



Facilitator's Guide

Financial Oversight for a Nonprofit Organization

Rationale:

Successful organizations follow regulations and guidelines pertaining to sound financial management practices. Organization leaders and members understand the need for accurate and timely reporting and have in place internal, and if necessary, external rules of management.

Program Goal:

To examine organization processes related to financial management and create an understanding of needs for good financial management practices.

Program Objectives:

- Define the basics of financial practices related to nonprofit organizations.
- Examine appropriate and inappropriate financial practices.
- Distinguish between required and recommended internal controls and their importance to organizations.
- Examine appropriate methods of practice related to organizational finances.

Pre-Program Preparation

- Read and make copies of "Financial Oversight for a Nonprofit Organization" fact sheet (CLD2-11).
- Make copies of *Nonprofit Organization Checklist*, one for each participant.
- Prepare cards from *Appropriate and Inappropriate Financial Practices Activity Cards*.
- Become familiar with content of *Financial Guidelines for CES Volunteer Groups* found in the County Office Procedures section on the CES internal website. <http://ces.ca.uky.edu/manual/financial/intro>
- Provide pens or pencils if needed.

Introduction:

Successful organizations follow sound financial practice guidelines. Individuals who have been entrusted with financial oversight have the confidence of the organization that they will manage the funds in a timely, transparent and accurate manner and understand that the organization's money is not their personal money.

Introductory Activity:

- Ask the attendees the following question: Should a treasurer of an organization be skilled at working with numbers? Why or Why not?
- Let the members respond with ideas, then respond with the following: "Organizational skills and willingness to work with others is just as important in financial management as math skills. A good treasurer will be transparent with the organization's money, be prepared to give timely and accurate reports and will not become defensive when it is voted upon to spend money!"

Objective 1: Define the basics of financial management related to nonprofit organizations

Share: Over the past few years, the regulations for nonprofit organizations have changed. Today, nonprofit organizations are required to file timely reports with the Internal Revenue Service or risk losing their tax exempt status. In addition, they may be required to provide proof of internal controls to an oversight organization. While this may seem like additional and unnecessary work, it is being done in an effort to protect and preserve legitimate nonprofit organizations.

This leadership curriculum was developed by Family & Consumer Science (FCS) agents with University of Kentucky specialists. Examples in the guide are geared toward an FCS audience such as Kentucky Extension Homemakers. This guide may be reproduced or modified for educational or training purposes and used with other audiences.

Learning Activity 1: Financial Practices Checklist

Provide each member with a “Nonprofit Organization Financial Checklist” and give them a few minutes to inventory their club practices. Discuss items on the list with the group and clarify any questions they may have.

Objective 2: Examine internal controls and their importance to organizations

We’ve probably all heard stories of trusted individuals who have misspent business or organization funds. Most groups do not have thousands of dollars, so it is important that each penny is accounted for. While we all have ideas on how funds should be maintained and spent, each organization should have some basic practices in place.

Learning Activity 2: Appropriate or Inappropriate?

Divide the group into smaller groups of six to eight people and distribute activity cards. Ask each group to determine if the statement would be an appropriate or inappropriate activity. Once completed, go over their selections. A guide to the cards follows:

- Keep \$200 petty cash on hand for incidentals. (I) *A volunteer should not be asked to keep cash on hand for incidentals. Reimbursing with a check is a clear way to track expenses. However, if the organization votes to have a petty cash fund, a minimum amount should be retained with a clear accounting of funds/expenditures.*
- Provide a written monthly treasurer’s report to your club and provide a copy to the secretary to be filed with the minutes. (A) *Either a written statement to each member or an oral statement is acceptable as long as there is a copy on file with the minutes.*
- Tell your club members how much money is in the account and provide a written copy to the secretary to be filed with the minutes (A)
- Report an approximate balance on written statement. (I) *Exact amounts should always be reported as the treasurer should be able to account for every penny of the organization’s funds.*
- Put funds into a CD without club members’ approval. (I) *To invest the organization’s funds, treasurers need to secure permission from members and it should be recorded in the organization’s minutes as to the course of action to be taken.*

