



October 2014

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About NCM USA/Canada

Nazarene Compassionate Ministries seeks to live and act compassionately in the world following Christ's own life and ministry. We seek to be incarnations of the same gospel that Christ lived and preached and to be witnesses to the same love and compassion God has for our world.

In the United States and Canada, NCM works closely with Compassionate Ministry Centers (CMCs) to bring compassion and healing to communities that need the love and presence of Christ.

Mission

Nazarene Compassionate Ministries USA/Canada partners with Nazarene interests to facilitate ministries which address the temporal as well as the spiritual needs of the economically disadvantaged.

Churches

Local churches are the primary avenue for Nazarenes to reach out to those in their communities. Nazarene Compassionate Ministries seeks to support churches in starting and maintaining ministry to the under-served

 [Forward to a Friend](#)

God has called us to ministry, yet He holds us accountable to the talents He has invested in us. **It's all about stewardship.**

Will we be the good stewards? Or, will we bury our resources? It's important that we do our best with what we are given - by God and by countless supporters.

This month's theme is all about financial management systems. Let's all lead well and be good stewards.

Be found faithful,

Jay Height

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Coordinator, Nazarene Compassionate Ministries USA/Canada



Current Funding Opportunities

State Farm Good Neighbor Citizenship Company Grants support safety (disaster preparedness and recovery) and education (life skills and service learning) programs. [**Apply**](#)

Deadline: October 31, 2014

Best Buy Foundation National Youth Technology Program supports efforts that help teens build 21st century skills by using cutting-edge technology such as computers, digital cameras, video cameras, and professional software. [More information](#)

Deadline: November 1, 2014

Amount: \$200,000

Think.Eat.Save Student Challenge to Fight Food Waste and Reduce Hunger calls on high school and university students worldwide to research how much food is wasted at their

ministry to the under-served and marginalized. We believe every church, no matter size or budget, can find ways to meet needs in their community with compassion, creative, and the firm foundation and life-changing power of the Gospel message.

CMCs- Compassionate Ministry Centers

A Compassionate Ministry Center is a non-profit organization dedicated to meeting the needs of the under-resourced in the community. While these organizations are often affiliated with a specific local church, they are in a strategic position to unite others in their community around a high-needs cause.

NDR- Nazarene Disaster Response

Nazarene Disaster Response is Nazarenes mobilizing for disaster through Readiness, Response, and Recovery. Local Nazarenes are in a unique position to understand, serve, and remain with disaster victims in their own neighborhoods. In large-scale events the denomination can come alongside local efforts with the support of volunteers and donors from across the country and through our strong partnerships with other disaster relief agencies. NDR serves victims regardless of race, creed, or economic status by concentrating on assistance to the poor, elderly, and handicapped.

W&W- Work & Witness

Work & Witness provides opportunities for Nazarenes to serve together in support of existing ministries such as churches, CMCs, and Nazarene Disaster Response. Work & Witness can be any type of project, from construction to evangelism to compassionate outreach.

Contact

Toll Free Number: 1-800-306-9950

high school and university students worldwide to research how much food is wasted at their schools and take action to reduce food waste. Students can register and implement their campaign until the reporting deadline: November 16th. Teams that submit reports have a chance to win prizes up to \$5,000 based on creativity, effectiveness, and reach. For more information [visit the website](#).

American Honda Foundation Invites Applications for STEM Programs from nonprofit organizations for programs that support science, technology, engineering, and mathematics education. Environmental projects, job training, and literacy programs also will be considered. [More information](#)

Quarterly Deadline: November 1
Funding Amount: Up to \$75,000

Financial Management Systems

Practical Tools and Process for Common Non-Profit Functions

Good financial management practices are important because they demonstrate good stewardship and integrity, and maximize the use of resources. Sound financial management and record-keeping provides an organization with tools to improve program, increase donor support, and respond to its ministry call.

