FINANCIAL MANAGEMENT FOR NONPROFITS

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Preview: Principles and Practices

- Board Member & Staff Financial Responsibilities
  - Duties of Care and Loyalty
  - Conflicts of Interest
- Planning and Budgeting
- Understanding Financial Reports
  - Statement of Activities, Statement of Financial Position, Statement of Cash Flows, etc.
- Establishing Internal Financial Controls
- The Public Support Test
- Establishing other Best Practice Policies

Defining Board Member & Staff Financial Responsibilities

The term "fiduciary" comes up frequently in conversations about board responsibilities (as in "Our board must meet its fiduciary responsibilities!"). Indeed, safeguarding organizational assets, or holding them "in trust" on behalf of others, is one of the most important board functions. Staff must support these functions and the chief executive will have special responsibility to meet fiduciary duties of his/her own.

Board Member Responsibilities

- All Board Members Are In A Position Of Great Trust
  - Financial Viability
  - Program Success
  - Survival – it's not just a television game show
- All Board Members Have Fiduciary Responsibility
  - A trust held for the greater community
  - Dedicated to protecting the common good
  - It's required by law – federal government through the IRS and Colorado State Law.

Duties of Care & Loyalty

- In governing, directors have two basic duties: a duty of care to the corporation and a duty of loyalty. Both of these duties are expressed, together, in state and federal law. Directors of charities are required by law to carry out their responsibilities as directors "in good faith, in a manner such director believes to be in the best interests of the corporation and with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances."

Duty of Care

- As a practical matter, a director cannot carry out his or her duty of care without minimally doing the following:
  - First and foremost, a director must attend meetings and read materials provided at meetings and in advance of meetings. A director cannot exercise a duty of care if the director is absent.
  - Directors must be familiar with the organization they represent, including the mission as set forth in the Articles of Incorporation and in mission statements, the activities of the organization, and the organizational structure and key staff positions.
  - Directors should have a basic working knowledge of the main tax laws that affect charities (*e.g., Section 501(c)(3)). They should also have a working* knowledge of the state charitable trust rules that govern the charitable assets of a corporation. (A substantive discussion of these two areas of law is beyond today's scope).

Duty of Loyalty

- The duty of loyalty is fundamentally about putting the interests of the corporation before the director's own interests. In addition to the legal standards, charities often survive or perish based on their reputation and goodwill in the community. Perceived or actual conflicts of interest, as reported in the press, whether accurate or not, can often do great damage to the reputation of a charity. Damage to reputation can affect the ability of a charity to fundraise and obtain grants, which can obviously impact the fiscal health of the charity.
- Colorado law specifically addresses conflicts of interest in by statute. Charities should seek to avoid conflicts of interest by adopting policies that prohibit certain types of conflicts and that require Board members to disclose potential conflicts, at least annually. A well-drafted conflicts of interest policy and disclosure form can provide a significant benefit to a charity and lack of one is a red flag on the nonprofit tax return – the 990.

Conflict of Interest

- A conflict of interest arises when a board or a staff member is in a situation where his decision making may be impaired by personal, financial, or other business concerns that may not promote the best interest of the organization. A conflict of interest may be real or perceived. Both can have detrimental effects for the organization or its reputation.
- It is impossible to entirely avoid conflicts of interest. They are natural. They are not illegal. But they must be managed **every single time**. The board must ensure it has drafted a strong conflict-of-interest policy with disclosure and recusal guidelines and that this policy is enforced without failure.
- Here are some sample conflict-of-interest policies:
  - The IRS has a sample policy for health care organizations http://www.irs.gov/pub/irs-utl/topice00.pdf
  - Office of Minnesota Attorney General www.ag.state.mn.us/pdf/charities/ConflictInterestPolicy.pdf
  - BoardSource guide http://www.boardsource.org/Bookstore.asp?Item=182

Board and Staff Financial/Fiduciary Responsibilities

- Fiduciary responsibility includes a constellation of concepts. It requires the board, often working in concert with the chief executive, to:
  - Plan & Budget: review and approve how the organization budgets, spends, and makes money
  - Understand Revenue & Expenditures: establish and follow monetary policies that balance short and long-term needs
  - Implement Internal Financial Controls: verify that the organization's financial systems and practices meet accepted standards
  - Consider Adequacy of Cash Reserves: ensure that the organization has adequate operational reserves for rainy days and to take advantage of unexpected opportunities.

Financial Management Cycle

Planning & Budgeting

For every activity to be undertaken, including all programs, fundraising, and general management, the plan should address the financial implications. In fact, a strategic plan that does not include an adequate financial component is guaranteed to fail. Therefore, the planning process should include . . .

