

CHICAGO CULTURAL ALLIANCE

# MEETING THE MOMENT



# BEST PRACTICES FOR THE SMALL TEAM

*Presented by:*

*Yvonne P. Afable & Jill P. Villanueva*



# INTRODUCTIONS

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We are a family-owned and managed consulting firm based in Chicago, Illinois. We've been serving small businesses and not-for-profit organizations (NPO) since 2001. We offer accounting and technology services

- Accounting team is focused on NPO accounting support
  - 16 associates in 5 states
- Women Business Enterprise
- 1st generation immigrants



# INTRODUCTIONS

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**Yvonne P. Afable**     Managing Partner, Afable Consulting LLC

- Love to eat, not cook, prefer baking
- Dance = Joy
- Solo travel this year



**Jill P. Villanueva**     Senior Team Lead, Afable Consulting LLC

- Coffee, Music, and Movement are my joy
- Finding my inner chef this year
- Want to collage and sew more this year

# AGENDA

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01 Nonprofit Accounting Terminology

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02 Chart of Accounts

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03 Supporting Documentation

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04 Financial Management Tools

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# BEST PRACTICES FOR THE SMALL TEAM

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## Session Goals

1. Understand and apply nonprofit accounting terminology.
2. Customize the chart of accounts for your organization.
3. Organize proper supporting documentation for financial transactions.
4. Assess needs and implement financial management tools.



# NONPROFIT ACCOUNTING TERMINOLOGY



## Glossary of Financial Terms for Nonprofits

### **Cash-basis accounting**

A system of financial recordkeeping in which transactions are recorded when cash is received or spent. The advantage over accrual-basis accounting is its simplicity.

### **Accrual-basis accounting**

A system of financial recordkeeping in which transactions are recorded as expenses when they are incurred (i.e. when a bill is received for merchandise or services provided to the organization) and as income when it is earned (i.e. when services or merchandise is provided by the organization, or the organization receives a commitment of a contribution) rather than when cash is paid or received. The alternative is cash-basis accounting.

# NONPROFIT ACCOUNTING TERMINOLOGY

## ACCOUNTING BASIS: CASH VS ACCRUAL

Cash	Accrual
Revenue recorded when cash is received	Revenue recorded when it is earned or when the NPO receives an unconditional promise to give
Expense is recorded when cash is spent	Expenses recorded when they are incurred (services and goods are delivered to the NPO)
Zero to a few small multi-year gen-op grants (time restricted)	Several time and purpose restricted grants that should be tracked and reported
Operating budget is below \$100K (maybe higher for NPOs that have mainly cash basis transactions)	\$200K operating budget



# NONPROFIT ACCOUNTING TERMINOLOGY

## CONTRIBUTED VS EARNED REVENUE

<b>Contributed</b>	<b>Earned</b>
Money or assets given without the donor receiving anything of equal value in return.	Income received for providing services or goods, rather than as a voluntary contribution (Related to delivery of the NPO mission).
<ul style="list-style-type: none"><li>• Individual Donations, Board gifts/dues</li></ul>	<ul style="list-style-type: none"><li>• Ticket sales for a theater</li></ul>
<ul style="list-style-type: none"><li>• Multi-year general operating grants</li></ul>	<ul style="list-style-type: none"><li>• Tuition or performance fees for a dance company</li></ul>
<ul style="list-style-type: none"><li>• Program restricted funding with no grant period</li></ul>	<ul style="list-style-type: none"><li>• Admission fees for a museum</li></ul>

# NONPROFIT ACCOUNTING TERMINOLOGY

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## NET ASSETS WITHOUT DONOR RESTRICTIONS

- Funds can be used for anything - general operating



## NET ASSETS WITH DONOR RESTRICTIONS

- Purpose restricted
- Time restricted



# NONPROFIT ACCOUNTING TERMINOLOGY

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## FUNCTIONAL EXPENSES

1. Program -related to NPO mission
  2. Management & General - support function
  3. Fundraising - support function
- Often reflect the use of allocations
  - Required for IRS form 990 and audited financial statements
  - The resulting financial story can answer the question...  
*"How much of every dollar donated to the NPO is going to programming?"*