- Give committee members an approved budgeted amount of cash to spend on supplies. (I) *Cash should not be disbursed to members prior to spending. Members should provide receipts to be reimbursed or a bill to which the treasurer can write a check directly to the vendor to pay for goods.*
- Refuse to reimburse a member’s expense without a receipt. (A) *A receipt should be provided for each expense showing the exact amount to be reimbursed. This provides clear record keeping.*
- Accept funds from a fundraiser that has been counted by a group of members with a statement as to the amount of funds being given. (A) *To avoid discrepancy, more than one person should count funds received during a fund raising event.*
- Give your county extension agent funds to be deposited. (I) *Agents do not have voting power in your organization. Please do not put agents in a position to be held accountable for your funds.*
- Provide a receipt for items sold or received. (A) *Preferably in duplicate or triplicate. This is a written record of a transaction and a reference for tracking finances. One should be given to the person to whom the goods were sold, one retained by the organization and if needed one to the extension office.*
- Pay sales tax on cookbooks sold as a fundraiser. (A) *Although you are a nonprofit, you will still be held accountable to the Commonwealth of Kentucky for sales tax on non-food-related items.*
- File reports with the Internal Revenue Service. *Could be A or I. Not all extension groups will be required to file reports with the IRS. Those choosing exemption through the Extension District Board will not have this requirement. However, Extension Homemaker Clubs and Councils operating as 501(c)(3) are required to file timely reports with the IRS. In addition, all extension homemaker clubs and councils are required to operate by the Kentucky Cooperative Extension Guidelines and provide proof of internal controls to their local extension office.*

Objective 3: Distinguish between required and recommended financial processes and their importance to organizations

Learning Activity 3:

Government regulations play an important role in nonprofit organizations’ financial processes. Some

processes and reports are required by law, and others are simply a product of good financial management. Read the following statements and ask the group to distinguish between a required process and a recommended process.

- **990s** - Tax-exempt organizations must file the appropriate Internal Revenue Service Form 990, 990-EZ, or 990-N annually or risk losing their tax-exempt status. The size of the organization will generally determine the type of form to use. **(Required)**
- **1099s** - If the organization pays for services that would require filing IRS Form 1099-MISC, these forms must be issued to the vendor. Seek advice from a qualified tax expert if you are uncertain about any of these issues. **(Required)**
- **Software** – Financial software is so inexpensive and user-friendly that there is probably no reason not to have computerized records. Accuracy and reporting will certainly be enhanced. **(Recommended)**
- **Annual operating budget** – A budget is a forward looking plan. An account is a backward looking record. Budgets provide a roadmap for the financial future of the organization. **(Recommended but could be required under CES policies)**
- **Financial reports** – Periodic reports of the accounts should be prepared and presented to governing boards and members at least once a year. These should include actual receipts and expenditures with a comparison to the budget and should include a balance sheet to determine the assets and liabilities of the organization. **(Recommended but could be required under CES policies)**
- **Payroll** - If the organization has paid employees, the required federal, state and local withholdings must be collected and submitted to the appropriate agency. Filings and reporting must be carried out by specified deadlines. **(Required)**
- **Signature authority** – Check-signing authority should be clearly defined and limited to designated officers and/or employees. Some circumstances may require two signatures on checks or withdrawals, and under no circumstances should any person sign a check to themselves without another authorized signature. **(Recommended)**
- **Petty cash policy** – Avoid if possible, but if not, retain minimum amounts of cash and use a log system to record receipts and expenditures. **(Recommended)**

- **Spending limits** – Policies should be in place to designate types and levels of expenditures that require higher levels of authorization. **(Recommended)**
- **Financial records retention/destruction** – Records should be filed and stored in a secure location for at least 10 years for most records. End-of-year financial statements, audits, legal correspondence and tax returns should be kept permanently. When records are no longer needed, they should be shredded and disposed of in a secure manner. **(Recommended)**

Objective 4: Examine appropriate methods of practice related to organizational finances

As stated before, we all have ideas on how funds should be saved or spent, but we must keep in mind that an organization's funds are not our own.

Learning Activity 4:

As I read the following situation, listen for basic financial practices.

