

Executive Director's Role In Financial Management of Nonprofit Organizations



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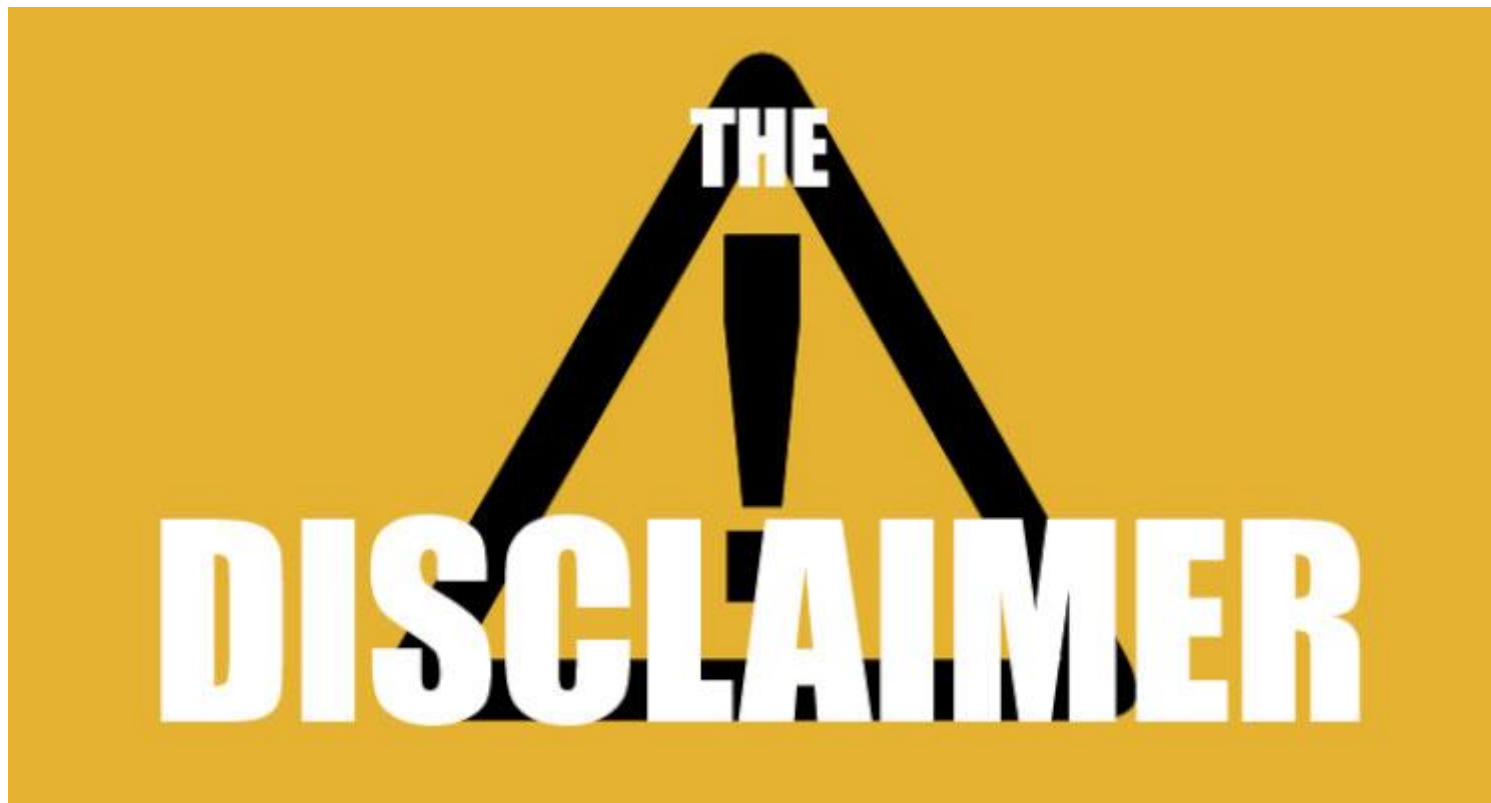
Next Move Group's Experience with Nonprofits



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Next Move Group's Experience With Nonprofits



We are not accountants & we are not lawyers!