# CHART OF ACCOUNTS

A list of all accounts used in accounting system

- Assets
- Liabilities
- Net Asets
- Revenue
- Expenses

Accepted numbering for all accounts

Sample Chart of Accounts



# CHART OF ACCOUNTS

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Assets: What the NPO owns or has a right to

1. Cash
2. Accounts Receivables (A/R)
3. Fixed Assets
4. Security Deposits
5. Current vs Long-term Assets

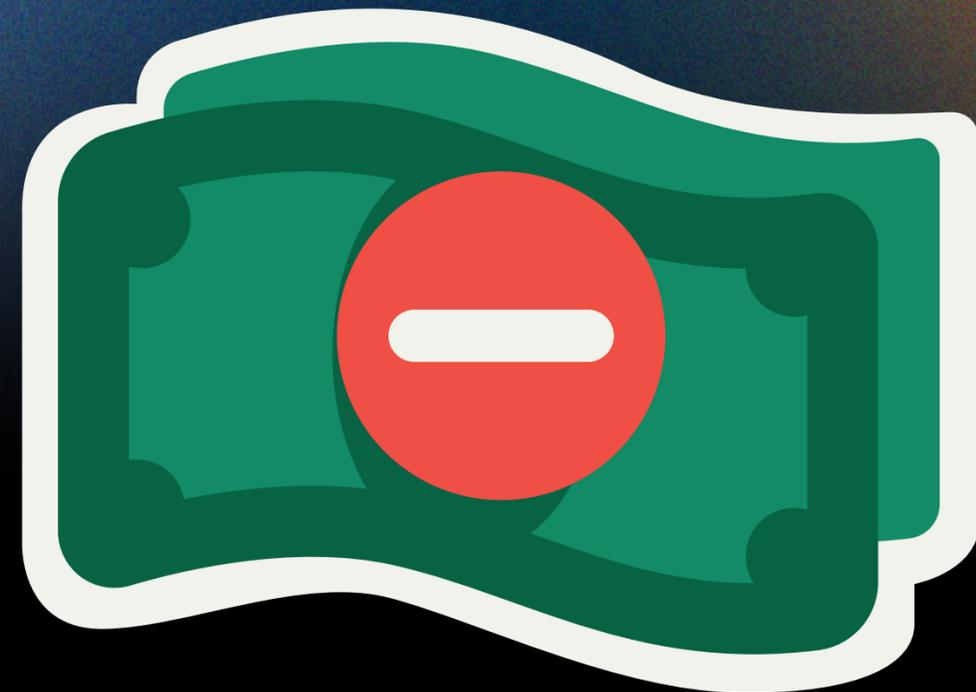


# CHART OF ACCOUNTS

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## Liabilities: What the NPO owes

1. Accounts Payable (A/P)
2. Payroll Liabilities
3. Loan Payable
4. Line of Credit (LoC)
5. Current vs Long-term



# CHART OF ACCOUNTS

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Net Assets: The difference between the organization's total assets and its total liabilities on the balance sheet indicating the net financial worth for the organization.

(Assets minus Liabilities = Net Assets)

1. Without Donor Restrictions
2. With Donor Restrictions



# CHART OF ACCOUNTS

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- Revenue
- Expenses
- When tracking restrictions:
  - Other Revenue
  - Other Expense



# DOCUMENTATION

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## Revenue

- Grant letters, emails, agreements – contributed revenue
- Consulting agreements – earned revenue
- Check copies for deposits
- Third party platforms – Stripe, Square, GiveButter, EventBrite
- For In-Kind, the donor provides the value
- Acknowledgement letter – last resort if nothing else exists, internal document

