

Finance Unlocked for Nonprofits



Unlocking Financial Literacy for Nonprofit Board Members
to Deliver Mission & Protect Assets

An initiative of Washington Nonprofits and Jacobson Jarvis PLLC

For a complete set of videos and supporting materials, visit:
www.wanonprofitinstitute.org/finance/



JACOBSON JARVIS
CERTIFIED PUBLIC ACCOUNTANTS
& CO PLLC

Finance Unlocked for Nonprofits

You care about your organization's mission. You want your organization to survive and thrive and make a difference in your community and the world beyond. Your organization is probably like most with money being the fuel that drives it forward. Money is what pays for your staff, funds your programs, and advances your organization's mission. Just as you need to know how much gas you have in your engine before setting out on a journey, a nonprofit needs to know how much fuel it has in its accounts and how far this fuel is going to carry it forward.

Finance Unlocked for Nonprofits was designed to increase nonprofit financial literacy among nonprofit board members in Washington. Financial literacy is the ability to understand how money works in the context of your organization: how you earn it, how you manage it, and how you spend it. It is the set of skills and knowledge that allows you to make informed and effective decisions with your organization's financial resources.

Your fundamental role as a board member is twofold: (1) to deliver on your organization's mission and (2) to protect its assets. To make good decisions, you need to know what you have, how that compares with what you planned to have, and how to communicate that accurately and timely to those who invest in your work.

Finance Unlocked for Nonprofits intentionally abbreviates to FUN because we want to do away with all of the negative metaphors and emotions too often associated with finance. We want the finance time in your board meeting to be a time of engagement and a positive exchange of ideas. Aware that many board members come to board service with a range of knowledge in nonprofit finance, we designed FUN to provide a learning experience that is, well, fun. Play, laugh, and challenge each other as you build your finance chops. Have fun with this training so that you can have an impact on the important work your nonprofit does.

We hope that you will achieve these objectives through FUN:

- ▲ Understand nonprofit finance terminology.
- ▲ Understand the purpose of and how to read nonprofit financial statements & IRS Form 990.
- ▲ Be able to ask questions and identify "red flags" in your organization's statements and 990.

Ultimately, we hope that your organization thrives because the power of nonprofit finance has been unlocked for you and boards members within your organization. Let the fun begin!



FUN BINGO

The basics on nonprofit finance are as straight forward as BINGO. BI, N, GO. BINGO.

1. You should be looking at two reports on a regular basis:



Balance Sheet: A doctor takes a pulse, a driver looks at the gas gauge, and a photographer snaps a picture. These are all ways to capture information at a point in time. A Balance Sheet is a report showing where you stand financially at a point in time. It is also known as a Statement of Financial Position.



Income Statement: Nonprofits plan for the future and then check reality against this plan, comparing the story of what they see with what the numbers really tell them. An income statement shows operating results over a specific time period. It is also known as a Statement of Activities or Profit & Loss Statement.

2. You should review your organization's IRS Form 990 once a year:



Nine Ninety (990): A strong 990 highlights a nonprofit's mission and shows its compliance with federal regulations. An IRS Form 990 is an annual required tax filing. After an organization files its 990, it is available on websites and viewed by potential donors.

3. You should have clear systems, policies and procedures in place for tracking and communicating about money and assets.



Giving: Money fuels your work, so nonprofits are mindful of the mix of funds that drive their engines. Healthy nonprofits make use of a wide range of funding sources and are mindful that different funding sources come with different accounting needs, donor expectations, and restrictions.



Oversight: Nonprofit board members are ultimately responsible for the effective, responsible use of a nonprofit's resources. Oversight includes the policies and procedures designed to prevent fraud and ensure accurate reporting of the affairs of the organization.

