

FINANCIAL OPERATIONS

April 21, 2022

REDF

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BDO FMA



Today's Session

Financial Operations

- ▶ Session 1 review
- ▶ Team-based practices: planning & performance management
- ▶ Levels of financial management & fiscal staffing
- ▶ Internal controls and technology



Money Stories

- ▶ What messages did you get from your family and/or community about money?
 - ▶ How were you expected to use your own money when you had it?
 - ▶ What beliefs do you have about spending and saving money?
 - ▶ How do these histories show up at work?
-
-

Financial Resilience



Operating Reserves

Reserves indicate long term financial health & flexibility - our safety net and our resources to invest in change & growth

WHAT ARE THEY?

- ▶ Reserves are like a savings account
 - ▶ Liquid
 - ▶ Unrestricted
 - ▶ Net of debt

WHY DO WE NEED THEM?

- ▶ Serve the mission during downturn
- ▶ Take risks, innovate and grow
- ▶ Cover frontloaded expenses

HOW DO WE BUILD THEM?

- ▶ Annual surpluses
- ▶ Fundraising campaign or investment
- ▶ Strategic budgeting

Sustainable Business Model: Revenue Characteristics



Your revenue mix:

a) Does it fund “true cost”?

b) Does it generate reserves?

c) Is your infrastructure well-matched?

Foundations, Corporate & Individuals

- ▶ Restricted requires strong accounting
- ▶ Inequitable access
- ▶ High-touch cultivation
- ▶ Requires adequate technology
- ▶ Giving may be inconsistent
- ▶ Fundraising, finance and program collaborate to source and vet opportunities
- ▶ Individuals require more transactional capacity

Earned Revenue & Special Events

- ▶ Unrestricted, more controllable
- ▶ Requires true cost analysis for pricing
- ▶ Potential for mission drift or drain on program staff
- ▶ Beware of rules (UBIT, charitable income tax deduction)

Government

- ▶ Large, multi-year
- ▶ Reimbursement requires other recurring source of liquidity
- ▶ Does not fund true cost - requires supplemental unrestricted
- ▶ Doesn't contribute to reserves
- ▶ Finance & program collaborate to track spend down
- ▶ Complex compliance, billing & invoicing

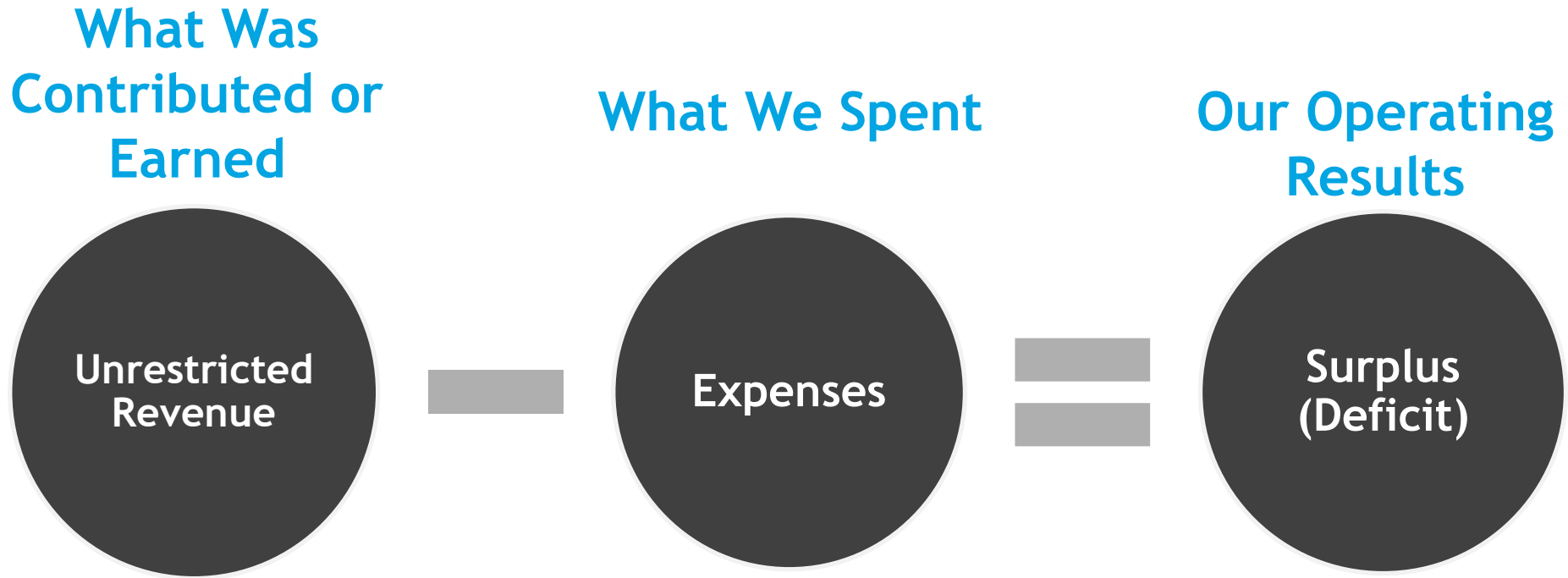
Key financial health indicators:

