

# **Kerkering, Barberio & Co.**

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

**June 20, 2012**



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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?**

<b>Nonprofit Entity</b>	<b>For Profit Corporation</b>
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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