FUN Tools

1. BINGO card

B BUSINESS MODEL
I FINANCIAL STATEMENT
N BUSINESS PLAN
G SYSTEM
O ORGANIZATION

Strategy Period of Time Public Document Communication Internal Controls

Liquidity Budget Marketing Tool Pledge Access

Asset Article Video Benchmark Ethical Procedures

Liability Reporting Governance In-kind Sector

Revenue Financial Classification Complexity & Doubtful Restriction Accounting Period

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FUN includes five videos that explain each of the categories of information board members need to know—aligned with B, I, N, G, and O—as well as a sixth video that sets the tone of the series, explaining why financial literacy is so important.

B: Balance Sheet
I: Income Statement
N: Nine-Ninety
G: Giving
O: Oversight

Each unit is supported by a Kit that provides more information and opportunities to apply what you learn to an example organization and your own organization. Each Kit has the same format:

Know more: Once you have the basics, this list covers the additional important information that all board members should know as financial stewards of their organizations.

Ask: Transfer that knowledge to your own organization.

Pulse: We provided a worksheet for you to track your answers to key questions over time.

4

FUN Activities

Financed Unlocked for Nonprofits was designed for “a la carte” learning, meaning that you can dive into the whole series or mix and match to your organization’s needs or purpose.

Anytime learning

Before a board meeting or orientation, take time at home to brush up on finance basics. Here are some ideas on how:

1. Introduction video- Why Nonprofit Finance?

Purpose: Introduction to FUN and why nonprofit finance matters.

Jot down 2 reasons why understanding nonprofit finance matters to your organization. Watch the introduction video and see if your two reasons were named in that video. Write down any additional reason you hear on your piece of paper. Have a board binder? Tape it in the front inside cover of your binder to remind you into the future.

Resources needed: Sticky note/piece of paper, tape, introduction video

2. Play individual BINGO.

Purpose: Test your knowledge to know which resources you should follow up with.

Look at the BINGO card. Do you know what all of these words or clues mean? Make a sentence about finances using the word. “A budget is a financial plan.” “A snapshot is what a camera captures.” Yes, a “budget” is a financial plan, but a “snapshot” financially speaking is what a balance sheet is. Put a sticky note on “budget,” but leave snapshot blank. The squares left blank are those that you need to learn through the FUN resources.

Resources needed: BINGO card, sticky notes

3. Watch a Video.

Purpose: Learn more about one of the five topics covered with FUN.

Choose one of the five videos. Print out the corresponding Kit and have the materials in front of you while you watch the video. Watch the video and work through as much of the Kit as possible based on what you learn and know.

Resources needed: Video, corresponding Kit



In Board Meetings

FUN fits into the finance time that takes place at most board meetings. Set aside 10-30 minutes for a FUN activity at each board meeting until you feel that board members are confident in their finance knowledge and skill.

1. Play BINGO (10 minutes)

Purpose: Test finance knowledge together in a way that is fun and interactive.

Working in pairs, each board member should have a card. One person (“the player”) should place the card on the table, looking at the BINGO card side; the other person (“the reader”) should hold his/her card, looking at the information side. The reader chooses a clue randomly and reads it; the player places a marker on the square that best matches the clue given. For example, if the reader says “emergency funds,” the player should put a marker on “reserves.” Don’t know a word? Use the Glossary to look it up.

Advanced: Together the player and the reader should say something about that clue and answer related to their organization. “FUN Nonprofits has \$500 in reserves as emergency funds,” or “I’m not sure how much FUN Nonprofits has in reserves for an emergency. Let’s find out.”

Resource needed: BINGO card, place marker (beans, buttons, paper clips), Glossary

2. Tell your organization’s story using the BINGO card. (15 minutes)

Purpose: Test finance knowledge by using it in the context of your organization.



“Once upon a time, there was an organization, FUN Nonprofits, and it had a balance sheet that was shared with board members every month. Its balance sheet was a “snapshot” of its financial position. This organization was doing well with liquidity: it was able to access \$5,000 in cash very quickly if needed....”

