



Financial Practices for MANAGING PUBLIC FUNDS

How to use this resource

Financial Practices for Managing Public Funds is designed to support both individual and group learning. It is designed to be actionable, meaning it leaves you ready to **do** things differently because of what you learned.

Read: Use this workbook to learn what you need to know. The “Show what you know” sections give you space to write what you know. Share what you’ve learned to help others.



Watch the videos. You can show them during a meeting or ask people to watch them on their own time.



Discuss: Bring finance learning into a board or staff meeting. Each section provides suggestions on ten-minute activities that will increase knowledge and connection related to nonprofit finance topics.



Three ways to engage

You will find three ways to engage with the material:

Ten-Minute ACTIVITY



These are opportunities to write down your thoughts and apply what you learned.

Show what you KNOW



This is where you take the generic financial information and apply it to your organization.

Chapter SUMMARY



Use these pages to check your learning, write your next steps, and plan discussions with your board.

Financial Practices for Managing Public Funds was developed by Buncombe County Strategic Partnership office in partnership with Nancy Bacon Consulting.

For more information, visit: <http://www.buncombecounty.org/grants>.

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Introduction

You are doing important work in your community. We are excited that you are taking the time to deepen your understanding about nonprofit finances and ways to ensure your success managing public funds.



Chapter topics

Public funding considerations
Roles related to finance
Culture
Financial goals

Key questions to explore in this chapter

What **context** would help us *successfully* manage public funds?
What are the **human aspects** of money to consider, so we can expand our conversations about finance and funding?

Public funding considerations

You may currently receive public funds, or perhaps you are considering applying for public funds. These grants or contracts might come from city, county, state, or federal agencies. Nonprofits regularly receive funds from public agencies to ensure that people receive the services that they most need.

When you receive public funds, you are entrusted with the people's money. That means a certain level of transparency and accountability is required. This may go beyond what private foundations or donors expect. This can be frustrating for nonprofits "just trying to do the work," and it can lead to additional work to ensure you stay compliant with the rules.

As you learn about the reporting requirements of any public funds that you receive, remember the "why" behind the requirements. The agency that gave you those funds is being held accountable by an elected official or council. Records related to that grant or contract are public. Agency staff members must ensure that all transparency laws are upheld, and their ability to manage risk related to grantees may be limited.

Every nonprofit staff and board member should have a basic knowledge of financial management—information included in this guide and course. Nonprofit staff and boards stewarding public funds should have a broader knowledge that extends to the practices required by public agencies.

Common requirements of nonprofits that receive public funds:

1. Audit or financial review
2. Insurances
3. Policies and procedures

You will learn more about these topics throughout this course.

Ten-Minute ACTIVITY



Think about any public funding that you receive. Where does it come from? Who is ultimately accountable that those funds are well spent?

Think about your own tax-paying. What are the values that you want your local government to follow as they spend your money for the public good?

Roles related to finance

Money is the fuel driving your organization forward, and so it is important that everyone plays a role in making sure you steward this resource well.

Board chair	Guides culture to ensure it supports inclusive financial conversations and decision-making .	<p>Pro-actively creates a culture that supports inclusive conversations (see below)</p> <p>Facilitates meetings in a way that involves everyone in decision-making.</p> <p>Ensures that the organization is compliant with any contractual requirements.</p>
Treasurer/ Finance committee	Provides oversight on the financial systems.	<p>Tracks at a high level the restrictions placed on specific public funds. Advocates for restrictions at the board level.</p> <p>Ensures that the organization is using the right tools (accounting software, bank accounts, bank relationships, credit cards, etc.) to support effective financial governance.</p> <p>Provides leadership on financial policies and procedures, including on the implementation of systems to track public funding expenditures and segregation of duties.</p> <p>Ensures that board learning and orientation are in place to support participation.</p>
Executive director	Manages finances on a day-to-day basis. Provides feedback to the board on how financial systems are working.	<p>Implements the financial tools in a way that is efficient and effective.</p> <p>Provides the board with the reports and information they need.</p> <p>Communicates key information to staff, serving as a bridge between them and the board.</p> <p>Manages the reporting requirements tied to public funding.</p> <p>Implements internal controls standards, including appropriate levels of segregation of duties.</p>
Board member	Ensures that the organization's finances are achieving its mission .	<p>Reviews financial reports regularly (at least the Balance Sheet and the Income Statement).</p> <p>Participates actively in board discussions.</p> <p>Seeks out learning and support to fill knowledge gaps and build confidence.</p>
Program manager	Follows the policies and financial systems set by the board and Executive Director.	<p>Demonstrates compliance with policies.</p> <p>Asks questions when needed.</p>

Your role if not listed:

Your focus:

Your finance duties:

Ten-Minute ACTIVITY



In the table on the previous page:

Circle your role within your organization.

Review the focus and “what this looks like” columns.

In the third column, circle the task(s) that you need to focus on going forward.

Describe what you will do to take action on that task within the next month.

Culture

Culture is the way a group of people does things. It includes the systems of knowledge shared by this group, the values, beliefs, attitudes, and roles individuals take within the group. A nonprofit as a whole has a culture, as does its board, staff, and the people it serves. Sometimes these cultures are the same. Often they are not.

Culture in general shows up in three ways: **artifacts, behavior, and underlying values**. We break that down with the following examples related to nonprofit finance.

Artifacts	Behavior	Underlying values
The “stuff” of your organization	Behaviors and actions we can see and experience	Attitudes and assumptions we experience but don’t see
Right-sized financial reports (Balance Sheet and Income Statements)	Who participates in finance conversations	Value placed on full participation in finance conversations
Accounting and/or grant management system that supports tracking and reporting	How they talk about the compliance elements of their funding sources	Value placed on upholding the compliance aspects of public funding
Budget	How they participate (with curiosity and comfort or nervousness or surprise)	Assumptions of knowledge and/or comfort related to talking about money
Meeting agenda with time to talk about finances	Board language when talking about finances	Unspoken rules that guide finance conversations
Learning plan to ensure everyone learns about finance	Outreach by board chair or treasurer to encourage participation	Beliefs about money Habits related to money or finance

YOUR CULTURE
What is missing? What could you do to strengthen your finance culture?

Ten-Minute ACTIVITY



Think about your finance culture generally. Write down the words that come to mind when you think about your organization’s finance culture.

Review each of the 3 ways that culture shows up within an organization. In the table above, circle any items listed that you think you could work on.

In the blank space, add any elements that are missing. Make notes about how you could strengthen your organization’s finance culture.

Financial goals

Finally, before you dive into financial statements, it is important to know why we are looking at financial statements. Your goal is to be able to answer these five questions about your organization.

Liquidity: Is there cash in the bank?

Solvency: What are you worth?

Profitability: Are you generating more money than you spend?

Efficiency: How well do you use your money?

Impact: Are you doing what you set out to do?

The first three questions (liquidity, solvency, and profitability) are straightforward financial questions. You will be able to answer them by the end of this course. The answers to these questions should be heard regularly in various forms at board meetings.

The last two questions (efficiency and impact) are more complicated. They integrate financial data with information about the result of your work. They are subjective, based on your values and theory of change.