Operating results

Months of cash on hand

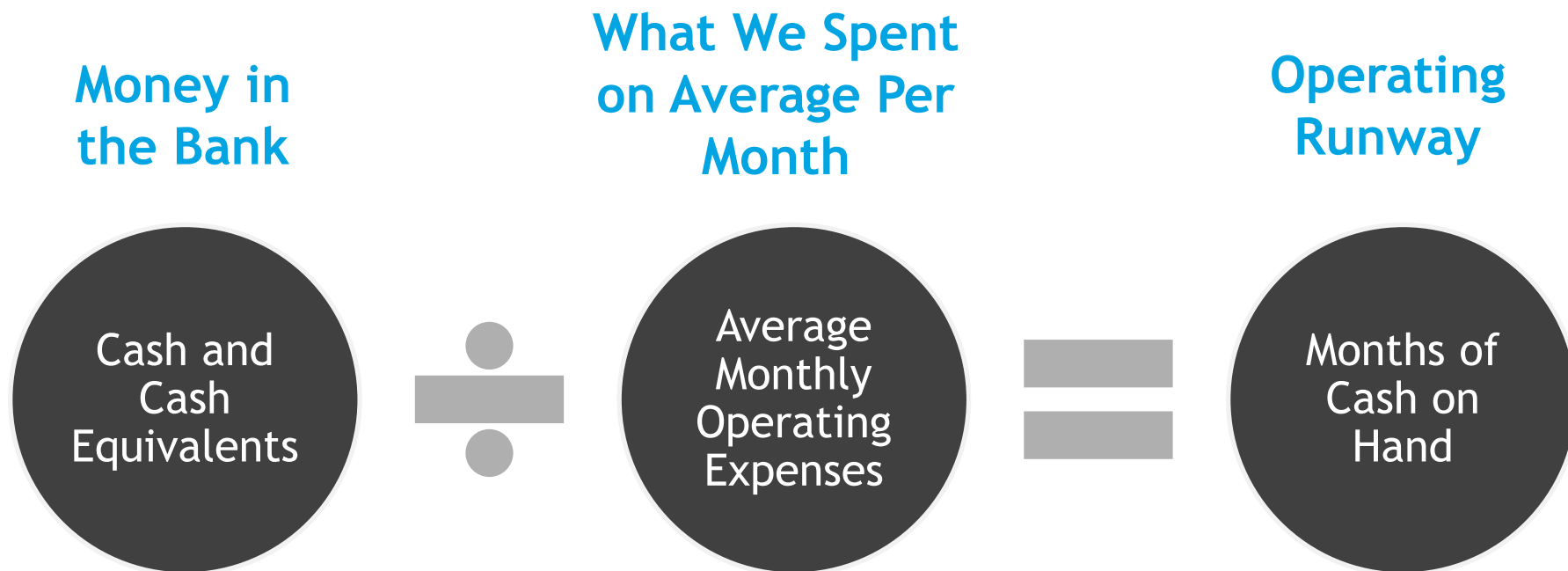
Months of Luna

Operating Results



Indicates increasing or decreasing resources

Months of Cash on Hand



Liquid Unrestricted Net Assets (LUNA)

Our Unrestricted Net Worth

Unavailable Net Worth

Operating Reserves

Unrestricted Net Assets

Illiquid Net Assets

Liquid Unrestricted Net Assets

Differs from cash
“unrestricted”: excludes resources that are restricted
“net”: subtracts what we owe

Manual calculation to exclude resources that are relatively *illiquid*

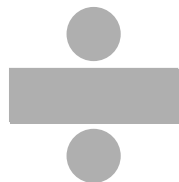
Our available, flexible resources

Months of LUNA

Operating
reserves

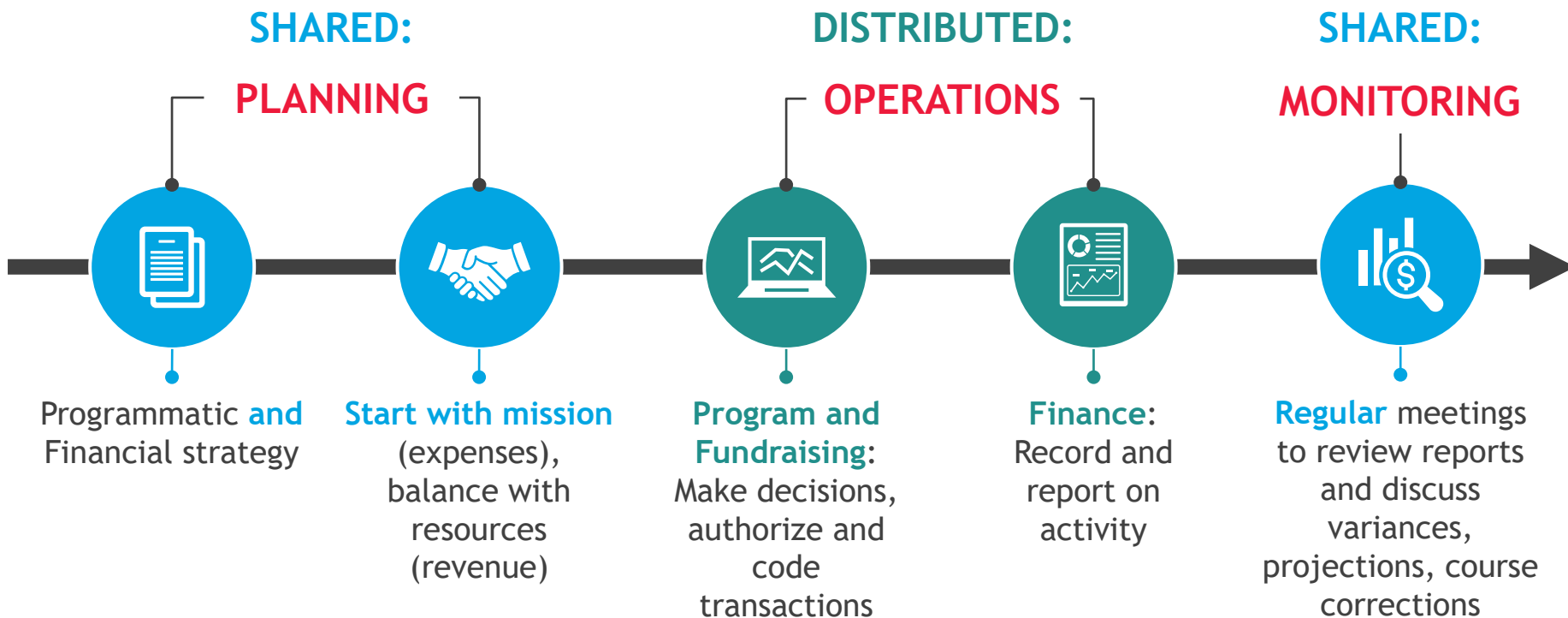
What is spent on
average per
month

Months of LUNA



Key indicator of financial
health and flexibility

Team-Based Finance Practices



FINANCIAL PLANNING

A Budget Is...



