



Financial Oversight for Nonprofits

Introduction

Nonprofit Niche

- Bowers Watertown Audit Team:
 - 40+ Nonprofit Audits or Reviews annually

Nonprofit – Watertown Audit Team

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Agenda & Session Goals

- How to Properly Review Financial Statements
- Create & Understand Budgets
- Implementing Internal Controls & Financial Policies
- Role of the Board of Directors & Leadership
- Importance of Audits & Annual Reporting

Session Goals – to strengthen an organizations ability to

1. Manage resources responsibly
2. Make informed financial decisions

Why Financial Oversight Matters

- Ensures that donor and grant funds are used as intended
- Ensures effective use of resources
- Good financial practices make it easier to plan for the future, respond to unexpected challenges and mitigate cash flow issues
- Protects the organization's reputation
- Strong financial oversight leads to transparency which helps build donor confidence and public trust



Reviewing Financial Statements

Understanding Financial Statements

Key Statements Include:

1. Statement of Financial Position (Balance Sheet)
2. Statement of Activities (Income Statement)
3. Statement of Cash Flows
4. Statement of Functional Expenses

Statement of Financial Position

	ASSETS	
	2024	2023
CURRENT ASSETS		
Cash	\$ 369,935	\$ 390,393
Accounts Receivable	1,250	-
Grants Receivable	-	56,448
Investments	366,356	349,264
Total Current Assets	737,541	796,105
NON-CURRENT ASSETS		
Investments Held by XX	59,588	53,315
Property and Equipment, Net	820,374	624,326
Total Non-Current Assets	879,962	677,641
TOTAL ASSETS	\$ 1,617,503	\$ 1,473,746
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 105,073	\$ 9,703
Accrued Payroll and Payroll Withholding	10,145	9,257
Unearned Revenue	17,839	52,384
Total Liabilities	133,057	71,344
NET ASSETS		
Without Donor Restrictions		
Designated for Property and Equipment	820,374	624,326
Undesignated	631,234	753,661
Total Net Assets Without Donor Restrictions	1,451,608	1,377,987
With Donor Restrictions	32,838	24,415
Total Net Assets	1,484,446	1,402,402
TOTAL LIABILITIES AND NET ASSETS	\$ 1,617,503	\$ 1,473,746

Statement of Activities

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Program and Related Income	\$ 492,955	\$ -	\$ 492,955
Contributions	156,831	40,762	197,593
Grant Revenue	57,045	-	57,045
Contract Revenue	15,000	-	15,000
Interest Income - Bank	3,106	-	3,106
Dividend and Investment Income	17,792	-	17,792
Realized and Unrealized Gain on Investments	9,720	-	9,720
Change in Investments Held by XX	6,273	-	6,273
Gain on Sale of Assets	40,031	-	40,031
Miscellaneous Income	3,776	-	3,776
Special Activities	19,551	1,411	20,962
Less, Direct Expenses	(9,874)	-	(9,874)
Net Assets Released from Restrictions	33,750	(33,750)	-
Total Support and Revenue	845,956	8,423	854,379
EXPENSES			
Program Services	641,880	-	641,880
Management and General	130,455	-	130,455
Total Expenses	772,335	-	772,335
Change in Net Assets	73,621	8,423	82,044
Net Assets, Beginning of Year	1,377,987	24,415	1,402,402
Net Assets, End of Year	\$ 1,451,608	\$ 32,838	\$ 1,484,446

Statement of Cash Flows

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	\$ 82,044
Reconciliation of Change in Net Assets to Net Cash Provided By	
Operating Activities:	
Depreciation	36,073
Realized and Unrealized Gain on Investments	(9,720)
Change in Investments Held by XX	(6,273)
Gain on Sale of Asset	(40,031)
(Increase) Decrease in Operating Assets:	
Accounts Receivable	(1,250)
Grants Receivable	56,448
Increase (Decrease) in Operating Liabilities:	
Accounts Payable	95,370
Accrued Payroll and Payroll Withholding	888
Unearned Revenue	(34,545)
Net Cash Provided By Operating Activities	<u>179,004</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Property and Equipment	(232,121)
Sale of Property and Equipment	40,031
Purchase of Investments	(7,372)
Net Cash Used In Investing Activities	<u>(199,462)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Payments on Debt	<u>(18,540)</u>
Net Cash Used In Financing Activities	<u>(18,540)</u>
Net Decrease in Cash	(38,998)
Cash, Beginning of Year	<u>390,393</u>
Cash, End of Year	<u>\$ 351,395</u>

