to help management prioritize objectives with the reality of limited resources

Managing Your Budget

- Budgets allow an entity to:
 - Understand the nature of operations
 - Evaluate decisions and see consequences of past decisions
 - Decide where to cut costs
 - Monitor financial successes
 - Stay in control of the assets or costs instead of the other way around

Managing Your Budget

- There are different types of budgets
 - Master budget
 - Operational budgets
 - Program or activity budgets
 - Financial budgets
 - Capital expenditures budget
 - Cash budget
 - Non-financial budgets

Managing Your Budget

- Key considerations in budgeting
 - All levels of the organization must be involved in the budget preparation process for a realistic budget
 - Link the budget to the entity's goals and objectives
 - Review past experiences
 - Consider upcoming changes
 - Complete in a timely manner

Managing Your Budget

- The budget process
 - 1) Gather information about revenues
 - 2) Gather information about expenses
 - 3) Determine shortfalls
 - 4) Adjust if necessary
 - 5) Review and implement
 - 6) Monitor monthly

Annual Audit Basics

- The difference between an audit, review and compilation
- Not every entity is required to have an audit
 - By-laws
 - Grant agreements
 - Government contracts
 - Debt covenants
- The single audit

Annual Audit Basics

- Audit procedures include:
 - Testing significant accounts
 - Verifying with third parties
 - Confirming cash
 - Confirming pledges and receivables
 - Vouch property and equipment additions to invoices
 - Recalculate debt covenants
 - Examine functional expense allocations
 - Perform analytical procedures

Annual Audit Basics

- Auditor communication
 - Prepared by client (PBC) list from auditor to management
 - Planning meeting between auditor and finance/audit committee
 - Presentation of audit between auditor and finance/audit committee and/or board of directors
 - Consider executive session

The Role of Board Treasurer and Finance Committee

- The responsibilities of a treasurer or finance committee can vary according to:
 - Size of entity
 - Rules and regulations the entity must adhere to
 - Existence of an audit committee
 - Volunteer vs. staffed entity

The Role of Board Treasurer and Finance Committee

- Responsibilities of a Board Treasurer include:
 - Set a tone of integrity
 - Manage the filings
 - To serve as the chair of the finance committee
 - To understand financial accounting for nonprofit entities
 - Work with management to plan and evaluate the budget
 - Review the audit and answer board questions

The Role of Board Treasurer and Finance Committee

- Typical Finance Committee responsibilities:
 - Financial statements and budget review and monitoring
 - Policies and procedures related to administration, collection, and disbursements of the entity's financial resources
 - Approve significant financial decisions
 - Implementation of governance policies
 - Risk assessment

Questions

Thank You!



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