
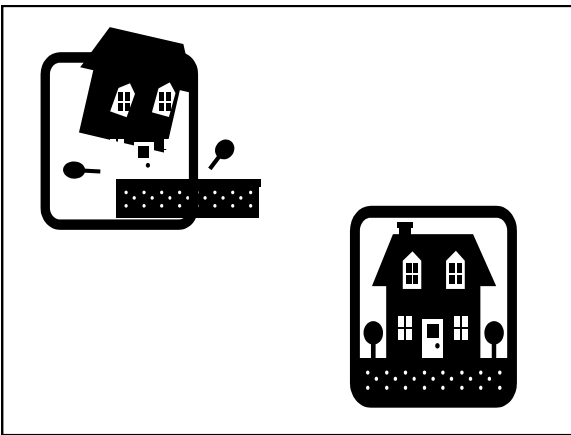


Finance Essentials
Keep Your Financial 'House' In Order

Housing Action Illinois
2010 Annual Conference
November 5, 2010





Overview
Why Essentials Matter

A way to frame a complex topic
The foundation – PEOPLE
The plans and blueprints – PROCESSES
Quality materials - TOOLS

Why Essentials Matter

OPM

OPL

People

- Roles
 - Oversight
 - Planning
 - Supervision
 - Budgets and reporting
 - Execution
 - Feedback

People

- Responsibilities
 - High standards
 - Effective leadership
 - Knowledge, skill
 - Understand tasks, outcomes
 - Timely reviews
 - Effective feedback

Processes

- Ensure effective internal controls
- Support timely activity
 - Transactions
 - Reconciliations
 - Reports
 - Filings

Processes

- Support specific outcomes
 - Goals, objectives set & monitored
 - Transactions properly approved
 - Reports reviewed
 - Corrective actions taken
- Provide consistency across time, amidst change

Tools

- Many available, some prescribed
- Every nonprofit needs
 - Internal Policy & Procedure Manual
 - Job descriptions, review cycles
 - Accounting systems, procedures & oversight
 - Financial reports, budget review cycles
 - Audit cycle
- Samples widely available

Tools

- Policy Manuals put a stake in the ground
 - Finance, HR, Technology
- Accounting policies establish 'rules'
 - Allocation methodologies
 - Chart of Accounts
 - Authority, oversight

Tools

- Financial statements are required
 - Content, formats stipulated
 - Essential to understanding financial health
- Budgets, variance reporting
 - Managing uncertainty
 - *Material* variances
- Audits provide assurance of accuracy
 - Independent view

Financial Statements

Three are required; others can be helpful

- Statement of Financial Position
- Statement of Activities
- Statement of Cash Flows

- Statement of Functional Expenses
- FASB 116, 117 apply to nonprofits

Statement of Financial Position

- AKA Balance Sheet
- Snap shot – Freeze frame look at three items
 - What you own
 - What you owe
 - What is 'left over'
- Contains detail, in order of liquidity
- Must balance internally and to other statements
 - The 'left over' portion reflects net amount

Statement of Activity

- AKA 'P&L' or Income Statement
- Flow-thru report – covers activity during the specified time frame
 - What came in
 - What went out
 - What is 'left over'
- Contains detail, organized by type
- Must balance internally and to other statements

Statement of Activity

- Frequently a statement is prepared to show how expenses fit these categories:
 - Program Specific Expenses (showing the programs by significant categories)
 - Administrative Expenses
 - Fundraising Expenses

Statement of Cash Flows

- Flow-thru report, looks at *real* cash
- Separates three categories of activity, highlights actual cash use for each
 - Cash from operations
 - Cash from investments
 - Cash from financing
- Nets out actual cash for all categories and balances with other statements

What the statements reveal

- **Statement of Financial Position**
 - This is the summary of all that has gone before, shows the overall strength of the entity
 - Is the agency financially healthy or frail?
 - Is there sufficient short term flexibility?
 - What resources are there to deliver on the mission?

What the statements reveal

- **Statement of Activities**
 - This is what transpired in the period, only that period
 - Did you take in more than you spent; add to or maintain a sustainability reserve?
 - What support did you receive from external sources?
 - Was it earned, given or borrowed?
 - Is this support broadly or narrowly based?

What the statements reveal

- Statement of Functional Expenses
 - Reveals activity devoted to service delivery versus support of service delivery
 - Ratios between program, administration and fundraising expenses are of interest to funders, regulators.
 - Ratios are important internal management tools
 - Assists in evaluating individual program results

What the statements reveal

- Statement of Cash Flows
 - Focus on the actual, liquid cash available now, not later or when a condition is met
 - Highlights *where* cash was generated
 - Monthly cash flows are a critical part of operating processes

Essential Financial Terms

- Accrual vs cash accounting
- Restricted, unrestricted assets
 - Permanently restricted
 - Temporarily restricted
 - Board restricted
- Allocation methodologies

Do you have the basics covered?

- Take a look at your agency
 - Policies and procedures; assess their effectiveness
 - Are they used? Used appropriately?
 - Do they reflect current circumstances?
 - Job descriptions: financial duties
 - Are board roles specific regarding oversight?
 - Do you have and use feedback cycles for staff?
 - Most recent audit report
 - Open comments on areas to strengthen?

Questions?

Maggie McCoy
Director, Financial Consulting Services
312.372.4872 x 114
mmccoy@lumity.org