Budgeting for Priorities:

Planning & Budgeting

The planning process should include:

- evaluating existing and potential financial resources
- examining internal and external environmental forces affecting the organization and its funding
- reviewing the cost and effectiveness of existing programs
- examining alternatives and their financial implications

Test Your Budgeting Literacy

Spending 72 percent of total expenses on program services and 28 percent on management and fundraising is:

A. Too much on programs.

B. Too little on management and fundraising.

C. Just the right amount on programs.

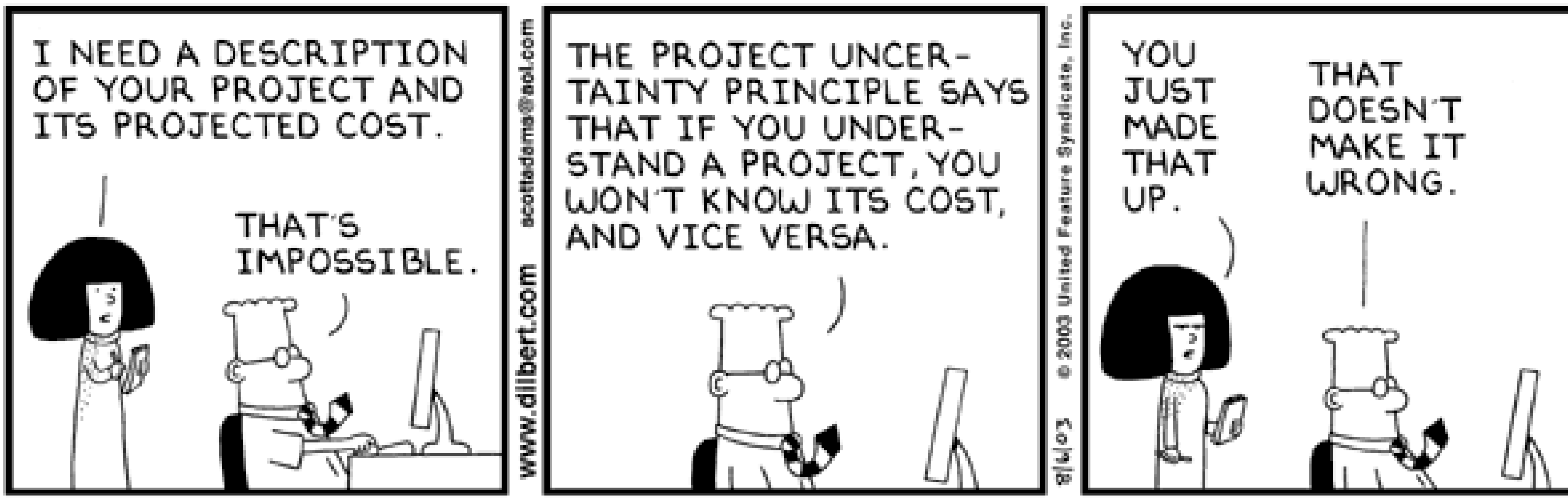
D. All of the above.

E. None of the above.

How do you build a budget?

- Start with a good hard look at the prior year.
  - Were last year's revenues similar to what one would expect this year. If not why not? Factor in differences for expected new revenues from grants, programs, etc. Likewise reduce revenue sources that will not repeat from last year, like program funds for a completed program, or one time grants, or extraordinarily large donations.
- Do the same for expenses.
  - Will there be staff changes, specific program needs, capital expenditures, technology needs, etc.
  - While this sounds obvious, it's amazing how few organizations really do this well.

Program/Projects – Budgeting Costs



Budgeting beyond the numbers

- Beyond analyzing dollars and cents, the budgeting process also gives the organization to step back and look at the BIG picture. Planners should be asking themselves questions like:
  - Are we spending more on salaries than programs? If so, can we justify it?
  - Is fundraising spending producing desired results? If not, why? Should we be spending less or more there?
  - Is our overall mission reflected in our budget? How so, how, if not why not?

Answer to Budgeting Literacy Test

- Spending 72 percent of total expenses on program services and 28 percent on management and fundraising is:
- A. Too much on programs.
- B. Too little on management and fundraising.
- C. Just the right amount on programs.
- D. All of the above.
- E. None of the above.

Understanding Financial Reports

- All board members – not just those who have special financial expertise – must understand the financial condition of the organization well enough to "serve and protect" the organization.
- Financial understanding is a prerequisite of wise decision making on all types of nonprofit matters.

The Physics of Accounting, huh?

- In the world of science and physics there is a principle with which you may be familiar:
  - For every action there is an equal and opposite reaction.
- The same principal is true in what we call double entry accounting.
  - Debits must equal credits (aka double entry accounting)
  - Assets = Liabilities + Net Assets (aka Equity)
  - It is the ultimate zero sum game.