Sampling of Our Past Nonprofit Executive Search Clients:





Sampling of Our Past Nonprofit Executive Search Clients:





Sampling of our Nonprofit Board Training Clients:





Our Perspective



The Meat & Potatoes of Nonprofit Financial Management



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The Meat & Potatoes of Nonprofit Financial Management





The Meat & Potatoes of Nonprofit Financial Management

1. Protect the Assets of the Organization





The Meat & Potatoes of Nonprofit Financial Management

2. Ensure the Maintenance of Accurate Records of the Organization's Financial Activities





The Meat & Potatoes of Nonprofit Financial Management

3. Provide a Framework for the Organization's Financial Decision Making





The Meat & Potatoes of Nonprofit Financial Management

4. Establish Operating Procedures & Behavioral Expectations





The Meat & Potatoes of Nonprofit Financial Management

5. Train Staff





The Meat & Potatoes of Nonprofit Financial Management

6. Ensure Compliance With Federal, State, & Local Legal & Reporting Requirements





Reduce Your Risk By Establishing Purchasing Procedures



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Reduce Your Risk By Establishing Purchasing Procedures

Establish Policies Which Guide the Following:

- Director can spend up to xyz amount without board approval
- Staff can spend up to xyz amount without Director's approval
- What requires a purchase order?
- Any expenditure in excess of xyz amount will be purchased by soliciting bids from at least 3 suppliers if possible



Cash vs. Accrual Accounting



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Cash vs. Accrual Accounting

Cash vs Accrual Accounting		
	Cash Basis	Accrual Basis
Revenue	Received	Earned
Expenses	Paid	Incurred



Best Practices in Bank Reconciliation Procedures



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Best Practices in Bank Reconciliation Procedures

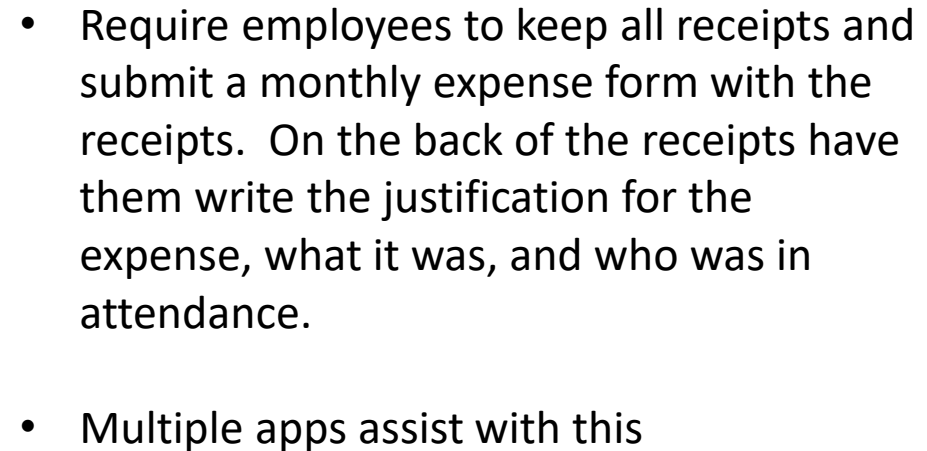
- The person in charge of cutting checks and making deposits should NOT be the person who does the reconciliation.
- Reconcile all accounts each month
- Cash vs. Accrual- if cash deposits or expenses haven't cleared this could affect your reconciliation
- Are there checks that haven't cleared? Follow up with those vendors to find out what has happened to the checks and encourage them to get them to the bank.
- Run an open invoices report
- Run an unpaid bills report



Employee Expense Receipt Tracking



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Employee Reimbursement Policy



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Employee Reimbursement Policy

Employee Reimbursement Policy Should Include:

- What travel expenses are eligible for reimbursement
 - Is there a dollar amount limit?
 - Is pre-authorization required?
- What other type expenses can employees be reimbursed?
 - Is there a dollar amount limit?
 - Is pre-authorization required?
- Who authorizes reimbursement requests?





Payroll



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Payroll

Payroll:

- What dates of the month/week is payroll prepared?
 - Make sure you know exactly how many paydays will be in your fiscal year, don't make the mistake I made.
- Who handles payroll if your primary payroll person is out?
- If you have hourly employees, how are time sheets entered into the payroll system?





Handling Terminations



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Handling Terminations



- Upon voluntary termination and involuntary termination, when is payroll processed and distributed to the employee?
- Who calculates the final paycheck and assures accuracy of any accrued paid time off to be paid?
- Who reviews the final paycheck and distributes the check to the employee?



Insurance



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- **D&O- Directors & Officers Insurance**

Directors and officers (D&O) liability insurance is insurance coverage intended to protect individuals from personal losses if they are sued as a result of serving as a director or an officer of a business or other type of organization. It can also cover the legal fees and other costs the organization may incur as a result of such a suit.



Insurance

- **General Liability Insurance**

General liability insurance protects against lawsuits that arise from accidents involving visitors, clients, or delivery people. If you hold a fundraiser or other special event, you might need this coverage to book a venue or fulfill a client contract.

This policy provides liability coverage related to:

- Customer injuries
- Customer property damage
- Advertising injuries



Insurance

- **Cyber Insurance**

Cyber insurance generally covers your liability for a data breach involving sensitive customer information, such as Social Security numbers, credit card numbers, account numbers, driver's license numbers and health records.