The Penny Pinchers Extension Homemaker club is hosting their monthly meeting. Betty Jo, club treasurer, has distributed a monthly report which outlines all income and expenditures with an ending balance of \$32,459.16. During new business, club president Mary Lou, states the club has been asked to contribute to the Ovarian Cancer research fund. Member Donna Sue makes a motion to expend \$10 to the fund and Shirley Ann Green seconds the motion. During the discussion portion, Leslie Jean, a relatively new member, questions the low amount since it is such a valuable project and has been proven to save numerous lives. Many opinions follow and Betty Jo states only \$10 is budgeted for the annual expenditure. Linda Lou calls for the vote; motion carries. Betty Jo will mail the check into the state organization tomorrow.

What good financial management practices does the club follow? **(Written financial report, funds accounted for to the penny, voting on expenditures, following budget, treasurer doing what club has voted upon).**

What improvements can be made? **(Nonprofits do not need to keep large amounts of cash on hand which can be a red flag to the IRS and lead to an audit. Leslie Jean can suggest more funds be budgeted to the project for the next year).**

The Kentucky Cooperative Extension Service has established financial guidelines for all extension volunteer groups. Please work with your county extension agent to obtain a copy of the guidelines applicable to your organization.

Summary

It's often said, "Money is the root of all evil." As a nonprofit, you do great works and contribute greatly to your communities. Having sound financial practices in

place provides for an efficiently run organization void of squabbles over money because the finances are transparent and accurate. After all, it's not your money!

References

Culp, III, K., (2012) A Volunteer Leadership Position Description Outline, University of Kentucky College of Agriculture.

Developed by: Jennifer Bridge, Meade County Extension Agent, FCS

Nonprofit Organization Financial Checklist

Self-inventory of your organization's financial practices. Check all that apply.

- _____ Nominating committee secures nominee for position of treasurer and assistant treasurer, checks credentials and if needed interviews candidates to make sure they possess skills to handle funds appropriately.
- _____ A position description has been developed for the office and given to the candidates so they know what their responsibilities will be.
- _____ Treasurer position has set term limits and guidelines are followed when electing a treasurer/assistant treasurer.
- _____ A financial committee is in place which provides insight into budget, spending recommendations, audit and review of books, retention/disposal of records and provides assistance as needed.
- _____ An annual budget is prepared, presented and voted upon by members of the organization.
- _____ Budgets are followed throughout the year to determine spending.
- _____ Timely reports detailing income and expenditures are provided to members, voted upon and provided for filing.
- _____ Fundraising events are detailed with income and expenditures as part of a separate report.
- _____ Receipts are given in duplicate or triplicate for funds received.
- _____ If applicable, sales tax is paid to the Kentucky Revenue Service on sale of non-food items.
- _____ IRS 990's are filed annually and on time with the Internal Revenue Service and reported back to the membership.
- _____ Audits are conducted in a timely manner and reports of findings are presented to members and are filed for future reference.
- _____ Audit recommendations are implemented, if applicable.
- _____ Appropriate financial information is given to the local extension office to be placed on file depending on your 990 status.

Jennifer Bridge, Meade County Extension Agent for Family and Consumer Sciences, handout for use with KELD Financial Oversight for a Nonprofit Organization

Appropriate and Inappropriate Financial Practices Activity Cards

<p>Keep \$200 petty cash on hand for incidentals.</p>	<p>Give committee members an approved, budgeted amount of cash to spend on supplies.</p>
<p>Provide a written monthly treasurer's report to your club and provide a copy to the secretary to be filed with the minutes.</p>	<p>Refuse to reimburse a member's expense without a receipt.</p>
<p>Tell your club members how much is in the account and provide a written copy to the secretary to be filed with the minutes.</p>	<p>Accept funds from a fundraiser that has been counted by a group of members with a statement as to the amount of funds being given.</p>
<p>Report an approximate balance on written statement.</p>	<p>Give your county extension agent funds to be deposited.</p>
<p>Put funds in a Certificate of Deposit without members approval.</p>	<p>Provide a receipt for items sold or received.</p>
<p>Pay sales tax on cookbooks sold as a fundraiser.</p>	<p>File reports with the Internal Revenue Service.</p>