



Financial Management: What You Need To Know For All Board Members

NEW HAMPSHIRE
COALITION
AGAINST DOMESTIC
AND SEXUAL VIOLENCE

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Agenda

- Fiduciary Responsibility
- Higher Level View—What Should You Be Looking For
- Budgeting and Financial Reporting
- An Audit or A Financial Review



The Board Source Ten Basic Responsibilities

- Number 7 of 10 is, “Provide proper financial oversight. The Board must assist in developing the annual budget and ensuring that proper financial controls are in place.”

From a Board Source publication, formerly the National Center for Nonprofit Boards

Three Fiduciary Duties of Boards

Duty of Care	Duty of Loyalty	Duty of Obedience
<ul style="list-style-type: none"> ✓ be familiar with the organization's finances and activities and participate regularly in its governance 	<ul style="list-style-type: none"> ✓ act with a single eye to the interests of the organization 	<ul style="list-style-type: none"> ✓ carry out the organization's mission
<ul style="list-style-type: none"> ✓ attend all board and committee meetings and actively participate in discussions and decision-making such as setting of policies 	<ul style="list-style-type: none"> ✓ disclose any potential conflict of interest prior to joining the organization 	<ul style="list-style-type: none"> ✓ ensure that the organization's resources are used in support of that mission
<ul style="list-style-type: none"> ✓ carefully read board materials 	<ul style="list-style-type: none"> ✓ develop a written conflicts of interest policy so that all members are aware of the type of transaction that may prohibit them from joining the board or participating in a particular vote or decision 	<ul style="list-style-type: none"> ✓ refrain from engaging in unauthorized activities, such as diverting resources to other purposes other than that mission, even if such other purposes are charitable
<ul style="list-style-type: none"> ✓ where appropriate, engage and receive advice from professional advisors 	<ul style="list-style-type: none"> ✓ refrain from using their fiduciary position to usurp a business opportunity or advantage available to the organization 	
<ul style="list-style-type: none"> ✓ allow time to meet with senior management present 		
<ul style="list-style-type: none"> ✓ read the minutes of prior meetings and all reports 		



Additionally, Specifics the Board of Directors is Responsible for:

- Overseeing the financial activity of the organization, including requiring regular, timely and complete financial reports from internal finance staff or contract staff (including revenue and expenses, compared to the budget) and expect the board to hold staff accountable for meeting the standards of timely reporting.
- Assuring that appropriate financial controls are in place.
- Approving the annual operating budget.
- Achieving fiscal goals as set out in the strategic and fundraising plans.
- Establishing procedures and policies that represent high ethical standards.
- Asking for clarification about financial matters that raise questions.
- Assuring that CEO compensation is in line with community standards.
- Engaging in strategic discussions on how resources should be developed and used to support the mission of the organization.

Board and Staff Responsibilities

Board Responsibility	Staff Responsibility
Approval of strategic plan	Providing accurate and timely financial information
Approval of internal controls	Recommending and enacting internal controls
Approval of budget	Maintaining and reviewing financial reports
Review of interim financial statements	Using finances in strategic decision making
Set up finance committee and/or audit committee	Support finance committee with information and resources
Hiring an auditor and reviewing the audit	Provide auditor full access to accounting systems, grants management
Review Form 990	Provide auditor or accountant with accounting for the preparation of the 990



Higher Level - What Every Board Member Should Know

- What state agency has authority over nonprofits; what documents are required to be filed with that agency and over what time period(s)
- How and when is the Board reviewing the agency's financial condition
- What are the financial policies in place to ensure sustainability of the org (reserves; fiscal procedures; internal controls; etc.)



Higher Level - What Every Board Member Should Know

- Clerk/Treasurer should know where IRS 501C3 designation letter, articles of incorporation, relevant filings with State offices exist within the agency/server.
- Is there a finance committee; how often do they meet; are minutes/notes required from every meeting; if not there should be notes.
- Agency conflict of interest policy; did you as Board member review and sign; is this done annually?

Internal Controls

- One definition: The structure/processes that protect you and ensure that the agency is not only practicing good financial management, but adheres to the guidelines and checklists in the Board manual.
- **General Rule:** No one person should be in a position to completely control all aspects of a transaction from its initiation through approval, handling of assets, and recording.
- Common Term: Segregation of Duties

What Every Board Member Should Know -Federal Funds

- Office of Management and Budget (OMB) Circulars
- Civil rights compliance
- Confidentiality and privacy protections of the Violence Against Women Act
- Anti-Lobbying Act
- Reporting Requirements
- Suspension or Termination of Funding
- Dun and Bradstreet Data Universal Number System (DUNS number)
- Active System for Award Management (SAM) registration

Make sure senior staff (Executive Director/Finance Director) understands requirements of each Federal contract, including the OMB Uniform Guidance and can inform the Board of those requirements upon inquiry

Financial Resources-Readily Available to You and Your Board



- Agency's Fiscal Manual
- Narrative highlights of the past fiscal year (examples of this are grant increases/cuts; new programming grants & changes in programming funding; methods used to minimize any negative changes).
- Approved operating budget for the current year.
- IRS Form 990 for the past fiscal year.
- Audited financial statements or financial review documents for the year just ended.



