



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 organization's 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 | <u>737,541</u> | <u>796,105</u> |
| NON-CURRENT ASSETS | | |
| Investments Held by XX | 59,588 | 53,315 |
| Property and Equipment, Net | <u>820,374</u> | <u>624,326</u> |
| Total Non-Current Assets | <u>879,962</u> | <u>677,641</u> |
| TOTAL ASSETS | <u><u>\$ 1,617,503</u></u> | <u><u>\$ 1,473,746</u></u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts Payable | \$ 105,073 | \$ 9,703 |
| Accrued Payroll and Payroll Withholding | 10,145 | 9,257 |
| Unearned Revenue | <u>17,839</u> | <u>52,384</u> |
| Total Liabilities | <u><u>133,057</u></u> | <u><u>71,344</u></u> |
| NET ASSETS | | |
| Without Donor Restrictions | | |
| Designated for Property and Equipment | 820,374 | 624,326 |
| Undesignated | <u>631,234</u> | <u>753,661</u> |
| Total Net Assets Without Donor Restrictions | <u><u>1,451,608</u></u> | <u><u>1,377,987</u></u> |
| With Donor Restrictions | | |
| Total Net Assets | <u>32,838</u> | <u>24,415</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 1,617,503</u></u> | <u><u>\$ 1,473,746</u></u> |

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 | <u>33,750</u> | <u>(33,750)</u> | <u>-</u> |
| Total Support and Revenue | <u>845,956</u> | <u>8,423</u> | <u>854,379</u> |
| EXPENSES | | | |
| Program Services | 641,880 | - | 641,880 |
| Management and General | <u>130,455</u> | <u>-</u> | <u>130,455</u> |
| Total Expenses | <u>772,335</u> | <u>-</u> | <u>772,335</u> |
| Change in Net Assets | 73,621 | 8,423 | 82,044 |
| Net Assets, Beginning of Year | <u>1,377,987</u> | <u>24,415</u> | <u>1,402,402</u> |
| Net Assets, End of Year | <u>\$ 1,451,608</u> | <u>\$ 32,838</u> | <u>\$ 1,484,446</u> |

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 | <u>(34,545)</u> |
| 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 | <u>(7,372)</u> |
| 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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Liquidity & Availability of Financial Assets

Financial Assets:

| | |
|-------------------------------|----------------|
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| Accounts Receivable | 1,250 |
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| 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

\$ 764,291

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

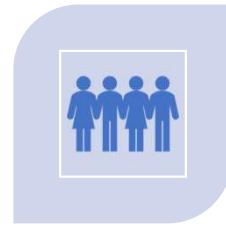
CEO/Executive Director

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



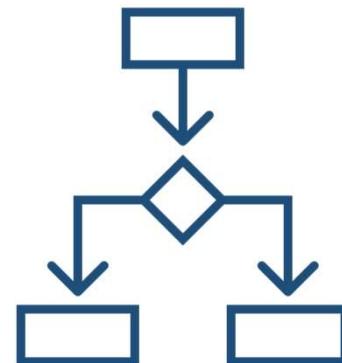
Implementing Internal Controls & Financial Policies

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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