According NCFMI's APEX[1] self-assessment tool, strong financial accountability practices of Level 4 compassionate ministries centers include:

Banking	Basic checking account Gifts and grants are deposited Bills are paid regularly Additional bank account (savings or Money Market) for designated gifts and/or savings
Book-keeping	Established dual approval system in place Make proper bookkeeping adjustments as directed by auditor or reviewer and track restricted funds separately Consider EFCA Certification
Reporting System	Internal systems and controls that govern financial operations and reporting are in place and integrated with budgeting, decision-making and organizational goals Cash flow is actively managed
Tax / Audit	Outside CPA for consulting purposes All taxes are paid and proper paper work is filed with IRS Annual audits conducted
Budget	A comprehensive annual budget for the organization exists that is used consistently to guide financial decisions Specific program budgets exist within the organizational budget Financial planning attempts are made to secure funds for organizational development

Tool: [Financial Self-Assessment](#)

Key elements of strong financial management are planning, monitoring, operations, and governance.

1. Planning	Using budgets and financial analysis for strategic allocation of resources
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Like

Budget is the financial forecast and boundary for future decisions.

Cash Flow is a monthly projection of the timing and amount of money the organization will receive and spend to prevent cash shortage and take advantage of temporary cash surpluses.

Cost Analysis identifies both direct and indirect costs of a program.

Five Step Process for Budgeting (Guide)

- Assemble a budget team including CFO, HR, board treasurer, development director, program, CEO
- Create a calendar for developing the budget that begins 6 months before the upcoming fiscal year.
- Prepare for budget process by setting financial goals, gathering current year budget and actual data, building a budget template, and conducting a team kickoff meeting.
- Develop the budget by planning expenses for each program, predicting revenues, and forecasting cash flow. Finally, assemble the organization-wide budget and obtain board approval.
- Monitor the budget through monthly internal reporting and quarterly analysis of variance between revenues and expenses.

**Tools: Program-Based Budget Builder
Budgeting Checklist**

Managing Cash Flow (Guide 1 & Guide 2)

- For each month, project how much money the organization will receive and spend based on the previous year's checkbook and anticipated changes that may affect timing of payments and deposits.
- Maintain cash flow projections that look forward 12 months.
- Monitor cash flow projections by comparing budgeted and actual deposits and expenditures.
- Select strategies for adjusting cash flow timing and amounts:
 - Projected Temporary Cash Shortage - obtain a loan, arrange a line of credit, speed up collection of receivables, finance equipment purchase over time, liquidate investments, or delay payment to vendors, carefully explaining the situation and expected date of payment.
 - Projected Temporary Cash Surplus - make short term investments in bonds and money market funds, or buy supplies on sale that can be used throughout the year.
- Be aware of cash flow and budget assumptions and react to changes.

Tools: Cash Flow Projections Template 1 and Instructional Video & Cash Flow Projections Template 2

True Cost Analysis (Toolkit)

True cost analysis is essential for making important resource-related decisions and maintaining an organization's mission. Allocating both direct and indirect costs across programs is the key of analysis. Understanding the true costs of each program and determining the level of mission alignment will show how each program contributes to the organization's social mission and overall financial health.

- Determine purpose and scope of the analysis:
 - Define and differentiate the organization's programs and distinguish

- between locations
- Determine appropriate programmatic scope
- Identify appropriate time period

b. Gather financial data

- All organizational costs, both program-specific (direct) and overhead (indirect)
- Expenses incurred by each program, as reported by program heads
- Number of employees and summary of job responsibilities for each position
- Estimates of how staff members spend their time, by program
- Estimates of infrastructure usage, by program

c. Allocate direct costs (salaries, travel expenses, supplies, rent, contract fees) by program

d. Allocate indirect costs (general administration, management, infrastructure, marketing, advocacy)