Annual Budget

- Annual budget should be prepared and presented to Board at least 3 months prior to fiscal year beginning.
- Annual budgeting process should include:
 - ❖ Analyzing current income and expense to budget and forecasting to end of year
 - ❖ Written assumptions
 - ❖ Understand every line item; where money comes from, when it comes, what it's for
- Create monthly & annual budgets



Annual Budget, continued

- Finance committee or board should ask questions during development such as:
 - ❖ What parts of budget are new and may be reflective of the strategic plan?
 - ❖ Regarding personnel:
 - ❖ What health insurance increase is projected?
 - ❖ Are there salary increases budgeted?
 - ❖ Other benefit changes to review or major expense items.



Annual Budget, continued

- What can we do to generate operating surplus to fund reserves?

- Regarding organizational development, budget for:
 - ❖ Special meetings
 - ❖ Board trainings
 - ❖ Leadership succession activities/expenses



Overview of Agency's Finances: Review of Financial Statements

- Agency Quarterly/Monthly Statement of Financial Position (Balance Sheet)
- Agency Quarterly/Monthly Statement of Activities
- Agency Quarterly/Monthly Statement of Cash Flows
- Agency Quarterly/Monthly Budget Report (Profit & Loss)
- Dashboard instead of the very detailed Statement of Activities, Statement of Financial Position or Budget Report



Agency Quarterly/Monthly Statement of Financial Position

Questions can be asked monthly/quarterly:

- Have the current assets increased or decreased?
- If the current assets have changed, how does this change compare to the change in the current liabilities? (This will help you decide how well an organization is able to pay its bills and current expense.)
- What does the statement tell you about the organization's financial position?
- Do you expect the organization to pay its bills when they come due?
- What are the organization's largest liabilities?



Agency Quarterly/Monthly Statement of Activities

Questions can be asked monthly/quarterly:

- Compare this period's bottom line to the prior period; Then consider the various items that have made an impact on the bottom line.
- Have the gross revenues gone up or down?
- Have the sources of revenue changed?
- What are the key sources of revenue, and have they gone up or down?
- What about expenses--have total expenses gone up or down?
- How does the change in expenses relate to the change in revenue?
- Which individual expenses have changed significantly?

Agency Budget Report

- A summary of the revenue and expenses by common grant/program titles for a specific period - for Coalition, fiscal year-to-date - reported monthly.



Questions can be asked monthly/quarterly:

- Why is there a specific % increase or decrease for any line item?
- Is any line item particularly unusual?
- Is Finance Committee taking certain items into consideration for next year's budget?

