



Insights on Foundations: Best Practices in the Business Office

April 25, 2023



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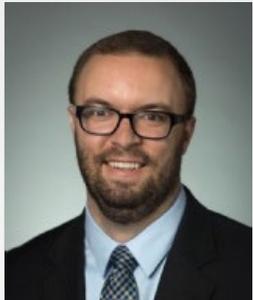
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Meet the Presenters



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Agenda

- Best Practices for Foundation financial reporting & internal controls
- Accurate budgeting
- Using financials to tell your Foundation financial story





Best Practices for Foundation Financial Reporting & Internal Controls

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Does My Foundation Need an Audit?

- Considerations for having audited/reviewed financial statements
 - Transparency
 - State requirement
 - Gross receipts thresholds
 - Confidence in the numbers

How an Audit Can Work for You

- Year-round thought leadership
- Be collaborative!
- Control & process improvement opportunities
- Help move forward certain initiatives

Process/Control Best Practices

- Entitywide
 - What is your organization's whistleblower policy? Do you have an independent hotline?
 - How are you supporting ethical values & integrity?
 - How are journal entries documented, supported, reviewed?
 - How often is cash reconciled? Monthly? How soon after year-end? Are reconciliations promptly reviewed & documented as such?

Process/Control Best Practices

- Cash inflows – contributions
 - When was your contribution acceptance policy last reviewed?
What is your policy regarding
 - Non-cash contributions, *i.e.*, property; investment securities; cryptocurrency
 - Are you properly considering any donor-imposed restrictions?
 - Do you have proper segregation of duties (gift receipting vs. recording)

Process/Control Best Practices

- Cash outflows & payroll
 - How are cash outflows approved?
 - Who reviews/approves purchase orders?
 - Who are the authorized signors? Is there ever a point where dual signatures are needed, &, if so, what is the threshold?
 - What is the board's involvement (if any?)
 - Is there proper segregation of duties in the payroll department (adding employees, changes to employee master file, review & approval of payroll submission)?

Process/Control Best Practices

- Investing
 - How often is investment policy reviewed & approved? Are you actively monitoring for compliance?
 - For Foundations with endowments, are you properly reconciling your unitization & allocating investment return appropriately?

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An Auditor's Wish List

- You can't overcommunicate!
 - Establish clear deadlines/milestones
 - No surprises (this should go both ways). Be proactive
- Consider maintaining key audit schedules during the year, not just on an annual basis
- Hold your auditors to their commitments ... as well as your business office



Accurate Budgeting

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Budget Preparation

- Timing of approval – prior to year-end
- Consider allowance for budget recast
 - Significant, extraordinary items
 - Inflation anyone?!
- Cash-basis vs GAAP-basis

Budget Preparation

- Budget on a monthly basis
 - Improve real-time accountability
 - Better understanding of cyclical cash flow needs/pressures
- Consider creating a “dynamic” document based on unit/program costs/inflows to allow a better forecasting tool
 - Operational budget vs. aspirational budget
- Impact of surplus/liquidity reserves
- Rolling forward the budget – culture of “unspent funds”



Telling Your Foundation's Financial Story

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Overview FASB ASU 2016-14

- Effective FY19
- FASB's objectives
 - Reduce confusion about time & purpose restrictions on face of financials
 - Reduce confusion about the name of the net asset classes
 - Improve transparency about liquidity especially related to restrictions
 - Address NFP sector inconsistencies in expense reporting
 - Clear a path for direct cash flow reporting (if desired)
- Flexibility granted to meet requirements
- Encourage NFPs to better tell their financial story

Overview FASB ASU 2016-14

- Net asset classes – simplified from three to two & renamed
- Indirect cash flow reconciliation no longer required when doing the direct method cash flows
- Enhanced disclosures
 - Governing board designations
 - Restrictions on net assets & impact on financial resources available
 - Qualitative information about liquidity
 - Quantitative information about financial resource availability
 - Expenses by both natural & functional classification
 - Underwater endowment information
- Net investment return rather than gross components
- Placed in service rather than over time for expiration of capital restrictions

Management's Discussion & Analysis

- Typically seen most often with (& required for) governmental entities
- Will generally be unaudited
- Can allow an opportunity to “tell your story”

Statements of Financial Position

	<u>2022</u>	<u>2021</u>
Assets		
Cash and cash equivalents	\$ 70,819	\$ 25,494
Investments	15,974,288	23,623,175
Property and equipment, net	<u>1,413,674</u>	<u>1,476,182</u>
 Total assets	 <u>\$ 17,458,781</u>	 <u>\$ 25,124,851</u>
Net Assets Without Donor Restrictions		
Non-designated net assets	\$ 16,045,107	\$ 23,648,669
Board-designated net assets	<u>1,413,674</u>	<u>1,476,182</u>
 Total net assets without donor restrictions	 <u>\$ 17,458,781</u>	 <u>\$ 25,124,851</u>

- \$ presented in thousands helps reader focus on key numbers
- Footnote cross-references help the reader locate the appropriate footnote!

