BUILDING A STRONG FINANCIAL FOUNDATION

COMMISSIONED BY HEALTHSPARK FOUNDATION
AUTHORED BY BEE, BERGVALL & CO
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Disclaimer:

The information in this toolkit was compiled as of May 31, 2018. The IRS, PA, and Financial Accounting Standards discussed are effective as of that date. Rules and standards change over time; please consult with your accounting firm to confirm that you are complying with current standards.

The information provided in the toolkit is provided with the understanding that the authors and publishers are not herein engaged in rendering legal, accounting, tax, or other professional advice and services. As such, it should not be used as a substitute for consultation with professional accounting, tax, legal or other professional advice and services. While we have made every attempt to ensure that the information contained in this toolkit is current and from reliable sources, Bee, Bergvall, & Co., PC and HealthSpark Foundation are not responsible for any errors or omissions, or the results obtained from the use of this information.
ACKNOWLEDGEMENTS

This kit is dedicated to the over 50 emergency food pantries in Montgomery County, PA and their committed staff and volunteers.

The toolkit was commissioned by HealthSpark Foundation to address the critical role of robust financial management policies and practices in:

- Informing strategy and operations
- The long-term sustainability of the food pantries to improve consumer nutrition contributing to the health and well-being of the communities in which consumers and the pantry are located
- The Board’s role in financial oversight, accountability, setting policy, and long-term planning
- The staff’s role in designing systems and practices

Our thanks to the emergency food pantries and related organizations that contributed experience, expertise, and time to this project.

Calvary Baptist Church
Catholic Social Services/Martha’s Choice Marketplace
Inter-Faith Food Cupboard
Jenkintown United Methodist Church Food Cupboard
Manna on Main Street
MontCo Anti-Hunger Network
Narberth Community Food Bank
Open Door Ministry
PALM
Patrician Society
Pottstown Cluster of Religious Communities
Rolling Harvest Food Rescue
Salvation Army-Norristown
SHARE Food Program
Food Pantry at St. John’s Lutheran
1 | INTRODUCTION

1-1 | Letter from HealthSpark Foundation

HealthSpark Foundation engaged Bee, Bergvall & Co. to create this new, updated Financial Toolkit for food pantries, based upon its many years of professional accounting experience serving nonprofit organizations.

All nonprofit organizations, including food pantries, must have sound accounting policies and procedures in place to effectively and efficiently carry out their important work. A solid financial management infrastructure helps an organization maximize existing resources and manage cash flows. Regardless of its size, accurate, robust and timely financial reports help Boards of Directors or other decision-making bodies fulfill their fiduciary responsibilities and strategically plan for the organization’s future viability.

A recent study on the financial health of the region’s nonprofits reported more than 40% of nonprofits in the Delaware Valley have no operating reserves or are operating in the red.1 Food pantries typically operate on thin margins, if any. In the current political environment, public dollars are likely to continue to decline, making it even more imperative that food pantries strengthen their financial management system to support their mission and the stewardship of their resources, including volunteers and staff.

This updated toolkit builds upon two previous financial management toolkits – one for standalone pantries and one for faith-based pantries – developed by Bee, Bergvall & Co. in 2016. Changes in accounting regulations required an updated toolkit. The foundation took the opportunity to enhance the value of the toolkit by combining information previously separated into the two former toolkits, providing greater detail, and expanding this version to include more advanced concepts related to planning and forecasting.

We invite your pantry to review and start using this toolkit, whether you are just beginning to set up a financial record keeping system or are interested in how to better use financial reports for planning: there is something in this toolkit for you! We encourage you to continue your efforts to improve and strengthen your financial management system to support your critical mission that so many individuals and families depend upon for their nutritional health.

Russell Johnson       Tamela Luce
President & CEO      Senior Program Officer

1-1 | Quick Start Guide to Toolkit

We recognize that this toolkit will be used by food pantries of all sizes and structures.

The Table of Contents, Exhibits, and Frequently Asked Questions can provide you with an overview of the content. The following chart will direct you to sections in this toolkit for various audiences and purposes.

<table>
<thead>
<tr>
<th>Audience-Purpose</th>
<th>Application</th>
<th>Section</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board Members</td>
<td>Understanding the Financial Statements and what to look for</td>
<td>Section 2-1 Understanding the Numbers</td>
</tr>
<tr>
<td></td>
<td>What to review monthly or quarterly</td>
<td>Section 2-8 Financial Responsibilities of Boards</td>
</tr>
<tr>
<td>Small Food Pantries Partnering with a Place of Worship</td>
<td>What small food pantries that are part of a place of worship need to focus on</td>
<td>Section 2 Financial Foundations</td>
</tr>
<tr>
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<td>Section 6 Topics Unique to Food Pantries that are part of a Place of Worship or Ministry</td>
<td></td>
</tr>
<tr>
<td>Small Nonprofit Food Pantries</td>
<td>What small food pantries need to focus on</td>
<td>Section 2 Financial Foundations</td>
</tr>
<tr>
<td>Food Pantry Sustainability</td>
<td>How to build a financially sustainable food pantry</td>
<td>Section 3 Assessing and Managing Financial Operations</td>
</tr>
<tr>
<td></td>
<td>Section 5 Other Opportunities</td>
<td></td>
</tr>
<tr>
<td>Communicating Impact to Donors and Grantors (and to your Board and volunteers!)</td>
<td>Communicating to your partners what you have achieved with their support – and what more you could do</td>
<td>Section 4 Connecting the Financials to your Strategic Plan: Setting Goals</td>
</tr>
<tr>
<td>Planning and Forecasting</td>
<td>Planning for best and worst-case scenarios</td>
<td>Section 3 Assessing and Managing Financial Operations</td>
</tr>
<tr>
<td></td>
<td>Setting goals and tracking progress</td>
<td>Section 4 Connecting the Financials to your Strategic Plan: Setting Goals</td>
</tr>
<tr>
<td>Growing your Food Pantry</td>
<td>Growing your Food Pantry for greater community impact</td>
<td>Section 4 Connecting the Financials to your Strategic Plan: Setting Goals</td>
</tr>
<tr>
<td></td>
<td>Section 5 Other Opportunities</td>
<td></td>
</tr>
</tbody>
</table>
“**Numbers Tell a Story**”

The first step toward fiscal sustainability is an understanding of what story your numbers are telling you. If you and your Board understand the relationship between the data, the financials, community need and the impact of your work, your food pantry is more likely to be sustainable.

Financial sustainability is rooted in understanding:

- Where are you now?
- Why are you there?
- Where do you want to go?
- How will you get there?

“If you don't know where you are going, you'll end up someplace else.”  Yogi Berra

Section 2 will focus on “Where are you now?”, “How many people do you currently serve?”, and “What challenges do you face?”.

Sections 3 and 4 can help answer “Why are you there?”.

Sections 3, 4, 5, and 6 can help you explore “Where do you want to go?” and “How will you get there?”.

