

Best Practices in Financial Management for Nonprofits

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Mission of Pro Bono Partnership of Atlanta:

To provide free legal assistance to community-based nonprofits that serve low-income or disadvantaged individuals. We match eligible organizations with volunteer lawyers from the leading corporations and law firms in Atlanta who can assist nonprofits with their business law matters.

Pro Bono Partnership of Atlanta Eligibility & Other Information

- *In order to be a client of Pro Bono Partnership of Atlanta, an organization must:*
 - Be a 501(c)(3) nonprofit organization.
 - Be located in or serve the greater Atlanta area.
 - Serve low-income or disadvantaged individuals.
 - Be unable to afford legal services.
 - Visit us on the web at www.pbpatl.org
 - Host free monthly webinars on legal topics for nonprofits
- To view upcoming webinars or workshops, visit the [Workshops Page](#) on our website

CASE STUDY 1

SALLY SMITH'S DAYCARE



ISSUES



Board is not active and independent



No budget and no bookkeeping



Mixing personal and business resources



No insurance



No registration for charitable solicitations

BOARD'S FUNCTIONS IN NONPROFIT'S FINANCIAL MANAGEMENT

- Established and active board
- Independent board
- Board's responsibilities
 - *Safeguard assets and ensure funds used properly*
 - *Donations and investments*
 - *Review of financial and tax documentation*

MIXING PERSONAL AND BUSINESS RESOURCES

Leads to problems with:

- *IRS*
- *Accounting*
- *Business assessment*
- *Funding*

DONATIONS/GA CHARITABLE SOLICITATIONS ACT REQUIREMENTS

- *Registration with the GA Secretary of State*
- *Initial filing fee of \$35 and a C100 application*
- *Valid for 24 months (this is new)*
- *Must be renewed; must submit financial statements and a \$20 renewal fee*
- *Audited financial statements if the nonprofit received or collected more than \$1,000,000 in either of its 2 preceding fiscal years*

IMPORTANCE OF BUDGET AND BOOKKEEPING

- *Annual budget necessary for planning*
- *Helps protect nonprofit's reputation*
- *Enables Board oversight*
- *Allows for effective management*
- *Ensures proper funds allocation*

INSURANCE

- *Protect assets against damage or loss*
- *General liability and directors' and officers' liability insurance*
- *Other actions to mitigate risks*

CASE STUDY 2 MARY MAC




ISSUES

 ***No separation of duties***

 ***No written policies***

 ***No monthly accounts reconciliation***

 ***Quarterly financial statements may be late or improperly prepared***

SEPARATION OF DUTIES

- *Staff handles day-to-day accounting and financial management*
- *Establish internal controls*
- *No one person should be solely responsible for receiving, depositing and spending the funds*

WRITTEN POLICIES

- *Establish written policies:*
 - o *Should be clear, concise, easy to understand and follow*
 - o *Investment policies, if necessary*
 - o *Whistle-blower policies*

MONTHLY ACCOUNT RECONCILIATION

Necessary in order to:

- *reduce fraud*
- *better manage cash*
- *generate monthly financial statements*

FINANCIAL STATEMENTS

- *Must be complete and accurate*
- *Prepare at least quarterly*
- *Qualified paid or volunteer accounting professional*
- *GAAP and auditing standards*
- *Reviewed or audited as required by state law or government or private funders*
- *Independent audit committee for large organizations*

FINANCIAL STATEMENTS (cont'd)

- Compilations - *revenues less than \$500,000*
- Reviews - *revenues \$500,000 to \$1,000,000*
- Audits - *revenues more than \$1,000,000*
 - o Source: www.nysscpa.org

CASE STUDY 3 HAPPY PLACE, INC.



ISSUES



Budget planning



Setting compensation



Loan to board member



Petty cash



Payment of travel expenses for employee



Payment of travel expenses for employee's wife



Financial disclosure

BUDGET PREPARATION AND PLANNING

- *Annual budget to be approved by the board*
- *Sufficient resources for administration and fundraising*
- *Review the budget and financial reports periodically*
- *Ensure that the nonprofit lives within its means*
- *Create cash reserves for future*

PAYMENT OF SALARIES

- *Board members should not be compensated*
- *Salaries should be comparable to salaries at similar nonprofits*
- *Compensation must be reasonable*
- *Compensation determined by the board*
- *Conflict of Interest policy*

ADMINISTRATIVE EXPENSES

- *Permitted if reasonable and necessary to further charitable missions*
- *Recommended that 65% of total expenses be spent on program activities that pursue the mission*
- *Allocate salaries based on percentage of time on each function*

MAKING LOANS

- *IRS scrutiny; Report on the 990 return*
- *Best not to provide loans to directors, officers, or trustees*
- *When necessary to provide loan - the terms to be approved by the board*

PAYMENT OF TRAVEL EXPENSES

- *Travel expenses must be documented and receipts must be provided*
- *Must not be “lavish or extravagant under the circumstances”*
- *Travel expenditures for spouses treated as taxable income*
- *Penalties*

PAYMENT OF TRAVEL EXPENSES: MILEAGE RATES

- Reimbursing employees – *currently 50 cents per mile*
- Tax deduction for volunteers – *currently 14 cents per mile*

PAYMENT OF TRAVEL EXPENSES: BEST PRACTICES

- Establish written policies
- Do not pay for nor reimburse travel expenditures for accompanying individuals (including family members) if they are not conducting business
- Ensure cost-effective manner of travel on behalf of nonprofit

PETTY CASH ACCOUNT

- Establish policies
- Keep in locked box or drawer
- Choose petty cash custodian
- Require receipts for petty cash expenditures

FINANCIAL DISCLOSURE

- Forms 990s must be provided to anyone who requests them
- Reasonable fee for copies
- www.guidestar.org
- Nonprofit's website
- Foundations and potential donors look at 990s

RESOURCES

- Principles for Good Governance and Ethical Practice, A Guide for Charities and Foundations, Panel on the Nonprofit Sector, October 2007, available at <http://www.nonprofitpanel.org/>
- BoardSource:
 - Steven Berger, Understanding Nonprofit Financial Statements, 3rd edition
 - Barbara Lawrence and Outi Flynn, The Nonprofit Policy Sampler, 2nd edition
- The Nonprofit Quarterly magazine
- www.allianceonline.org
- www.nysscpa.org
- www.stayexempt.org

For More Information:

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