	<u>2022</u>	<u>2021</u>
Assets		
Cash and cash equivalents	\$ 3,173,848	\$ 4,942,445
Investments, at cost	209,969,863	196,246,807
Note receivable, net	3,250,000	3,500,000
Property and equipment, net	<u>693,792</u>	<u>676,004</u>
 Total assets	 <u>\$ 217,087,503</u>	 <u>\$ 205,365,256</u>
Liabilities		
Payroll tax withholdings	\$ 2,102	\$ 4,404
 Net Assets Without Donor Restrictions	 <u>217,085,401</u>	 <u>205,360,852</u>
 Total liabilities and net assets	 <u>\$ 217,087,503</u>	 <u>\$ 205,365,256</u>

Reporting of Expenses

- ASU 2016-14 requires expense reporting by nature & function
- Functions include program & support, & support includes management & general, & development
- Total expenses by nature & function
 - Must be presented in a single location
 - Several options for presentation, *i.e.*, in SOA; as its own statement; in footnotes
- Only expenses should be functionalized, not losses
- Can have this separated between operating & nonoperating

Reporting of Expenses

	2022		2021	
	Total	Percent of Total	Total	Percent of Total
Receipts				
Contributions	\$ 394,129	1.50 %	\$ 319,903	2.59 %
Interest and dividend income, net of investment fees of \$1,173,587 and \$1,263,231 for 2022 and 2021, respectively	3,026,007	11.51	2,759,986	22.33
Net realized gains on investments	22,864,090	86.98	9,163,466	74.13
Other	3,390	0.01	118,576	0.95
Total receipts	26,287,616	100.00	12,361,931	100.00
Disbursements and Expenses				
Grants	12,663,209	86.96	12,552,134	88.26
Administrative	878,790	6.03	883,924	6.22
Library	373	0.01	447	0.01
Depreciation	51,904	0.36	29,234	0.21
Utilities	22,400	0.15	20,708	0.15
Office supplies	3,137	0.02	6,572	0.05
Equipment	4,769	0.03	26,105	0.18
Rent	63,552	0.44	26,480	0.19
Repair and maintenance	86,430	0.59	63,504	0.45
Dues and membership	28,701	0.20	26,845	0.19
Training	30,668	0.21	4,828	0.03
Travel	41,847	0.29	22,547	0.16
Postage	1,714	0.01	1,697	0.01
Insurance	32,573	0.22	23,530	0.17
Professional fees	469,502	3.22	369,728	2.60
Federal excise tax and unrelated business income tax	78,319	0.54	103,475	0.73
Other	105,179	0.72	55,236	0.39
Total disbursements and expenses	14,563,067	100.00 %	14,216,994	100.00 %
Change in Net Assets Without Donor Restrictions	11,724,549		(1,855,063)	
Net Assets Without Donor Restrictions, Beginning of Year	205,360,852		207,215,915	
Net Assets Without Donor Restrictions, End of Year	\$ 217,085,401		\$ 205,360,852	

	2022		
	Program Services	Management and General	Total
Grants	\$ 12,663,209	\$ -	\$ 12,663,209
Administrative	452,965	425,824	878,789
Library	194	179	373
Depreciation	26,990	24,914	51,904
Utilities	11,648	10,752	22,400
Office supplies	1,631	1,506	3,137
Equipment	2,480	2,289	4,769
Repair and maintenance	44,944	41,486	86,430
Rent	33,047	30,505	63,552
Dues and membership	14,925	13,776	28,701
Training	27,210	3,458	30,668
Travel	28,684	13,164	41,848
Postage	944	770	1,714
Insurance	16,938	15,635	32,573
Professional fees	447,587	21,915	469,502
Federal excise tax and unrelated business income tax	-	78,319	78,319
Other	52,347	52,832	105,179
	\$ 13,825,743	\$ 737,324	\$ 14,563,067

Liquidity & Availability of Resources

- Financial assets
- Available for general expenditure
- Within one year of the balance sheet date
- No definition of general expenditure
- No required format
- Qualitative information required to supplement quantitative if necessary
- Liquidity describes how organization ensures it has liquidity to meet daily needs

Liquidity & Availability of Resources

Note 6: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of August 31, 2022 and 2021, comprise the following:

	<u>2022</u>	<u>2021</u>
Cash	\$ 3,173,848	\$ 4,942,445
Investments	<u>201,575,132</u>	<u>189,110,667</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 204,748,980</u>	<u>\$ 194,053,112</u>

While the Foundation does not anticipate liquidity concerns, the Foundation does have a highly involved Board of Directors who monitors liquidity throughout the year. The Foundation's primary expenses are grant disbursements that are decided upon by the Board of Directors. If liquidity concerns were to appear, the Board of Directors would be able to limit disbursements on an as needed basis and maintain sufficient levels of liquidity.

Cash is monitored daily and a monthly review is performed at the management level.