NHCADSV Monthly Budget Report

FY 2015 Approved vs Actual Budget as of March 31, 2015					
	Total FY15	3/31/2015	\$	% of	
REVENUE	Budget	Actual YTD	Over/Under	Budget	Budget
		(9 mos./75%)			
Domestic Violence Prevention Program	47,074	37,084	(9,990)	79%	
Endowment for Health Child Trauma	30,886	30,886	-	100%	Grant ended 2014
Family Violence Prevention Services Act coalition	238,430	166,944	(71,486)	70%	
Member Dues	14,000	9,000	(5,000)	64%	
Misc. Income (inc. honorariums)	1,000	1,179	179	118%	Credit card rewards
Statewide Program to Improve Response to DV	12,044	9,384	(2,660)	78%	
Sexual Violence Prevention	77,741	10,803	(66,938)	14%	Staff not hired til Feb. 2015
Unrestricted (Contributions)	52,500	93,900	41,400	179%	Inc Purple Purse campaign
Violence Against Women Act (VAWA) coalition	226,840	172,610	(54,230)	76%	
VAWA Grants to Encourage Arrest	53,699	21,716	(31,983)	40%	
Verizon NO MORE Campaign	10,000	4,104	(5,896)	41%	
Verizon Translation	8,000	1,036	(6,964)	13%	
Victims of Crime Act	113,000	52,857	(60,143)	47%	
TOTAL REVENUE	885,214	611,502	(273,712)	69%	
	Total FY15	3/31/2015	\$	% of	
EXPENSES	Budget	Actual YTD	Over/Under	Budget	Budget
		(9 mos./75%)			
Personnel	546,046	432,000	(114,046)	79%	
Benefits	101,759	73,128	(28,631)	72%	
Accounting Services	1,200	1,136	(64)	95%	Paid for the year
Advertising/recruitment	475	529	54	111%	
Audit	10,145	10,220	75	101%	
Community Education	10,000	4,129	(5,871)	41%	
Copying	4,600	3,186	(1,414)	69%	
Fundraising	6,700	3,105	(3,595)	46%	
Insurance	10,500	4,727	(5,773)	45%	
Maintenance & Repairs	21,180	12,459	(8,721)	59%	
Memberships	4,000	2,828	(1,172)	71%	
Miscellaneous	1,500	480	(1,020)	32%	
Mortgage	8,100	6,749	(1,351)	83%	
Office & Training supplies; tech upgrades	13,924	9,086	(4,838)	65%	
Organizational Development	13,000	7,802	(5,198)	60%	
Postage	4,510	3,229	(1,281)	72%	
Printing	5,030	3,857	(1,173)	77%	
Professional Services	20,000	15,000	(5,000)	75%	
Staff Development	8,806	4,829	(3,977)	55%	
Subscriptions	640	250	(390)	39%	
Telephone/Internet (inc. language line)	37,733	25,555	(12,178)	68%	
Trainings	16,165	12,250	(3,915)	76%	
Travel (member program staff reimbursements)	32,065	24,393	(7,672)	76%	
Utilities	6,000	6,101	101	102%	Higher heating bills
TOTAL EXPENSES	884,078	667,028	(217,050)	75%	
Joan/Excel/Misc/budget report sample	1,136	(55,526)	(56,662)		



Dashboard Reports

- Used by Boards instead of very detailed Statement of Activities, Statement of Financial Position or Budget Report
- Have pros and cons
- Provides an overview
- Usually includes:
 - ❖ Performance indicators
 - ❖ Targets
 - ❖ Trends



Instituting Dashboard Reporting

Things to Consider:

- Determine ongoing use/appropriate audience
- Agree on what matters
- Agree on targets
- Agree on range values
- Engage across roles/departments or Not (finance, HR, fundraising, board governance, programs)

Financial Dashboard

Performance Indicators	Targets	As of March 2015	Trend			Ranges		
			3 mos ago	6 mos ago	9 mos ago	Celebrate	Monitor	Act Now
Days of cash on hand (Total cash divided by average daily expenses)	60 days \$105,500	192 days \$338,285	235 days \$412,916	169 days \$297,525	211 days \$371,555	60 days	45 days	30 days
Operating Reserve Improvement plan (Total operating expenses divided by 12 months)	3 mos. \$160,000	.05 mos. \$36,000	\$ 36,000	\$ 30,000	\$ 30,000	equal to or greater than 3 mos. \$160,000	less than 3 or = to 2 mos. \$80,000	less than or equal to 1 mos. \$53,300
Capital Reserve Improvement plan (no less than 5% of total equipment & property)	\$25,000	\$ 17,425	\$ 17,425	\$ 7,388	\$ 7,388	\$25,000 or above	between \$15,000-\$25,000	less than \$15,000

Unrestricted Liquidity (Cash)	Target	As of March 2015	Trend			Ranges		
			1 year ago	2 years ago	3 years ago	Celebrate	Monitor	Act Now
July to October	\$9,500	\$54,734*	\$20,118**	\$7,974	\$4,486	equal to or greater than 50%	less than or equal to 45% - 30%	less than 30%
July to February	\$10,000	\$64,734* 647%	\$23,348**	\$41,529***	\$25,088***			
July to June	\$10,500							

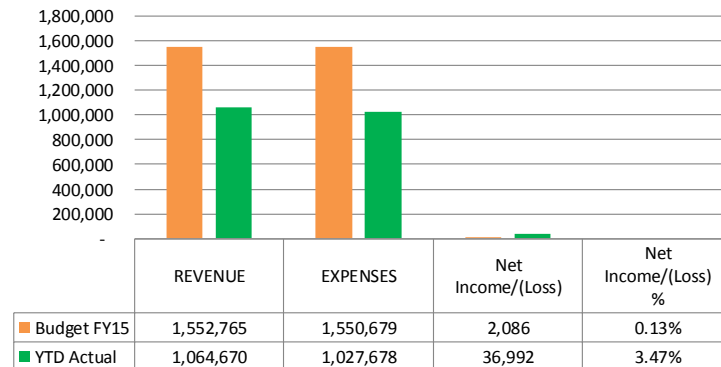
Does not include Fund for Grace, Operating Reserve or Capital reserve