An **OUTCOME** of the financial planning process



An **ACTION PLAN** stated in Dollar Terms



An **EXPRESSION** of an Organization's Values

Annotation Activity

- At the top of your screen, select “View Options” next to the green bar:

You are viewing Hillary Dale's screen

View Options ▾

- Select the “Annotate” option:

Request Remote Control

Annotate

◀ Side-by-side mode

- From the toolbar, select the stamp option:

Mouse

T
Text

~
Draw

✓
Stamp

→
Arrow

Eraser

Format

Undo

Redo

Clear

Save



START

1. Form a budgeting team and set objectives

2. Confirm financial & programmatic goals

5. Project monthly cash receipts and expenses

4. Give team budget template to input revenue & expense

3. Provide current financial reports & projections

6. Assess if budget meets organization goals and values

7. Determine gaps and negotiate solutions

8. Create contingency plans

10. Solicit feedback from finance committee

9. Write a budget narrative

11. Present budget to board for approval

12. Debrief with the team

13. Enter approved budget into the accounting system

END

Budgeting: Commonly Overlooked Items



Team-based financial goal setting



Assessing if budget reflects values



Budgeting for capital expenses/depreciation



Negotiation process



Contingency Planning

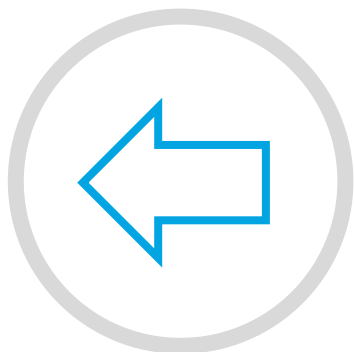


Debriefing process, planning improvements



Entering budget in accounting system for BvA

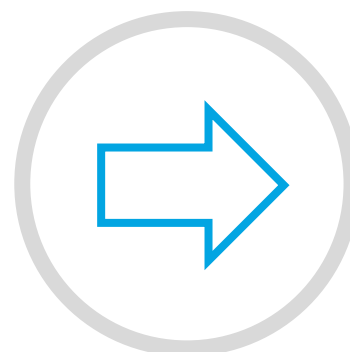
Financial Decision-making Meetings



BACKWARD LOOKING

Discuss any *significant* BvA variances
(don't sweat the small stuff)

Discuss any timing considerations



FORWARD LOOKING

Discuss revenue outlook:
what actions are needed to meet goals?

Discuss anticipated spending:
what actions are needed to meet goals?

Monitor and project cashflow

Financial Decision-Making Meetings



What else can
teams check in
with each other
about?



Monitor contract **spend down**



Monitor activities
under **restricted funds**



Discuss **collection strategies** for aged
receivables



Understand how programs,
grants, and contracts fit
into the **big picture**

Levels of Financial Management



STRATEGIC

Lead and support organizational financial planning and monitoring



MANAGERIAL

Ensure finance is effectively carrying out its operational responsibilities



TRANSACTIONAL

Perform day-to-day accounting functions, data entry, and finance administrative tasks

Adapted from Jeanne Bell Peters and Elizabeth Schaffer, *Financial Leadership for Nonprofit Executives: Guiding Your Organization to Long-term Success* © 2005

Levels of Financial Management



STRATEGIC

- ▶ Conducts strategic financial planning, budgeting, and forecasts
- ▶ Reviews financial reports for strategic decision-making and course corrections
- ▶ Provides oversight and vision for the finance team and fiscal operations



MANAGERIAL

- ▶ Maintains fiscal policies & procedures, oversees internal controls and ensures compliance
- ▶ Leads monthly close & reconciliations, ensures general ledger quality
- ▶ Generates financial reports, monitors cash flow
- ▶ Manages audit process



TRANSACTIONAL

- ▶ Processes accounts payable, cash disbursements
- ▶ Creates invoices, processes accounts receivable and cash receipts, makes deposits
- ▶ Maintains accounting files, processes 1099 forms and prepares journal entries

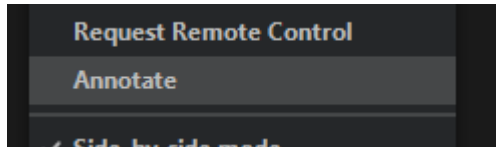
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Annotation Activity

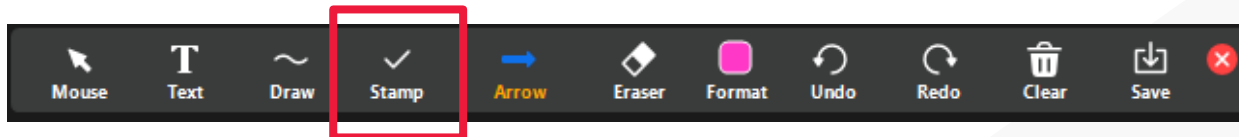
- ▶ At the top of your screen, select “View Options” next to the green bar:



- ▶ Select the “Annotate” option:



- ▶ From the toolbar, select the stamp option:



Annotation Activity

1. Take a moment to think about the following questions:



Where do you think the team at your organization spends the most time/energy on financial management?



Where do you think there are gaps?