Understanding Financial Reports

- There is no single standard for all nonprofits regarding which financial reports the board should receive.
- Best Practices suggest the following types of reports should utilized on a regular basis:
  - Statement of Activities – aka- Profit and Loss Statement, aka Statement of Revenue and Expense (comparative showing prior year);
  - Statement of Financial Position – aka - Balance Sheet (comparative showing prior year);
  - Statement of Cash Flows (ties out cash to bank reconciliations and prior year)
  - Budget versus Actual with explanations for major variances
  - P & L by class, P & L by job, etc.
  - Bank Reconciliations should be performed monthly and should be available for the asking.
  - Third-party preparation of all of these -- especially Bank Recs helps boards enforce internal controls.

The Importance of Accurate Information

Financial Literacy Test!

- Improper financial management practices always include:
  - A. Operating with a deficit budget.
  - B. Failing to produce reports with all transactions.
  - C. Not distributing financial information to the board until three months after the end of the period.
  - D. All of the above.
  - E. Both B and C.
  - F. Both A and B.

- The correct answers should be apparent by the end of this program.

The Prime Directive/Primary Objective

- The primary objective of financial reporting is to communicate understandable information that is useful in making business decisions. To achieve this objective the information must be:
  - Accurate
  - Timely
  - In the proper format

Statement of Activities

- A.k.a. Profit and Loss Statement;
- A.k.a. Revenue & Expense Statement

Statement of Activities (P & L)

4:30 PM
08/09/11
Cash Basis

[redacted]

Profit & Loss Prev Year Comparative
July 2011

	Jul 11	Jul 10	$ Change
Ordinary Income/Expense			
Income			
Donations	12.00	1,437.77	-1,425.77
Interest & Dividend Income	56.70	1,475.02	-1,418.32
[redacted] Fees			
Project Fees	0.00	3,100.00	-3,100.00
Total [redacted] Fees	0.00	3,100.00	-3,100.00
Total Income	68.70	6,012.79	-5,944.09
Expense			
Computer Expense	0.00	19.00	-19.00
Contractual	7,750.00	0.00	7,750.00
Insurance			
Auto	0.00	99.87	-99.87
Total Insurance	0.00	99.87	-99.87
Investment Mgmt & Bank Fees	0.00	1,395.48	-1,395.48
Office Supplies	7.81	118.68	-110.87
Payroll Expenses			
Health Insurance	0.00	758.93	-758.93
Taxes			
Colorado Unemployment	0.00	20.97	-20.97
FICA Expense	0.00	605.25	-605.25
Total Taxes	0.00	626.22	-626.22
Wages	0.00	7,911.81	-7,911.81
Payroll Expenses - Other	0.00	6.15	-6.15
Total Payroll Expenses	0.00	9,303.11	-9,303.11
Postage & Delivery	0.00	265.50	-265.50
Printing & Reproduction	149.98	0.00	149.98
Professional Fees	8,580.00	1,015.25	7,564.75
Rent	296.24	341.24	-45.00
Storage Expense	90.00	0.00	90.00
Taxes - w/h on investment accts	0.00	4.05	-4.05
Telephone	214.55	0.00	214.55
Travel, Meals & Entertainment	34.16	0.00	34.16
Utilities	0.00	295.84	-295.84
Vehicle Expense	0.00	180.37	-180.37
Total Expense	17,122.74	13,038.39	4,084.35
Net Ordinary Income	-17,054.04	-7,025.60	-10,028.44

Revenue Dynamics

- Where does the organization's money come from?
- Do we run at a "gain" or "loss"?
- How does the Board ensure appropriate actions with respect to revenue?
- Is revenue at risk?
- Compared to last year, are we better or worse off?
- Do the revenue streams appear reliable/consistent?
- What amount of cash reserves will protect the organization if revenue streams are insufficient?

The Fountain of Nonprofit Funding

"By God, gentlemen, I believe we've found it—the Fountain of Funding!"

Revenue - ?'s the Board Should Ask

1. Do we need to develop more diverse sources of net revenue from programs, services, publications, membership, and the like, assuming they are appropriate to our mission?

