

# Successful Financial Management for Nonprofits

# ASPCA Presenters



**Linda Rosenblatt** ([linda.rosenblatt@aspca.org](mailto:linda.rosenblatt@aspca.org))

Vice President, Financial Planning and Analysis



**Andrew Noble** ([andrew.noble@aspca.org](mailto:andrew.noble@aspca.org))

Senior Internal Auditor



**Ned Smith** ([ned.smith@aspca.org](mailto:ned.smith@aspca.org))

Director of Revenue Accounting



**Donna-Mari Fieldsa, CPA**

([donna-mari.fieldsa-fowler@aspca.org](mailto:donna-mari.fieldsa-fowler@aspca.org))

Director of Financial, Managerial, and  
Compliance Reporting

# AGENDA

## Budget Development and Reporting

Linda Rosenblatt

## Petty Cash

Andrew Noble

## Revenue Recognition

Ned Smith

## The Form 990

Donna-Mari Fieldsa, CPA

# What is a budget?

- A budget is a plan specifying how resources (e.g. time and money) will be allocated or spent during a particular period (e.g. fiscal year).
- A budget is a tool for making resource allocation decisions to implement the strategic plan goals.
- A comprehensive list of all planned expenses and revenues.

# What is a budget?

The most significant word in this definition is the word  
**“PLANNED”**

This reinforces the notion that the purpose of the budget is to:

- Assist the organization in planning future activities by forecasting the expenses associated with various efforts, and,
- Anticipate the amount of income that will be generated, as accurately as possible based on available information.



# Why Budget?

Every nonprofit organization has a crucial mission and an important purpose in the community. However, it may never be able to achieve its objectives without a well-defined action plan, including timelines for implementation and a budget.

Management and/or the Board of Directors must plan by setting organizational goals and determining priorities. These are usually outlined in a strategic plan. The organization must then determine the dollars needed in order to carry out those goals and priorities. This is the information reflected in the operating budget.

The budget is a tool we use to satisfy the strategic vision the leadership team seeks for the future.

# What is a Budget?

**A budget is much more than a column of numbers. It is:**

- ✓ A representation of an agreed upon strategy
- ✓ A financial roadmap for business operations
- ✓ A means to compel the organization to prioritize its activities to determine those that are most critical for fulfilling its mission

# Budget Preparation



- ✓ The budgeting process should be approached, not as a painful experience to be avoided, but rather as way for you and the organization's leadership, to proactively prepare and plan for the coming year to ensure that your mission will be met.
- ✓ A good budgeting process engages those who are responsible for adhering to the budget and implementing the organization's objectives in creating the budget. This includes the leadership team and senior staff.

# Budget Preparation

- ✓ Start the budget process as early as possible – it will always take longer than you think.
- ✓ Develop a budget calendar with timelines and key due dates. Make sure that all stakeholders involved in this collaborative process know the target dates and the implications if these dates are not met.
- ✓ Allow adequate time for review, feedback, iterations and revisions.
- ✓ Always keep good notes on facts and assumptions you make.
- ✓ Take time to meet with all of the stakeholders. They are the subject matter experts in their respective areas.

# The Budget Process



# The Budget Process

## **Budgeting is a process!**

- ✓ You take information or facts that you know to be true.
  - ✓ Make reasonable assumptions about the future.
  - ✓ Project what will be coming into the organization as income, and what will be flowing out as expenses.
- 
- Putting together a budget for the first time is a little more challenging because you most likely do not have access to any historical data.
  - The best you can do is create as reasonable a list as possible of expenses and then assess your best and worst case scenarios for generating revenues.

# The Budget Process

## Step One: Define and Evaluate Your Expenses

- ✓ Look at all of the operating costs, whether general or specific to a project or department.
- ✓ Take time to evaluate all expenses and determine which are most essential and central to your mission.
- ✓ Know what the priorities are and what makes the most sense to your organization.
- ✓ Determining what you should be spending your money on involves an organization-wide planning process.

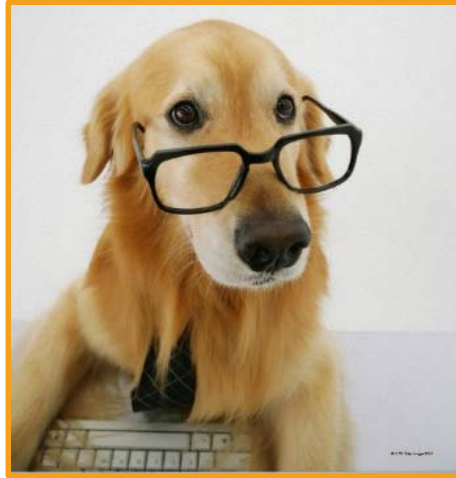
# The Budget Process

## Step Two: Estimate Your Revenue

Budgeting is a form of **risk management**, and the most reliable budgets yielding the best fiscal results are **conservative** and income based. This means:

- ✓ Base income targets on realistic expectations and only include reliable income in the budget.
- ✓ Never include an income projection that simply fills the gap to cover expenses.
- ✓ Analyze and understand your revenue concentrations. Lack of diversification of revenue sources can pose a serious risk.