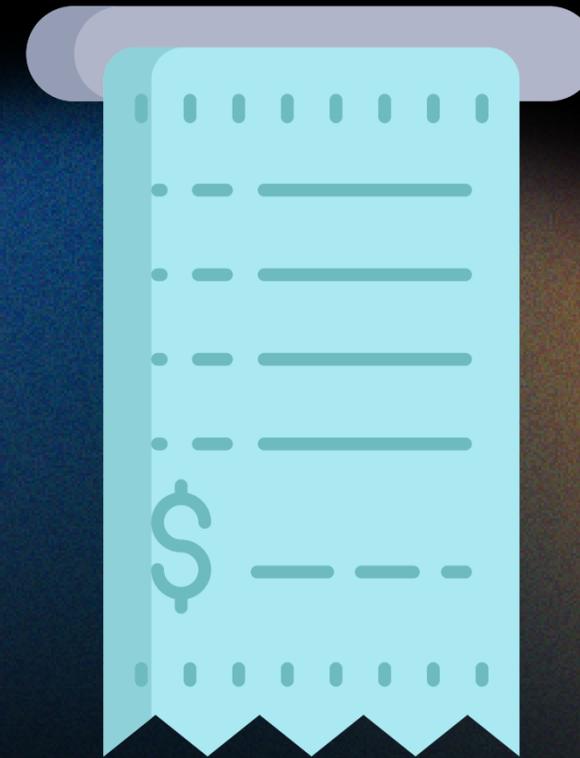


# DOCUMENTATION

## Expenses

- Lease agreements
- Consulting contracts
- Vendor Bills
- Receipts

Best Practice: Collect W-9s before paying Vendors



# DOCUMENTATION

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## Important/Permanent Documents

- IRS Form 990/990-EZ/990-N: Required annual tax filings, including the state filings.
- Annual report – IL Secretary of State
- Fiscal Year-End Financial Statements
  - Statement of Financial Position (Balance Sheet)
  - Budget vs Actual
  - Statement of Activities (Income Statement)
  - Statement of Cash Flow
- Audit Reports: Independent audits (if required)



# FINANCIAL MANAGEMENT TOOLS

## SYSTEMS



- TechSoup QuickBooks Online - Save time!!!
  - \$80/year vs \$115/month
  - Add a payroll service for an add'l monthly fee with automated e filing and payment of all taxes
  - Connect banking for easier coding of transactions
  - Customize financial reports



# FINANCIAL MANAGEMENT TOOLS

## SYSTEMS



- Ramp
  - Free bill payment system
  - Credit cards (virtual and manual) with no required guarantor
  - Reimbursement platform for employees
  - 1099 e filing
  - Treasury (interest-bearing checking account)
  - Eligibility – Requires \$50K minimum in your bank account(s)

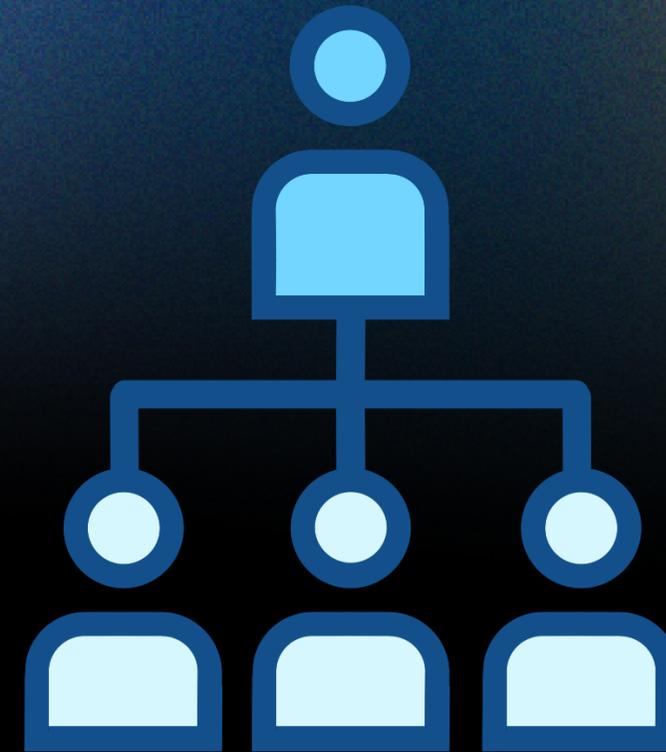


# FINANCIAL MANAGEMENT TOOLS

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## FINANCIAL POLICY

- Key areas:
  - Cash Receipts
  - Cash Disbursements
  - Expense vs Capital
  - Segregation of Duties



# FINANCIAL MANAGEMENT TOOLS

## FINANCIAL POLICY

- Financial Policy Guidelines
- National Council of Nonprofits
- Document Retention & Destruction Policy
- Top Ten Internal Controls





# NEXT SESSION



*Thursday  
February 5  
10am*



## **Telling Your Story**

Building a Brand Narrative

**Laura Herrera**  
Chief Marketing &  
Revenue Officer

*Griffin Museum of  
Science and Industry*