By telling the story of your organization, using the words and clues on the card, you will show your knowledge of the terms and get practice using them.

Resources needed: BINGO card, Glossary, place marker (beans, buttons, paper clips, sticky note)

3. Watch Introduction Video (10 minutes)

Purpose: Build a shared understanding of why nonprofit finance is important.

Tie the key messages of why financial literacy is important back to your organization. Invite brief discussion about your organization, how much finance knowledge you have to draw on, and how greater understanding of nonprofit finance could help in tackling some of the issues before the board.

Resources needed: Introduction video, Introduction Kit (this document)



4. Watch & engage Videos (10-60 minutes)

Purpose: Take a deeper dive into one of the five categories.

- a. Choose a topic. In advance of your meeting, send out the corresponding Kit and ask board members to review the “Know” and “Know more” sections. If you don’t have Internet in your meeting space, download the video that corresponds to that topic.
- b. At the meeting, share the BINGO card, stating that this is a summary of “must know” information on nonprofit finance for board members. They should use it as a reference tool.
- c. Invite participants to pull out their Kit for this topic. Review that the Kit is support material for the video and that board members can follow along with the video by looking at the “Know” section.
- d. Watch the FUN video together.
- e. Discuss: What stands out as key messages? What was new information? What information relates most to your organization? What do you want to know more about?
- f. As needed, review the “Know” and “Know More” of the kit sheets.

Resources needed: Video, corresponding Kit, BINGO card



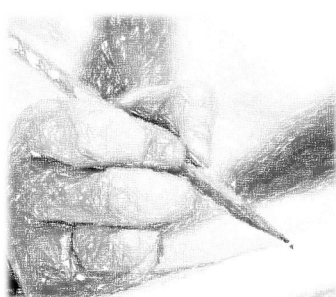
As time allows, continue on to these activities or assign homework to review at the next board meeting.

- g. In pairs or small groups, have board members complete the “Practice” and “Ask” sections of the Kit.
- h. Either within their pairs or as a whole board, look at the “Act” section and circle any action that should be a priority for your organization. You should circle at least one. If there is no action listed that is relevant, write on the paper an action that came out of your discussions.
- i. Summarize the conversation on the “Pulse” sheet. Invite board members to write down today’s meeting date in the column and the answers to the questions. Make a note of any actions that need to be taken before the next meeting. The board secretary should make sure that those actions are in the minutes and on the next meeting’s agenda.

You can repeat this same series of steps in subsequent board meetings covering the remaining FUN videos.

5. Create a learning plan (10 minutes)

Purpose: Build learning about nonprofit finance into board culture



Whether you get information from a board conversation about training needs or from an activity that uncovers some gaps in board knowledge, develop a learning plan that integrates training into existing board meetings.

Resource needed: Learning plan (see page 15).

Board Orientation

New board members come from different backgrounds in order to achieve an organization's mission. FUN fits well into new board member orientation because it provides activities for board members to do at home prior to a meeting, and because it delivers fun "get to know you" finance-related activities that provide openings for targeted information about your organization's finances. Here is an activity beyond those in the previous sections:

Share your board finance culture (10-15 minutes)

- What reports do you share, when, and with whom? Share your latest Balance Sheet, Income Statement, and 990 as you discuss this.
- What terminology do you use? What is your budget year/ key budget dates?
- What previous policies do you have in place? Share copies of existing policies.
- What learning plan do you have in place?
- Generally speaking, how do board members engage with financial information at board meetings?



Want to go further?

Let FUN be the start of nonprofit finance learning. FUN was designed to be a resource for local CPAs and other financial professionals as they deliver trainings on nonprofit finance. A board wanting to go further in building their finance knowledge can invite an accountant in their community to supplement these resources and answer questions that board members might have about their financial reports.

Visit www.wanonprofitinsitute.org/finance for more information on how to use FUN resources in trainings.