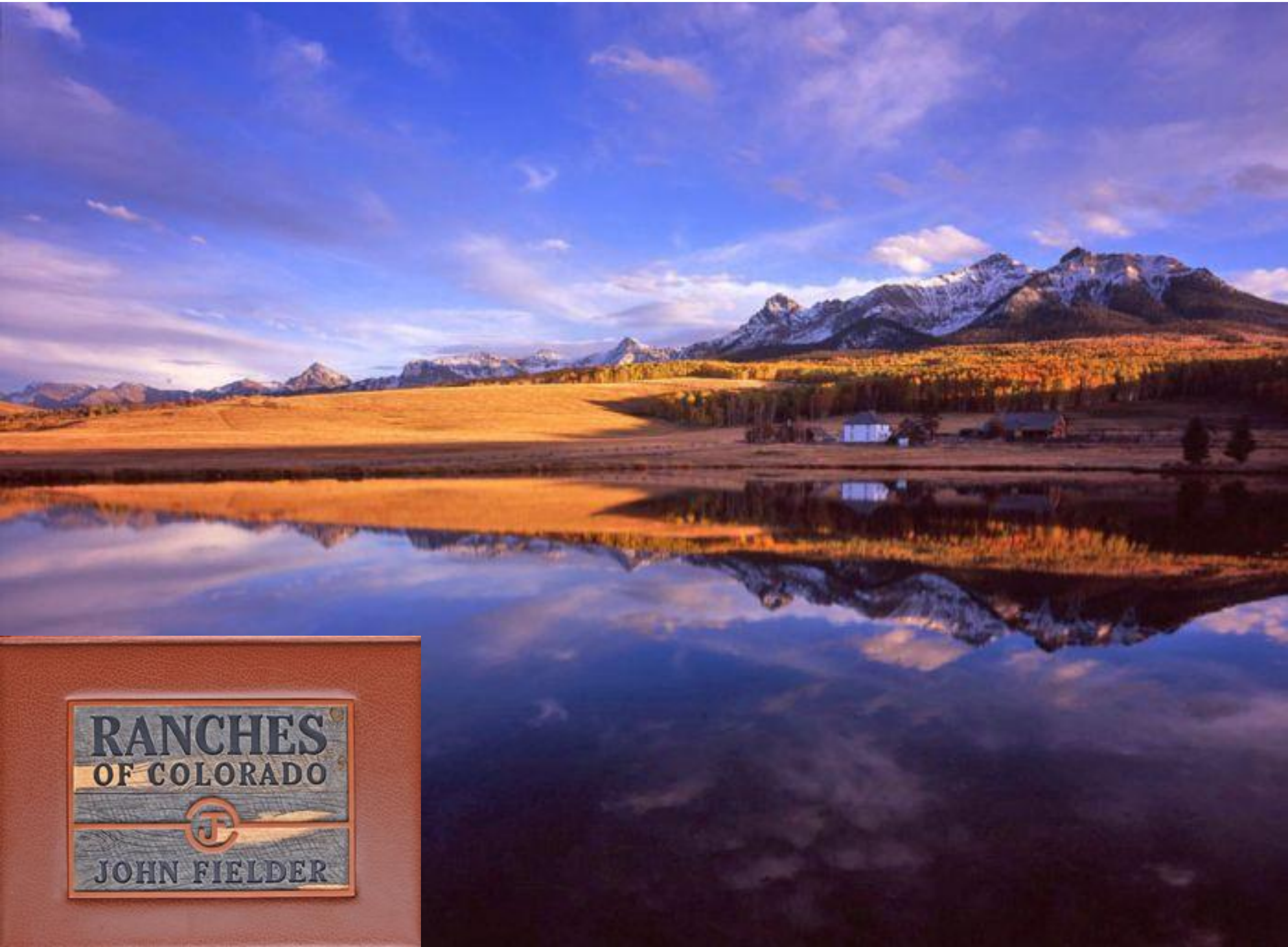
2. What is our contingency plan in the event a major source of revenue or contributor suddenly disappeared?

3. What is the optimal percentage of earned income, private contributions, membership dues, or other sources of income that we wish to achieve in order to build a diverse and stable revenue stream?