A note about profitability: Determining the profitability of individual programs is a helpful exercise as you measure your efficiency. Learn more about how to do that at <http://www.nonprofitsustainability.org/>.

Ten-Minute ACTIVITY



Put a check next to the questions above that you can answer. Circle the questions you cannot answer. Name one kind of information you would need to answer one of the questions.

Plan how you could integrate one of these words into your board's discussion about finances. Start by choosing the word. Decide where it fits in the agenda. Plan your introduction of the idea.



Introduction



Pause here to check in on what you know and can do. Make time to discuss what you learned with your colleagues on the board or staff. These conversations will set you up for success as you spend time with financial statements.

Be Ready Checklist

Let's review what you are able to do to be ready for financial conversations:

- You can explain why it matters that you steward public dollars well.
- You can explain your role in the stewardship of your organization's money. You can articulate your understanding of your role in the governance of your organization.
- You can describe your organization's financial culture. You can name how culture shows up in the stuff of your organization, in what people say and do, and in how people feel.
- You understand the five terms that underpin your organization's financial goal: liquidity, solvency, profitability, efficiency, and impact. You integrate your understanding of these terms in your finance discussions.

If you can't check one of the boxes, what is your plan for addressing that element?

Discussions




1. Learning is an important part of any culture. How will your organization proactively fill any finance-related knowledge gaps that exist for board or staff members? How will your organization take the next step to learn about finance strategy?
2. Succession planning is an important consideration for any board. You may have a treasurer and a finance-knowledgeable Board Chair or Executive Director now, but things can change any time. What is your plan for succession related to finance? How is the treasurer (or whoever is taking the lead on finances) training, mentoring, or communicating with other board members so that they can take over the role eventually?



Financial Statements

Your organization creates written records that convey the business activities and the financial performance of your organization. These written records are called financial statements. In this chapter, we will explore what you need to know about **three key financial statements**.

	Chapter topics	Key questions to explore in this chapter
	<p>Statement of Financial Position (Balance Sheet)</p> <p>Statement of Activities (Income Statement or Profit & Loss Statement)</p> <p>Cash Flow Statement</p> <p><i>We will use the terms “Balance Sheet” and “Income Statement” from this point forward</i></p>	<p>What information should every board member be able to identify on these three main financial statements?</p> <p>How can greater financial literacy improve decision-making and increase attention to financial mistakes or concerns?</p> <p>How does public funding show up on financial statements?</p>

Introduction

There are three financial statements that Executive Directors, some program staff, and all board members should be reviewing regularly:

- Statement of Financial Position (**Balance Sheet**)
- Statement of Activities (**Income Statement**)
- **Cash Flow Statement**

In most cases, staff and board review financial statements produced by your accountant, bookkeeper, or treasurer. You may, however, also have reason to engage an auditor to look at your financial statements. There are three levels of focus:

Compilation: An auditor presents financial statements based on what they are given. No level of scrutiny occurs.

Review: An auditor tests some of the information provided to verify accuracy.

Audit: An auditor tests the internal controls in place and ensures that the ending balances stated by the organization are indeed valid.

If you receive public funding, inquire if you need to engage an auditor to present your financial statements in anyone of these ways.

Balance Sheet

Think of the Balance Sheet as a “snapshot” of your organization’s financials at a single point in time.

- It is also called a “Statement of Financial Position.”
- It communicates what the nonprofit owns and owes at one point in time. That means it shows the worth of the organization.

Financial Practices for Managing Public Funds

- It is called a Balance Sheet because the value of the an organization’s assets equals the value of its liabilities plus net assets (called equity in for profits). In other words, everything a nonprofit

owns would go one of two places if it dissolved tomorrow—to pay off its debts or to pay forward in another way that achieves the mission. Consider “net assets” to be owned by the community.

What you need to know and what you need to watch

Reflect on what you learned on the previous page.

WHAT TO KNOW

Current means you can access or convert to cash within 12 months.

Assets are in order of **liquidity**, or how easily you can turn them into cash.

These assets are harder to turn into cash. If most of your assets are here, a lot of your assets are tied up and not available in the short term.

Accounts Payable tend to be bills to vendors and utilities.

Accrued Liabilities tend to be employee commitments like retirement and accrued payroll.

**ABC NONPROFIT
BALANCE SHEET
SEPTEMBER 30, 20XX**

	<u>20XX</u>	<u>Last year</u>	
ASSETS			
Current assets			
Cash and cash equivalents	\$ 25,843	\$ 29,843	
Investments	17,855	17,440	
Accounts receivable	6,833	5,750	Receivable means that the funds are promised to you. An organization following an accrual or modified accrual accounting system recognizes this type of income.
Grants receivable	5,467	2,602	
Promises to give	18,751	12,144	Promises to Give are also called Pledges .
Prepays and deposits	3,284	1,743	
Total Current Assets	78,033	69,522	
Land	86,839	84,839	
Building and Equipment, <u>net</u>	190,745	189,176	“Net” means you reflect depreciation.
Promises to Give, long-term	6,600	12,550	
Endowment Investments	23,203	21,959	
	\$ 385,420	\$ 378,046	
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts Payable	\$ 7,320	\$ 5,530	
Accrued Liabilities	13,220	12,421	
Line of credit	15,000	0	A Line of Credit is a flexible loan of a defined amount that an organization can access as needed.
Current portion of long-term debt	2,662	2,758	
Total Current Liabilities	38,202	20,709	
Long-term Debt, less current portion above	47,731	50,489	
Total Liabilities	85,933	71,198	
Net Assets			
Without donor restrictions	256,115	255,724	
With donor restrictions	43,372	51,124	
Total Net Assets	299,487	306,848	
	\$ 385,420	\$ 378,046	
	2	3	Current Ratio

WHAT TO WATCH

If you have a high level of **Accounts Receivable** or **Grants Receivable**, it means that a lot of your money is held outside your organization.

Current Assets divided by **Current Liabilities** equals the **Current Ratio**. This ratio shows liquidity. Your current ratio should be more than 1.0.

Between the two years, the organization accessed its **Line of Credit**.

Note the decrease in **Net Assets** of \$12,361. This is the same as the deficit on the Income Statement.

Show what you KNOW



Label the Balance Sheet below with the information you remember. Circle what you need to watch for. It is okay to turn back and remind yourself.

Ten-Minute ACTIVITY



Compare the information here with your own Balance Sheet.

Circle the information under "what to watch" on your Balance Sheet.

Discuss the issue of the line of credit drawn here. What do you think is going on?

ABC NONPROFIT BALANCE SHEET SEPTEMBER 30, 20XX		
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	<u>\$ 385,420</u>	<u>\$ 378,046</u>
Current Ratio	2	3

Income Statement

The Income Statement shows money a nonprofit spends and brings in over a period of time.

1. It is also called a “Statement of Activities” or “Profit or Loss Statement” (or just P&L).
2. It communicates the work of the organization.
3. An Income Statement often includes your budget, so you can compare the two documents for discrepancies and see how the actual revenues and expenses relate to the plan for the year.

What you need to know and what you need to watch

WHAT TO KNOW

Support is contributory in nature. No exchange of goods or services. Can be restricted or unrestricted.