2-1 | Understanding the Numbers

There are several elements to your monthly financial statements. The kinds of financial information you need to help others understand your operation include reporting of the money that goes in and out every month called the Profit & Loss or Statement of Activities. A list of all the money and things you have (assets) and all the money you owe (liabilities) is called a Balance Sheet or Statement of Financial Position. How you plan on getting and spending your money is called your Budget Report.

For a quick reference to these statements, see the following sections:

- Statement of Activities (Profit & Loss)* - See Exhibit 2-1-1
- Statement of Financial Position (Balance Sheet)^ - See Exhibit 2-1-2
- Budget Report - See Exhibit 2-1-3

*Businesses typically call this statement a Profit & Loss Statement or an Income Statement. In nonprofit accounting it is formally called a “Statement of Activities”.

^Just like with the Profit & Loss, the Balance Sheet is the more commonly used term for this statement. In nonprofit accounting the formal term is Statement of Financial Position.

The Statement of Activities (Profit & Loss) is like a video. It shows your financial activity over the course of time. During the year you will look at your Statement of Activities monthly and cumulatively. When we say “cumulatively”, we mean your Statement of Activities from the beginning of the year to the most recent month end. For example, if we are in May and your year started on January 1, to look at the Statement of
Activities cumulatively you would run the reports from January 1 to April 30. You would use April 30 as that would be your most recently completed full month.

The Statement of Activities shows Revenues (what people or donors gave to you either in funds or in food or other product donations) and Expenses (what you spent to deliver your programs and operate the organization). Your expenses include the value of the distributed food that was donated to you.

The Statement of Financial Position (Balance Sheet) is like a photograph. It is a snapshot of your finances at a specific point in time. Nonprofits often focus on their Statement of Activities and overlook their Statement of Financial Position. But as we shall see, the Statement of Financial Position provides us with important information. The Statement of Financial Position shows what you own, less what you owe, which equals your “worth” or in nonprofit terms: your net assets.

What you own includes your cash balances, inventory, any fixed assets (equipment) you have, and any money that others owe you. What you owe others includes bills that you have received but haven’t paid yet, and/or long-term obligations that you are paying back over time, such as a loan. Your “worth” is the accumulation of your earnings over the years.

The Budget Report shows your Statement of Activities (Profit & Loss) compared to budget. It provides a picture of what happened compared to what you thought (or planned) would happen. We will discuss budget practices in more detail in Section 3.

Accounting records can be kept on the cash basis or on the accrual basis. The cash basis records revenues when they are received and expenses when they are paid. The accrual basis records revenues when they are earned, even if the money is not in the bank yet, and expenses when they are incurred, even if the check is not written yet.

The accrual basis will provide you with a more accurate picture of your finances, especially if you are late paying your bills due to cash flow problems or if people owe you money. The following chart shows the differences:

<table>
<thead>
<tr>
<th>Transaction</th>
<th>Record on Cash Basis</th>
<th>Record on Accrual Basis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bill received for purchase of shelving</td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>Pay bill received for purchase of shelving</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Grantor sends you a letter notifying you of a grant award</td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>You receive grant funds</td>
<td></td>
<td>x</td>
</tr>
</tbody>
</table>

Note: Accounting concepts are discussed briefly on the following Exhibits. For more resources on understanding your financial statements and the numbers, see the Resources section in the Appendix.
### Exhibit 2-1-1 | Sample Statement of Activities (Profit & Loss)

*This statement is shown on the accrual basis.*

Food Pantry Nonprofit  
Profit & Loss/Statement of Activities

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual contributions</td>
<td>$43,900</td>
<td>$47,000</td>
<td>$35,000</td>
</tr>
<tr>
<td>Corporate contributions</td>
<td>12,000</td>
<td>10,500</td>
<td>11,000</td>
</tr>
<tr>
<td>Foundation grants</td>
<td>7,000</td>
<td>6,000</td>
<td>13,000</td>
</tr>
<tr>
<td><strong>Special events</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross revenues</td>
<td>11,000</td>
<td>9,000</td>
<td>8,000</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salary and benefits</td>
<td>50,000</td>
<td>45,000</td>
<td>40,000</td>
</tr>
<tr>
<td>Food</td>
<td>150,000</td>
<td>130,000</td>
<td>110,000</td>
</tr>
<tr>
<td>Supplies</td>
<td>3,000</td>
<td>4,000</td>
<td>8,000</td>
</tr>
<tr>
<td>Printing &amp; mailing</td>
<td>700</td>
<td>800</td>
<td>400</td>
</tr>
<tr>
<td>Insurance expense</td>
<td>4,000</td>
<td>3,900</td>
<td>3,800</td>
</tr>
<tr>
<td>Occupancy costs</td>
<td>6,000</td>
<td>6,500</td>
<td>5,000</td>
</tr>
<tr>
<td>Depreciation</td>
<td>2,000</td>
<td>2,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>4,000</td>
<td>3,200</td>
<td>3,600</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>221,450</td>
<td>200,570</td>
<td>175,380</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net special events</strong></td>
<td>8,500</td>
<td>7,000</td>
<td>6,300</td>
</tr>
<tr>
<td>Food Donations in Kind</td>
<td>150,000</td>
<td>130,000</td>
<td>110,000</td>
</tr>
<tr>
<td>Interest Income</td>
<td>50</td>
<td>70</td>
<td>80</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>219,700</td>
<td>195,400</td>
<td>172,800</td>
</tr>
<tr>
<td><strong>Change in Net Assets</strong></td>
<td>1,750</td>
<td>5,170</td>
<td>2,580</td>
</tr>
<tr>
<td><strong>Beginning Net Assets</strong></td>
<td>19,750</td>
<td>14,580</td>
<td>12,000</td>
</tr>
<tr>
<td><strong>Ending Net Assets</strong></td>
<td>$21,500</td>
<td>$19,750</td>
<td>$14,580</td>
</tr>
</tbody>
</table>
### Elements of the Statement of Activities

<table>
<thead>
<tr>
<th>Element</th>
<th>Comments</th>
<th>Watch out for</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions and grants</td>
<td>May wish to show in more detail by category of donor: individual, corporate, foundation, etc.</td>
<td>If contributions are increasing, what are we doing that we can do more of to continue strong contribution levels? If contributions are decreasing, why? What can we change?</td>
</tr>
<tr>
<td>Special events</td>
<td>Fundraisers such as a dinner, 5K, silent auction, golf outing. Commonly shown net of (or minus) expenses.</td>
<td>What special events tend to be more appealing to donors in our area who care about supporting our work?</td>
</tr>
<tr>
<td>Food donations in-kind</td>
<td>Capture the value of food and product donations on your financials. See further discussion in Section 2-6. Accounting standards require that donated food and products are recorded. It is also important to capture this information, so you can communicate impact to your Board, your donors, and your volunteers.</td>
<td>Make sure your valuation method is consistent from year to year. Identify good and consistent sources of donations that provide the products which meet the needs of your consumers.</td>
</tr>
<tr>
<td>Expenses</td>
<td>Expense categories should present a clear summary of the major expenses with enough detail so you can understand what is involved in running your program or organization.</td>
<td>Increasing expenses. Budget controls to manage and plan for expenses.</td>
</tr>
<tr>
<td>Food</td>
<td>The food expense represents the value of the food distributed.</td>
<td>See Section 2-5 for controls over inventory.</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>Generally, this will represent a smaller proportion of your expenses.</td>
<td>If the account category “administrative” or “miscellaneous” has a high dollar amount in it, look at the details in the account and determine what other account categories should be established.</td>
</tr>
</tbody>
</table>
Exhibit 2-1-2 | Sample Statement of Financial Position *(Balance Sheet)*

This statement is shown on the accrual basis.