Board Roles

Different members of the nonprofit team play different roles when it comes to nonprofit finance. All board members have financial responsibilities, not just the treasurer.

Board president

Goal: Ensure that the organizational culture supports good decision-making based on accurate financials that protect the assets of the organization.

- ⤴ Look out for the overall financial integrity of the organization, including important reporting deadlines.
- ⤴ Make sure that all board members are given copies and have adequate understanding of financial documents distributed before meetings.
- ⤴ Develop a shared language among all board members regardless of formal financial background.
- ⤴ Establish and maintain a finance committee that has an effective team of members.

Board treasurer

Goal: Oversee the financial systems that ensure that the organization remains true to its objectives and obligations.

- ⤴ Chair the finance committee and connect regularly with ED/CEO/CFO/bookkeeper.
- ⤴ Look over the financial documents and the organizations financial process, including staying up to date with important internal and external deadlines.
- ⤴ Support internal audits.
- ⤴ Lead annual review of internal controls.

Board member

Goal: Look out for the overall financial integrity of the organization to better achieve your mission.

- ⤴ Be engaged in all board meetings.
- ⤴ Ask questions if there is anything you don't understand or doesn't seem to make sense.
- ⤴ Request resources for training if you feel it would be beneficial.

Executive Director/ Lead staff member

Goal: Look out for the overall financial integrity of the organization by managing the finances and providing timely reports that reflect the “story” of the organization and its activities.

- ⤴ Hold budget meetings with staff to develop budget forecasts every year. Align fundraising with accounting practices.
- ⤴ Work with accountant/bookkeeper to record and track actual spending throughout the year.
- ⤴ Prepare and update financial documents on a regular basis to present to the whole board and the finance committee.
- ⤴ Help recruit board members with the necessary skills to support the organization.

Setting the Tone



To flip the story of nonprofit finance, we need to set the right tone for the individuals who make up the board, as well as the board as a whole.

Create a positive experience for individual board members

For many, math is scary. We live in a society where people “don’t do math” because it intimidates them. We need to understand the social/emotional impact of numbers and create a comfort with numbers that allows board members to engage with math in a safe setting.

>> Understand your board members as individuals, what motivates them, and how they feel about math and financial conversations. If math is an issue for someone, work together to find ways to express financial information in ways more comfortable to them. Assign them a specific role to fill, like tracking donor income, checking liquidity, or checking in on board learning.

Create a culture that supports greater financial literacy

Many organizations do not have a culture that embraces engaged discussion about financial information. Those conversations get left to the treasurer or a subset of the board. Changing an organizational culture takes aligned action from all levels of leadership with the end goal of creating a culture that is open, affirming, and accepting of the critical thinking that goes into engaging financials to strengthen mission and protect assets.

>> Create a learning plan on nonprofit finance that builds into the organization’s board schedule opportunities for learning, trust building, and articulating the values that will guide future financial conversations.

>> Find different ways to express financial information beyond numbers. Use a dashboard or graph to show information quickly. (There are a lot of resources on dashboards on the Internet.) Use storytelling to convey information. Try conveying the financials for your fundraising event in a Haiku. Whatever works.

>> Engage board members more actively in budget building. Knowing the story behind the numbers helps to make those numbers make sense.

See “How to Talk About Finances So Non-Financial Folks Will Listen” by Bridgestar for more.

Glossary

Access • Clarification of who has access to what and when, also referred to as segregation of duties. Key areas of access can include: bank account access, organizational credit cards, blank check stock, cash/checks received, accounting system, donor database, payroll system, and approval authority.

Actuals • True financial results. Actual income or expenditures, as opposed to those budgeted or projected.

Assets • What your organization owns or has the right to use. Cash and cash equivalents are available within three months. Current assets are those that can be converted into cash within 12 months.

Avoiding Fraud • Safeguards that organizations put in place to identify possibilities for fraud and ways to keep the organization and its participants from committing fraud. Avoiding fraud and maintaining a positive reputation is important to the continuing success of an organization.

