

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.

Client Criteria

In order to be a client of Pro Bono Partnership of Atlanta, an organization must:

- Be a 501(c)(3) nonprofit.
- Be located in or serve the greater Atlanta area.
- Serve low-income or disadvantaged individuals.
- Be unable to afford legal services.

Visit our website at www.pbpatl.org to apply.

PBPA Learning Center for Georgia Nonprofits

www.pbpatl.org/resources

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Legal Information

This webinar presents general guidelines for Georgia nonprofit organizations and should not be construed as legal advice. Always consult an attorney to address your particular situation.

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Question:

What is financial management and why does it matter whether a nonprofit exercises good financial management?

CASE STUDY 1

SALLY SMITH'S DAYCARE



ISSUES



- Board is not active and independent
- Mixing personal and business resources
- No tax acknowledgments
- No budget and no bookkeeping
- No insurance

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*

IRS REQUIREMENTS FOR ACKNOWLEDGMENT OF DONATIONS

- Requirements vary depending on type of donation:
 - Monetary Contributions
 - In-Kind Contributions
 - Quid pro quo contributions
 - Donated Services

[Guide to Sending Acknowledgments for Donations \(pbpatl.org\)](http://pbpatl.org)

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:
 - *Should be clear, concise, easy to understand and follow*
 - *Investment policies, if necessary*
 - *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*

[Do I Need A Full-Blown Audit? \(Required Financial Disclosures for Charitable Organizations in Georgia\) \(pbpatl.org\)](http://pbpatl.org)

CASE STUDY 3 HAPPY PLACE, INC.



ISSUES



- Budget planning
- Loan to board member
- Payment of travel expenses
- Tracking restricted funds
- Petty cash
- Phishing emails
- Financial disclosure
- Donations of stock

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

ADMINISTRATIVE EXPENSES

- Permitted if reasonable and necessary to further charitable missions
- Consider percentage of total expenses that are spent on program activities that pursue the mission vs. other expenses
- 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

- Establish written policies
- 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

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 — Independent Sector](#)
- www.irs.gov
- www.stayexempt.org
- [Finance Archives - Blue Avocado](#)
- [Resources \(pbpatl.org\)](http://pbpatl.org)

Questions?

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