# The Budget Process



Having an inclusive and thorough budget process, a conservative approach, documented policies, efficient budget tools, and well-formatted budget presentation that tells your mission story "by the numbers", positions your organization to have the best results.

# Monitoring and Controlling the Budget

Not so fast . . .



Once the budget is completed, another critical process begins . . .

# Monitoring and Controlling the Budget

- Most organizations make sure to review their budgets on a regular schedule - once a month is usually reasonable.
- Based on this review, you can determine which projects need to be updated, abandoned or left unchanged and which areas need to develop new ideas as you make progress towards your mission.
- Revise them to keep them accurate. If you get a grant you didn't anticipate, or if your spending estimates are off, these things should be factored into the budget.
- The role the budget plays is to serve as a guideline - but one that requires fine tuning and flexibility along the way.

# Putting it all together: Creating and working with a budget document

More than 70% of companies use Excel® as their principal interface for budgets and forecasting.



# Putting it all together: Creating and working with a budget document

The use of spreadsheets has many inherent problems.  
For example:

- Excel is fragile.
- Excel is not good for real-time data. You are always chasing after "the latest number".
- When you have several people updating an Excel spreadsheet, it becomes impossible to tell where changes have been made, who made them, and when.
- Users need to check totals or calculations manually.

# Putting it all together: Creating and working with a budget document



- Using a business or accounting software package may help organizations automate their budget process and keep track of expenses electronically.
- These software packages are usually an invaluable tool for managing financial information and reviewing information in a real-time format.

# In Conclusion . . .

Budgets should be a major part of every organization's plan!

- To act as a planning mechanism, or **road map**, to keep the organization focused on achieving its mission.
- **Involve all relevant stakeholders** including: the leadership staff, the Finance Committee, and the Board of Directors so that they will have a sense of ownership.
- **Your budget should be flexible.** The one thing that is constant is change, and sometimes budgets must be changed when expectations are not met.

# What is Petty Cash

Petty Cash, also known as “Cash on Hand”, is a small cash fund kept on an Organization’s premises for the payment of minor incidental expenses.

The size of a Petty Cash Fund may vary. Organizations should determine the amount of the fund so it only needs to be replenished every 1-3 months. A common amount for a Petty Cash Fund is \$500.



# Pros for Using Petty Cash Funds

- **Convenience** – Petty Cash Funds allows Organizations to reimburse for small items of incidental expenditures.
- **Emergencies** – Petty Cash Funds permits Organizations to make purchases for justifiable emergencies without having to create an invoice or wait for a check to be cut.
- **Batch Reporting** – Petty Cash Funds enables Organizations to accumulate numerous trivial expenses to be recorded at one time versus recording each individual transaction as they occur.

# Cons for Using Petty Cash Funds

- **Theft or Fraud** – Cash is highly desirable and tempting to fraudsters. Organizations that lack internal controls with Petty Cash increase the risk of theft or fraud by employees.
- **Misuse** – Organizations are put at risk of employees using the funds for business transactions that should have been invoiced or are large dollar amounts, which is not the purpose of the fund.
- **Accounting Errors** – The risk of accounting errors increase with Petty Cash Funds if receipts are not properly kept and reconciliations are not performed.

# Methods of storing Petty Cash and reducing the risk of theft

Petty Cash Funds **MUST** be stored in a locked location. It is recommended to use a cash box, a locked drawer or a locked cabinet. Vouchers and receipts should be stored in this location until replenishment.



Only the selected Petty Cash Custodian should have the key and access to the box, drawer or cabinet to reduce the risk of theft.

The Petty Cash Funds should always be locked at all times when not in use. If possible, have the locked cash box stored in a safe.



# Accounting Tips for Petty Cash Funds

- Petty Cash Funds must be kept separate and not commingled with any other funds. This includes separation from the cash drawer, change fund and any deposits.
- A separate general ledger asset account for the Petty Cash Fund within the accounting software/ledger must be established.
- Once the Petty Cash Fund account has been created, the only accounting adjustments to be recorded with this account are to be authorized increases, decreases or to close out the Fund. (Note that if decreasing or closing a fund, the physical cash must be returned to the original cash account.)
- **Petty Cash Fund Equation:**

**Petty Cash Vouchers + Cash on Hand**

**= Total amount of established Petty Cash Fund**

# Walkthrough for Petty Cash Fund

1.) ABC Dog Shelter establishes a Petty Cash Fund for \$500 and the threshold amount of individual purchases is \$50 or less.