Revenue is earned income. It is unrestricted.

The exact line items depend on your organization.

Your goal over time is to have a positive number, or **Excess**, that contributes to your **Working Capital** and ability to save for future program expansion, asset purchases, or reserves.

WHAT TO WATCH

Revenue Diversification. You want to make sure you aren't too dependent on any one type of income.

Functional Expenses You are required to track expenses by function for the IRS Form 990. This includes program services, admin, and fundraising.

Notice how the **deficit** shows up on the Balance Sheet.

ABC NONPROFIT INCOME STATEMENT SEPTEMBER 30, 20XX				
	YTD Actual	YTD Budget	Budget Variance	20XX Budget
INCOME SUPPORT				
Individual donor contributions	\$ 75,636	\$ 64,375	\$ 11,261	\$ 87,000
Foundation grants - Acme Foundation	15,000	50,000	(35,000)	50,000
Foundation grants - other	25,000	35,000	(10,000)	40,000
State contracts	21,107	23,000	(1,893)	25,000
County contracts	8,849	10,000	(1,151)	10,000
Sponsors	9,750	8,500	1,250	10,000
Special events	5,055	5,000	55	28,000
Other	1,027	1,000	27	2,000
Total support	\$ 161,424	\$ 196,875	\$ (35,451)	\$ 252,000
REVENUE				
Admissions	\$ 31,758	\$ 28,000	\$ 3,758	\$ 38,000
Membership fees	9,737	9,200	537	12,000
Sales of items	3,689	3,700	(11)	5,000
Interest income	128	125	3	200
Other	165	170	(5)	500
Total revenue	\$ 45,477	\$ 41,195	\$ 4,282	\$ 55,700
Total support and revenue	\$ 206,901	\$ 238,070	\$ (31,169)	\$ 307,700
EXPENSES				
Salaries, benefits, & taxes	\$ 141,359	\$ 138,750	\$ 2,609	\$ 185,000
Occupancy (rent, utilities)	24,686	24,911	(225)	34,000
Communication (phone, internet)	1,872	1,875	(3)	2,500
Technology	1,936	1,875	61	2,500
Professional development	1,011	1,000	11	1,000
Program expenses	11,087	18,050	(6,963)	24,000
Professional fees (CPA, attorney...)	10,145	11,250	(1,105)	15,000
Supplies	5,749	6,205	(456)	8,000
Printing	6,832	7,373	(541)	7,500
Insurance (liability/ D&O)	3,386	1,264	2,122	2,000
Fundraising (general)	1,243	1,200	43	1,500
Fundraising (special event)	2,237	1,800	437	5,000
Depreciation	2,138	2,138	0	2,850
Other	567	500	67	1,000
Total expenses	\$ 214,248	\$ 218,191	\$ (3,943)	\$ 291,850
Excess (Deficit)	\$ (7,347)	\$ 19,879	\$ (27,226)	\$ 15,850

Show what you KNOW



Reflect on what you learned on the previous page. Label the Income Statement below with the information you remember. Circle what you need to watch for. It is okay to turn back and remind yourself.

Ten-Minute ACTIVITY



Tell a story about this organization. Use the data provided in the Income Statement to imagine what is going on. Challenge each other on any assumptions you make.

Tie together the Income Statement and the Balance Sheet. For example, there is a deficit here of \$7,347. Where does that show up on the Balance Sheet?

ABC NONPROFIT INCOME STATEMENT SEPTEMBER 30, 20XX				
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Professional development	1,011	1,000	11	1,000
Program expenses	11,087	18,050	(6,963)	24,000
Professional fees (CPA, attorney...)	10,145	11,250	(1,105)	15,000
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Cash Flow Statement

1. The amount of cash and cash equivalents entering and leaving your organization.
2. You use a cash flow statement to ensure that you can cover your costs, including payroll.
3. Your cash flow statement is drawn from information on both your Balance Sheet and Income Statement.

ABC NONPROFIT
CASH FLOW STATEMENT
20XX

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
BEGINNING CASH	\$25,843	\$14,281	\$2,719	\$13,659	\$1,496	\$13,384	\$1,322	-\$14,239	\$23,198	\$35,637	\$49,674	\$41,112
CASH IN												
Individual donor contributions	5,000	5,000	5,000	5,000	25,000	2,000	2,000	2,000	5,000	8,000	8,000	15,000
Foundation grants - Acme Foundation								50,000				
Foundation grants - other			20,000						20,000			
State contracts	2,083	2,083	2,084	2,083	2,083	2,083	2,083	2,083	2,083	2,083	2,083	2,083
County contracts			2,500			2,500			2,500			2,500
Sponsors					5,000					5,000		
Special events								2,000	3,000	23,000		
Admissions	3,167	3,166	3,167	3,166	3,167	3,166	3,167	3,166	3,167	3,166	3,166	3,169
Membership fees	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Sales of items	416	416	416	416	416	416	416	416	416	416	416	424
Interest income	16	16	16	16	16	16	16	16	16	16	16	24
Other	208	208	209	208	208	209	208	208	209	208	208	209
Total cash available	11,890	11,889	34,392	11,889	36,890	11,390	8,890	60,889	37,391	42,889	14,889	24,409
CASH OUT												
Salaries, benefits, & taxes	15,417	15,417	15,417	15,417	15,417	15,417	15,417	15,417	15,417	15,417	15,417	15,413
Occupancy (rent, utilities)	2,833	2,833	2,833	2,833	2,833	2,833	2,833	2,833	2,833	2,833	2,833	2,837
Communication (phone, internet)	208	208	208	208	208	208	208	208	208	208	208	212
Technology	208	208	208	208	208	208	208	208	208	208	208	212
Professional development					1,000							
Program expenses	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Professional fees (CPA, attorney...)	1,200	1,200	1,200	1,200	1,750	1,200	1,200	1,200	1,200	1,200	1,200	1,250
Supplies	500	500	500	500	500	500	500	500	500	2500	500	500
Printing	600	600	600	600	600	600	600	600	600	900	600	600
Insurance (liability/ D&O)	166	166	166	166	166	166	166	166	166	166	166	174
Fundraising (general)				600					500	100		300
Fundraising (special event)							1000		1000	3000		
Depreciation	237	237	237	237	237	237	237	237	237	237	237	243
Other	83	83	83	83	83	83	83	83	83	83	83	87
Total cash out	\$23,452	\$23,452	\$23,452	\$24,052	\$25,002	\$23,452	\$24,452	\$23,452	\$24,952	\$28,852	\$23,452	\$23,828
ENDING CASH	\$ 14,281	\$ 2,719	\$ 13,659	\$ 1,496	\$ 13,384	\$ 1,322	\$ (14,239)	\$ 23,198	\$ 35,637	\$ 49,674	\$ 41,112	\$ 41,693

Show what you KNOW



- 1 What cash flows in and out do you notice related to fundraising in general?
- 2 The organization expected to receive \$50,000 from the Acme Foundation in August but only received \$15,000 (according to the Income Statement). How do you think that impacted program expenses? What do you think about that?
- 3 What cash flows in and out do you notice related to the special event held in October?

