

# MAKING SENSE OF NONPROFIT FINANCIAL MANAGEMENT

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# MAKING SENSE OF NONPROFIT FINANCIAL MANAGEMENT

## **An Introduction to Nonprofit Financial Management**

1. Six Core areas to focus on
2. The three levels of a finance function
3. Relationship to funding
4. 8 principles of “financial leadership”

## **Test Your Financial Knowledge!**

1. 6 true or false questions about nonprofit financial management

# CORE AREAS OF NONPROFIT FINANCE

Revenue

Expenses

Profitability and  
Savings

Health of the  
Balance Sheet

Liquidity

Financial Planning

# FINANCE FUNCTIONS IN ORGANIZATIONS

## Transactional

- clerical tasks that support the accounting function, such as copying, filing, and making bank deposits
- attention to detail , exposure to basic accounting principles.

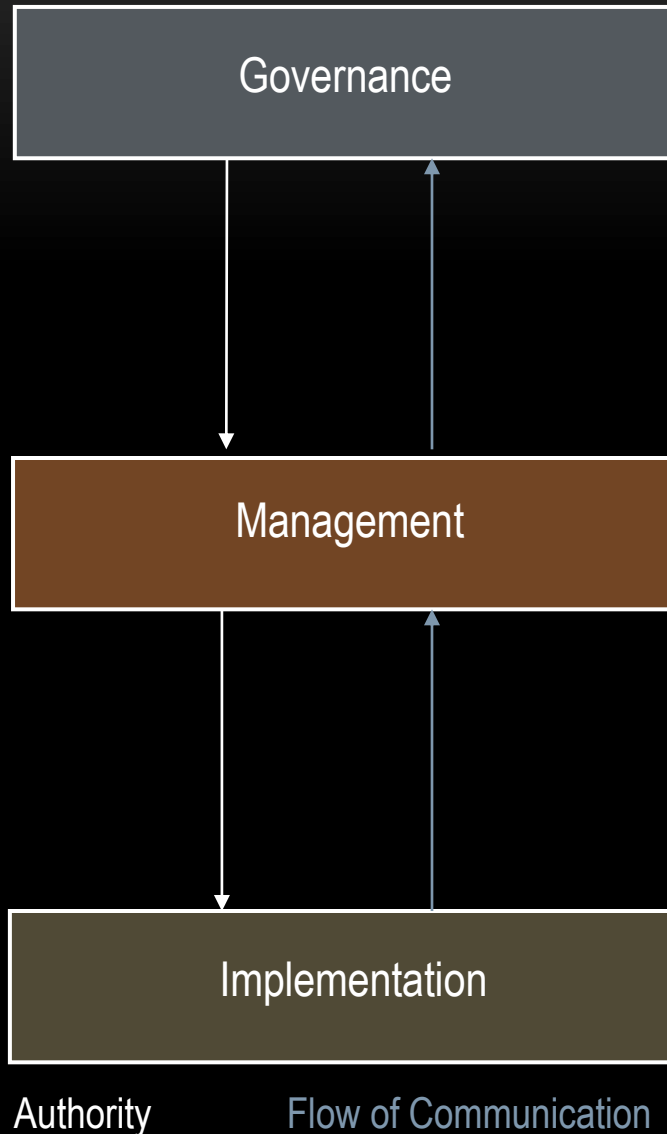
## Operational

- range of accounting functions, such as paying bills and producing monthly financial statements
- nonprofit accounting knowledge, including managing grants and contracts.

## Strategic

- systems development, financial analysis, planning, and communication about the organization's financial position
- Chief Financial Officer (CFO) level knowledge and skills

# LEVELS OF AUTHORITY



## Strategic

- Approving and monitoring policy
- Setting goals/ strategic direction
- Committee leadership
- Analysis and reporting of financial status
- Overseeing financial operations

## Operational

- Developing and monitoring budgets/ financial plans
- Managing cash flow
- Monitoring controls/ overseeing transactions
- Managing grants and contracts
- Bookkeeping/ supervising booking