- Identify drivers for each cost item, measurable variables that cause indirect costs to increase or decrease, such as number of people, space and utilities used, number of subscriptions, etc
- Allocate indirect costs to programs according to estimated percentages determined by drivers

e. Review data

- Have all costs been allocated? Sum of program allocated costs equals total original costs.
- Is each cost item allocated correctly? Sum of allocated cost item equals original cost item total.
- Check job descriptions and rosters, including part time and consultants, against cost allocation.
- Verify the logic of cost allocations and relative proportions

f. Apply knowledge along with revenue and mission alignment analyses to identify programs that are:

- Clear winners - core to the organization's work and contribute to funding and social mission
- Require revenue - core to the social mission, but need financial support from other programs
- Generate funding - contributes funding, but is not well-aligned with social mission
- Potential distractions - peripheral to the organizational mission and financially unhealthy

2. Monitoring	Reviewing financial information to ensure resources are used according to plan
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Statement of Financial Position or balance sheet shows organizational assets, liabilities, and net assets.

Statement of Financial Activities shows organizational income and expenses for a specific time period.

Dashboards use action lights and trends over time to make financial data meaningful and easy to read

Internal financial reports should be accurate, timely, readable, and presented in context.

Statement of Financial Position

ASSETS <LIABILITIES> = NET ASSETS

ASSETS What the organization has, is owed, has invested or deposited

Cash; Inventories; Pre-paid expenses; Fixed assets; Long-term investments; Promised grant awards; Loans and deposits made to others

LIABILITIES What the organization owes or holds on behalf of others

Accounts payable; Payroll; Accrued expenses; Amount borrowed; Short- and long-term loans; Refundable advances; Conditional contributions

NET ASSETS Net worth of the organization

Unrestricted, temporarily restricted, and permanently restricted

Sample Statement of Financial Position

ORG NAME Statement of Financial Position as of (DATE)	Current Year				Prior Year
	Total To Date	Unrestricted	Board Designated	Restricted	
ASSETS					
Current Assets	50,000	25,000	15,000	10,000	A
Fixed Assets	20,000	-	20,000	-	20,750
Long Term Assets	-	-	-	-	B
TOTAL ASSETS	70,000	25,000	35,000	10,000	42,750
LIABILITIES					
Current Liabilities	3,000	3,000	-	-	3,500
Long Term Liabilities	-	-	-	-	-
TOTAL LIABILITIES	3,000	3,000	-	-	3,500

Statement of Financial Activities

INCOME <EXPENSE> = NET INCOME

Sample Statement of Financial Activities

Show context: History, YTD, Budget, Forecast to year end, Explain variances

ORG NAME Statement of Activities		Prior Year Actual	Current Year to Date	Current Year Budget	% Budget to Date	Year End Forecast	Budget to YE Variance	Notes
Income to total	Target Revenue							
	Contributed Revenue							A
	Released from Restrictions (C)							
Total Unrestricted Revenue								
Expense to total with	Program Expense							B
	Developmental Expense							
	Admin Expense							
Total Operating Expense								
NET UNRESTRICTED INCOME								
Separate restricted	Expected Contributions							C
	Released to Unrestricted							
NET RESTRICTED INCOME								
NET ALL ACTIVITY								
Narrative notes	Note A (Narrative explanation)							
	Note B (Narrative explanation)							
	Note C (Narrative explanation)							

- Prior year totals, year to date, budget, and percent budget to date provide context
- Year-end forecast shows expected changes
- Show income by source
- Separate net restricted and unrestricted income
- Show expenses by function and activity
- Include narrative explanation of variances

Dashboard

Sample Finance Dashboard

	Target	6 months ago	Now
Days of unrestricted cash on hand	45 days	80 days	18 days
Net surplus or deficit YTD compared with YTD budget	Within 25K or better	\$42,500 worse than budget	\$28,000 worse than budget-to-date
Government funding year-to-date (52% of budget)	Within 3%	\$28,000 worse than budget	\$3,200 worse than budget, 24 days
Days from end of month to financial statements	24 days	67 days	48 days