Ten-Minute ACTIVITY



Name the time of the year your organization experiences a burst of income and/or a burst of expense.

Describe your organization's strategy to manage through those bursts to ensure you have enough cash to pay your people and bills. If you don't have a strategy, pencil out what a potential strategy might be.

Chapter SUMMARY



Financial Statements



Pause here to check in on what you know and can do. Make time to discuss what you learned with your staff or board colleagues. The more comfortable you feel with financial statements, the more confident you will feel using the data contained within them to make good decisions on behalf of your organization.

Financial Statements Checklist

Let's review what you are able to do related to financial statements:

- You can explain your organization's balance sheet and income statement to someone outside your organization. On each, you can highlight at least three pieces of information that are important to your organization's financial story.
- You can explain how an organization would determine the true cost of a program. You can explain why this matters and what steps your organization could take to determine the true cost of its programs.
- You can explain your organization's general cash flow, both income and expense. You can explain why it matters.

If you can't check one of these boxes, what is your plan for addressing that element?

Discussions

1. **Financial conversations** can easily become centered around a few people on a board. The Treasurer, Board Chair, and Executive Director often have a deeper knowledge. Others can feel left out, which means that they are not participating in financial conversations of consequence.
2. **Public funding and financial statements.** Every board member is responsible for stewarding the funds of the organization. This includes compliance related to restrictions. How could your board have more discussion about the revenue and expenses related to the public funding you are managing? Name some ways that every board member could deepen their awareness of the specifics related to restricted funding sources.






Internal Controls & Compliance

As a nonprofit, you are accountable for the money you receive. In North Carolina, charitable solicitations are governed by the Office of the Secretary of State, as they are in many other states. If you are registered as a tax-exempt organization with the IRS, you are required to file an annual tax return and are encouraged to adopt certain policies that ensure transparency and good decision-making. Restricted funds from public and private sources involve compliance requirements to ensure funds are spent as they were directed.

Take time to understand internal controls and compliance so that your organization is set up to steward other people’s money well.

	Chapter topics	Key questions to explore in this chapter
	Internal controls Segregation of duties Compliance	How can you implement a system that ensures your finances are well stewarded and your financial data is accurate? How can you implement a grants management system that ensures you fulfill your grant-related obligations?

Internal Controls

Internal controls are the financial management practices implemented by an organization to make sure financial and operational information is accurate and to prevent misuse of assets. Internal controls are designed to **prevent a problem, detect a problem, and correct a problem.**

Financial internal controls

Internal control examples include:

- A policy requiring advance approval for employees to be reimbursed for expenses.
- A policy that invites a board member or objective reviewer to review vendors paid by a nonprofit.

- A policy to keep all cash in a locked drawer and to deposit cash and checks in the bank within 24 hours of being received.
- A policy describing how organizational credit cards are managed – who can have one, what kinds of purchases can be made, how expenses are reconciled, etc.

Non-financial internal controls

Internal controls also relate to how your organization behaves beyond money. Public funders require you to these written policies:

- Conflict of interest
- Record retention
- Equipment management (if applicable)

Wage-related internal controls

Staff wages often make up a large portion of public funding grants. It is therefore important that you have an internal control system to ensure the time and effort of the people delivering the work is accurately tracked. You must be prepared to justify the costs of salaries and wages.

Staff time and effort tracking rules:

- Actual costs should reflect the total activity of employee on a project.
- Time sheets (whether paper or electronic) should include sign-off from supervisors.
- If employee time is charged to more than one funding source, the time sheets should differentiate hours worked by funding source.
- Tracking should be incorporated into official records, such as payroll records.
- A budget estimate is not good enough. You must include actual costs, not what you originally budgeted.
- (Federal funders) Drug free workplace, non-discrimination
- Volunteer hours, if used as a match or reported as in-kind, should be tracked in a similar fashion to how you track staff hours/time.

Ten-Minute ACTIVITY



Name one internal control policy or procedure you have in place.

Describe how you ensure the financial information you look at as a board or staff member is accurate.

Describe your system for ensuring that your organization is compliant with all state and federal laws.

If you receive federal funding, you must follow the internal control standards in accordance with the “Standards for Internal Control in the Federal Government,” (as known as the Green Book). You can download this resource for free at:

<https://www.gao.gov/assets/gao-14-704g.pdf>

Segregation of duties

Segregation of duties is a key internal control. It reduces the chance of error or fraud by making sure that no one person can commit and hide errors or fraud in the normal course of their work.

Segregation of duties means separating these duties as much as possible:

- Authorization or approval (payroll, credit card purchases, etc.)
- Custody (holding) of assets
- Recording transactions
- Reconciliation/control of assets

Ten-Minute ACTIVITY



Name who has access to money (in all of its forms, such as cash, bank accounts, credit cards, etc.).

Describe how you break out the key financial tasks. Suggestions are listed on the next page.

Financial Practices for Managing Public Funds

Ideas for how to segregate duties

Two People

Person 1	Person 2
<input type="checkbox"/> Enter funds into accounting system <input type="checkbox"/> Mail/ write checks <input type="checkbox"/> Reconcile bank statements <input type="checkbox"/> Give credits and discounts <input type="checkbox"/> Approve payroll <input type="checkbox"/> Open mail/receive cash <input type="checkbox"/> Disburse petty cash <input type="checkbox"/> Authorize purchase orders & check requests <input type="checkbox"/> Approve invoices for payment	<input type="checkbox"/> Sign checks or employee contracts <input type="checkbox"/> Keep checks or other securities <input type="checkbox"/> Complete deposit slips and check log <input type="checkbox"/> Perform interfund transfers <input type="checkbox"/> Distribute payroll <input type="checkbox"/> Reconcile petty cash <input type="checkbox"/> Record initial charges and pledges <input type="checkbox"/> Approve timesheets <input type="checkbox"/> Prepare invoices

Three People

Person 1	Person 2	Person 3
<input type="checkbox"/> Enter funds into accounting system <input type="checkbox"/> Reconcile petty cash <input type="checkbox"/> Write checks <input type="checkbox"/> Reconcile bank statements <input type="checkbox"/> Give credits and discounts	<input type="checkbox"/> Distribute payroll <input type="checkbox"/> Record financial information <input type="checkbox"/> Approve timesheets & payroll <input type="checkbox"/> Prepare invoices <input type="checkbox"/> Mail checks <input type="checkbox"/> Open mail/receive cash <input type="checkbox"/> Disburse petty cash <input type="checkbox"/> Authorize purchase orders or check requests <input type="checkbox"/> Approve invoices for payment	<input type="checkbox"/> Sign checks <input type="checkbox"/> Sign employee contracts <input type="checkbox"/> Custody of securities <input type="checkbox"/> Complete deposit slips <input type="checkbox"/> Perform interfund transfers