Food Pantry Nonprofit
Balance Sheet/Statement of Financial Position

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$8,000</td>
<td>$7,000</td>
<td>$9,000</td>
</tr>
<tr>
<td>Inventory</td>
<td>15,000</td>
<td>20,000</td>
<td>24,000</td>
</tr>
<tr>
<td>Fixed Assets</td>
<td>20,000</td>
<td>20,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Less: Accumulated Depreciation</td>
<td>(18,000)</td>
<td>(16,000)</td>
<td>(14,000)</td>
</tr>
<tr>
<td></td>
<td>2,000</td>
<td>4,000</td>
<td>6,000</td>
</tr>
<tr>
<td>Receivables</td>
<td>2,000</td>
<td>1,500</td>
<td>1,700</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$27,000</td>
<td>$32,500</td>
<td>$40,700</td>
</tr>
</tbody>
</table>

|                |       |       |       |
| **Liabilities**|       |       |       |
| Accounts Payable | $4,000 | $11,250 | $24,720 |
| Payroll taxes payable | 1,500 | 1,500 | 1,400 |
| **Total Liabilities** | 5,500 | 12,750 | 26,120 |

<p>| | | | |
|                |       |       |       |
| <strong>Net Assets</strong> |       |       |       |
| Net Assets invested in fixed assets | 2,000 | 4,000 | 6,000 |
| Board designated Net Assets | 500 | 500 | 500 |
| Net Assets With Donor Restrictions | 1,000 | 1,200 | 1,500 |
| Net Assets Without Donor Restrictions | 18,000 | 14,050 | 6,580 |
| <strong>Total Net Assets</strong> | 21,500 | 19,750 | 14,580 |
| <strong>Total Liabilities and Net Assets</strong> | $27,000 | $32,500 | $40,700 |</p>
<table>
<thead>
<tr>
<th>Element</th>
<th>Comments</th>
<th>Watch out for</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>Checking and savings accounts as well as any petty cash.</td>
<td>The cash accounts on your accounting records should be reconciled monthly to your bank statement.</td>
</tr>
<tr>
<td>Inventory</td>
<td>Your food and products that are in the pantry.</td>
<td>Make sure you have an inventory tracking system. See Section 2-5.</td>
</tr>
</tbody>
</table>
| Fixed Assets Also referred to as Capital Purchases | Equipment, building, or vehicles with a useful life\(^1\) of more than 1 year, and a value over the capitalization threshold.\(^2\)  
\(^1\)Useful life: how long the asset can be used. For example, a van may have a useful life of 10 years.  
\(^2\)Capitalization threshold: a dollar amount that the Board of the pantry will establish to determine the level at which you would record something as a fixed asset. | Select a reasonable capitalization threshold so that you are not tracking small expenses as fixed assets. The capitalization threshold will typically be set in relationship to your size. For example, a food pantry with revenues over $1 million may set a capitalization threshold of $10,000, whereas a pantry with revenues of $200,000 might use a capitalization threshold of $5,000. The useful life estimates should be determined by fixed asset categories and applied consistently. |
| Accumulated Depreciation | A fixed asset is written off over its useful life. For example, a van purchased for $25,000 with a useful life of 10 years would be written off\(^3\) at a rate of $2,500 per year. ($25,000/10)  
\(^3\)Writing off a fixed asset involves charging the amount of the write off to expense annually. | Be careful to set the useful life at a reasonable length. In our example, if the life of the van was set at 3 years, then the expense would be higher at $8,333 each year which would artificially increase your expenses. |
<p>| Receivables | What others owe you | Only record amounts that you are sure you will collect. If others are late paying you, make sure to provide your Board with a list of the payments due and how late the payments are. This is commonly called an Accounts Receivable Aging Report. Review this report at least quarterly and write off any amounts that are no longer collectable. |</p>
<table>
<thead>
<tr>
<th>Element</th>
<th>Comments</th>
<th>Watch out for</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Payable</td>
<td>What you owe others; bills that you have received but have not paid yet.</td>
<td>If you are unable to pay your bills within 30 days, make sure to provide your Board with a list of the bills due and how late the payments are. This is commonly called an Accounts Payable Aging report.</td>
</tr>
<tr>
<td>Payroll Taxes Payable</td>
<td>What you owe federal, state, and local agencies for amounts withheld from employees’ payroll.</td>
<td>This amount should be minimal. If the amount grows it could be a sign that you are late paying your payroll taxes. Late payment of payroll taxes can result in substantial penalties.</td>
</tr>
<tr>
<td>Net Assets</td>
<td>This is the “worth” of your organization. It shows how much you have on hand to invest in the future of the organization and what type of cushion you have to withstand the ups and downs of the economy.</td>
<td>Net assets are further broken down into categories as follows: net assets invested in fixed assets, Board-designated net assets, net assets with donor restrictions, net assets without donor restrictions.</td>
</tr>
<tr>
<td>Net Assets Invested in Fixed Assets</td>
<td>This represents your fixed assets, net of accumulated depreciation less any debt used to purchase the fixed assets.</td>
<td>While your fixed assets are used to carry out your mission, they are not available in the same way that cash is to be used in your mission.</td>
</tr>
<tr>
<td>Board-Designated Net Assets</td>
<td>The Board may elect to set aside net assets for specific purposes.</td>
<td>If you are building up your net assets for a specific purpose at a significant amount, highlight that here. For example, the Board may designate net assets to save for an inventory management system.</td>
</tr>
<tr>
<td>Net Assets with Donor Restrictions</td>
<td>This represents amounts donors have given that are restricted for a specific purpose or restricted to be used over a certain period. You are required to honor donor requests and to track the use of restricted funds.</td>
<td>Keep good records of donor donations so that you can capture the receipt and use of donor restricted funds. For example, a The Emergency Food Assistance Program (TEFAP) grant may only be used to purchase food; you cannot buy cleaning supplies with that funding.</td>
</tr>
<tr>
<td>Net Assets Without Donor Restrictions</td>
<td>The amount “left over” after all the other net asset categories is what is available for you to use in your current operations.</td>
<td>Ideally this amount should represent 3 to 6 months of expenses. This is your operating cushion.</td>
</tr>
</tbody>
</table>
Exhibit 2-1-3 | Sample Budget Report

The budget report shows the variance from actual to what you expected.