4. What are our expectations for board members' involvement in fundraising? Do we clearly articulate this expectation?

5. Do board members help to identify and cultivate possible funders and major donors?

6. Should the board set an annual goal of 100 percent participation for board member giving to motivate personal philanthropy?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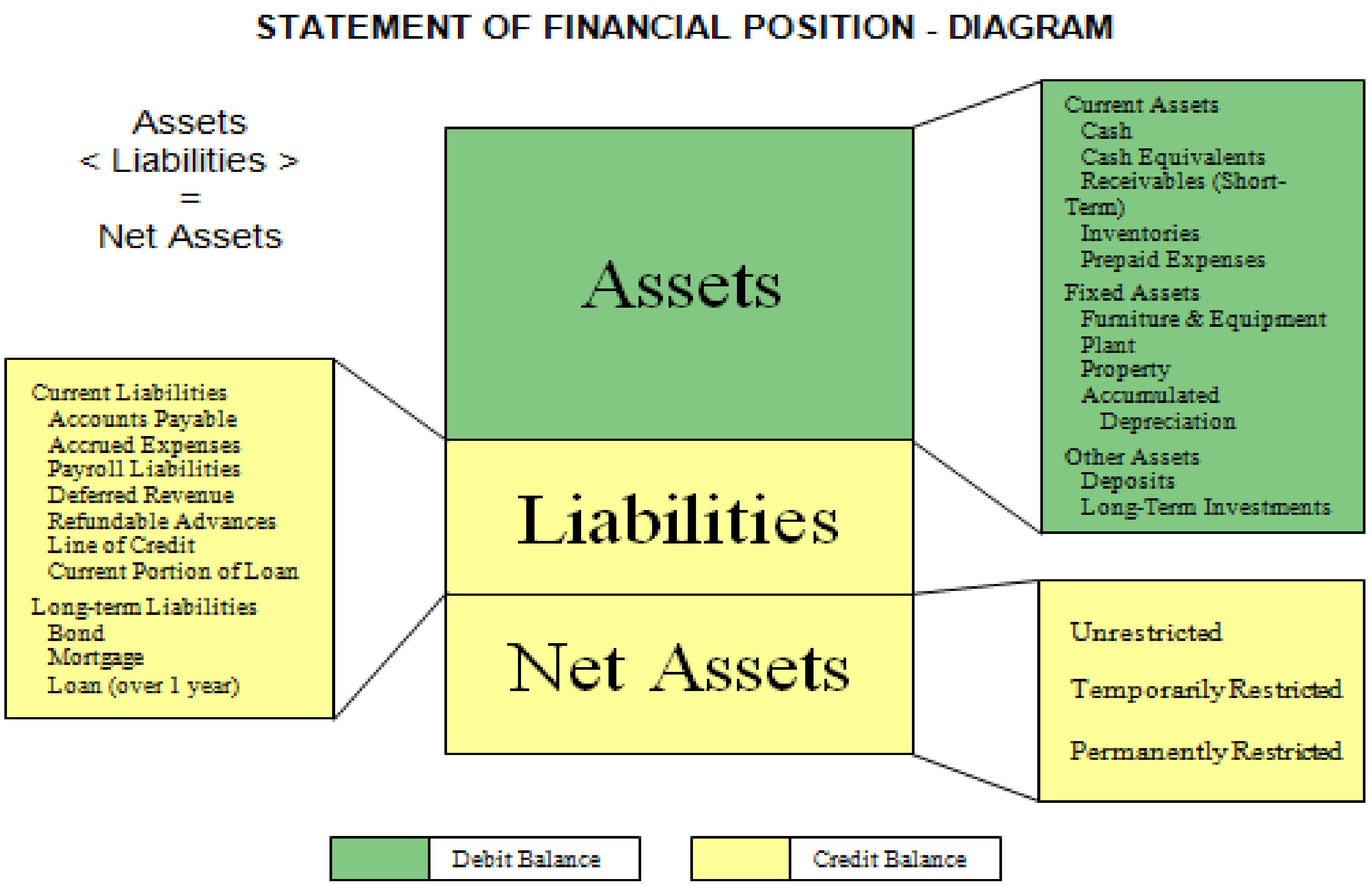
Expense Dynamics

- Where are we spending our money?
- How has that changed over the last year?
- Are there particular expenses that seem extraordinary?
  - Does management explain these extraordinary items?
- Are there areas where expenses need to be cut?
- Are there areas where expenses need to be increased? -- see budgeting module of this presentation for more.

Cost Benefit Analysis

Statement of Financial Position – a.k.a. Balance Sheet



Balance Sheet Cheat Sheet

Please refer to the eponymous supplementary handout.

All Services to All People of [redacted] Inc.
Balance Sheet
December 31, 2009

Assets		Unrestricted	Temporarily Restricted	Total 2009
Cash in checking	$	65,570		65,570
Savings		57,800	40,000	97,800
Investments		26,000		26,000
Accounts Receivable		51,130		51,130
Gov't Grants & Contracts Receivable		39,000		39,000
Grants Receivable		—	40,000	40,000
Pledges Receivable		17,000		17,000
Subtotal Current Assets		256,500	80,000	336,500
Prepaid Expense		2,200		2,200
Long Term Pledges Receivable		10,000		10,000
Land		20,000		20,000
Building		609,386		609,386
Furniture & Equipment		177,300		177,300
Computer equipment		39,110		39,110
Accumulated Depreciation		(181,590)		(181,590)
Subtotal Long Term Assets		676,406	—	676,406
Total assets	$	932,906	80,000	1,012,906
Liabilities				
Accounts payable	$	49,055		49,055
Payroll Taxes Payable		6,024		6,024
Deferred revenue		5,500		5,500
Accrued Vacation		26,720		26,720
Note (loan) Payable		80,000		80,000
Current Portion Long Term Debt		29,904		29,904
Subtotal Current Liabilities		197,203	—	197,203
Mortgage Loan Payable		482,662		482,662
Less: Current Portion		(29,904)		(29,904)
Subtotal Long Term Liabilities		452,758	—	452,758
Total liabilities		649,961	—	649,961
Net Assets				
Net Assets beginning of year		255,721	20,000	275,721
Change in Net Assets		27,224	60,000	87,224
Net Assets		282,945	80,000	362,945
Total liabilities & net assets	$	932,906	80,000	1,012,906

Days Cash on Hand:
Total Available Cash / (Annua
Cash Disbursements / 365)
ASAPM: ($65,570 + $57,80C
+ $26,000) / ($878,325* / 365
= *62 Days Cash*

Current Ratio:
Current Assets /
Current Liabilities
ASAPM: $256,500 /
$197,203 = *1.3*

Working Capital Ratio:
(Unrestricted Net Assets – Net Fixed Assets) / (Annual Cash Disbursements / 365)
ASAPM: ($282,945 - ($20,000 + 609,386 + 177,300 + 39,110 - 181,590 - 482,662)) / ($878,325* / 365)
= *42 Days Working Capital*

Debt to Equity Ratio:
Total Liabilities / Total Unrestricted Net Assets
ASAPM: $649,961 / $282,945 = *2.3*

Change in Unrestricted Net Assets:
Also called net income, profit/loss, surplus/deficit
ASAPM: *$27,224 surplus*

Temporarily Restricted Assets:
Do we have assets obligated for use in a future period?

