Financial Management 101
(What Executive Directors Need to Know About Money)

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Overview

- Why Is It Important
- Internal Controls
- Budget
- Financial Statements
- Financial Reports / Audit
- Indirect Rate
- Summary

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Why Is It Important

- Number One Reason Executive Directors Terminated
- Board Knowledge of Financial Matters
- Keep Doors Open and Lights On
- Meet Payroll

Internal Controls

- Division of duties and responsibilities
- Checks and balances
- Fraud prevention

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Financial Statements

- Balance Sheet (Snapshot in time)
- Income Statement (Activity over time)
- Monthly, Quarterly and Year End (Fiscal Year)

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Financial Statements

- Balance Sheet
- Assets (What you own)
- Liabilities (What you owe)
- Equity / Fund Balance (What you have left over)

Financial Statements

- Assets
- Cash (Money you can spend)
- Accounts Receivable (What others owe you)
- Fixed Assets (Buildings and equipment)

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Financial Statements

- Liabilities
- Accounts payable (What you owe others)
- Accrued payroll and leave
  (What you owe your employees)

Equity/Fund Balance

- Nonspendable (Funds that legally must remain intact)
- Restricted (Only spend for specific purpose)
- Committed (Only spend for specific purpose due to third party)
- Assigned (Intended to be spent for specific purpose)
- Unassigned (All other funds)

Income Statement

- Revenue (Money in)
  - Dues
  - Grants
  - Contracts
  - Other

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Income Statement

- Expenditures (Money out)
  - Personnel (People)
  - Operating (Goods and Services)
  - Capital outlay (Equipment)
  - Debt service (Loans)

- Net Change in Fund Balance (Net gain/Net loss)

Budget

- Authority for Expending Funds
- Revenue (Hard vs. Soft)
- Expenses (Realistic)
- Amendments

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Financial Reports

- Management
  - Projects / Contracts
  - Cash Flow
- Board
  - Monthly Reports
    - Balance Sheet
    - Budget to Actual Revenue (Percent Year to Date)
    - Budget to Actual Expenditures (Percent Year to Date)

Audit

- Regular vs. Single Audit (Independent auditor)
- Review sample transactions and internal controls
- Opinion (Unqualified vs. Qualified)
- Findings / Management Letter
- Board review and acceptance

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Indirect Rate

- Title 2 Code of Federal Regulations Part 200.412
  (Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards)

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Uniform Guidance

- Replaced Circulars
  A-21, A-50, A-87, A-89, A-102, A-122 and A-133

- Goals
  - Streamline *guidance* to ease administrative burden
  - Strengthen *oversight* over federal funds
  - Eliminate *duplicative* and conflicting provisions

Costs

- Allowable
- Allocable
- Reasonable

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Allowable Cost

- Conform to *federal guidance* and grant award
- Consistent with organization *polices and procedures*
- Consistent treatment of *similar costs*
- Accordance with generally accepted *accounting principles*
- Document *methodology*

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Reasonable Costs

- Prudent person test
- Ordinary and necessary for operation
- Sound business practice
- Consistent with established practices

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Allocable Costs

- Accordance with relative benefit
- Specific to project
- Benefits multiple projects
- Reasonable distribution

Cost Allocation

- Process to determine total cost of a project
- Distribute costs to a project
- Use statistical data to measure benefit to project

Total Cost

- Allowable direct costs; and
- Allocable indirect costs

Direct Costs

- Specific to a project
- Specific final cost
- Cannot be assigned to other projects

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Indirect Costs

- Common or *joint* benefit to multiple projects
- *Costs remaining* after assigning direct costs
- *Cannot be allocated* if similar cost assigned to a project

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Allocation Bases

- Employees
- Transactions
- Space/Square Footage
- Salaries and Wages

Indirect Cost Example

- Depreciation of buildings and equipment
  - (Rent and fixed asset computers)
- Operation and maintenance facilities
  - (Utilities, service agreements, insurance)
- Administrative salaries and expenses
  - (Administrative and financial staff)
- Legal services

Indirect Cost Rate

- $$\text{Indirect Cost Rate (\%)} = \frac{\text{Total Indirect Costs (\$)}}{\text{Direct Cost Base (\$)}}$$
- *Indirect Costs are fixed / Base is variable*
  - Small Base = Large Rate
  - Large Base = Small Rate

Indirect Cost Rate Example 1

- Three projects/grants (A, B & C)
- Indirect Costs = $500,000
- Direct Salaries & Wages = $2,000,000
- Indirect Rate:

$$\frac{\$500{,}000}{\$2{,}000{,}000} = 25\%$$

Indirect Cost Rate Example 2

- Three projects/grants (A, B & C)
- Indirect Costs = $500,000
- Direct Salaries & Wages = $1,000,000
- Indirect Rate: $\frac{\$500{,}000}{\$1{,}000{,}000} = 50\%$

Types of Rate

- *Provisional Rate* - based on anticipated costs
  (Subject to adjustment)
- *Final Rate* - based on known costs
  (Not subject to adjustment)
- *Fixed Rate* - agreed in advance
  (Difference carried forward)
- *Predetermined Rate* - agreed in advance
  (Not subject to adjustment)
- *Annual Certificate* of Indirect Costs

Best Practices

- Use *consistent and reasonable* method
- Identify and *charge direct expenses* whenever possible
- Identify *primary cost drivers* of indirect cost (salary vs. space)
- Document *allocation methodology* (work papers)
- Allocate *appropriate expenses*

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Summary

- Most Important responsibility
- Keep you out of trouble
- Management oversite
- Working understanding of finances