Food Pantry Nonprofit
Profit & Loss/Statement of Activities

<table>
<thead>
<tr>
<th></th>
<th>Budget</th>
<th>2021</th>
<th>$ Variance</th>
<th>% Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual contributions</td>
<td>$40,000</td>
<td>$43,900</td>
<td>$3,900</td>
<td>8.9%</td>
</tr>
<tr>
<td>Corporate contributions</td>
<td>15,000</td>
<td>12,000</td>
<td>(3,000)</td>
<td>‐25.0%</td>
</tr>
<tr>
<td>Foundation grants</td>
<td>10,000</td>
<td>7,000</td>
<td>(3,000)</td>
<td>‐42.9%</td>
</tr>
<tr>
<td><strong>Special events</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross revenues</td>
<td>10,000</td>
<td>11,000</td>
<td>1,000</td>
<td>9.1%</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td>(2,000)</td>
<td>(2,500)</td>
<td>(500)</td>
<td>20.0%</td>
</tr>
<tr>
<td>Net special events</td>
<td>8,000</td>
<td>8,500</td>
<td>500</td>
<td>5.9%</td>
</tr>
<tr>
<td>Food Donations in Kind</td>
<td>145,000</td>
<td>150,000</td>
<td>5,000</td>
<td>3.3%</td>
</tr>
<tr>
<td>Interest Income</td>
<td>10</td>
<td>50</td>
<td>40</td>
<td>80.0%</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>218,010</td>
<td>221,450</td>
<td>3,440</td>
<td>1.6%</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salary and benefits</td>
<td>48,000</td>
<td>50,000</td>
<td>(2,000)</td>
<td>‐4.0%</td>
</tr>
<tr>
<td>Food</td>
<td>145,000</td>
<td>150,000</td>
<td>(5,000)</td>
<td>‐3.3%</td>
</tr>
<tr>
<td>Supplies</td>
<td>2,000</td>
<td>3,000</td>
<td>(1,000)</td>
<td>‐33.3%</td>
</tr>
<tr>
<td>Printing &amp; mailing</td>
<td>500</td>
<td>700</td>
<td>(200)</td>
<td>‐28.6%</td>
</tr>
<tr>
<td>Insurance expense</td>
<td>3,000</td>
<td>4,000</td>
<td>(1,000)</td>
<td>‐25.0%</td>
</tr>
<tr>
<td>Occupancy costs</td>
<td>2,000</td>
<td>6,000</td>
<td>(4,000)</td>
<td>‐66.7%</td>
</tr>
<tr>
<td>Depreciation</td>
<td>2,000</td>
<td>2,000</td>
<td></td>
<td>0.0%</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>3,000</td>
<td>4,000</td>
<td>(1,000)</td>
<td>‐25.0%</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>205,500</td>
<td>219,700</td>
<td>(14,200)</td>
<td>‐6.5%</td>
</tr>
<tr>
<td><strong>Change in Net Assets</strong></td>
<td>12,510</td>
<td>1,750</td>
<td>(10,760)</td>
<td></td>
</tr>
<tr>
<td><strong>Beginning Net Assets</strong></td>
<td>19,750</td>
<td>19,750</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Ending Net Assets</strong></td>
<td>$32,260</td>
<td>$21,500</td>
<td>$(10,760)</td>
<td></td>
</tr>
</tbody>
</table>
## Elements of the Budget Report

<table>
<thead>
<tr>
<th>Element</th>
<th>Comments</th>
<th>Watch Out for</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variance Column</td>
<td>The variance column shows you how your actual results are compared to what you had planned for (your budget). For example, if you budgeted or planned that you would receive $40,000 and received $30,000, you would have negative variance of $10,000.</td>
<td>Make sure to look at the year-to-date budget (January 1 to May 31) as opposed to, or instead of, only looking at the budget for the month (May 1 to May 31).</td>
</tr>
<tr>
<td>Variance Column</td>
<td>Your Board should determine what variance would require additional explanation monthly. The variance selected would depend on your size. For example, you may require an explanation from management if the budget variance is greater than $2,500 or 5% whichever is larger.</td>
<td>Management’s explanation should provide enough detail. For example, if contributions are underbudget in August because a major donor who normally gave $20,000 in August was not going to give the funds until October. While a short explanation of “timing” would be correct, the Board should be given the more detailed answer about the major donor. This way they can monitor the statements and watch for the donation in October.</td>
</tr>
<tr>
<td>Revenues compared to budget</td>
<td>Contributions and grants should be based on historical trends, not what you hope you will receive.</td>
<td>If contributions and grants continue to trail behind budget, consider what action you need to take. If you plan or budget for more contributions than you are likely to get, you could run out of money during the year if you spend as if you were going to receive an unrealistic contribution amount.</td>
</tr>
<tr>
<td>Expenses that you would expect to stay within budget during the year</td>
<td>Generally, you would expect to see expenses that are known at the beginning of the year (like insurance and rent) to stay within budget.</td>
<td>Be aware of what expenses are expected to stay within budget.</td>
</tr>
<tr>
<td>Expenses that are underbudget</td>
<td>Usually you are glad when expenses are less than budget.</td>
<td>Are expenses underbudget because a planned activity is not getting done?</td>
</tr>
</tbody>
</table>
### Financial Toolkit for Food Pantries

#### In addition to the reports discussed above, there is another report that you should look at annually: the Statement of Functional Expenses.

**Statement of Functional Expenses**

The functional expenses report is rarely used during the year. However, it is part of your year-end, formal financial statements, and the information is disclosed in your IRS Form 990, your annual tax filing. It is a report that is commonly reviewed by grantors and donors. In some cases, this report receives more attention from the public than any of the other reports. The public can access your Form 990 at GuideStar’s website (www.guidestar.org).

The Statement of Functional Expenses shows what portion of your funds were spent on program services, what portion was spent on management and general or administrative functions, and what part was spent on fundraising.

Nonprofits will look at what percentage of their expenses was spent in each area. This example shows that 80% of the expenses were used in programming ($80,000/$100,000), while 15% were used in management and general, and 5% were used in fundraising.