*Annual Cash Disbursements ($878,325) can be found using information from the Income Statement

Statement of Cash Flows

While standard nonprofit financial reports – the Budget, Income Statement and Balance Sheet – provide important management information, these statements alone do not tell whether there is enough cash on hand to pay for an unexpected heating repair, to take on a new program opportunity, or even to cover payroll next month. For this, effective cash flow management is essential.

Statement of Cash Flows

Statement of Cash Flows
Fiscal Year July 2010 through June 2011

	July 10 - June 11	
Ordinary Income/Expense		
Income		
43300 · Direct Public Grants	12,510	
43400 · Direct Public Support	5,591	
44400 · Government Contracts	272,274	
44500 · Government Grants	46,815	
45000 · Investment Income	400	
46400 · Other Types of Income	5,000	
Total Income	342,590	
Expense		
60300 · Awards and Grants	15,000	
60900 · Non-Budgeted Event Expenses	65	
62800 · Facilities and Equipment	59	
65000 · Operating Expenses	101,544	
66000 · Personnel Expenses	210,738	
67000 · Contract services	11,053	
Total Expense	338,459	
Net Ordinary Income	4,131	
Net Income	**4,131**	**1**
Adjustment to Net Income		
Investing Activities		
15000 · Furniture and Equipment:15020 · Equipment	(4,578)	**2**
16400 · Vehicles	(20,100)	**3**
Net cash provided by investing activities	(24,678)	
Liabilities at beginning of period	8,818	
Liabilities at end of period	4,366	
Net change in liabilities	4,451	**4**
Cash at beginning of period	120,972	
Cash at end of period	95,973	**5**

Statement of Cash Flows (cont)

This report shows cash activity for the entire fiscal year (7/1/2010 - 6/30/2011).

1. This figure represents the net income for the reporting period (7/1/2010 - 6/30/2011) from all activities within [redacted]

2. This figure represents new computer & equipment purchases
   - 9/29/10 - $1038 - computer
   - 10/18/10 - $1246 - generator
   - 4/22/11 - $2293 - computer

3. This figure represents the purchase of a new vehicle ($20,100 on 5/18/11).

4. This figure represents the net change during the reporting period in liabiitlies which include accounts payable, payroll liabilties, and the citibank credit card.

5. This figure represents sum of all cash assets as of 6/30/2011. The difference between Cash at the beginning of the year, $120,972 and Cash at the end of the year $95,973 is $24,999. The explanation for this difference is that $24,678 came from investing activities. This leaves $321 for the actual decrease in cash for the entire fiscal year.

Implementing Internal Financial Controls

Internal controls are basically accounting systems and best practices that are designed to build in checks and balances to prevent theft, fraud, or plain old incompetency. They are systems to help those relying on accounting information to know that it was obtained in a responsible and professional manner.

Internal Controls

- Because nonprofits hold their assets in a position of trust, accounting controls are vital to ensuring that trust.
- Accounting controls are the methods and procedures a company uses to ensure the accuracy and validity of their financial statements. They do not ensure law and regulatory compliance, but they are designed to help your company comply. The internal controls protect you from abuse and fraud, and make sure all information is received in an accurate and timely manner. Most common controls include those in the following slides.

Cash Controls

- Control of cash is one of the most important aspects of an internal accounting control system. Allow only a few trusted employees to make cash deposits, and require these employees to make deposits as soon and as frequently as possible. Keep records of all deposits--both internally generated records and bank deposit slips--and compare them to your bank statement each month.
- Hold cash in a secure location when it is on hand. Keep prepared deposits in a locked safe until the deposits are made, and secure cash registers with individual authentication so that you know who accessed which register at which times. Require approval from a select few employees for all cash disbursements, including payroll, accounts payable and refunds to customers.

Separation of Duties – General Controls

- Assign separate cash handling and accounting duties among various staff members, and even various departments, if possible.
- Involve as many different responsible people as possible– but limit each person to only one part of the process.
- Use only pre-numbered checks or an electronic bill pay system with security.
- Use accounting software to print checks – period. No handwritten checks.
- Keep all unused checks in a *locked* cabinet or closet and limit the number of people with access to the checks.
- Limit check signers to trustees and management and pay only from invoices. Do not process statements from vendors.
- NEVER pay a vendor without a valid invoice or contract.
- Mark invoices "paid" to avoid duplicate payments.
- Follow the same procedures for <u>wire transfers</u> as for checks.
- Someone other than the person writing the check should review the documentation and sign the check.
- Require two signatures for amounts above a set threshold. Someone other than the person writing and mailing the checks should receive the unopened bank statement and review the contents before it is reconciled.