Budget • Your financial plan, including an estimate of income and expenses. In a nonprofit, the budget considers both fiscal accountability and mission priorities. The budget should be reviewed and approved by the Board of Directors.

Communication (between development and finance) • Fundraising and financial reporting must move forward in alignment for effective and timely information to reach the individuals or institutions funding a nonprofit's work.

Compliance & Penalties • Although a nonprofit does not pay taxes, reporting is mandatory to maintain the nonprofit tax status. There are several legal and financial penalties that can fall on an organization if the Form 990 is not filed on time, is incomplete, or is not filed correctly.

Current Ratio • Current assets divided by current liabilities. It is a ratio that measures whether or not an organization has enough resources to pay its obligations over the next 12 months.

Endowments • Donations given with the intent that the principal (corpus) will be maintained intact in perpetuity (permanently restricted) and that earnings will be used for general operations or specific purposes, as defined by the donor.

Fees-for-service • Income generated from the delivery of some service.

General operating • Funds given to sustain the organization with no restrictions on how funds should be spent.

Governance • The act of governing, including how decisions are made in order to sustain the long term health of an organization. In a Form 990 context, it includes maintaining your exempt purpose, board independence, and certain written policies and procedures.

In-kind • Donations other than cash or pledges, typically goods or services. Note that an organization should be careful about issuing tax letters related to in-kind donations given that some in-kind donations can be tax-deductible (i.e. goods at fair market value) and others (i.e. volunteer time) are not tax deductible.

Internal Controls • Policies and procedures implemented with the following objectives:

- ▲ Effectiveness and efficiency of operations
- ▲ Safeguarding assets against loss and unauthorized use or disposition
- ▲ Reliability of financial reporting
- ▲ Compliance with applicable laws and regulations and adherence to policies

Liabilities • What your organization owes. Current liabilities are those that are due within 12 months.

Liquidity • Liquidity is how quickly you can get your hands on your cash or other assets. It represents an organization's ability to meet its obligations as they come due.

Marketing Tool • The 990 can be used to market the organization's mission, programs, success and stability. This can include program accomplishments and statistics, volunteer numbers/hours, areas served, etc.

Period of Time • While the balance sheet is a snapshot taken at a point in time, the Income Statement presents activity over a period of time. Can be over a month, quarter or year. Often "YTD" or Year to Date.

Pledges • A formal commitment to make a contribution of a specific amount. Also called promises to give. Pledges can come from individual donors or from institutional funders (foundations, corporations, etc).

Policies and Procedures • Policies are protocols to guide decisions and achieve desired outcomes. Procedures are the steps to take to implement something. Together, policies and procedures represent an organization's detailed list of what needs to be done, who is responsible, how roles and duties are segregated, and steps for achieving completion.

Public Document • The Form 990 is your organization's most public financial document and can be viewed by any member of the public. The Form 990 is automatically uploaded to

GuideStar.org where the public, including potential donors and funders, review 990s in making funding decisions.

Reporting • Presentation of meaningful financial information to internal decision makers (management, Board) or external users (funders, donors, banks, etc). Internal reporting needs to be done on a consistent, timely basis and reports should facilitate informed decision making. External reports should meet any specific requirements and be reviewed with an eye to how they portray your organization.

Reserves • Emergency funds, or an amount set aside by the organization to be used in case of emergency, unexpected expense, planned future events, or unexpected programmatic opportunity.

Restrictions • Contributions earmarked by the donor for a specific use. Restricted gifts require additional tracking/accounting to ensure that we are stewarding them appropriately and using them for their intended purpose. Restrictions fall into the following three categories:

- ▲ Unrestricted - no donor imposed stipulations, but may include Board-designated funds
- ▲ Temporarily Restricted - restricted for a specific purpose or future period as stipulated by the donor
- ▲ Permanently Restricted - the corpus of these gifts are to be maintained in perpetuity (see endowments above)

Revenue diversification • Using multiple funding sources to hedge against financial instability.