Statement of Functional Expenses

	Project Expenses	Management and General	Fundraising	2024
Salaries	\$ 346,356	\$ 86,589	\$ -	\$ 432,945
Payroll Taxes	29,179	7,295	-	36,474
Total Salaries and Related Costs	375,535	93,884	-	469,419
Advertising	50	-	-	50
Bank and Credit Card Fees	-	15,205	-	15,205
Contract Services	7,405	-	-	7,405
Insurance	18,266	2,973	-	21,239
Licenses and Fees	860	-	-	860
Miscellaneous	4,320	-	-	4,320
Office Expense	4,042	658	-	4,700
Professional Fees	-	15,448	-	15,448
Repairs and Maintenance	10,272	-	-	10,272
Project Costs	79,946	-	-	79,946
Special Activities Supplies and Prizes	-	-	9,874	9,874
Supplies	86,183	-	-	86,183
Telephone and Internet	2,272	370	-	2,642
Trash and Snow Removal	6,019	-	-	6,019
Travel and Entertainment	-	185	-	185
Utilities	10,637	1,732	-	12,369
Vehicle Expense	-	-	-	-
Depreciation	36,073	-	-	36,073
Total Expenses	641,880	130,455	9,874	782,209
Less Direct Fundraising Event Expenses Netted with Special Activities Revenue on the Statement of Activities	-	-	(9,874)	(9,874)
TOTAL FUNCTIONAL EXPENSES	\$ 641,880	\$ 130,455	\$ -	\$ 772,335

How to Read Financial Statements

- Look for trends – utilize year over year, month to month and even compare to fluctuations in prior years
- Examine revenue diversification and key ratios (Debt to Asset Ratio & Net Asset Ratio)
- Note donor restricted vs. unrestricted funds
- Review variances between budget to actual results
- Assess liquidity

Statement of Activities

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Net Assets, End of Year	<u>\$ 1,451,608</u>	<u>\$ 32,838</u>	<u>\$ 1,484,446</u>

Liquidity & Availability of Financial Assets

Financial Assets:	
Cash	\$ 369,935
Accounts Receivable	1,250
Grants Receivable	-
Investments	366,356
Investments Held by XX	<u>59,588</u>
Financial Assets, at Year-End	<u>797,129</u>
Less Those Unavailable For General Expenditure Within One Year, Due To:	
Purpose Restrictions	<u>(32,838)</u>
Financial Assets Available To Meet Cash Needs For General Expenditures Within One Year	<u>\$ 764,291</u>



Creating & Understanding Budgets

Why a Strong Budget Matters

- Connects mission goals to financial realities
- Provides a roadmap for programs and operations
- Builds organizational accountability and transparency
- Helps anticipate and manage risks
- Strengthens donor and funding agencies confidence

Steps to Build a Strong Budget

- Review strategic goals and program plans
- Estimate revenues (from all sources) and expenses by program or function (including all indirect costs)
- Plan for “what if” scenarios
- Obtain board approval before the start of the fiscal year

Estimating Revenues & Expenses

Revenues

1. Use historical data and confirmed commitments
2. Diversify income streams (grants, donations, events.. etc.)
3. Be cautious of one time or uncertain grants
4. Track restricted vs. nonrestricted

Expenses

1. Start with program needs, then add admin and fundraising
2. Include both direct and indirect costs
3. Account for inflation, staff raises and benefits

Monitoring Budget During the Year

- Compare actual vs. budget monthly or quarterly
- Investigate variances – understand why they occurred
- Update forecasts as conditions change
- Share reports with management and the board
- Adjust as needed

Avoiding Pitfalls

Common Budget Pitfalls

1. Overestimating revenues and underestimating expenses
 2. Ignoring cash flow timing
 3. Treating budget as set in stone
- Be realistic and flexible in budgeting
 - Treat the budget as a *living document* - should be regularly monitored, evaluated and revised based on financial results and the organizations needs