- Use a color key to indicate which areas need attention and which should be celebrated:
 - Red = Act
 - Yellow = Watch
 - Green = Celebrate
- Include metrics for more than one time point to show trends in what is getting better or worse

NET ASSETS					
Unrestricted					
Undesignated	22,000	22,000	-	-	24,500
Board Designated	13,000	-	13,000	-	C
Property, Plant & Equip	20,000	-	20,000	-	20,700
Temporarily Restricted	10,000	-	-	10,000	12,000
Permanently Restricted	-	-	-	-	-
TOTAL NET ASSETS	65,000	22,000	33,000	10,000	57,200
TOTAL LIABILITIES & NET ASSETS	70,000	25,000	35,000	10,000	62,700
Note A (Narrative explanation)					
Note B (Narrative explanation)					
Note C (Narrative explanation)					

- Describes cash balances, investments, receivables, payables, and financial health
- Restricted and designated funds are separated from unrestricted funds
- Prior year for comparison
- Narrative explanations of significant changes
- Cumulative results of all years in operation

3. Operations

Securing human resources and tools to analyze financial information

Accounting Procedures are documented guidelines for financial transactions that describe how to handle assets and donations, account for cash, deposits, payments, travel expenses, and vehicle use, procure goods and services, and use petty cash.

Internal Controls are processes that ensure effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. These include segregation of duties, dual assets control, authorization, and documentation.

Good accounting is the basis for generating accurate report of an organization's financial position and activities that are useful for planning and decision-making. Strong internal controls also help to prevent fraud. Organizational accounting procedures following the Generally Accepted Accounting Principles (GAAP) should be documented in a Policies and Procedures Handbook (**template**):

- **Accrual Basis Accounting**
- **Reconciling Accounts**
- **Petty Cash**
- **Accounts Receivable**
- **Fixed Assets**
- **Inventory**
- **Accounts Payable**
- **Line of Credit**
- **Payroll**
- **Expense Allocations**
- **Unified Chart of Accounts**

**Tools: Fiscal Management Activities Calendar
Monthly Closing Process Checklist
Internal Controls Checklist**

4. Governance

Board of directors ensures the organization fulfills obligations and mission

Fiduciary is a role that manages the well-being and financial health of the organization

Independent Audit is the review and analysis of a nonprofit organization's financial statements for the purpose of expressing an opinion about their fairness.

The board of directors is accountable for setting and guarding organizational mission, setting standards and monitoring performance, and ensuring responsible management of resources. The board has a fiduciary responsibility to oversee financial planning and approve the annual budget, protect organizational assets, create financial policies, regularly review financial statements and reports, ensure accurate financial records are kept, and facilitate both internal and independent audits.

**Tools: Avoiding Financial Risks
Making Good Use of the Treasurer & Finance Committee
Reporting Financial Information to the Board**

Independent Audit Process

- a. Select a firm to perform the audit.
- b. Client prepares information for the auditor to review: cash, investments, receivables, fixed assets, accounts payable, accrued expenses, deferred revenue, loans and leases, revenue by source, expenses (payroll, functional expenses, general administrative, fundraising).
- c. Auditor conducts field work by reviewing information for key issues: poor record keeping, un-allowable costs and activities, missing time and attendance reports, failure to follow procurement standards, lack of internal controls, failure to obtain prior approval when required, and poor cash management including excessive and infrequent draws.
- d. Auditor reviews the audit report with the nonprofit.
- e. Auditor prepares final report including audit opinion and recommendations.

**Tools: Approaching an Audit
Audit Committee Toolkit**

References and Resources

Wallace Foundation Resources for Nonprofit Financial Management

Nonprofit Accounting Basics

Nonprofit Assistance Fund

501 Commons

Grants Management Circulars

[1] APEX Assessment Tool

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