Documentation & Security

- **Documentation**
  - Store copies of all cash register tapes, receipts, invoices, cancelled checks and any other documentation that records cash transactions. Use these documents as a paper trail to investigate cash losses and discrepancies between internal records and bank statements.
- **Information Security**
  - Implement physical and electronic security measures to ensure the safety of financial information. Store sensitive documents in secure areas, such as locked filing cabinets that are accessible only to select employees. Protect financial data stored on your company network by hiring a network administration team or contracting with a third-party network security company. Anyone with physical or electronic access to financial data can alter, replace, steal or destroy evidence of theft or other financial mismanagement.

Payroll Controls

- Payroll and related activities are fraught with dangers that can cause an organization to lose its 501(c) 3 status.
- Internal controls should be strict so as not to let this happen. For example:
  - Require a quarterly payroll report from staff or your accountants.
  - Require taxes be paid via EFT by an independent third party accountant or by senior staff
  - Insist on seeing copies of state and federal payroll tax returns and the checks paying those taxes at least quarterly.
  - Require the chief executive to check with the Internal Revenue Service periodically to verify all taxes owed by the organization are paid currently and in full.

CPA Audits, Reviews and Compilation Reports

- Obtain third-party CPA Audits, Review, or Compilation Report from time to time, to get an outsider's look into your financial control systems. Only work with CPA's who have no material connection to your company or employees.
- Annual audits may be required for some nonprofits by their funding sources. If not, consider if a less expensive Review or Compilation Report will suffice most years with a full-blown audit periodically.

Donor Restricted Funds

- FASB116 focuses on the concept of restricted revenue. Under FASB116 all contribution revenue must be classified as either: unrestricted, temporarily restricted or permanently restricted. The existence of restrictions is determined by "donor-imposed" restrictions, internal restrictions (such as Board designated funds) are considered unrestricted.
- Permanently restricted support includes all contributions, which are not expendable by the NFP.
  - The most prevalent example of this is an endowment fund. Typically the organization is not able to use the principal but is able to use the investment earnings.
  - The earnings on permanently restricted funds may be further restricted for use for a given purpose, thus resulting in temporarily restricted revenue.
- Temporarily restricted consists of contributions with donor-imposed restrictions that limit the use of the funds as follows:
  - Purpose-restricted: These are funds that are donor-restricted for use on a particular project.
  - Time-restricted: These are funds that are donor-restricted for use in a certain time period. An example of this is a unconditional pledge that stipulates the funds will be donated to the NFP over a 5-year period. The amount to be received in future years is considered time-restricted.
- Unrestricted support consists of all other revenue

The Public Support Test

This public support test was designed for charities which derive a significant proportion of their revenues from donations from the public, including foundation grants, and governmental grants. The test has two variations. If an organization can satisfy either of the two variations of this support test, it will qualify as a public charity under Sections 170(b)(1)(A)(vi) and 509(a)(1).

Public Support Test (cont).

- The first variation is known as the one-third test. A charity can satisfy this test if public support is one-third or more of the total support figure. Nothing more is needed if this mathematical fraction is attained.

Public Support Test - Denominator

- To determine the charity's support base, which is the denominator of the fraction, we add the following revenue items for the measuring period:
  - Gifts, grants, contributions, and membership fees received.
  - Gross investment income (*e.g., interest, dividends, rents, royalties, but not* gains from sale of capital assets).
  - Taxable income from unrelated business activities, less the amount of any tax imposed on such income.
  - Benefits from tax revenues received by the charity, and any services or facilities furnished by the government to the charity without charge, other than those generally provided to the public without charge.
  - Plus all other revenues except for . . .

Public Support Test - Numerator

- Government grants (not fee-for-service contracts) are included in full.
- Gifts, grants, contributions, and membership fees from other public charities qualified under Section 170(b)(1)(A)(vi) are included in full.
- Gifts, grants, contributions, and membership fees from all other sources are counted in full, so long as the amount from each source does not exceed 2% of total support – that is, 2% of the denominator.
- Larger gifts, grants, contributions, and membership fees may be counted up to 2% of the total support figure, but no more. Any amounts above that figure are not counted as public support. Note: When applying the 2% limit, amounts from certain related family members, and from businesses and their major owners, are combined and treated as coming from one source.
- Benefits from tax revenues received by the charity, and any services or facilities furnished by the government to the charity without charge, other than those generally provided to the public without charge, are counted in full.