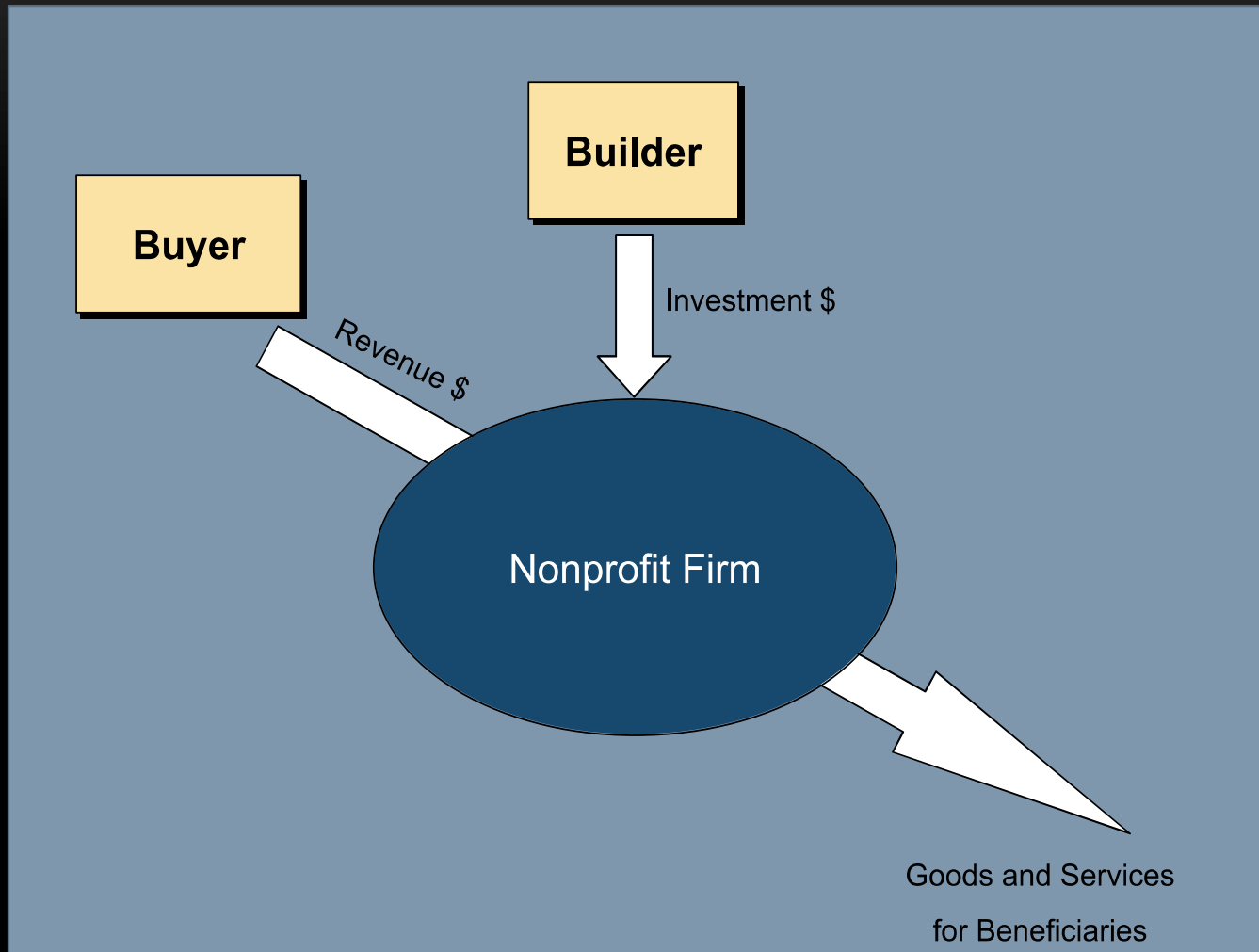
## Transactional

- Clerical tasks that support the accounting function, such as copying, filing, and making bank deposits

# CAPITAL VS REVENUE

	REVENUE	CAPITAL
Sources	<p>Contributions (donations and grants)</p> <p>Earned-income (sales/social enterprise)</p> <p>Investment income</p>	<p>Surpluses from unrestricted contributions</p> <p>Surpluses from earned-income</p> <p>Loans</p> <p>Equity financing/ Venture philanthropy</p> <p>Capacity building grants</p>
Raised to	<p>Pay for core programs and activities</p>	<p><b>Financial capital</b> can: contribute to revenue if invested, emergency revenue, replenishment, or growth.</p> <p><b>Real capital</b> (capital goods) are used in the production of goods, services or running program</p>
Associated Statement	<p>Statement of Earnings (Income Statement)</p>	<p>Statement of Financial Position (Balance Sheet)</p>
Timing	<p>Perpetual</p>	<p>Episodic</p>