*Includes Purple Purse

**1 yr ago high due to \$14,000 to Development from unrest balance FY13 & \$10,000 Coach donation

***2 yrs & 3 yrs ago high due to \$25,000 NHCF Development grant

Approved Budget vs. Actual FY15
YTD as of March 31, 2015





Audit or Financial Review

- Financial accountability is a hallmark of a strong, well-run nonprofit. Boards are responsible for the fiscal oversight of their organization and value the extra level of assurance of having an outside organization review the books.
- Some organizations have the choice of conducting either a financial review or audit, depending on the size of their revenue. The Form 990 from the IRS asks whether an organization's statements have been compiled, reviewed or audited.

Federal Audit Threshold

- As a result of new rules from the Office of Management and Budget (OMB), not-for-profit entities will be required to undergo a single audit only if they spend \$750,000 or more in federal awards in a fiscal year.
- Keep in mind, the threshold relates to expenses, not revenues.
- An organization may receive more than \$750,000 and not be required to undergo a Single Audit if it doesn't spend more than \$750,000.



Audit or Financial Review, continued

- Your State may have requirements determining what to file based upon budget size--a financial review or audit.
- A financial review is a process in which an accountant asks the organization to submit a series of financial documents. The accountant then reviews those documents and presents financial reports to the organization. It is good practice for the Board of Directors to request a presentation from the accountant and then vote to accept the written review presented by the accountant.



Audit or Financial Review, continued

- An audit is a more extensive process that involves a review of an organization's accounting systems and practices to determine the reliability of those systems as well as the accuracy of the financial statements generated by those systems.
- There are two phases to an audit
 - ❖ Planning
 - ❖ Onsite visit



Audit or Financial Review, continued

Phase 1. PLANNING PHASE:

- In the planning phase, the auditing firm requests an exhaustive list of information which it examines carefully.
- The firm then communicates with the Board or designated committee about its assessment during the planning stage.



Audit or Financial Review, continued

Phase 2. ONSITE VISIT:

- The accountant then comes on site to the nonprofit to verify the accuracy of the documents received.
- On site visits involve reviewing processes and sometime conducting interviews with staff to verify practices are consistent with stated policies and to witness internal controls.
- Following on site visits, the accountant then presents the audit findings to the organization, often to the finance committee or full board.
- As with Financial Reviews, it is considered good practice for the Board of Directors to vote on the written audit presented by the accountant.

What Does It Mean to Be “Clean”

- A clean opinion (UNQUALIFIED) provides the highest level of assurance that THE FINANCIAL STATEMENTS are doing what is intended.
 1. The Statement of Financial Position fairly presents the organization's financial position;
 2. The Statement of Activities fairly presents the results of the organizations operations; and
 3. The Statement of Cash Flows fairly presents its cash flows.

Resources and Handouts

- Board Café, Blue Avocado, The Board Source, Guidestar, The Foundation Center
- Alliance for Nonprofit Management <https://www.allianceonline.org>
- NH Center for Non Profits www.nhnonprofits.org
- Free Management Library www.Managementhelp.org
- Technology, Finances, Accountability www.techsoup.org
- Non Profit Risk Management Center www.nonprofitrisk.org
- IKNOW <http://www.iknow.org/financial/Pages/financial.aspx>
- Office of Justice Programs, Financial Guide
http://ojp.gov/financialguide/PDFs/OCFO_2014Financial_Guide.pdf
- Circulars https://www.whitehouse.gov/omb/grants_circulars
- Idealist <http://www.idealists.org/info/Nonprofits>
- IRS <http://www.irs.gov/Charities-&-Non-Profits>

HANDOUTS:

- Fiduciary Duties of Boards
- Narrative on Internal Controls over Compliance
- Know Your Non Profits Finance Strengths and Weaknesses; Core Areas of Nonprofit Finance checklist
- 10 Step Annual Budgeting Checklist
- Grant Budget Itemization
- Financial Questions Every Board Member Should Ask
- Finance Committee schedule
- Budget Report Sample
- Financial Dashboard Sample

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- Ellen Yin-Wycoff of the National Sexual Assault Coalition Resource Sharing Project (RSP) for her information on the Uniform Guidance and Cost Allocations
- Dana Paull, Associate Director of Finance, VT Network Against Domestic & Sexual Violence for her information on internal controls

Question and Answer Period

*Thank you,
We're Done!*

I wish everyone continued success in their fiduciary responsibilities.

Please contact me if I can help you achieve your individual/organizational growth goals.

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