Insurance

- **Workers Compensation or Accident Insurance**

Workers' compensation or workers' comp is a form of insurance providing wage replacement and medical benefits to employees injured in the course of employment in exchange for mandatory relinquishment of the employee's right to sue his or her employer for the tort of negligence



Insurance

- **Property Insurance**

Property insurance will reimburse you for the cost of replacing or repairing these if they're damaged or destroyed by events such as:

- Fire
- Hail
- Windstorms
- Theft
- Vandalism

Remember that your nonprofit needs property insurance even if the organization doesn't own its buildings. All the things **inside** those buildings are still vulnerable to unpredictable disasters. In fact, your leases and rental agreements might require your organization to carry property insurance.



Insurance

- **Auto Insurance**

Commercial vehicle insurance: If the nonprofit owns a vehicle or a group of vehicles, all will need to be insured to meet your states minimum liability coverage requirements. This coverage protects the nonprofit in the event the driver is in an accident while driving a company vehicle.

Not-owned or for-hire vehicle insurance: If staff or volunteers of your organization use their own personal vehicles to do company work, the nonprofit organization can be held liable if they are in an accident. This vehicle insurance includes liability coverage whenever a staff member or volunteer uses their private vehicle for work-purposes.



Insurance

- **Crime or Employee Dishonesty**

Also referred to as a fidelity bond, this type of insurance protects an organization from financial losses resulting from fraudulent acts by employees. This coverage helps replace stolen funds and provides the added benefit of requiring nonprofits to implement risk management policies designed to help prevent employee fraud from occurring.

Employee dishonesty policies can be purchased with property insurance or as a separate fidelity bond. These policies are designed to cover such things as employee theft, computer and funds transfer fraud, depositor forgery or alteration, credit card fraud, and unauthorized electronic funds transfers.



Insurance

- **Sexual Misconduct Liability**

Nonprofit Improper Sexual Conduct and Abuse coverage provides protection for actual and alleged claims of various types abuse by your employees and volunteers to third parties.



Insurance

- **Umbrella**

Umbrella insurance provides increased coverage limits over other types of nonprofit liability insurance. It is primarily meant to increase the limit of your general liability coverage but can also go over your auto liability, directors and officers liability, professional liability, improper sexual conduct liability, and/or workers' compensation.

Three Reasons Why Your Nonprofit Needs this Coverage

1. Required by Funders or Municipalities: Many times third parties will require limits of liability that are more than your basic limits.
2. High Net Worth Board Members: If you have wealthy board members they may require that you have high liability limits so that they can be adequately protected for their service to your organization.
3. Significant Organizational Assets: If your organization has assets more than \$1,000,000 (the basic general liability limit) then you need to consider umbrella coverage to protect 100% of your assets.



Petty Cash



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- ## PETTY CASH LOG

	REPORTING PERIOD
FROM	
TO	

[illegible]

PETTY CASH RECONCILIATION

FINA L BA LA NCE	
CA SH ON HA ND	
DIFFERENCE	
PETTY CA SH REIMBURSEMENT	
BA LA NCE FORWA RD	



Big Picture Item 1: Creating Reliable Income Streams



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Creating Reliable Income Streams

1. Government grants/contracts
2. Private sector contributions
3. Charging fees for goods and/or services
4. Solicit major gifts or individual donations
5. Pursue grants from foundations
6. Income from investments
7. Events based revenue





Big Picture Item 2: Key Performance Indicators



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Key Performance Indicators

- Don't run in red unless it was planned
- Track year over year revenue and expenses monthly
- Track budgeted revenue and expenses vs estimated monthly revenue and expenses
- Months of Cash on Hand
 - Strive for at least 3 months
- Months Covered By Liquid Reserves
 - Strive for at least 6 months, with a goal of 36 months



Operating Reserve



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Operating Reserve

Determine with the Board the operating reserve your organization needs to sustain economic downturns so the organization can continuously carry out its mission. Then make building this operating reserve part of your budgeting process and part of your revenue requests.



Line of Credit



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Line of Credit

Operate as a credit card and enable you to access money at any time as long as you have not reached your credit limit.