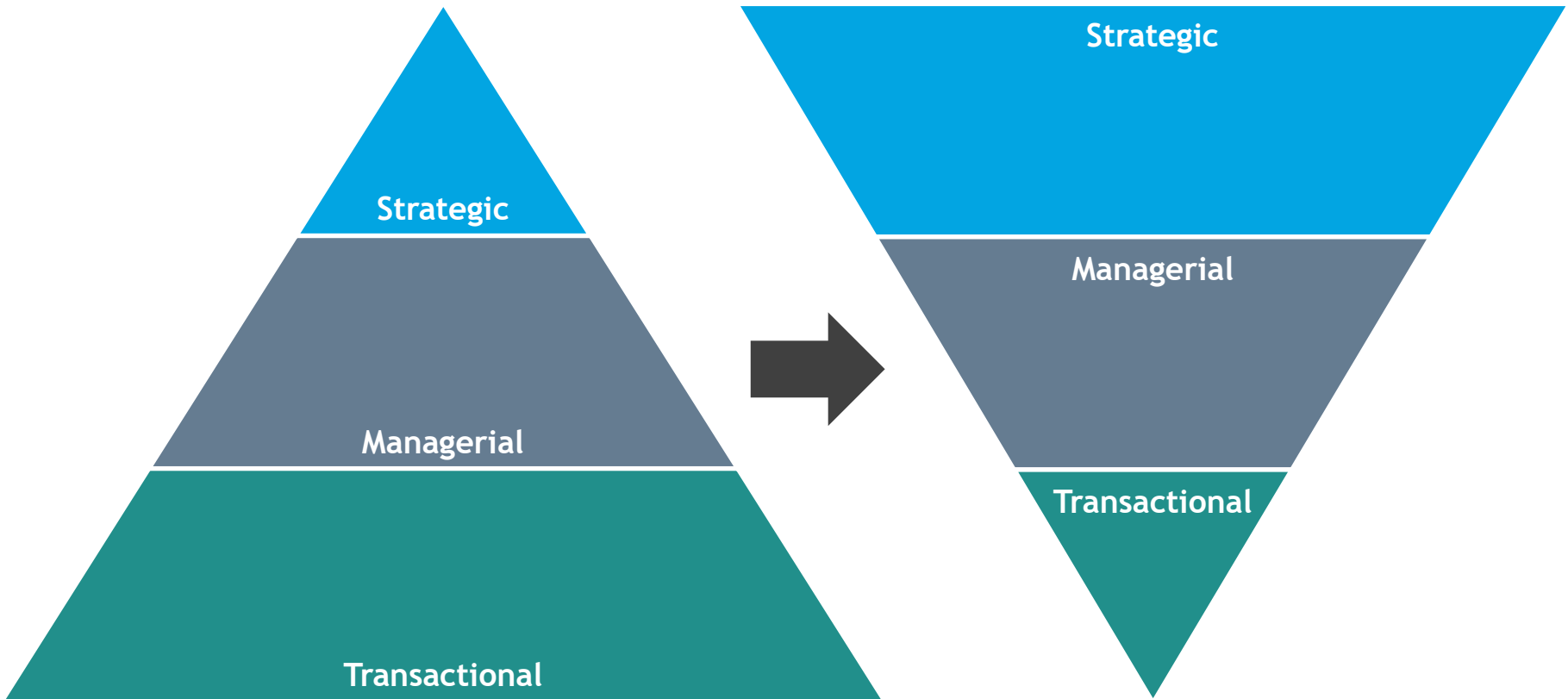
2. Use the above stamps to indicate your answers to the questions

STRATEGIC

MANAGERIAL

TRANSACTIONAL

Financial Management



Adapted from Jeanne Bell Peters and Elizabeth Schaffer, *Financial Leadership for Nonprofit Executives: Guiding Your Organization to Long-term Success* © 2005

Finance & Accounting Responsibilities



Controllership

- ▶ General Ledger quality
- ▶ Transactions (AP, AR, Billing, Payroll)
- ▶ Production of financial reports
- ▶ Reconciliations
- ▶ External audit



Planning & Performance Management

- ▶ Budgeting process
- ▶ Scenario planning
- ▶ Forecasting and budget-to-actuals monitoring



Grants Management & Compliance

- ▶ Grant and contract monitoring
- ▶ Fiscal policies and procedures
- ▶ Funder invoices

Fiscal Staffing at Your Organization?

STAFF

- ▶ Access information and accounts quickly
- ▶ More difficult to staff all levels appropriately
- ▶ Hiring senior finance leaders particularly difficult right now
- ▶ Long-term investment in infrastructure
- ▶ Long-term commitment to salary
- ▶ Builds team, culture
- ▶ Often higher associated costs than with outsourcing

OUTSOURCED

- ▶ Leverage fractional resources to get specialized capacity at any level
- ▶ Often higher per hour cost, though potentially lower overall cost
- ▶ Doesn't build team, culture
- ▶ Not long-term investment in infrastructure
- ▶ May serve other clients/not always available
- ▶ Org may not have control over systems in use, operational practices
- ▶ Still need someone in-house for strategy and to manage the relationship
- ▶ Can be powerful interim/transitional solution

FISCAL SPONSORSHIP

- ▶ Financial planning and monitoring still led by project
- ▶ Project may not have control over systems in use, operational practices
- ▶ Ask key questions about fiscal infrastructure and services when vetting potential sponsors
- ▶ Select sponsor with sufficient fiscal infrastructure, use detailed agreement
- ▶ Significant fixed assets often a barrier
- ▶ Often higher fees associated with government contracts
- ▶ Transitioning grants and contracts takes time and care
- ▶ Plan for sufficient runway to transition to standalone (1 year +)

Poll: What is the fiscal staffing model at your organization?

1	Internal finance-only staff
2	Internal finance staff who's role also includes other functions (HR, office management, etc.)
3	Combination of internal staff and outsourced
4	Outsourced
5	Fiscally sponsored
6	We have a different model, or our model is currently changing

Fiscal staffing

IN A BREAKOUT ROOM:

- ▶ Introduce yourselves, sharing your organization and role
- ▶ What is your finance staffing model? Has it been consistent or changed over time?
- ▶ Where do you experience the most capacity constraints - at the strategic, managerial or transactional level?
- ▶ What other models might you consider? What would be the opportunities or challenges in making a change?



Thoughts & Questions





Break

Internal Controls

WHY DO WE NEED INTERNAL CONTROLS?