**Exhibit 2-1-4 | Statement of Functional Expenses Illustration**

<table>
<thead>
<tr>
<th></th>
<th>Program Expenses</th>
<th>Management and General</th>
<th>Fund-Raising</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Expenses</td>
<td>$80,000</td>
<td>$15,000</td>
<td>$5,000</td>
<td>$100,000</td>
</tr>
</tbody>
</table>

There has been extensive conversation about the ways the functional expense percentages have been misused. Fundraisers may want to say that “100%” of every dollar spent is spent on programming. In reality, an organization needs infrastructure - such as postage to send fundraising newsletters and insurance to cover the Board members - to operate. You can find resources to help you understand and discuss the challenges around the functional expense allocation at www.overheadmyth.com.
### Exhibit 2-1-5 | Sample Functional Expenses Report

<table>
<thead>
<tr>
<th></th>
<th>Program Expenses</th>
<th>Management and Fund-Raising</th>
<th>6/30/20</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Personnel:</strong></td>
<td>$30,000</td>
<td>$9,000</td>
<td>$4,700</td>
<td>$43,700</td>
</tr>
<tr>
<td>Salaries</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payroll taxes and employee benefits</td>
<td>4,000</td>
<td>700</td>
<td>200</td>
<td>4,900</td>
</tr>
<tr>
<td>Staff development</td>
<td>1,000</td>
<td>300</td>
<td>100</td>
<td>1,400</td>
</tr>
<tr>
<td><strong>Total Personnel Expenses</strong></td>
<td>$35,000</td>
<td>$10,000</td>
<td>$5,000</td>
<td>$50,000</td>
</tr>
<tr>
<td><strong>Operations:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food</td>
<td>$150,000</td>
<td>-</td>
<td>-</td>
<td>$150,000</td>
</tr>
<tr>
<td>Supplies</td>
<td>2,600</td>
<td>300</td>
<td>100</td>
<td>3,000</td>
</tr>
<tr>
<td>Printing &amp; mailing</td>
<td>100</td>
<td>200</td>
<td>300</td>
<td>600</td>
</tr>
<tr>
<td>Insurance expense</td>
<td>3,000</td>
<td>500</td>
<td>500</td>
<td>4,000</td>
</tr>
<tr>
<td>Occupancy costs</td>
<td>4,500</td>
<td>750</td>
<td>750</td>
<td>6,000</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>1,500</td>
<td>250</td>
<td>250</td>
<td>2,000</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>200</td>
<td>3,000</td>
<td>800</td>
<td>4,000</td>
</tr>
<tr>
<td><strong>Total Operating Expenses</strong></td>
<td>$161,900</td>
<td>$5,000</td>
<td>$2,700</td>
<td>$169,600</td>
</tr>
<tr>
<td><strong>TOTAL EXPENSES</strong></td>
<td>$196,900</td>
<td>$15,000</td>
<td>$7,700</td>
<td>$219,600</td>
</tr>
</tbody>
</table>

|                          |                  |                             |         |       |
|                         | 89.7%            | 6.8%                        | 3.5%    |       |

As you can see from the example above, except food all other expenses are allocated to all the categories. Your Executive Director or other staff performs all three functions. Your building is used for all three functions. A more detailed discussion on how to allocate functional expenses is in Appendix A-4.
Financial Toolkit for Food Pantries

2-2 | Basic Recordkeeping

Recordkeeping starts with a good financial software package. A checkbook is not a sufficient recordkeeping system. An Excel spreadsheet is good at tracking information, but it is not a financial software package. Low cost popular financial software packages are QuickBooks and Aplos. You can obtain deeply discounted software at www.techsoup.org.

Cloud based software, also available from QuickBooks Online or Aplos, can provide organizations that do not have a fixed location for their administrative offices a convenient way to involve several people in the recordkeeping function. Quicken is a financial software package to help individuals track their finances, but it is not recommended for organizations.

Recordkeeping also involves establishing internal controls or a system of checks and balances. This is discussed in more detail in Section 2-4.

Your “chart of accounts” is the listing of accounts or categories that you will use to keep your books or to categorize money going in or out. At a minimum, you will show the account “cash” on your Statement of Financial Position (Balance Sheet).

You need to track income and expenses on your Statement of Activities (Profit & Loss). Your statements should clearly show the following accounts, as applicable:

- **Income**
  - Individual donations
  - Place of worship donations
  - Business donations
  - Grants
  - Special event fundraising
  - Donated food (see valuing donated food below)

- **Expenses**
  - Food
  - Maintenance
  - Salaries, benefits, and taxes
  - Occupancy expenses
  - Other major categories of expenses

Some pantries only distribute food, but others provide services such as employment counseling. It may make sense to think of each of these as a separate program. You may want to consider a breakdown of income and expenses by program. QuickBooks has a “class” feature to allow you to easily track income and expenses by program. Other software may have a “department” feature that would also let you track different programs.

The basics of recordkeeping are:

- Enter transactions on regularly, ideally at least weekly. A very small organization may be able to pay bills and enter deposits monthly, but at least weekly is recommended.
  - Enter bills into the financial software and pay bills from the financial software as opposed to handwriting checks and then later having to re-enter the check into the system.
  - Enter bank deposits and make sure that the entry agrees to the deposit ticket amount.
Save your deposit tickets and any supporting receipt information such as letters from a donor or foundation.

Monthly reconcile the bank statement. Reconciling the bank statement involves comparing the bank statement activity to the activity in your books, identifying items that are on the books but not on the bank statement, and recording items on the bank statement that you should have recorded on your books. If the same person issues checks, keeps the books, and reconciles the bank statement, the Executive Director or a Board member should review the bank reconciliation and sign off on the reconciliation to evidence their review. See Section 2-4 in Internal Controls for a more detailed discussion of what the review entails.

At month end, any bills that have been received but not yet paid should be entered into your system.

At month end, the Statement of Financial Position (Balance Sheet) Statement of Activities (Profit & Loss) and the Budget Report should be reviewed by someone separate from the person who prepared the information. Even in a very small organization, one Board member can prepare the information and another Board member can review the information. The review should include verification that:

- Cash on the Statement of Financial Position (Balance Sheet) agrees to the bank reconciliation
- Any amount due from others (Accounts Receivable) agrees with the listing of people who owe you money
- Any amount you owe others (Accounts Payable) agrees with the listing of people (vendors) who you owe money to
- Review cumulative actual (ex: Jan 1 to Mar 31, 2019) compared to prior period actual (Jan 1 to Mar 31, 2018). Ensure any variances from this year compared to last year make sense.
- Review actual compared to budget and make sure that any variances compared to budget make sense. If the variances aren’t expected, investigate and provide an explanation that supports the unexpected variance.

Case Study: A new food pantry had kept track of their finances in a checkbook and summarized the checkbook activity at year-end on an Excel spreadsheet. During the year it was difficult for the Board to see how the food pantry was doing financially. The following year the records were maintained on QuickBooks. Initially the recordkeeping took longer. But soon the food pantry found that because the checks were generated through the financial software, and because reports could be generated automatically from the system, the time spent was the same if not less, than with the Excel sheets. Plus, the Board knew how the pantry was doing financially every month. The Board was able to better communicate the pantry’s financial needs with donors.

Another key component of recordkeeping is tracking your donors and the amounts they gave. This is important for several reasons:

- To comply with IRS and State donor acknowledgement requirements. If you receive donations from donors living in other states besides PA, you need to comply with those states’ acknowledgement requirements.
• To provide support for your contribution and grant line items in your system.
• To track your donors so that you can keep them apprised of the impact their donation is having on the community through your work and comply with any financial reporting requirements by the donor.
• To build your donor development program.

There are several donor tracking systems such as GiftWorks or DonorPerfect. A small pantry might start with tracking their donors on Excel or in QuickBooks and then acquire a donor tracking system.