2.) Monthly activity with the fund consists of the following:

Reconciliation Form			
Date		Description	AMOUNT
6/1		Postage Expense	\$ 25
6/8		Office Supplies	20
6/13		Taxi	25
6/15		Gas	<u>30</u>
6/30		Total	<u>\$ 100</u>

3.) ABC Dog Shelters determines the size of the Fund to be excessive and reduces the Petty Cash Fund to \$250.

# Journal Entry for Petty Cash Fund Walkthrough

1.) ABC Shelter's initial Journal Entry to set-up Petty Cash (both of the accounts are assets).

2.) ABC Shelter's Journal Entry for monthly activity (adjusts operating cash account & expense accounts).

3.) ABC Shelter's has determined to reduce the size of the Petty Cash Fund (both asset accounts).

General Ledger					
Date		Account Title and Description		Debit	Credit
6/1/2013	1.)	Petty Cash Fund		500	
		Cash (operating account)			500
		<i>To establish Petty Cash Fund</i>			

General Ledger					
Date		Account Title and Description		Debit	Credit
6/30/2013	2.)	Postage Expense		25	
		Office Supplies Expense		20	
		Travel Expense (for taxi)		25	
		Fuel Expense (for gas)		30	
		Cash (operating account)			100
		<i>To record Petty Cash Activity</i>			

General Ledger					
Date		Account Title and Description		Debit	Credit
7/1/2013	3.)	Petty Cash Fund			250
		Cash (operating account)		250	
		<i>To reduce the size of Petty Cash</i>			

# Petty Cash Expenses

- Local travel – cab fare, tolls, bus or train fare, and fuel
- Postage expenses
- Meeting and office supplies
- Emergency medical supplies
- Individual staff meetings, small business meals

# When not to Use Petty Cash

- Amount that exceeds transaction limit
- Goods and Services by vendors or contractors
- Payroll payments or payroll advances
- Awards and Bonuses



# Revenue Types

- Contribution Transactions
  - Donations
  - Pledges
  - Gifts in Kind
  - Donated Services
- Exchange Transactions
  - Service Revenue



# Contribution Transactions

- Donations
  - Unrestricted
  - Temporarily Restricted
  - Permanently Restricted

Note: These classifications apply to all types of contribution transactions.



# Contribution Transactions

- Pledges
  - Unconditional
  - Conditional
  - Multiyear Pledges

Note: Pledges that will not be received within the next 12 months should be discounted.



# Contribution Transactions

- Gifts in Kind
  - Tangible Property (Dog food)
  - Intangible Property (software license, donated media space)
  - Recording of GIK donations normally results in simultaneous recording of programmatic expenses.

Note: Only gifts that can be sold or used by the NFP can be recorded using fair market valuation.

# Contribution Transactions

- Donated Services
  - Must create or enhance a non financial assets, or
  - Require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not donated.



# Exchange Transactions

- Service Revenue
  - Payments received in relation to a service performed or a good sold.

Note: Exchange Transactions are defined by a reciprocal exchange of economic benefit.

# What is the Form 990?

- It is an *annual information return* filed with the IRS
- It is filed by certain tax exempt organizations
- It provides information regarding the organization's
  - ✓ Mission
  - ✓ Programs
  - ✓ Governance
  - ✓ Finances



# What is the Form 990?

➤ **It is publicly available to:**

- ✓ State Regulators & Governmental Agencies
- ✓ Donors
- ✓ The Media
- ✓ The General Public

➤ The Filing Organization must make the Form 990 available upon request, and can charge a small administrative fee for copying and/or mailing the document. They can also place the document on their website and/or offer it for review at the organization's main office during regular business hours

➤ **Available on Guidestar** [\[www.guidestar.org\]](http://www.guidestar.org)

# Basic Principles & Objectives

- The intention is to increase *transparency* between the tax exempt organization and

- ✓ The IRS
- ✓ The Public
- ✓ Stakeholders



- Promotes *tax compliance* and *accountability* and *regulatory oversight* by

- ✓ Maintaining the Tax Exempt Status
- ✓ Fulfilling the Exempt Purpose
- ✓ Careful Stewardship of Assets
- ✓ Compliance

# Type of Form to be Filed

## ➤ E-Postcard: Form 990-N

- ✓ Gross receipts are *normally equal to or less than* \$50,000 [Gross receipts are defined as the total amounts the organization received from all sources during its annual accounting period, without subtracting any costs or expenses]
- ✓ Is filed online at: <http://epostcard.form.org>