# RELATIONSHIP TO FUNDING



# FINANCIAL LEADERSHIP

## Financial Management

- collecting of financial data, production of reports, and solution of near-term financial issues

## Financial Leadership

- guiding a non-profit organization to sustainability

## *What's the Difference?*

Barr, Kate, and Jeanne Bell, "An Executive Director's Guide to Financial Leadership," *The Nonprofit Quarterly*, Fall/Winter 2003, 8-15. Accessed March 31, 2014, <https://nonprofitquarterly.org/management/19126-an-executive-directors-guide-to-fi-nancial-leadership.html>



# 8 PRINCIPLES OF FINANCIAL LEADERSHIP

1. Activate your annual budget
2. Income Diversification...or Not
3. Make Cash Flow Your Priority
4. Don't Wish for Reserves – Plan Them
5. Rethink Restricted Funding
6. Staff Your Finance Function
7. Help Your Board Help You
8. Manage the Right Risks

Barr, Kate, and Jeanne Bell, "An Executive Director's Guide to Financial Leadership," *The Nonprofit Quarterly*, Fall/Winter 2003, 8-15.  
Accessed March 31, 2014, <https://nonprofitquarterly.org/management/19126-an-executive-directors-guide-to-fi-nancial-leadership.html>

# TEST YOUR FINANCIAL KNOWLEDGE

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6 True or False Questions on Nonprofit Financial Management

1. If you are a cheque signer, your bank can transfer funds from your Personal account to the Nonprofit account without informing you.

TRUE

or

FALSE

?

## TRUE

- Yes, if you have a personal account in the same financial institution as the Nonprofit and are a cheque signer then you have likely unknowingly bank is authorized the co-mingling of funds
- Story –

2. All bookkeepers/accountants have knowledge about nonprofit accounting

TRUE

or

FALSE

?

# FALSE

- No, nonprofit accounting can be quite different especially with respect to fund commitments.
- If your organization generates funds designated for specific programs than “restricted funds” may be a real issue.

3. Revenue diversification is the best strategy?

TRUE

or

FALSE

?

# MAYBE

- What is diversification?
- How does it work?



# REVENUE RISK – QUICK TEST

Revenue Source	%	Contracted (Yes or No)	Risk Factor (30% or 70%)	Commitments
Government				
Earned				
Private Grants				
Donations				
Other				
	100			

4. Overhead or general and administration expenses should not exceed 20%.

TRUE

or

FALSE

?

# MAYBE

- The “overhead norm” (20%) is real, well documented in several studies
  - It is a commonly held belief in public and among many funders that low overhead is linked to efficiency and effectiveness
  - Has roots in the accountability movement (late 1980’s)
  - May have roots linked to charity rules (such as the “80/20” rule)
- Also called the “overhead myth”, as many studies have debunked its link to effectiveness
- Overhead is one of three main expenditure areas: overhead, fundraising and program

5. While internal controls are important very small nonprofits (1-5 people) can and must trust their staff to protect the assets of the organization?

TRUE

or

FALSE

?

FALSE

- Absolutely no
- What are internal controls?
- Story –

# INTERNAL CONTROL

- The related methods and measures adopted within an organization to help it achieve:
  - Reliable financial reporting
  - Effective and efficient operations
  - Compliance with relevant laws and regulations

# INTERNAL CONTROL (CONTINUED)

- Good internal control systems have five primary components:
  - Control environment
  - Risk assessment
  - Control activities
  - Information and communication
  - Monitoring

# CONTROL ACTIVITIES INCLUDE:

- Authorization of transactions and activities
- Segregation of duties
- Documentation
- Physical controls
- Independent checks of performance
- Human resource controls



6. All nonprofit must file a federal tax return?

TRUE

or

FALSE

?

# TRUE

- **ALL** non-profits must file a T2 form (corporate tax return)
- Your non-profit **MAY** have to also file a T1044 form (Non-Profit Information Return) if the following is true:
  - The NPO had investment revenue over \$10,000 in the year
  - AND/OR the NPO has \$200,000 in assets
- **All Registered Charities** must file a T3010
- Your non-profit **MAY** have to register with the provincial Charitable Fund-raising Act if you have raised, or intend to raise \$25,000 in your financial year.

# HITTING THE SWEET SPOT



- Funding – many sessions today about funding ideas
- Financial management – importance of timely financial statements, budgets and benchmarking
- Governance – the overall relationship management between the organization and its stakeholders

# ALIGNMENT