Four People

Person 1	Person 2	Person 3	Person 4
<input type="checkbox"/> Post money in <input type="checkbox"/> Reconcile cash <input type="checkbox"/> Write checks <input type="checkbox"/> Post general ledger <input type="checkbox"/> Reconcile bank statements <input type="checkbox"/> Post credits/debits	<input type="checkbox"/> Distribute payroll <input type="checkbox"/> Open mail/receive cash <input type="checkbox"/> Record charges/pledges <input type="checkbox"/> Complete check log <input type="checkbox"/> Disburse petty cash <input type="checkbox"/> Authorize purchase orders & check requests <input type="checkbox"/> Mail checks	<input type="checkbox"/> Complete deposit slips <input type="checkbox"/> Give credits and discounts <input type="checkbox"/> Prepare invoices <input type="checkbox"/> Approve payroll <input type="checkbox"/> Approve invoices for payment	<input type="checkbox"/> Sign checks <input type="checkbox"/> Sign contracts <input type="checkbox"/> Keep checks <input type="checkbox"/> Approve time sheets <input type="checkbox"/> Perform interfund transfers

Adapted from *Financial Basics for Nonprofit Managers (3rd edition)*, Thomas A. McLaughlin (Wiley & Sons)

Compliance

It is your responsibility to ensure that you deliver the work you have been contracted to do in compliance with your funder's requirements. Public funders typically have four areas of compliance:

- Fiscal requirements (how payments are made, how funds can be used, and how funds should be tracked)
- Insurance requirements (required levels of coverage)
- Scope of work compliance (funded activities and reporting measures)
- Other compliance requirements (financial statements, open books, subcontracting, legal, timely filing of IRS Form 990, etc.)

If you are not sure what requirements you will be expected to follow, make sure you ask before accepting public funding.

Common places to find a listing of requirements are in the funder's grant agreement, grant award letter, and/or special conditions.

A good way to ensure that you perform the duties required of you by a public funder is to have a **grant management system** in place. This is a system that connects the grantwriting "ask" for funds with the tracking and reporting involved in managing those funds.

Some key aspects of your grant management system:

Accounting operations

There are several components to your accounting operations system:

- **Accounting process:** You will need to create a system for tagging expenditures related to specific funding sources (restricted funds). This is where your bookkeeper or accountant will be able to help you. Your accounting methods will involve your Chart of Accounts and your Class List and how you will tag income and expenses in your accounting system for later reporting.
- **Allowable expenses:** Know your allowable and unallowable expenses before any expenses are incurred.

- **Receipts/supporting documentation:** Implement a system for managing receipts and/or supporting documentation, connected to your accounting software. If you don't have accounting software (such as Quickbooks), create a system for organizing receipts and documentation.
- **Time management:** You will most likely be required to track hours related to your contract. Implement a system at the start of your project on how you will track hours.
- **Reconciliation.** Plan to reconcile your accounts regularly. Weekly is good practice because you will remember what happened before too much time passes.

Checklist

It is a good idea to create a checklist of required one-time and reoccurring tasks that you need to complete related to a contract. The award letter most likely outlines the requirements that you must meet. Public funders often also share a sample contract you will be signing in advance of an award. You can build your checklist from these documents.

- **Reporting schedule:** Include in your checklist your reporting schedule. For example, if you are required to report quarterly, include on your checklist the due date and what will be required. Add those dates and requirements to your work calendar to help you remember them.

Ten-Minute ACTIVITY



Look at a recent award letter and/or contract to identify what requirements you are/were expected to follow. How well are you able to meet those requirements with the systems you have in place now?

Imagine you are talking to the head of your county's community giving program. You are asked to describe your system for accounting for restricted funds (either from a private or public funder). What would you say? (By practicing this explanation, you may find gaps that you can fill now.)

Chapter SUMMARY



Internal Controls & Compliance



Pause here to check in on what you know and can do. Make time to discuss what you learned with your colleagues on the board or staff. The time you take now to set up strong internal control and compliance systems will save you time and money (and headache!) later.


Compliance & Controls Checklist

Let's review what you are able to do related to compliance and controls:

- You can name at least one internal control your organization has in place to protect your organization against fraud or accidents.
- You can name how financial duties are segregated across at least two people. If you only have 2 or 3 people involved, you have discussed how to increase that number by at least one person.
- You can describe your compliance system for any public funding that you receive.

If you can't check one of these boxes, what is your plan for addressing that element?

Discussions


1. Communication between the people raising funds and those accounting for funds is critical when it comes to compliance. It is vital that whatever is agreed to upon accepting money can be delivered by your team. How can you strengthen the connection between your fundraising activities and your financial management activities? 
2. Audits or financial reviews can provide an important external perspective on your practices. They involve an outside consultant or auditor coming in to review your finances and provide written feedback. (Nonprofits that receive public money are often required to get audits.) How would you use outside help to strengthen your financial practice?



Budgeting & Risk

Every year, your organization creates its financial plan. Your board and leadership team propose the income and expenses you expect to generate or incur over the course of the year. Accounting for risk is an important piece of your budgeting, which is why we included risk in this section.

Public funders require certain thresholds of insurance, and these insurances can be costly. It is a good idea to consider risk and the costs of mitigating risks as you shape your organizational and program budgets. In this section, we explore organizational budgets, program budgets, and risk considerations.

	Chapter topics	Key questions to explore in this chapter
	Organizational budget Program budgets: Accounting for true costs Risk	How can you use a budget as a true financial plan? How can you account for the true costs of your programs (including administrative costs)? How can you ensure that you include insurance in your budgets?

Organizational budget

Your budget is your financial plan. Here’s what you need to know about a budget:

- Your core administrative costs and program costs are accounted for in your organization’s budget. We are going to explore these two types of costs in the next section.
- Your budget is often included in your Income Statement, so you can compare budget numbers against actual numbers.
- Nonprofit budgets are usually annual, or 1-year, but can sometimes be multi-year.
- It is important that an organization’s budget has the right level of detail for good decision-making. Too complicated and people won’t understand it. Too simple and people won’t get the information they need to make decisions.
- An organization’s budget evolves over time. New organizations tend to have simple budgets. As orga-

nizations grow, their budgets tend to become more complex—and they may have multiple budgets for different aspects of their work (operational budget, capital budget, etc.).

A budget is created in one of two ways:

Based on Actuals
You use a prior time period and make decisions based on existing numbers. For example, you can pull a report of last year’s income and expenses and use these amounts to predict numbers for next year’s budget.

Zero-Based Budgeting
You start with no prior numbers. You capture the income you expect and expenses needed to run your programs. You don’t limit your thinking to what you have done in the past (though you may compare once completed).

Ten-Minute ACTIVITY



Look at your Income Statement and see how your budget shows up there. Does it? Ask yourself if you have the information you need to compare budget numbers with actual results.

Think about how you develop your budget. Is it based on actual numbers from a previous time period, or do you use “zero-based budgeting”? Think about what you might learn from each method of budgeting.

Program budgets: Account for true costs

Within your organizational budget, you have the income and expenses of your programs. When you apply for funding, you often need to pull out your program budget to tell the financial story of that program. It is important that you account for the full cost of your programs in program budgets, including administrative costs. In this section, we’ll explore how you can allocate administrative costs to your programs to calculate a program’s true cost.

We are about to show you how to integrate indirect costs into your program budget. This is a general lesson on direct and indirect costs. **Please note that federal funding has specific rules related to accounting for direct and indirect expenses** that we mention in Chapter 5 of this guide.