1

Protect resources from waste, loss, theft, or misuse

2

Ensure Resources are used appropriately in accordance with stakeholder expectations, monitoring agencies, and your budget and plan

3

Produce reliable financial statements that are based on accurate and verifiable data



Internal Controls: Three Key Areas



Influencing
Culture;
“tone at the top”



Policies &
Procedures



Leveraging
Technology

Internal Controls

Controls should be in place in each of these accounting cycles:



Internal Controls

SEGREGATION OF DUTIES

NO ONE PERSON SHOULD:



Perform all functions within an accounting cycle



Have the ability to cover up an intentional or unintentional accounting error

Essential Internal Controls

- ▶ **Deposits:** the same person who logs checks received in the mail is not also responsible for depositing those checks
- ▶ **Payments:** Checks are signed (or the payment is otherwise authorized) by someone who is not also tasked with cutting the checks or initiating electronic payments
- ▶ **Vendors:** An objective person periodically reviews the list of all vendors
- ▶ **Bank Statement Reconciliation:** Someone who is not processing payments reconciles the bank account monthly. If this is not possible, at the very least a Board member should receive and review an unopened bank statement.
- ▶ **Physical Controls:** check stock and cash is maintained in a locked drawer; computers are password protected
- ▶ **Documentation:** Receipts are required for purchases over a certain threshold; timesheets for hourly staff are approved by a supervisor

Software Solutions

POLL:

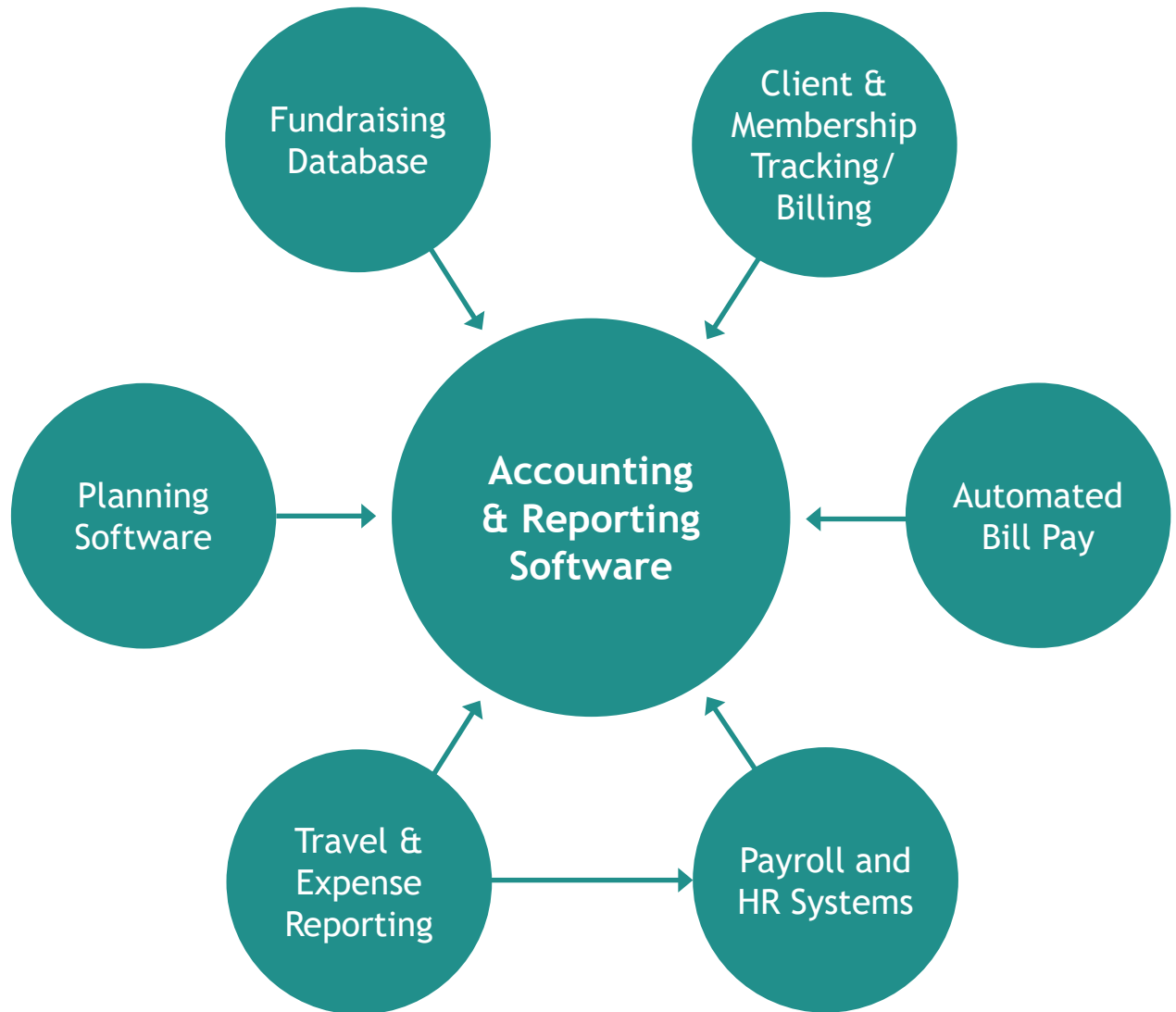
What types of software solutions are currently in use at your organization? (select all that apply)

ENTER IN CHAT:

What specific Accounting system to you use? (ex: QuickBooks)



Software Systems





Poll:

Is your annual operating budget uploaded to your accounting system for budget vs actual reporting directly from the system?

Are you able to report on financial activity *by program* directly from your accounting system?

Are you able to report on spending by funder directly from your accounting system?