Budgeting Process



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Step 1- Create a Budget Calendar

- Create an annual calendar which makes the budgeting process easily replicable annually
- For example:
 - 4 months before budget is adopted
 - Assemble budget team to list major goals for the next fiscal year which will need to be addressed in the upcoming budget
 - 3 months before budget is adopted
 - Build draft budget with senior management with Treasurer & Chairman's input
 - 2 months before budget is adopted
 - Circulate draft budget and narrative to finance committee, etc.
 - 1 month before budget is adopted
 - Send budget packet to board of directors





Step 2- Prepare for Budgeting Process

- Set financial goals
- Gather data and build budget template
- Forecast current year results
- Assemble budget team:
 - Management staff
 - Treasurer
 - Finance committee
 - Chair
- Conduct team kickoff meeting





Step 3- Build the Budget

- Budget for operating reserve or achieve a new financial goal even if its to lose money
- Budget expenses
- Budget revenues & plan alternate scenarios

BUDGET





Step 4- Getting the Budget Approved

1. Submit draft to finance committee
2. Work with finance committee to make revisions
3. Following finance committee approval, submit to full board
4. Full board approval





Step 5- Monitoring the Budget

Monthly		Quarterly
Program Managers	Executive Director	Board of Directors
• Budget-to-actual revenue & expenses for the program(s) they oversee	• Budget-to-actual revenue & expenses for • (a) each program • (b) organization-wide • Balance sheet • Year-end forecast • Cash flow projection	• Management narrative • Budget-to-actual revenue & expenses for • (a) each program • (b) organization-wide • Balance sheet • Year-end forecast • Cash flow projection • Dashboard



Board vs. Staff Responsibilities in Financial Management



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Board vs. Staff Responsibilities in Financial Management

Tax/Legal Issues

Staff Responsibilities:

- Notify board immediately of there are any delays in payroll, payroll tax payments, tax problems, tax penalties, or legal matters

Board Responsibilities:

- Respond to notification of any tax or legal issues with expedience
- Approve any correspondence dealing with a legal or tax matter



Board vs. Staff Responsibilities in Financial Management

Accounting

Staff Responsibilities:

- Complete monthly statements within 3 weeks of the end of the month (Income Statement, Balance Sheet) with comparison to budgeted expectations
- Prepare end of year tax statements

Board Responsibilities:

- Form a finance committee with members who understand GAAP
- Ask questions to ensure financial statements are understood
- Periodically review individual expenses



Board vs. Staff Responsibilities in Financial Management

Budget

Staff Responsibilities:

- Develop budget for organization based on desired programming of board
- Have the authority to make minor changes without board approval

Board Responsibilities:

- Develop parameters for budgeting based on long-term planning
- Formally approve and monitor the budget



Board vs. Staff Responsibilities in Financial Management

Cash Flow

Staff Responsibilities:

- If cash flow shortages are projected, develop a plan for bridging the shortages
- If cash flow surpluses are projected, develop a plan to maximize them

Board Responsibilities:

- Do not let the organization run low on cash
- Ask for funding if promised and has yet to flow into the organization



Board vs. Staff Responsibilities in Financial Management

Salaries & Personnel

Staff Responsibilities:

- Budget for salaries of staffing needs anticipated
- Ensure staff abide by personnel policies

Board Responsibilities:

- Approve salary range of each type employee
- Negotiate executive director's salary only
- Approve benefits plans for employees
- Approve personnel policies



Board vs. Staff Responsibilities in Financial Management

Overall

Staff Responsibilities:

- Communicate well with Board
- Appreciate that tough questions are appropriate

Board Responsibilities:

- Work as problem solvers as well as governors
- Be willing to ask tough questions
- Respect the difficulty of the Executive Director's job
- Make only reasonable requests for ad hoc reports
- Give serious attention to financial reports and needs



Bonuses



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Bonuses

- **Most organizations give bonus half on organizational performance**
 - **Did you build cash reserve**
 - **Increase fundraising**
 - **Clean audit**

- **Plus, half on your organization accomplishing its mission**
 - **For economic developers: jobs, investment, as an example**



Audit Responsibilities



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Audit Responsibilities

Staff Responsibilities:

- Make all financial records easy for auditor to access
- Prepare a written response to audit
- Develop written set of internal controls to address any weaknesses revealed in audit

Board Responsibilities:

- Take the lead in interviewing and selecting auditor
- Meet at least once per year with auditor with no staff present
- Review written internal control procedures



The 2 Basic Financial Statements You Must Understand



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Profit & Loss Statement

This shows how much money your organization gained or lost in any given period of time. The period of time can be any time you choose such as:

- Weekly
- Monthly
- Quarterly
- Annually

So it always starts at ZERO.

REVENUE VS. PROFIT





Balance Sheet

This shows how much money your organization owns (or owes if it owes more than it owns) at any given period of time.

So it has nothing to do with profit, it shows everything the organization owns and owes and how much that is worth.

$$\text{Assets} = \text{Liability} + \text{Equity}$$



Sample Balance Sheet (Statement of Financial Position)

Assets

Cash in Checking	\$10,000
Accounts Receivable	\$1,000
Grants	\$8,000

Total Assets

\$19,000

Liabilities

Accounts payable	\$10,200
Loan	\$5,000

Equity (Net Assets)

Retained earnings (program reserves)	\$3,800
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Thank You



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