# Type of Form to be Filed

## ➤ Form 990-EZ

- ✓ Gross receipts *less than \$200,000 and total assets less than \$500,000* at the end of the year [Total assets is the amount reported by the organization on its balance sheet as of the end of the year without reduction for liabilities]
- ✓ Used by tax exempt organizations, nonexempt charitable trusts, and section 527 political organizations
- ✓ Is available to the public
- ✓ *Can* be filed electronically

# Type of Form to be Filed

## ➤ Form 990

- ✓ Either gross receipts are *greater than or equal to \$200,000* or total assets *greater than or equal to \$500,000* at the end of the tax year
- ✓ Is available to the public
- ✓ Must be filed electronically if an organization files at least 250 returns of *any type* during the calendar year ending with or within the organization's tax year and has total assets of \$10 million or more at the end of the tax year

# Due Date

## ➤ Form 990-PF, 990-N, 990-EZ & Form 990:

- ✓ *Is due by the 15<sup>th</sup> day of the 5<sup>th</sup> month after the organization's accounting period ends*
  - If the regular due date falls on a Saturday, Sunday or legal holiday, it is due on the next business day
- ✓ File **Form 8868** to request an *automatic 3 month extension* of time to file
- ✓ You can also use **Form 8868** to apply for an *additional 3 month extension* if the original extension was not enough time. You must show reasonable cause for the additional time requested

# Non Compliance



- If you do not file the *e-Postcard [990-N]* by the due date, the IRS will send a reminder notice, and you will not be assessed a penalty for late filing
- Unless the organization can show reasonable cause, penalties for late filing the *information return [Form 990-EZ & 990]* is \$20 per day not to exceed the smaller of \$10,000 or 5% of the gross receipts of the organization

# Non Compliance

- If an organization has annual gross receipts greater than \$1million, the penalty for late filing the *information return [Form 990-EZ & 990]* is \$100 per day with a maximum penalty of \$50,000
- *The penalties can be levied against the responsible person as well as the organization.*
- *If an organization fails to file the required e-Postcard or information returns [Forms 990 or 990-EZ], for three consecutive years, the organization will automatically lose its tax exempt status [the revocation will take place on the filing due date of the third year].*

# Overview of the Form 990

## Core Form

### ➤ Core Form:

- ✓ There are 12 Parts in the Core Form
- ✓ Parts IV, V and VI are Non-Financial in nature

- **Part IV: Checklist of Required Schedules**

- ❖ 38 Questions

- ❖ *The answers to these questions determine which schedules the organization is required to file*



# Overview of the Form 990

## Core Form

### ✓ Core Form: Part V:

- Part V: Statements regarding other IRS filings and tax compliance

- ❖ 14 Questions – Yes or No

- ❖ Speak to **Mandatory** filings

- ❖ Are you following the rules and regulations set forth by the IRS?

- ❖ ***Answering 'No' could possibly give rise to issues of non-compliance and could jeopardize the organization's exempt status***

# Overview of the Form 990

## Core Form – 12 Parts

### ✓ Core Form: Part VI:

- Part VI: Governance and Management practices and policies, relationships and Disclosure
  - ❖ 3 Sections, 20 Questions – Yes or No
  - ❖ Sections A & B are *recommended “best practices”*
  - ❖ ‘Yes’ response is best, the more the better
  - ❖ Having well documented policies in place such as, a *code of ethics*, *conflict of interest*, and *whistleblower policies*, as well as written *compensation practices*, and financial statement audits create greater transparency.
  - ❖ Section C is the Disclosure which is *Mandatory* in nature

# Final Thoughts on 990

- The IRS is the governing body that regulates the tax exempt status of an organization
- The form that an organization files is dependant upon the size and type of the tax exempt organization
- The intention of the Form 990 is to increase transparency and promote accountability and tax compliance
- Remember to promote your organization in Schedule O! Market your program initiatives and describe the management and governance policies that your organization has in place to show off its transparency!



# Questions?

**See Bonus Documents on webinar page**

- Life Cycle of the Budget Process
- Budgeting Tips
- Petty Cash information
- Revenue Recognition information
- 990 Form detailed overview



# What was the most important thing you heard about in this webinar?

Type your answers into chat please!

# Upcoming ASPCApro Webinars

[aspcapro.org/webinars](http://aspcapro.org/webinars)

- **Calculating Your Humane Capacity** (11/20)
- **Parvo 101** (12/05)
- **Save More Lives and Win BIG in the Final \$100K Challenge** (12/03 and 12/11)
- **How Shelters Can Use Data to Save Lives** (12/12)