Step 1: Understand your expenses

Here we have a simple nonprofit with two programs. In our example, we account for direct costs using timesheets and expenditure tagging in our accounting system. We have accounted for admin costs that are not directly attributable to each program in the right-most column.

	20XX BUDGET	Program 1	Program 2
EXPENSES			
Salaries, benefits, & taxes	\$ 185,000	\$ 45,000	\$ 67,000
Occupancy (rent, utilities)	34,000	15,000	15,000
Communication (phone, internet)	2,500	500	500
Technology	2,500	500	500
Professional development	1,000	500	500
Program expenses	24,000	15,000	9,000
Professional fees (CPA, attorney...)	10,000		
Supplies	8,000	3,000	3,000
Printing	7,500	5,000	2,000
Insurance (liability/ D&O)	2,000		
Fundraising (general)	1,500		
Fundraising (special event)	5,000		
Lobbying costs	5,000		
Depreciation	2,850		
Other	1,000	500	500
Total expenses	\$ 291,850	\$ 85,000	\$ 98,000

Buncombe County

Step 2: Determine what admin expenses are allowed

Allowable expenses are set by funder. Most public funders have rules that limit their ability to consider expenses like fundraising, lobbying, and bad debt as indirect expenses. If you are unclear, ask your funder.

Step 3: Attribute a portion of allowed expenses to Program 1

To keep our example simple, **we split our administrative costs evenly**. You don't have to divide equally. You can use timesheets and tagging for a more exact amount.

	Admin	Admin	Admin per program
EXPENSES	Allowable	Unallowable	Allowable
Salaries, benefits, & taxes	\$ 73,000		\$ 36,500
Occupancy (rent, utilities)	4,000		2,000
Communication (phone, internet)	1,500		750
Technology	1,500		750
Professional development			-
Program expenses			-
Professional fees (CPA, attorney...)	10,000		5,000
Supplies	2,000		1,000
Printing	500		250
Insurance (liability/ D&O)	2,000		1,000
Fundraising (general)		1,500	
Fundraising (special event)		5,000	
Lobbying costs		5,000	
Depreciation		2,850	
Other			
Total expenses	\$ 94,500	\$ 14,350	\$ 47,250

Step 4: Attribute a portion of allowed expenses to Program 1

	20XX BUDGET	Program 1	Program 1 admin
EXPENSES			
Salaries, benefits, & taxes	\$ 185,000	\$ 45,000	\$ 36,500
Occupancy (rent, utilities)	34,000	15,000	2,000
Communication (phone, internet)	2,500	500	750
Technology	2,500	500	750
Professional development	1,000	500	
Program expenses	24,000	15,000	
Professional fees (CPA, attorney...)	10,000		5,000
Supplies	8,000	3,000	1,000
Printing	7,500	5,000	250
Insurance (liability/ D&O)	2,000		1,000
Fundraising (general)	1,500		
Fundraising (special event)	5,000		
Lobbying costs	5,000		
Depreciation	2,850		
Other	1,000	500	
Total expenses	\$ 291,850	\$ 85,000	\$ 47,250

For all indirect expenses, you can use tools within your accounting software to track your indirect cost allocations. For example, you would use accounting journals or expense tags to tie administrative expenses to restricted grant funds.

Ten-Minute ACTIVITY



Describe how you could use true program cost to raise more funds (or recover more funds granted through contracts).

On the budget shown on the previous page, put a check next to the expenses that easily break down across your programs. (You don't need to do any additional work to know how to allocate these expenses.) Circle the expenses that are harder to allocate. They would involve time tracking or better accounting in your financial systems.

Describe your plan to track these circled expenses better, towards being able to determine true program costs in the future.

Risk assessment

As you assess the risks you face, know that a public funder is assessing the risk of granting you funds. Risk assessment is an administrative requirement in the use of federal funds. Specifically, public agencies are looking at these aspects of your organization:

- Prior experience managing similar levels funding
- Results of previous audits (if applicable)
- Personnel involved
- Extent and results of monitoring
- Policies and procedures in place
- Financial stability
- Management systems
- Complexity of award requirements and whether the organization can meet them
- Amount of award compared to overall operating budget

Risk

Your organization will encounter risks as a factor of being in business. Every organization faces risks. The kinds of risks vary based on what your organization does and how your organization is run. Ultimately your board is accountable for managing and mitigating risk.

One way that organizations protect themselves from risk is through insurance. Organizations funded through public funds are required to carry a standard set of insurances as well as work-related insurance. Typical insurances include:

- Commercial general liability
- Worker's compensation
- Employer's liability insurance
- Professional liability
- Umbrella/excess liability

Reference insurance tool here.

Reference annotated contract here.

You want to make sure you account for the kinds of insurance that you will need in your organizational and/or program budgets. They can become costly, and yet they are an important part of your indirect costs of doing your work.

Ten-Minute ACTIVITY



Review your contract with a public funder. Use the annotated contract included in this learning series, if that is useful. Identify the kinds of insurance you will be required to carry to receive that funding. Do you carry it now? What is involved in getting coverage?

Look at your budget. Review what insurances you have budgeted for. Integrate the cost of insurance into your budgeting process. Make sure it is reflected in the true cost of a program before you apply for funds.



Budgeting & Risk



Pause here to check in on what you know and can do. Make time to discuss what you learned with your colleagues on the board or staff. The time you take now to think about budgeting and risk will save you time later on.

Budgeting & Risk Checklist

Let's review what you are able to do related to budgeting and risk:

- You can describe how you budget for your organization now. You know two different strategies on how you might budget in the future.
- You can describe ways to include indirect costs in your program budgets.
- You can name the insurances that you are required to have as a factor of receiving public funding.

If you can't check one of these boxes, what is your plan for addressing that element?

Discussions

1. Budgeting is an important process for organizations, because it sets your financial plan. It is an opportunity to involve staff and board in important, mission-related, values-centered conversations. How does your organization budget now? What works? What doesn't? How do you involve board and staff beyond the core team? How do you integrate true cost accounting into your process?
2. Risk assessment is something every funder does before giving an organization money. Public funders are required to do it. How would your organization rate on the questions listed above, under "Risk Assessment"? What one thing should you work on to make your organization a less risky investment?
3. Risk is a topic that every board should discuss at some point. It makes for a great annual retreat topic. What risks does your organization face? What are you doing to mitigate them? What policies or procedures do you have in place? How does your insurance reflect the risks you face?





Federal Funding

This information is designed to give you a **high-level overview** of the rules related to federal funding. You are encouraged to **consult an accountant** with knowledge about federal funding for specific information related to your organization.

The federal government has its own set of requirements that all grantees are expected to follow. You may be impacted by these rules directly because you receive funding from a federal source. You may also be impacted indirectly if you receive pass-through funds from a city, county, or state agency that itself has received federal funds. A recent example is the COVID recovery funds that originated at the federal level and got disbursed through lower levels of government.



Chapter topics	Key questions to explore in this chapter
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Reason for federal rules and requirements

Is your organization ready to receive and maintain federal funds?

Federal funding readiness

How will you educate your staff about these rules?