Note 7: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2022 and 2021, comprise the following:

	<u>2022</u>	<u>2021</u>
Cash	\$ 70,819	\$ 25,494
Investments	<u>15,974,288</u>	<u>23,623,175</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 16,045,107</u>	<u>\$ 23,648,669</u>

While the Organization does not anticipate liquidity concerns, the Organization does have a highly involved Board of Directors who monitors liquidity throughout the year. The entity's primary expenses are grant disbursements that are decided upon by the Board of Directors. If liquidity concerns were to appear, the Board of Directors would be able to limit disbursements on an as needed basis and maintain sufficient levels of liquidity.

Cash is monitored daily and a monthly review is performed at the management level.

Liquidity – Summary

- Liquidity
 - Short discussions – qualitative information sometimes addresses
 - Balanced budget
 - Available lines of credit
 - Relationships with more than one financial institution
 - Some organizations indicate that FFE/board-designated endowments can be made available
 - Is there a cash or liquid investment target

Statement of Activities

- NFPs have a ton of flexibility in how their income statement (statement of activities) is presented
- Presentation of an operating indicator is not required, but may be helpful
- Consider any potential debt covenant requirements or regulatory items
- What is most beneficial to the user of the financials? What tells your story?

Expendable Net Assets

	2022	2021
Assets		
Cash and restricted cash	\$ 5,270,110	\$ 2,391,621
Student accounts receivable - net of allowance of \$325,000 and \$300,834 at June 30, 2022 and 2021, respectively	685,654	777,013
Government grants receivable	453,903	1,090,829
Pledges receivable - net (Note 2)	1,549,353	2,834,607
Other receivables	148,122	253,794
Prepaid expenses and other assets	788,093	444,992
Cash value of life insurance (Note 3)	17,042	17,042
Beneficial interest in trusts (Notes 4 and 8)	10,222,160	11,769,703
Investments held for long-term purposes (Note 4)	43,050,238	49,006,607
Land, buildings, and equipment - net (Note 6)	68,412,471	71,500,756
Total assets	\$ 130,597,146	\$ 140,086,964
Liabilities		
Accounts payable	651,870	770,227
Accrued payroll expenses	1,932,373	2,289,735
Accrued interest	226,861	27,259
Students' and other deposits	374,596	452,817
Deferred revenue	223,840	245,090
Lines of credit and term notes (Note 7)	5,394,614	15,314,714
Funds held in trust for others	10,813	30,879
Obligations under split-interest agreements (Note 8)	6,060	6,682
Capitalized lease obligations	400,268	619,335
Bonds payable (Note 9)	28,498,562	15,198,600
Derivative liability (Notes 4 and 10)	-	718,366
Refundable Federal Perkins Loan advances	33,586	32,880
Accrued post-retirement benefits (Note 11)	419,362	612,145
Total liabilities	38,172,805	36,318,729
Net Assets		
Without donor restrictions	39,664,548	42,540,205
With donor restrictions	52,759,793	61,228,030
Total net assets	92,424,341	103,768,235
Total liabilities and net assets	\$ 130,597,146	\$ 140,086,964

Note 14: Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes:

	2022	2021
Subject to expenditure for specified purpose		
Capital projects	\$ 65,106	\$ 65,036
Student and operational support	2,454,413	2,679,841
Scholarships and other academic support	8,921,885	10,398,248
	<u>11,441,404</u>	<u>13,143,125</u>
Endowments		
Subject to endowment spending policy or appropriation		
Scholarships and other academic support	6,460,065	12,395,436
Donor-restricted permanent endowment funds	<u>34,858,324</u>	<u>35,689,469</u>
Total endowments	<u>41,318,389</u>	<u>48,084,905</u>
Total net assets with donor restrictions	\$ 52,759,793	\$ 61,228,030

- Calculated as net assets, less
 - Permanently restricted net assets (or any trusts)
 - Net investment in PP&E
- Liquidity measure at balance sheet date (don't forget liquidity footnote)

92,424,341 - net assets
 (34,858,324) - permanently restricted net assets

(68,412,471) - PP&E
 28,498,562 - related debt
 400,268 - capital leases
(39,513,641) - net investment in PP&E

18,052,376 - Expendable Net Assets

Expendable Net Assets to Operations

92,424,341 - net assets
(34,858,324) - permanently restricted net assets

(68,412,471) - PP&E
28,498,562 - related debt
400,268 - capital leases

(39,513,641) - net investment in PP&E

18,052,376 - Expendable Net Assets

38,514,715 - Total Expenses
(3,614,406) - Depreciation expense

34,900,309 - Denominator

0.52 - expendable net assets to operations

6.21 - expendable NA to ops - in months

- Calculated as expendable net assets (calculated on previous slide), divided by total expenses (less depreciation)
- Tells you how many months of operations you could fund from liquidity at measurement date, if revenue were to cease
- Common benchmark is 0.40x

The logo for FORVIS, with the word "FORVIS" in a bold, red, sans-serif font and a small "TM" trademark symbol to its upper right. The background of the slide features a scenic photograph of a beach at sunset or sunrise, with tall grasses in the foreground, a sandy beach, and a large rock formation in the ocean under a clear blue sky. A large, dark blue diagonal shape is overlaid on the top right of the image.

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