Flexible Chart of Accounts, QuickBooks example

CHART OF ACCOUNTS:

- ▶ Assets
 - ▶ Liabilities
 - ▶ Net Assets
-
- ▶ Revenue
 - ▶ Expenses

Class

Program

M&G

Fundraising

Sub-Class

Program A

Program B

Sub-Class
Level 2

Customer

Funder 1

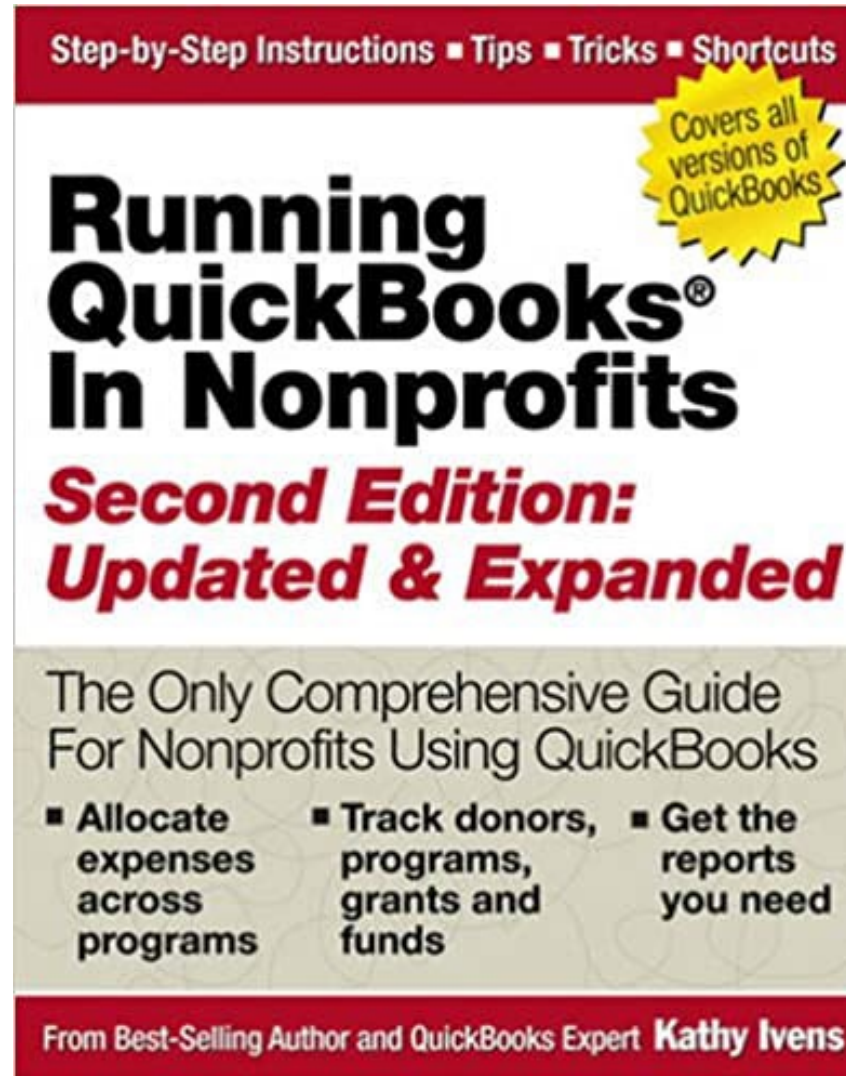
Funder 2

Job

Grant A

Grant B

Recommended Resource



Accounting Software Functionality

BASIC FUNCTIONALITY

- ▶ Flexible Chart of Accounts
- ▶ Modules for
 - Accounts Payable
 - Accounts Receivable
- ▶ Reporting against budgets
- ▶ Customizable reports
- ▶ Ability to import/export data
- ▶ View-only access for end-users

DIFFERENTIATORS

- ▶ Fund accounting
- ▶ Automated allocations
- ▶ Cloud capability / Web-hosting
- ▶ Paperless document management
- ▶ Dashboards
- ▶ Electronic workflow routing
- ▶ Purchase requisitions

Commonly used systems



Blackbaud Financial Edge NXT™



Software System Options

WHAT COULD WORK AT YOUR ORGANIZATION?

- ▶ Banking Technology
 - ▶ Expense Management Software
 - ▶ Online Bill Pay & Automated Check Writing
 - ▶ Payroll and Time & Attendance
- ▶ Automated AR & Payments
 - ▶ Monthly Close Workflow
 - ▶ Fundraising
 - ▶ Budgeting & Planning
 - ▶ Dashboards



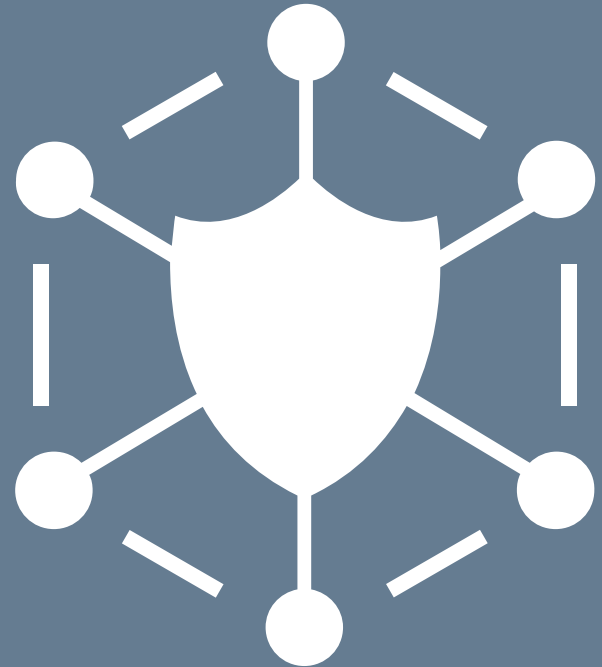
Banking Technology

EFFICIENCIES

- ▶ Electronic transfers: Reduced need for check issuance
- ▶ Remote deposit: Check scanning

CONTROLS

- ▶ Positive pay: Ensures checks are only paid to verified vendors
- ▶ ACH block and filters: Prevent unauthorized outsiders from accessing or removing funds from an account