Cost principles

 Procurement

 Allowable and allocable costs

Audits

Receiving Federal Funds

Important definition related to federal funding

Uniform Guidance is a set of authoritative rules and regulations about federal grants from the Office of Management and Budget (OMB). This “guidance” is designed to keep everyone in the federal grants community – Congress, grant-making agencies, and applicants – on the same page. Uniform Guidance includes such topics as: internal controls, procurement policies, subrecipient monitoring, and allowable costs.

This resource is not inclusive of all uniform guidance that relates to federal funding. To research specific regulations related to your work, <https://www.ecfr.gov> offers a helpful search function.

Reason for federal rules and requirements

Following the federal rules requires extra work, so it is important to remember why these rules were put in place. The requirements come from a complex combination of laws/legislation, executive orders, notices, and agency rules. They exist to protect the people’s money as it works its way from the government to communities.

Federal funding readiness

Before you apply for federal funding—or accept it through your city, county, or state—it is important to

determine whether you are ready for the extra burden of managing it. Exact requirements will depend on the federal funding program and federal agency. Use the following checklist to determine your general readiness.

Federal Funding Readiness Checklist

- Accounting system that tracks expenditures
- Internal controls with written policies and procedures
- Written conflict of interest policies
- Written procurement policies
- Written financial policies (credit card policy, restricted grant funding management, payroll procedures, accounts payable and receivable policies)
- Written cost allocation plan (or how you allocate costs across multiple programs)
- Grant management system that keeps your organization in compliance
- Employee time and effort tracking system or other approved process for allocating personnel costs
- Recordkeeping system (such as tracking receipts and other program materials)
- Equipment policy, depreciation schedules and inventory system
- Compliance with all applicable public policy requirements (e.g., Civil Rights Act of 1964, Drug-Free Workplace)

Cost principles

In order to ensure that public money is being used efficiently, federal rules outline how good and services purchased with public dollars must be procured and what costs can be charged back to the government.

Procurement

There are five types of rules to know when it comes to procurement:

Micro Purchases	Small Purchases	Sealed Bids	Competitive Proposals	Sole Source (Non-competitive)
Less than \$3,500	Less than \$150,000	More than \$150,000		
No need for price quotes if reasonable Purchases should be distributed equitably where possible	Price or rate quotes must be obtained from a number of qualified providers. Can be done by phone or online and should be documented. (No bidding required)	Require public solicitation Used for Firm fixed-price contracts Must have complete adequate specifications Awarded to bidder that meets the specifications with the lowest price	Usually fixed price or cost reimbursement contract Publicized Include evaluation factors and their importance Awarded to the proposer most advantageous to the program	Only used when there is only one provider Public emergency

Allowable Costs

Direct costs are the costs that are easily attributable to a specific program or activity. All direct costs of running a program are allowable. Unallowable costs include lobbying, fundraising, bad debt, and entertainment.

Indirect costs are allowable expenses incurred for organizational functions shared across programs. There are several ways to include indirect costs in your accounting for federal funds:

Financial Practices for Managing Public Funds

- You may negotiate an indirect cost rate. To arrive at a rate to propose, you need to calculate actual indirect costs. See the table below for ideas on how to allocate indirect costs.
- You may use the de minimis rate of 10% of Modified Total Direct Costs (MTDC)*, which is a base number needed to calculate indirect cost rates. MTDC includes direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first \$25,000 of each subaward. MTDC excludes equipment, capital expenditures, charges for rent, tuition remission, participants

support costs and the portion of each subaward in excess of \$25,000.

*Note: We encourage you to learn more about indirect cost rate calculations if you receive federal funds. There are two good resources to consider:

Code of Federal Regulations: <https://www.ecfr.gov/>
 EPA Module 4 lesson on indirect cost rates: https://www.epa.gov/sites/default/files/2021-02/indirect_costs_text_version.docx

Indirect cost types and allocation methods

Some of these may be direct, but often they are indirect. This is how you would handle if indirect.

Cost	Types of Costs Included	Possible Allocation Methods/ Cost Drivers	Comments
Staff	CEO/Executive Director HR IT Accounting	Time Spent Budget Size Program Size FTEs	May be grouped or individually allocated based on function
Office	Rent Depreciation (Building) Maintenance Janitorial Utilities Building Supplies	Square Footage FTEs	These costs are typically grouped into a cost pool
Office equipment	Copiers Computers	Actual Usage Program Budget Size FTEs	Actual usage would be a direct cost, but requires a method of determining this, such as a program code for a copier to track program usage
Supplies	Office Supplies Janitorial Supplies General Program Supplies	Align with corresponding cost pool such as janitorial supplies with occupancy. Alternatively, janitorial supplies could be included in the occupancy cost pool.	Program supplies that are clearly for a specific program are direct costs
Printing	General materials Fundraising materials Program Specific Materials	Usage Beneficiaries	May be grouped or charged individually to programs as direct depending upon tracking.
Other indirect costs	Capital expenditures Lobbying		These indirect costs are not allowed. They are excluded by your Modified Total Direct Costs.

Audits

You are required to obtain a single audit if you spend \$750,000 or more in federal funds in one year. A “single audit” is an organization-wide financial statement and federal awards’ audit intended to provide assurance that you have adequate internal controls in place and are compliant with program requirements. City, county, and state public funders may have different audit thresholds. You should find out before you submit a final budget for a project. Audits are costly and need to be accounted for in your budget.

Steps for Receiving Federal Government Funds

In April 2022, the federal government simplified the steps for receiving federal funds. Nonprofits now can use one portal—SAM.gov— to register to be eligible for federal funding.

System for Award Management (SAM)

SAM.gov is a free website used for any entity doing business with the U.S. government. It provides “one stop shopping” for a number of services that used to live on

different websites. For example, you can use SAM.gov to do the following:

- Register to do business with the U.S. Government
- Obtain required Unique Entity Identifier (UEI) number
- Update, renew, or check the status of your entity registration
- Search for entity registration and exclusion records
- Search for assistance listings, wage determinations, contract opportunities, and contract data reports.
- View and submit BioPreferred and Service Contract Reports
- Access publicly available award data via data extracts and system accounts

There are two reasons to go to SAM.gov:

1. Receive a Unique Entity Identifier (UEI)
2. Register

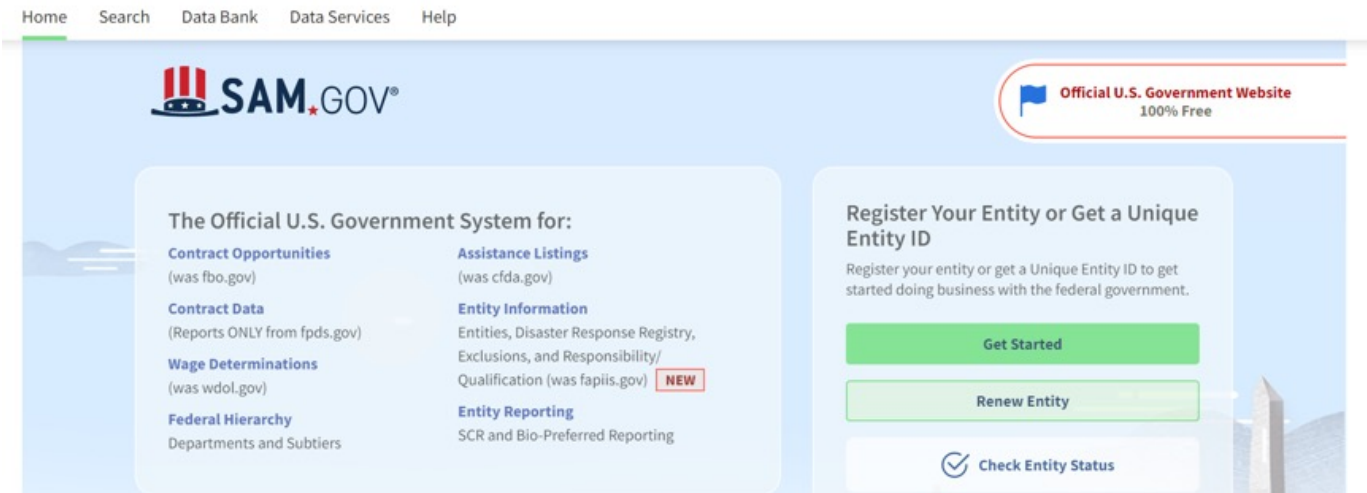
All nonprofits receiving federal funds must do Step 1. Fewer nonprofits need to do step 2.

SAM.gov Overview

Step	Why to go to SAM.gov	Who this relates to	What information you need
1	<p>Receive a Unique Entity ID (UEI)</p> <p>A unique 12 alphanumeric identifier used for tracking purposes and to validate address and point of contact</p> <p>Easy</p>	<p>ALL ENTITIES RECEIVING FEDERAL FUNDS</p> <p>Some entities receive federal funds INDIRECTLY as subawardees on funds passing through a state, county, or city. <i>In this case, full registration is not required.</i></p>	<p>Organization’s legal business name</p> <p>Address</p> <p>Date of incorporation</p> <p>State of incorporation</p>
2	<p>Register with SAM.gov</p> <p>An electronic file for an entity that allows it to be paid by the federal government</p> <p>A more involved process. Can take time depending on your access to information.</p>	<p>ONLY ENTITIES RECEIVING FEDERAL FUNDS DIRECTLY FROM FEDERAL GOV’T</p> <p>Some entities receive federal funds DIRECTLY from the federal government. <i>In this case, full registration is required.</i></p>	<p>UEI number</p> <p>List of information about your organization. Download the “Entity Registration Checklist” here: https://sam.gov/content/entity-registration.</p>

Other things to know about SAM.gov:

1. If your nonprofit is registered in SAM.gov already, your UEI has already been assigned and is viewable in SAM.gov. If you don't yet have one, you can register your entity through the website.
2. Entities that register with SAM.gov will receive a second identifier, a Commercial and Government Entity (CAGE) code. This is necessary for any type of payment from the federal government.
3. You should renew your UEI and/or registration every 12 months. It is important to add these renewals to your organizational calendar.



Grants.gov

The grants.gov site is a centralized location for grant seekers to find and apply for federal funding opportunities. Notices of Financial Opportunity (NOFOs) are posted on this site.

Depending on the federal agency or grant program, additional systems may be also used for this function.



Federal Funding



Pause here to check in on what you know and can do related to federal funding. Make time to discuss what you learned with your staff or board colleagues. Federal funding rules can get complicated and require more time to figure out the best way for you to be in compliance. Having your whole team on board will help.


Federal Funding Checklist

Let's review what you are able to do related to financial statements:

- You can describe ways that your organization is ready to receive federal funding, and maybe ways that you are not yet ready to receive federal funding. You know what you need to do to get ready.
- You can describe the five types of rules related to procurement and how they relate to your project.
- You can explain the difference between direct and indirect costs. You know what you need to do to calculate indirect costs.
- You know how to register with SAM.gov.

If you can't check one of these boxes, what is your plan for addressing that element?

Discussions

1. **Readiness** is always an issue with funding, but federal funding requirements are a significant burden that not all nonprofits are ready for. Bringing a deeper conversation about grant or contract readiness into your staff and board meetings can help you decide what is realistic for your nonprofit right now. It can provide clear goals to work towards in terms of your internal capacity to maintain public funding. How can you bring readiness deeper into your board and staff conversations? 
2. **Internal controls.** Whether or not you apply for and receive federal funding, the internal controls outlined by the federal government are good for any nonprofit to consider. The procurement policies, for example, are designed to ensure competitive pricing and due diligence on the part of busy people who may find it easier to take shortcuts. Which of the procurement policies you learned about in this chapter would be helpful for your organization to adopt outside of any federal funding you might receive? How might you implement it?

Glossary of Terms

These are the words that are most important for non-profit leaders and board members to know and be able to use related to nonprofit financials. Your knowledge and comfort with these terms is essential to the financial health of your organization. Take time to practice using them in sentences related to your organization.

Accounting method (cash vs. accrual): When you recognize revenue or expenses. Cash accounting recognizes money when paid or received; the accrual method recognizes money when the commitment is made or incurred. Modified accrual recognizes revenues when they become available and expenditures when they are incurred.

Administrative (often called overhead) or core operating costs: The sum of your “Management and General” and “Fundraising” costs as they appear on your IRS Form 990.

Assets: What your organization owns or has the right to use.

Audit: An independent examination of your financial records, accounts, transactions, accounting practices, and internal controls. A nonprofit typically conducts an audit if its budget exceeds \$500,000 or if the organization is required to by a funder (such as the federal government).

Board (role in financial leadership): Financial stewards of an organization. Every board member is responsible for governance and oversight.

Budget: An organization’s financial plan.

Business plan: A written document that describes an organization’s core objectives, activities, and methods for achieving its goals.

Cash flow: The total amount of money being transferred into and out of an organization, which affects liquidity.

Current: Activity in the past 12 months.

Current ratio: Current assets divided by current liabilities. Current ratio is a measure of liquidity, or how

quickly you can access your assets. This can also be called a working capital ratio.

Debt: Money borrowed by one organization from another organization or company.

Direct costs: Costs that are easily attributable to a specific program or activity. These are reported as “Program” costs on the IRS Form 990.

Indirect costs: Allowable expenses incurred for organizational functions shared across programs.

IRS Form 990: A nonprofit corporation’s annual required federal tax filing.

Liabilities: What an organization owes to others.

Liquidity: How quickly you can turn assets into cash.

Modified Total Direct Cost (MTDC): The base to which indirect costs rates are applied. MTDC includes direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first \$25,000 of each subaward.

Open books: An accounting model where costs and returns are visible and transparent.

Net assets (called equity or retained earnings in for-profit companies): Money left over after all expenses are met (assets minus liabilities). Net assets represent net profits or losses that accumulate over time.

Performance contract: A legal agreement in which one organization agrees to pay another when they successfully finish the project or task they were contracted to do.

True cost: The total of direct program costs and the portion of administration (or overhead) that apply to a program.

Working capital: Current assets minus current liabilities. The portion of an organization’s assets which is not invested in fixed assets or obligated to pay current liabilities but is available to fund day to day working needs.

YTD: Year to date.

Buncombe County