Role of the Board of Directors & Leadership

Internal Financial Responsibilities

CFO/Accountant

1. Ongoing financial monitoring & stewardship of internal controls
2. Prepare budgets, forecasts, and financial statements
3. Ensure accuracy, completeness, and internal readiness of financial data

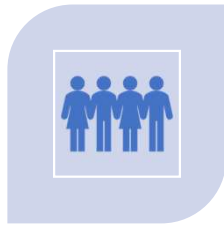
CEO/Executive Director

1. Collaborate with CFO on financial reports and budgets
2. Provide operational context & align financial planning with strategy
3. Review and approve internal financials before submission to the board

What Makes a Good Board of Directors



COVER KEY SPECIALTIES



DIVERSITY IN EXPERTISE
AND EXPERIENCE



ALIGNMENT OF SKILLS
AND ORGANIZATIONAL
NEEDS



CLEAR FOCUS ON
OVERSIGHT & STRATEGY

Key Responsibilities of the Board Treasurer



Overseeing the organization's budget and financial health



Ensuring accurate record keeping



Managing financial reporting and compliance



Communicating financial health to the board

Integral Functions of the Board Treasurer

- Support a culture of transparency and responsibility
- Providing information to the board
- Ask questions and seek clarity
- Ensure policies and controls are implemented





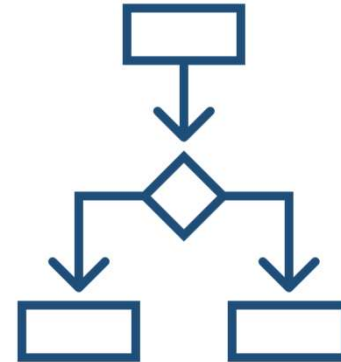
Implementing Internal Controls & Financial Policies

Importance of Internal Controls

- Internal controls are policies and procedures that protect the organization
- Encourage compliance
- Build donor confidence and help during audit
- Controls are about prevention, not mistrust. Effective internal controls protect both individuals and the organization

Purpose of Internal Controls

- Prevent and detect fraud, inefficiencies, and errors
- Ensure accurate financial reporting
- Safeguard assets
- Promote accountability



Effective Internal Controls



Cash Receipts

- Mail should be received by one individual independent of the accounting function, recorded to a deposit log, then verified by a separate individual who performs the bank reconciliation.



Cash Disbursements

- One individual initiates purchase requisitions, then a second individual review for purpose and approval
- Consider dual signatures for transactions over a certain threshold (i.e., \$5,000).

Effective Internal Controls

Reconciliations

- Ex. Contribution Reconciliations
 - Maintain a donation worksheet, track classification (restricted vs. unrestricted), then confirm expenditures comply with restrictions, and that remaining monies are properly classified in the accounting ledger

Maintain Documented Financial Policies

- Ex. Capitalization threshold
 - All fixed asset purchases over a certain dollar threshold (i.e., \$2,500) must be capitalized and reviewed for useful life.

An Established Finance Committee

- Ex. Changes in grant funding
 - An experienced finance committee can make swift and informed decisions to recommend cost-reductions if grant monies are reduced or suggest uses of new funds and updates to the Organization's budget



Importance of Audits and Annual Reporting

Importance of Audits and Annual Reporting



Meets contractual obligations



Ensures compliance



Promotes accountability and transparency



Identifies areas for improvement



Tools & Best Practices

Tools & Best Practices

- Be continually monitoring budget vs. actual results and consider including in board packet
- Frequently analyze cash flows throughout the fiscal year
- Consider contracting a 3rd Party IT provider
- Review and update financial policies annually to stay current with best practices

Resources

[Positive Pay Guide: Definitions, Benefits, and Drawbacks \[2024\]](#) (Advanced Fraud Solutions)

[Internal Controls for Nonprofits | National Council of Nonprofits](#) (National Council of Nonprofits)

[Charities, Nonprofits & Fundraisers | New York State Attorney General](#) (New York State Attorney General)

[Charities and nonprofits | Internal Revenue Service](#) (Internal Revenue Service)

[Internal Control | COSO](#) (Committee of Sponsoring Organizations')



Questions & Answers

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