Expense Management Software

Technology: Automated Travel and Expense Reporting Systems



Web-based,
mobile access



Scan or take a
picture of
receipts/
documentation



Electronic
approval
routing



Direct
connections
to: credit
cards, payroll,
accounting
system



Electronic
audit trail

Online Bill Pay & Automated Check Writing

AUTOMATED CHECK WRITING SERVICES PROVIDE:

- ▶ Automated invoice approval workflow that be accessed via any computer or mobile device
- ▶ Integration with accounting software
- ▶ Can use paper checks or EFT
- ▶ Elimination of the manual process of cutting and mailing checks
- ▶ Electronic archiving
- ▶ Simplified deposit process



Commonly used systems

Expense Management

Tallie

nexonia



Online Bill Pay & Automated Check Writing

bill.com

tipalti
Global Multi-Entity
Payables Automation

yooz
Cloud P2P Automation. Easy. Powerful. Smart.

 **Anybill**





How do you choose?

Setup and ongoing costs

Reputation

Ease of setup and ongoing use

Configuration/customization

Support & Training

Integration of data flow



How do you choose?

Prioritize inflows and outflows:

- Online Bill Pay & Automated Check Writing
- Expense Management Software
- Alternative Payment Options
- Accounts Receivable Workflow

Start with low hanging fruit: Banking Technology

Hourly/Part-Time Employees: Time & Attendance

Larger Organizations: Monthly Close Workflow



What does implementation look like?

Who needs to be involved in the process?

Why this solution and why now?

What is the time commitment for implementation?

What barriers might you face?

What training and communication is necessary for success?

Successfully managing change

What experiences have you had managing a significant change with a team of people?

- What made it successful?
- If it was unsuccessful, why do you think that may have been?

Tips for successful change management:

- Plan a communication strategy, and communicate early and consistently
- Ensure all effected by the change have an opportunity to participate in designing and implementing the change
- Be specific and transparent about the benefits and challenges, the knowns and unknowns
- Be realistic about the time horizon
- Use documentation and tools like a RACI matrix

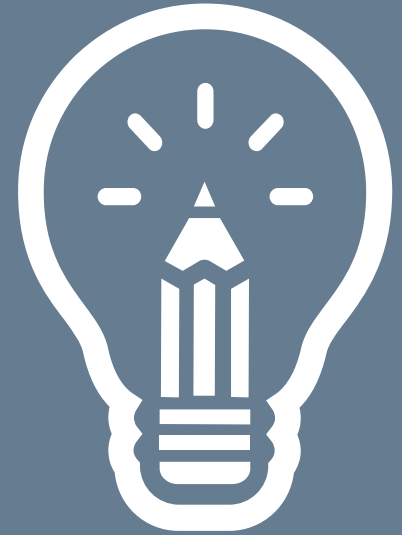
Thoughts & Questions



Resources & Wrap Up

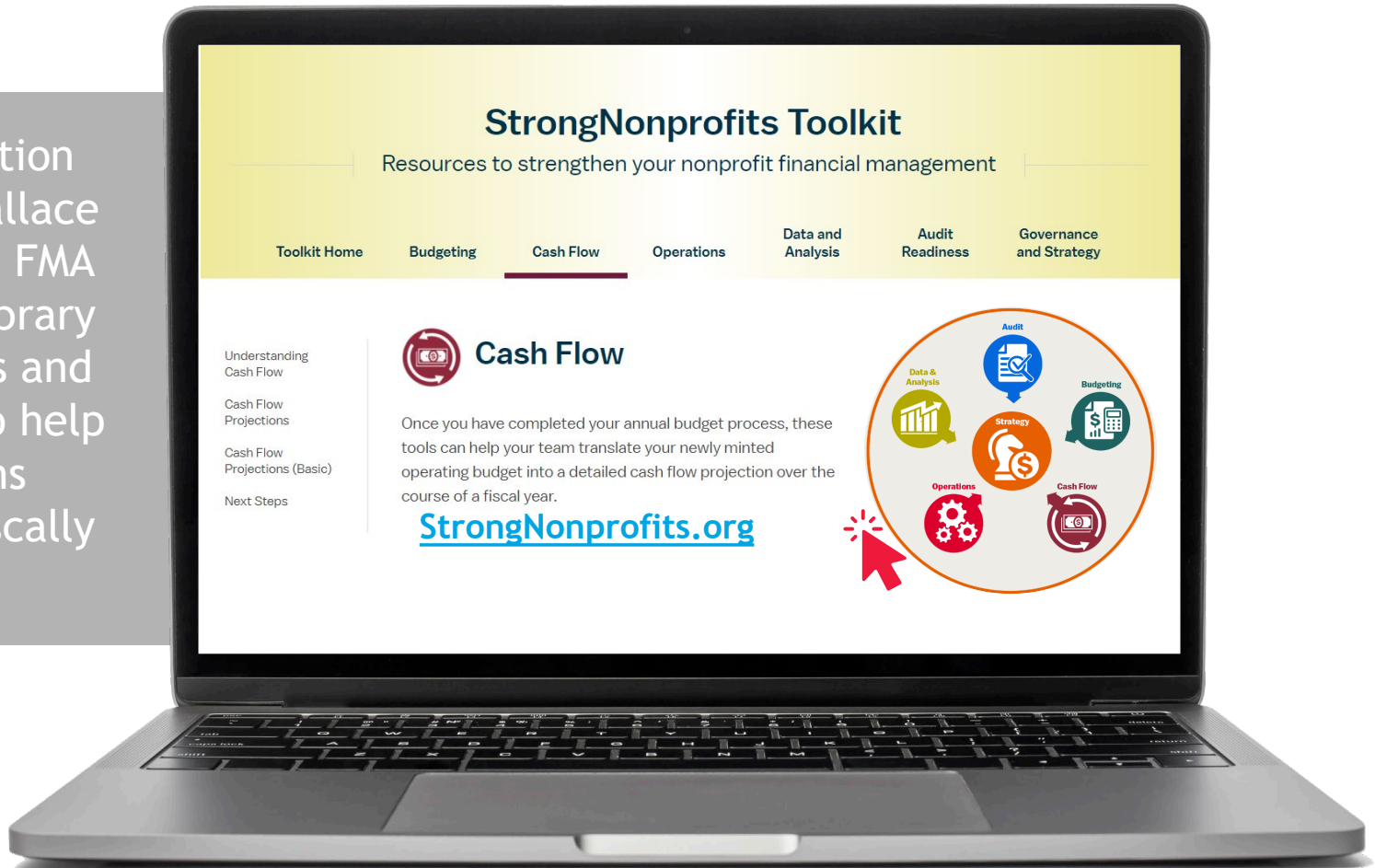
In the chat

What is your biggest takeaway
from today's session?