2-3 | IRS and State Compliance

A food pantry that is not part of a place of worship or another nonprofit, has its own nonprofit status. It needs to file annually with the IRS and the Commonwealth of Pennsylvania. There are also other federal and state compliance requirements.

If your food pantry is a ministry of a place of worship (you are using the place of worship's tax id number), you are part of the place of worship and do not need to file Form 990 or register with the Commonwealth of Pennsylvania.

2-3-1 | Donor Acknowledgements

The IRS requires that organizations provide an acknowledgement to donors who give monetary gifts or donations of $250 or more. The acknowledgement must be:

• Written
• Timely (by the due date of the individuals tax return-usually April 15)\(^1\)
• Include the phrase “no goods or services were received in exchange for this contribution”

\(^1\)While this is the time requirement specified by the IRS, best practices recommend organizations send an acknowledgement within 30 days of the date of the gift.

If someone has received something in exchange for their contribution (such as a dinner at a special event), you would note the value of what they received in place of the “no goods or services were received…” acknowledgement.

The Pennsylvania Association of Nonprofit Organizations (PANO) has complimentary resources on donor acknowledgments and sample fundraising acknowledgements that are included with this toolkit. Make sure to include the PA acknowledgement once you register with PA (required when your contributions exceed $25,000). See [http://www.pano.org/Resources/Disclosure%20summary.pdf](http://www.pano.org/Resources/Disclosure%20summary.pdf).

Sending thank you letters for donated services and donated items and food is also good practice. You should not note the value of the services in the letter. Noting the hours spent on the donated service is acceptable. If known, you may note the pounds of food donated.

The IRS precludes nonprofits from valuing services and donated items in letters to donors. Donated services are not deductible by the donor and the donor is responsible for valuing donated items.
The donor acknowledgement is not only required by the IRS, but from a practical standpoint it is wise to thank your donors for their donations within a month from their donation regardless of the size of their gift.
2-3-2 | IRS Filing Requirements

Depending on your size, you could have reporting requirements with the IRS and the Commonwealth of Pennsylvania. Please note the IRS uses Total Revenues (referred to as Gross receipts in the chart) to determine reporting requirements. The state uses Total Contributions but does not include government grants. Both include donated goods in the calculation. Be sure to determine and include the value of all the donated food in your calculations.

<table>
<thead>
<tr>
<th>Status</th>
<th>IRS Form to File</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross receipts normally &lt; $50,000</td>
<td>990-N</td>
</tr>
<tr>
<td>Gross receipts &lt; $200,000 and Total Assets &lt; $500,000</td>
<td>990-EZ</td>
</tr>
<tr>
<td>Gross receipts &gt; $200,000 and Total Assets &gt; $500,000</td>
<td>990</td>
</tr>
</tbody>
</table>

Note: Places of worship are not required to file Form 990. If your food pantry is a ministry of a place of worship, and the place of worship does not file Form 990, you do not need to file Form 990. Check with your place of worship. Places of worship are also exempt from state reporting.

The PA Association of Nonprofit Organizations resource: Form 990 Public Relations Checklist for 501(c)(3) Organizations can be used to tell your best financial and impact story: [http://www.pano.org/Resources/Form_990_Public_Relations_Checklist_for%2001(c)(3).pdf](http://www.pano.org/Resources/Form_990_Public_Relations_Checklist_for%2001(c)(3).pdf). Also see the Resources section in the Appendix for more information.

Key things to remember when preparing your Form 990 to put your best foot forward:

- Make sure your mission statement is clear and concise.
- Include both the volume or amount of food distributed in pounds and dollars as well as number of households served to add value to your discussion on program service accomplishments.
- Review the narrative describing your program service accomplishments, and make sure it is readable and conveys your impact.
- Include the total number of volunteers and volunteer hours. (Refer to the Agency Volunteer Toolkit from Philabundance for more information.)
2-3-3 | PA Filing Requirements-PA Form BCO 10 and related statements

Pennsylvania defines annual gross contributions as federated (like federal employee campaign) contributions, membership dues (contribution portion only), all income from fundraising and gaming events, contributions from related organizations and general contributions. On Form 990, these categories of annual gross contributions are captured in Part VIII on lines 1a, 1b, 1c, 1d, 1f, 8a, and 9a. On Form 990-EZ, annual gross contributions are tallied in lines 1, 6a, and 6b, less any government grants.

<table>
<thead>
<tr>
<th>Annual contributions</th>
<th>Level of financial service from an outside CPA firm required (See Exhibit 2-7-1 for a description of what each service is)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$750,000 and above</td>
<td>Audit</td>
</tr>
<tr>
<td>Between $250,000 and $750,000</td>
<td>Review or audit</td>
</tr>
<tr>
<td>Between $100,000 and $250,000</td>
<td>Compilation, review or audit</td>
</tr>
<tr>
<td>Under $100,000</td>
<td>Compilation, review, or audit optional</td>
</tr>
</tbody>
</table>

However, the decision to select the level of service should not be solely based on the PA state requirements. You should also take these questions into consideration:

- What do grantors want to see? Will grantors adjust their requirements to correspond to the new state levels?
- Do you solicit funds in other states that might have a different threshold? New Jersey currently requires an audit at the $500,000 gross revenue level; Illinois is currently at $300,000. If you solicit funds in these states, you will need an audit at that level.
- Are you expanding programs and/or services that will likely yield new donors, perhaps from other states?
- What financial controls are in place? Does the current level of service provide you with stronger information that would be lost if you were to reduce the level of service?
- What do major donors want to see?
- What is important to your Board?
- Do you have a mortgage or other borrowing and the bank will require a financial report? If so, be sure you understand the loan covenants to avoid any penalties that may be levied for failure to provide the required financial report(s).

These are not always easy questions to answer and should be carefully considered and documented by management.

Case Study: A smaller area nonprofit received a $10,000 unsolicited contribution from someone researching charities with a specific mission. The donor decided to donate to this organization because the organization had their audited financial statement on their website.
2-3-4 | Other States Registration
If you receive funds from donors who live in other states, you may need to register in those states. Make sure
to review where your donors live and check the requirements of other states.

2-3-5 | Nonemployee Compensation and Employee-Volunteer Consideration
If you pay anyone for services, you may need to provide them with Form 1099-Misc at year-end.

Form 1099-Misc is required to be filed for anyone who:
1. Is not a corporation.
2. Performs services for you.
3. Receives $600 or more.

You should obtain a W-9 from the individual (available at www.irs.gov) to document receipt of their social
security number and issue a 1099-Misc if those payments exceeded $600 during the year. If you are not
sure about determining the status of a vendor as needing a 1099 at the time you engage them, you may wish
to have a standard practice to obtain Form W-9 from all vendors prior to paying them for services.

Be careful to make sure that someone is truly an independent contractor and not an employee. Also, if you
start to pay a volunteer or Board member as an employee, it is very difficult for a paid employee to have
both the employee role and the volunteer or Board member role, due to the Department of Labor standards
outlined below. Generally, an employee should not also be a volunteer, and definitely not if they are
volunteering in the same capacity in which they are an employee. See the Fact Sheet #14A noted in the chart
below.