Review • Examination of an organization's finances in summary form in order to ensure that everything is in order. Examination of internal controls to assess viability and accuracy. Continual review and update ensure an organization is operating at the highest efficiency possible.

Snapshot • What you own and owe on a specific date. The Balance Sheet is a snapshot taken at a point in time. It summarizes what the organization owns and owes on a specific date.

Special event income • Income generated through the attendance of some event, either through donations given at the event or ticket sales.

Finance Unlocked for Nonprofits (FUN) was designed to increase nonprofit finance literacy in ways that help board members to grow their mission and protect their assets. It should not be considered as a substitute for professional advice.

Building a Learning Plan

1. WHY does your organization need to elevate its financial literacy?

2. Look at your assessment on the next page. What 3-5 nonprofit finance concepts do you need to learn or strengthen?

	A	B	C
	WHAT? Nonprofit finance concept	WHEN?	HOW?
1			
2			
3			

3. Know your people. Jot down the names of the people on your board and where they fall in their notions of math.



I don't do math.
Numbers scare me.
I don't understand numbers.

I love math!
I look for number opportunities.
I understand numbers.

FINANCE UNLOCKED FOR NONPROFITS QUICK ASSESSMENT

<i>Please assess how well you know and can apply the following concepts.</i>	Don't know concept	Know concept but <u>not</u> how to <u>apply</u> it to my organization	Know concept and <u>how to</u> <u>apply</u> it to my organization	Know concept and <u>regularly</u> <u>apply</u> it in my organization	SCORE
BALANCE SHEET					
Balance sheet as a snapshot of an organization's finances	1	2	3	4	
Liquidity	1	2	3	4	
Assets	1	2	3	4	
Liabilities	1	2	3	4	
Reserves	1	2	3	4	
			Balance Sheet TOTAL		
INCOME STATEMENT					
Income statement as document showing financial activity over period of time.	1	2	3	4	
Budget	1	2	3	4	
Actuals	1	2	3	4	
Reporting	1	2	3	4	
Revenue diversification	1	2	3	4	
			Income Statement TOTAL		
IRS FORM 990					
990 as a public document open to all to see.	1	2	3	4	
990 as a marketing tool.	1	2	3	4	
990 providing governance best practices.	1	2	3	4	
990 is required.	1	2	3	4	
			IRS Form 990 TOTAL		
GIVING					
Communication between finance and fundraising roles.	1	2	3	4	
Pledge	1	2	3	4	
Endowment	1	2	3	4	
In-kind	1	2	3	4	
Restrictions	1	2	3	4	
			Giving TOTAL		
OVERSIGHT					
Internal controls	1	2	3	4	
Access/ segregation of duties	1	2	3	4	
Policies & procedures	1	2	3	4	
Review	1	2	3	4	
Avoiding fraud	1	2	3	4	
			Oversight TOTAL		

Know Your Culture

We experience culture in three ways: through the artifacts (documents, etc.) that we use/see, through behaviors and actions that we do/see, and through underlying attitudes and assumptions that we don't see but experience.

Describe your culture as it is now—and it should be to develop a strong culture in your organization.

Artifacts: documents or other “stuff” that you can touch	Behaviors: Behaviors and actions that we can see and experience	Values: Attitudes and assumptions (unseen) that we experience in your organization

What about your culture would you like to change as you move forward?

Artifacts	Behaviors	Values

Next steps: Think about how to make these cultural changes routine.

Implementing FUN

FUN was designed to fit into existing meetings and the busy schedules of board members.

WHAT	NOW	FUTURE
ORIENTATION PACKETS		
ORIENTATION		
BOARD MEETINGS		
COMMITTEE MEETINGS		
INDIVIDUALIZED LEARNING		