Public Support Test - Results

- **The One-Third Test.** If the public support figure is one-third or more of the total support figure, when the two are combined in a fraction, the organization will qualify automatically as a public charity.
- **The 10% Facts and Circumstances Test.** If the public support fraction is less than one-third but more than one-tenth, the organization turns to the alternate public support test for donor-supported charities. The organization must provide evidence to the IRS that it meets the following two requirements:
  - (1) Attraction of Public Support. The organization must be so organized and operated as to attract new and additional public or governmental support on a continuous basis.
  - (2) Multi-Factor Analysis. The organization must show that it is in the nature of a publicly supported organization, taking into account *five factors.*

How does that make you feel?

Whew!

Cash Reserves

- Having sufficient liquidity (cash and cash reserves) is critical to any nonprofit organization.
- Board members should elect to set aside cash reserves as temporarily restricted funds to be used when expenses exceed revenues or when unexpected expenses arise. Alternatively Reserves can be unrestricted funds, but for the same purposes.
- Designated cash reserves result from efficiencies generating from operations including
  - Efficient use of resources
  - Increased sources of revenue

Financial Literacy Exam Answers

- Improper financial management practices always include:
  - A. Operating with a deficit budget.
  - B. Failing to produce reports with all transactions.
  - C. Not distributing financial information to the board until three months after the end of the period.
  - D. All of the above.
  - E. Both B and C.
  - F. Both A and B
  - G. Both A and C

- Answer . . .

Other Important Policies

Some of the Principles and Practices in the scope of our discussion are not strictly "financial" in nature, but are nonetheless vitally important to the nonprofit organization.

Whistleblower Policy

- When Congress enacted the *Sarbanes-Oxley Act*, following the scandalous behavior of corporate America, it included two provisions that also apply to nonprofits. Federal law prohibits all corporations, including nonprofits, from retaliating against employees who "blow the whistle" on their employer's accounting practices. Additionally, over 45 different states have enacted laws to protect whistleblowers from retaliation at the workplace. Consequently, having a good internal process for addressing complaints including a whistleblower protection/anti-retaliation policy can help your organization protect itself from the risk of violating state and federal laws that afford protections to whistleblowers, *and* can help ensure that if there is a problem it will be investigated and fixed.

Credit Card Use

- **Credit Card Use**
  Policies regarding company credit cards should minimally cover:
  - Who can obtain a credit card? What is the maximum credit limit?
  - What procedures and approvals should be in place to control spending and to provide timely and accurate reporting of expenses as they occur?
  - What is the payment policy (i.e., pay in full each month)? What supporting documentation is required for credit card charges?

Expense & Credit Card Reimbursement

- Create a standardized expense reimbursement request form with instructions for completion. Excel can be used for the form so totals will be automatically calculated once the form is completed.
- Require appropriate documentation for all expense reimbursement requests.
- Require the submitter of the expense reimbursement request to sign the request. Require an approval for operational staff requests by their immediate supervisors and approval for non-staff requests by operational staff.
- Let employees know that expenses will be audited. This could produce better self-monitoring of expense reports submitted by employees. If these audit costs need to be reduced (maybe there are many reports with a small average dollar amount), randomly audit the reports. Those employees with errors on their reports should have all future reports audited as long as errors continue.
- Let employees know which expenses are allowable.

Compliance

- Major forms of compliance for nonprofits are:
  - IRS Form 990 (federal tax return)
  - Payroll Tax Returns
    - Federal
    - State
  - State Reporting – online annual business registration
  - State Reporting – online charitable solicitation registration

Investment Policies

- Investment policies refer to policies the board has defined and/or approved guiding how the various organizational funds should be invested.
- Your investment policy should clarify the following points:
  - investment objectives
  - specific funds affected
  - asset allocation guidelines including diversification
  - spending rules
  - investment restrictions
  - performance measurement
  - reporting requirements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Nonprofit CFO

- **What is the Role of the CFO?**
- The role carried out by the CFO is not merely a discrete strategic activity that articulates and implements the organization's financial planning and strategy. To be successful, the role must be integrated into all organizational processes including budget, audit, financial and program planning, and programmatic strategic planning, and must understand how the whole organization works. The CFO understands the "holistic" nature of the finance department and can define and implement the strategic value of every role – even those seemingly limited to transactional responsibilities.
- Based on the resources of the organization, outsourcing the CFO function on a part-time or full-time basis can be an effective option to establish this capacity. An outsourced CFO can play an invaluable role by providing the following services:
  - Working with the current finance, program, and development staff to support and expand the strategic capacity of the financial function. This includes identification of the financial goals of the organization, options to achieve them, decision making and the ramifications of those decisions in the short and long term, and an implementation plan to make sure that business planning and strategies have the desired impact. An outside partner could also play the role of "Shadow CFO," mentor, or coach.
  - Managing both up and down to drive a process of options, forums, decision making and effective implementation. Interaction with program staff and a seat at the senior staff meetings are essential for this to be successful.

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