Generally, you would not want to pay a Board member for a service.

The Department of Labor has minimum wage standards, overtime standards, and exempt/nonexempt
employee classifications.

- **Minimum wage standards**: If you pay someone an hourly rate for 10 hours of paid work and then they
  volunteer doing the same work for another 20 hours in the same week, the Department of Labor could
  consider that the person worked as an employee for 30 hours and that you have not paid them a
  minimum wage for those 30 hours.

- **Overtime standards**: An hourly employee who works more than 40 hours a week needs to receive the
  overtime rate which would be the hourly rate times 1.5 (often referred to as “time and a half”). So, if
  you pay an employee for full-time work and then they volunteer for 10 more hours, these volunteer
  hours could be considered pay at time and a half.

- **Exempt/Non-exempt employees**: These are commonly referred to as salaried (exempt) and hourly
  (non-exempt). Some nonprofits try to align with the minimum wage and overtime standards by paying
  someone on salary - a fixed amount regardless of the hours. However, there are clear definitions for
  who can be a salaried employee. Most notably, a salaried employee needs to be one in a
  management position.

For more information, the United States Department of Labor has several Fact Sheets at www.dol.gov.
Building a Strong Financial Foundation

Fact Sheet # | Description
--- | ---
14A | Non-Profit Organizations - including volunteer information
17C | Exemption for Administrative Employees (Salary vs. Hourly)
22 | Hours Worked - information on minimum wage
23 | Overtime Pay Requirements

2-4 | Internal Controls and Fraud Deterrence

Internal controls are making sure that your financial statements reflect the proper financial picture. The term is used interchangeably with financial controls. The controls also help avoid fraud, waste, theft, and abuse of power/authority.

When most people think about internal controls, the focus is on deterring or detecting theft. But strong controls provide accurate financial statements that can be relied upon to make management decisions to ensure a financially stable food pantry and to know when your pantry is ready to grow.

When it comes to safeguarding your assets, the purpose of strong controls is not only to protect you from theft but also to protect you, your employees, your Board, and your volunteers from false accusations. Safeguarding your assets also includes your money and your non-cash donations of food and product.

Even very small food pantries need a system of internal controls. A food pantry with only three Board members and no paid staff could have one Board member prepare the information and another Board member review the information. It is important for food pantries to have at least two people in management who understand the finances sufficiently enough to provide these checks and balances.

2-4-1 | Overarching Internal Control Principles

General controls over your finances include:

- The Statement of Financial Position (Balance Sheet) and Statement of Activities (Profit & Loss) are reviewed monthly by someone who does not prepare them.
- At least two people are involved in every transaction: one who performs the transaction and at least one other who reviews the transaction.
- Added controls over cash received, especially at special events (See 2-4-5).
- All employees and volunteers who are involved with cash or the finances understand the safeguards you have in place and are held accountable to follow them.
- The threat of detection can act as a deterrent to fraud, so educate employees and volunteers of their responsibility to discuss any concerns. Provide a designated person for them to go to with concerns and a second person to go to if that designated person is not available.

Online banking and online software like QuickBooks store data in “the cloud”. These tools can facilitate the review process as your Board members are able to review your accounts and books and records without coming to your physical location. Additionally, if you do not have an administrative office, the online location of your records means that your records do not reside on a computer system in someone’s home, where it may be difficult for others to easily access or share the information.
Internal controls related to specific areas are highlighted in the following sections.

2-4-2 | Internal Controls over Cash

- The person who processes the invoices is different from the person who signs the checks.
- Processing the invoices involves entering the invoices into the system and printing the checks from the system.
- The bank reconciliation is reviewed monthly by someone who did not prepare the reconciliation.
- Credit card statements are reviewed by someone who does not use the credit card.
- Reimbursements to individuals for expenses should be supported with receipts evidencing the expenses and should be approved by someone other than the individual receiving the reimbursement.
- If the purpose of the expense is not clearly obvious, you should note the purpose on the receipt.
- Meals or travel expense must document a clear connection of the expense to your purpose.
- Checks over a certain dollar amount (ex. $1,000) should be signed by two people. The “certain dollar amount” should be determined by the Board.

Case Study: It can seem too time consuming to follow through with financial controls. A nonprofit decided that having two signatures on checks was impractical, so they switched to one signature, that of the Executive Director. A few years later the Executive Director was arrested for embezzlement. While we wish this was an isolated instance, it is more common than expected - in both large and small nonprofits. People don’t set out to embezzle, but they see the opportunity. Don’t leave opportunities as a temptation.

2-4-3 | Internal Controls over Petty Cash

Cash should be used as little as possible. But for times when you must use cash, make sure you have a strong petty cash system. There are a variety of ways to set up your petty cash system, but the key components of the system include:

- Clear record of who was advanced cash, including the date and the amount advanced.
- Receipts should clearly show what was purchased, and if the purpose of the purchase is not self-evident, note the purpose on the receipt.
- A reconciliation of the returned receipts and any remaining cash. For example, someone is advanced $300 to purchase food items at Aldi. The bill came to $283.70. They would turn in the receipt for $283.70 and the change of $16.30.
- If an individual is repeatedly negligent in turning in receipts, they should not be able to receive cash in advance, and the individual would need to use their own cash and then apply for reimbursement.
- Petty cash should be reconciled monthly.

2-4-4 | Internal Controls over Credit and Debit Cards
Credit and debit cards present the same risks as cash and petty cash and similar safeguards should be employed.

- Receipts should clearly show what was purchased, and if the purpose of the purchase is not self-evident, note the purpose on the receipt.
- The credit card statement should be reviewed monthly by someone other than the credit card holder and initialed to evidence the review.
- If the card holder cannot turn in receipts after repeated reminders over a period of months, credit card privileges should be revoked, and the individual would need to use their own credit card and then apply for reimbursement.
- A Board member would review and sign off on the Executive Director’s business credit or debit card.
- The Board should establish a clear policy requiring receipts for the credit card and noting what types of expenses are appropriate.
- If you use a debit card, make sure it is tied to a separate account with a lesser amount of money ($500 to $1,000) in it and that it is not tied to your general checking account.

2-4-5 | Internal Controls at Special Events
Special events are often situations where cash is received by volunteers. In all cases, ensure two people ALWAYS maintain custody of the cash.

- Use pre-numbered tickets so that you can reconcile the number of tickets sold with the amount you received.
- If two people are collecting cash and then the cash is turned over to a third person for deposit, the cash should be counted in the presence of the third person and both should initial the record of the deposit.
- Locked bank deposit bags also provide controls over cash.

2-4-6 | Internal Controls over Gift Cards
Food pantries may receive gift cards from donors to distribute to consumers or purchase additional inventory. The cards should be tracked with the same care as cash.