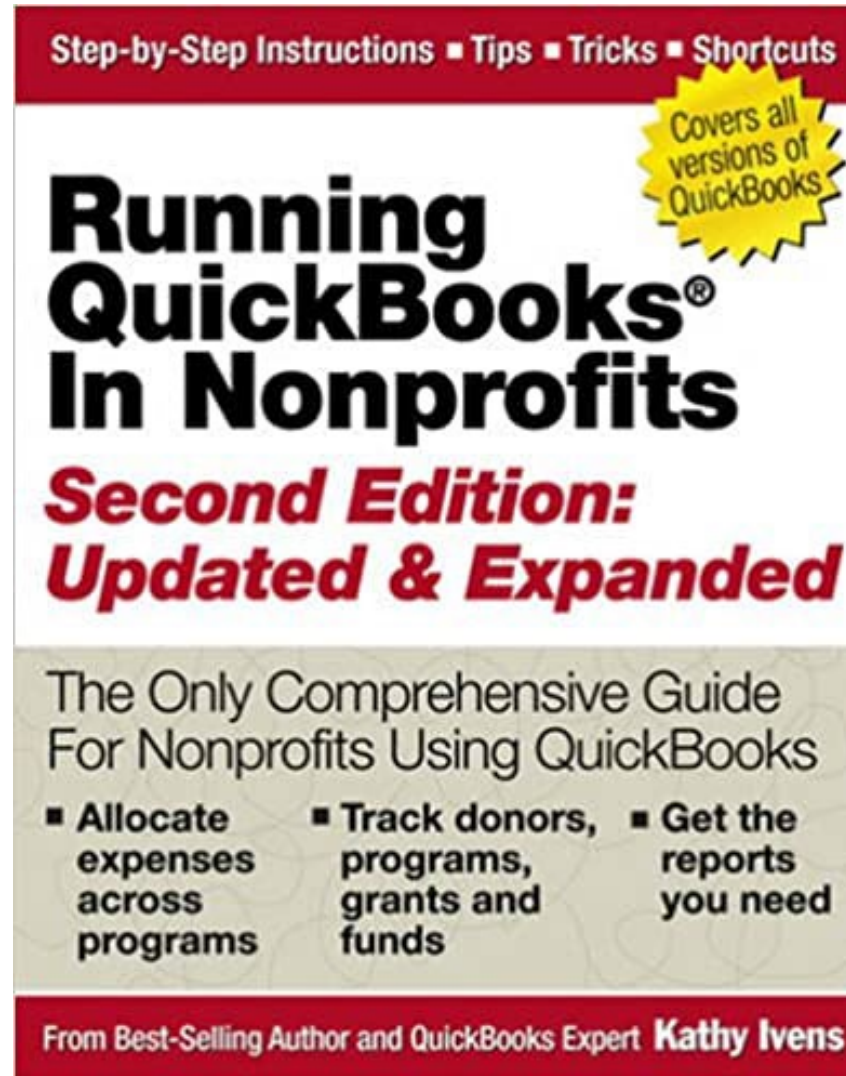


Financial Management Resources

In collaboration with the Wallace Foundation, FMA created a library of free tools and resources to help organizations become “fiscally fit”.



Recommended Resource



Fiscal Management Activities Calendar

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BDO FMA exists to build a community of individuals with the confidence and skills to lead organizations that change the world.

- ▶ Established in 1999 to serve not-for-profit organizations around the country – combined with BDO in 2021
- ▶ Provides customized financial management, accounting, software, organizational development, and other consulting services
- ▶ Works directly with organizations or through funder-supported management and technical assistance programs



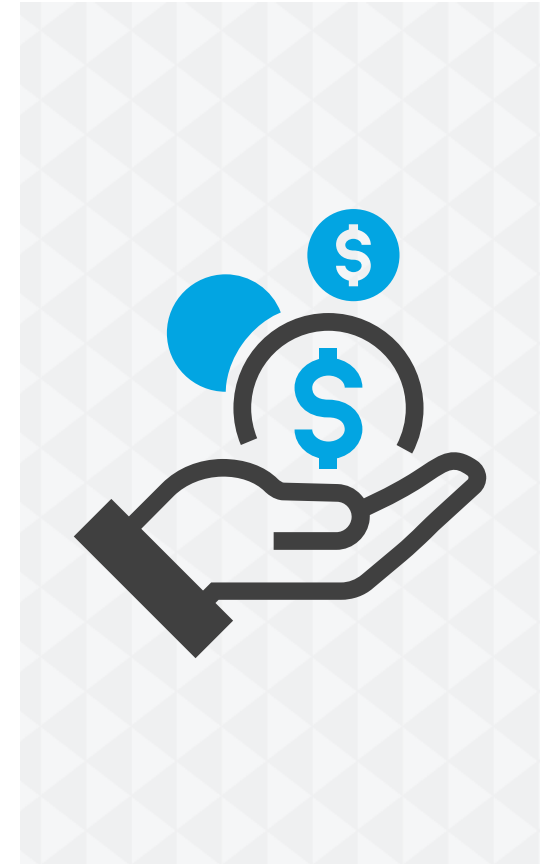
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