WELCOME AFFILIATES

• All attendees are in listen only mode for the presentation.

• This webinar is being recorded.

• We will do our best to answer your questions. We will compile the questions and will develop a FAQ document.

• Reach out to your RD with any additional questions or concerns.

• THANK YOU!
FINANCIALS

Financial Overview | ACE Tools

Financial Operation of an Affiliate

Compliance (P&L: Financial Record Keeping)

Budgets - Insurance overview

Q&A

DIANA EIDENSHINK

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ACE GREATER PHILADELPHIA

SHERYL TSCHIMPKE
ACE NORTHEAST FLORIDA

DIANA EIDENSHINK
WHY IS UNDERSTANDING THE PRINCIPLES OF ACCOUNTING SO FUNDAMENTALLY IMPORTANT?

• Without strong accounting principles, your affiliate may struggle to fulfill our mission and achieve our goals.

• As a nonprofit, we must account for every penny that is received. Without the proper accounting knowledge and tools, this task can be complicated and confusing to maintain.

• Without an understanding of accounting, nonprofits may be prone to issues such as losing their non-profit status or lost of money.
Many aspects of nonprofit and for-profit business accounting and financial management are similar. However, some significant differences exist due to the nonprofit’s duty to direct its resources toward its mission. Not-for-profit accounting requires functional expense tracking, i.e., identifying which expenses relate to program, fundraising, and administrative functions.

This chapter presents financial management best practices relevant to ACE and its affiliates.
## FINANCIAL MANAGEMENT MATURITY MATRIX

<table>
<thead>
<tr>
<th>Maturity Levels</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Level 4</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Affiliate</strong></td>
<td>Affiliate has established internal system of financial checks and balances so that basic fiscal responsibilities are divided among different individuals to prevent possible fraud.</td>
<td>Affiliate annually develops a budget, files tax reports, renews charitable registration (if required), and prepares P&amp;L and Balance statements.</td>
<td>Affiliate Board has established Finance Committee that sets and oversees financial policies and procedures, created a fundraising strategy to achieve financial goals, and begun to secure multi-year sponsorships.</td>
<td>Affiliate has a reliable stream of contributions, accumulated a reserve of 3-6 months operating expenses, and created a safe investment strategy for funds held against future obligations, especially scholarships.</td>
</tr>
</tbody>
</table>
PURPOSE OF THE FINANCE COMMITTEE

AS DEFINED BY YOUR AFFILIATE’S BYLAWS (GREATER PHILADELPHIA):

- Shall be composed of Treasurer, Chairman, Affiliate Director and other members as elected by the Board of Directors
- Oversee the financial stability of corporation
- Prepare corporation’s annual budget *
- Work with outside firm for tax filings and audits *
- Oversee accounts payable and accounts receivables as well as balance sheets and financial documents

* ANNUAL REQUIREMENT
POWERS AND DUTIES OF THE TREASURER

AS DEFINED BY YOUR AFFILIATE’S BYLAWS (GREATER PHILADELPHIA):

• Chairs the Finance Committee (or may designate a Chair of that committee)
• Responsible for the custody and investment of all funds
• Signs checks (i.e., bill pay via online banking, etc.)
• Keeps full and accurate accounts of receipts and disbursements
• Sees that the Board receives financial statements
• Assures timely filing of reports to the IRS and other government agencies *

* ANNUAL REQUIREMENT
ANNUAL STATE REQUIREMENTS

BEYOND the 990, W-2s, W-9s, 1099s, 1096, 941s, etc.:

- Charitable Organization Registration/Renewal (solicitation of funds)

- Sales and Use Tax Blanket Exemption Registration

- Employer’s Quarterly Gross and Taxable Wage Report to Unemployment Office
**SEPARATION OF FISCAL RESPONSIBILITIES**

**RECOMMENDATION:** Define specific actions and responsible parties on a calendar or checklist to ensure strong fiscal accountability (sample actions below)

<table>
<thead>
<tr>
<th>Due Date</th>
<th>Action</th>
<th>Treasurer</th>
<th>Book-keeper</th>
<th>Chair</th>
<th>Affiliate Director</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nov 15</td>
<td>Coordinate filing of annual IRS Form 990 with external auditor</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monthly</td>
<td>Allocate income/expenses from bank statement to QuickBooks</td>
<td>X</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Ongoing</td>
<td>Issue vendor payments and scholarship checks upon designated approval process</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
HOW SHOULD I KEEP TRACK OF OUR FINANCES?

RECOMMENDATION: Utilize QuickBooks Online or a similar low-cost platform to manage your affiliate’s financials

• Multiple users and cloud based (no software downloads or updates)
• Transactions load automatically once connected to your bank account(s)
• Advanced users may use invoicing, electronic payments, payroll, etc. (only use if it simplifies tasks)
HOW SHOULD I KEEP TRACK OF OUR FINANCES?
FISCAL YEAR BUDGETING TIPS:

- Show proposed budget in relation to three (3) prior years of Profit & Loss Statements (if applicable)
- Track restricted vs. unrestricted income (grants, donors, etc.)
- Utilize account numbers for Chart of Accounts (Unified accounts for non-profits)

PROFIT + LOSS REPORTING TIPS:

• Align income and expense categories with standard reporting requirements (i.e., Form 990, external audit, grant applications, etc.)
• Record In-Kind income and expenses (especially for grant application financials)
• Report year-over-year progress to the Board and/or Finance Committee on a quarterly basis
BALANCE SHEET REPORTING TIPS:

- Show balance sheet in relation to three (3) prior years (if applicable)
- Strive to maintain a reasonable range of retained earnings
  - For example, anything less than three (3) months of operating expenses might be too little, and more than twelve (12) months of operating expenses might be too much
### BALANCE SHEET REPORTING TIPS:

<table>
<thead>
<tr>
<th>Assets</th>
<th>06/30/18</th>
<th>06/30/19</th>
<th>06/30/20</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1000: Cash - Operating Account</td>
<td>$129,629</td>
<td>$116,569</td>
<td>$119,971</td>
<td>TD Bank Operating Account (5755)</td>
</tr>
<tr>
<td>1001: Cash - Scholarship Account</td>
<td>$200,444</td>
<td>$201,802</td>
<td>$159,266</td>
<td>TD Bank Scholarship Account (6999)</td>
</tr>
<tr>
<td>1200: Accounts Receivable</td>
<td>$-</td>
<td>$1,000</td>
<td>$6,000</td>
<td>SADV, SMPS</td>
</tr>
</tbody>
</table>
SCHOLARSHIP MANAGEMENT TIPS:

- Utilize two bank accounts (operating vs. scholarship)
- Fully fund/transfer all scholarship awards (liabilities) at time of award
- Decide to redistribute expired scholarship funds to students vs. to fund operations (i.e., use for grad school students, or to fund new scholarship awards)
COMPLIANCE & FINANCIAL REPORTING

Why is compliance and financial reporting so important?

• Allows for effective and timely financial decision making.

• Allows for ongoing monitoring of the financial performance of the organization to identify unexpected results compared to annual budgets.

• Required for annual compliance filings with the IRS and applicable state filings.

• Good financial reporting is critical to obtaining certain grants. Certain grants require the organization to obtain an audit that cannot be performed without good financial reporting and retention of records.
BEST PRACTICES FOR COMPLIANCE AND FINANCIAL REPORTING - EXTERNAL

A FEW TIPS TO FOLLOW:

• Review annually the filing requirements for the applicable Department of State –
  • Annual report filing
  • Filing requirements for solicitation of contributions

• Review annually the filing requirements with the IRS – Form 990 (Postcard or Long Form)

• Make a checklist of all applicable required for state and federal filings, noting filing deadlines

• Create reminders annually to ensure filing deadlines are met
BEST PRACTICES FOR COMPLIANCE AND FINANCIAL REPORTING - INTERNAL

A FEW TIPS TO FOLLOW:

- Prepare a budget for the fiscal year to be reviewed and approved by the board
- Use an accounting software such as Quickbooks for financial reporting
- Establish a finance committee to include individuals that have knowledge of nonprofit reporting
  - Look at industry specialist in public accounting to join
  - CFOs in industry looking to get involved
- Maintain up to date records for all sponsorships and grants received and scholarships awarded – reconcile to the financial statements periodically for accuracy
- Work directly with fundraising committee and scholarship committee to set expectations based on expected budgets during the year
- Monitor cash reserve requirements as established by the board (3-6 months operating expenses)
- Provide at board meetings a snapshot of the financial position of the organization and any unexpected variances between budget to actual

FORMAL POLICIES AND PROCEDURES ESTABLISH FOR:

- Accounting policies that are reviewed and approved by the board
- Finance committee roles and responsibilities to be reviewed periodically
AFFILIATE COSTS

There is an estimating tool for setting a budget for an affiliate to estimate the costs of the insurance coverage and other national costs in the affiliate tool kit.

<table>
<thead>
<tr>
<th>Income</th>
<th>0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fundraising Revenue</td>
<td></td>
</tr>
<tr>
<td>Other Revenue</td>
<td></td>
</tr>
<tr>
<td>Inkind Gifts*</td>
<td></td>
</tr>
<tr>
<td>Total Income</td>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses</th>
<th>0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student Snacks</td>
<td></td>
</tr>
<tr>
<td>Program Supplies</td>
<td></td>
</tr>
<tr>
<td>Student Transportation</td>
<td></td>
</tr>
<tr>
<td>Fundraising Expense</td>
<td></td>
</tr>
<tr>
<td>Insurance</td>
<td></td>
</tr>
<tr>
<td>Background Checks</td>
<td></td>
</tr>
<tr>
<td>Scholarships</td>
<td></td>
</tr>
<tr>
<td>Total Expenses</td>
<td>0</td>
</tr>
</tbody>
</table>

ANNUAL COSTS

- INSURANCE
- ADMINISTRATION FEE
- BACKGROUND CHECKS
Total Insurance Premium for 2019-2020: $205,051
Renewal for current package: $226,459
Difference: $21,408
New Package: $148,872
Savings: $56,179

<table>
<thead>
<tr>
<th></th>
<th>2019-2020</th>
<th>2020-2021</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per Student</td>
<td>$14.97</td>
<td>$9.70</td>
<td>($5.27)</td>
</tr>
<tr>
<td>Per Mentor</td>
<td>$16.69</td>
<td>$9.76</td>
<td>($6.93)</td>
</tr>
<tr>
<td>Per Affiliate</td>
<td>$343.26</td>
<td>$429.59</td>
<td>$86.33</td>
</tr>
<tr>
<td>Admin Fee</td>
<td>$20</td>
<td>$10</td>
<td>$10</td>
</tr>
</tbody>
</table>
We will start the Q&A now, please continue to use the chat feature in GoToWebinar dashboard.

We will compile the Q&A in a follow-up document with a link to the recording of today's session.