- Keep a record of the number of cards, in what denomination, and type (Wegmans, Walmart, VISA, etc.).
- List cards received as donations.
- List cards purchased.
- List cards provided to consumers.
- Cards received/purchased less cards provided should equal “cards on hand”.
- Reconcile the cards in your physical possession with the listing of cards that you are maintaining, or the “cards on hand”.
- This will be a similar listing to the inventory example noted below in Exhibit 2-5-1.
2-5 | Inventory

The largest asset many smaller food pantries have is their food inventory. Protecting the food and product donations requires the same diligence you would use in protecting donations of cash. Your donors have entrusted you with their donations to accomplish the mission. Monitoring your inventory is an ongoing process.

Inventory is typically tracked by pounds. A good inventory control system has various components.

- An inventory recordkeeping system that:
  - Tracks:
    - The beginning food inventory.
    - Food and products donated.
    - Food and products distributed.
    - Food and products discarded due to spoilage or other reasons.
    - The ending food inventory.
  - Reconciles the ending food inventory used by the tracking system with a physical inventory taken at least once a year.

- Physically protects inventory using:
  - Best practices in the design of physical space.
    - Placement of products that are more likely to be stolen in areas easily seen by staff.
  - Use of cameras with video and signage so that people know that the risk of detection is high. Cameras are relatively inexpensive.
  - Signage giving consumers, volunteers, and staff a phone number or email to report anything that seems inappropriate.

- Controls at pick up centers or at the time of delivery by:
  - Reconciling bills of lading, if available. Vendors should provide bills of lading as a good practice.

There are special inventory situations that need to be handled with care so that your food pantry consumers don't observe certain behaviors and believe that something inappropriate is happening. Some special inventory situations and related controls are:

- Volunteers or staff who are also food pantry clients.
  - They need to follow the same written procedures as the other pantry patrons.
  - They need to sign off on the written procedures.
  - They should visit the pantry on a day that they are not volunteering.

- Food that is about to spoil or excess food or product can be taken home by staff or volunteers.
  - Have written policies that explain this process.
  - Staff or volunteers may only take the excess product after hours.
  - Shelving with items that can be taken with no limit are in a separate area of the food pantry and clearly labeled.

- A gleaning organization (where volunteers pick produce from fields after the farmers have harvested) allows volunteers to take produce home, in addition to gleaning food to be given to food pantries.
  - The organization should ask the farmers (the donors) if this is permissible prior to allowing volunteers to take home produce.

- Your pantry may have an agreement with another organization to take large quantities of product to turn into meals for a feeding program, but consumers may be concerned to see someone taking large quantities.
  - Inform consumers of the practice.
  - Have the other organization access the product at times the pantry is closed.

- Two organizations may trade products depending on what their customers want or what they have in excess.
Create clear documentation signed off by both pantries.
Make sure to follow TEFAP and food bank (Philabundance) guidelines if you do this.

There are software systems specifically designed to track food pantry inventory, but these systems may be cost prohibitive for smaller pantries. A smaller pantry could track donations using an Excel spreadsheet.

A tracking method would include tracking the beginning inventory, adding donations, subtracting what people received when they shopped, any adjustments and then a calculated ending inventory. At least once a year, a physical inventory should be taken by weighing what is currently in stock and reconciling it to the inventory records. Donations should be weighed when they come in and distributions should be weighed when they go out or when disposed of due to spoilage or other reasons. Other reasons may include the weight of fresh foods that declines with shelf life.

[Note: The weight of fresh foods declines with shelf life.]

Exhibit 2-5-1 | Sample Inventory Tracking Method

Example inventory tracking for a food pantry open 2 days per week

<table>
<thead>
<tr>
<th>in Pounds</th>
<th>5-May</th>
<th>8-May</th>
<th>12-May</th>
<th>15-May</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning inventory</td>
<td>275</td>
<td>245</td>
<td>180</td>
<td>90</td>
</tr>
<tr>
<td>Product donated to the pantry</td>
<td>30</td>
<td>10</td>
<td>15</td>
<td>40</td>
</tr>
<tr>
<td>Shoppers received</td>
<td>-50</td>
<td>-60</td>
<td>-100</td>
<td>-30</td>
</tr>
<tr>
<td>Spoilage, discarded</td>
<td>-10</td>
<td>-15</td>
<td>-5</td>
<td>-10</td>
</tr>
<tr>
<td>Ending inventory</td>
<td>245</td>
<td>180</td>
<td>90</td>
<td>90</td>
</tr>
</tbody>
</table>

Depending on your size, you may take a physical inventory monthly, quarterly, or annually. All food pantries, regardless of size, should at least take an annual physical inventory. The physical inventory should be reconciled with the inventory records. Using Exhibit 2-5-1, if you were to take a physical inventory at May 15, the physical inventory should equal 90 pounds.

It is not unusual for physical inventory to differ from the inventory tracking record. If there are small discrepancies, you can adjust your books to agree with the physical inventory. However, if you find that inventory is consistently different by large amounts, review your system to see where you may need to tighten up controls whether in the process of receiving donations, distributing food, or disposing of inventory.
2-6 | Valuing Gifts In-Kind - Food, Products, Space and Volunteer Time

The value of tracking non-cash items such as food, donated space, and donated time goes beyond recording them in on your financial statements. These items provide you with the resources to impact your community and tracking the information enables you to communicate that impact.

Which sounds better?

Food Impact

- We received donations from numerous sources and provided food for many in the neighborhood.

- OR

- We received 3,245 pounds of food for the year 2017 and distributed 3,220 pounds of food to 573 households during the year.

Volunteer Impact

- Our hardworking volunteers made sure our families did not go hungry in 2017.

- OR

- In 2017, 375 different volunteers provided 9,375 hours of service to feed our community. The estimated value of their contribution to our pantry is $234,375.

2-6-1 | Valuing Donated Food

Valuing Donated Food

Accounting standards (and tax standards) require that donated items be recorded in the nonprofit’s records at their fair market value at the time of receipt. It is also important for you to value your donated items so that you can properly represent your impact to the community.

Following are considerations for setting a value for donated food:

- The value of your donated food impacts your total revenues and your contributions, which in turn will impact your level of required tax and financial reporting. Refer to Section 2-3-3 for a discussion on the levels of financial reporting.

- You need to be forthright in valuing your food. However, you will want to establish a conservative valuing process that does not unnecessarily cause you an additional financial administrative burden.

- If presented with a large donation opportunity, you need to consider if this would be better handled by another nearby pantry with greater capacity.

- Continue to track pounds received. This is valuable information in communicating your impact to your partners and donors.

- Document the policy you have established and consistently follow it so that the reports of your outcomes are consistent. If you decide to change your policy, consider if the change will skew your outcomes reports and to what extent you may need to footnote reporting.
A practical method to value your food and other donated products is to use the wholesale price per pound method. All gifts of donated food and grocery products would be weighed when the product comes in, and the weight would be multiplied by the average wholesale value of one pound of donated product as determined by Feeding America (www.feedingamerica.org). Feeding America calculates this amount each year, which can be found in their annual audited financial statements in the footnotes section under “Donated Goods and Services”.

If your pantry primarily stocks perishable foods such as produce and bread, you may want to consider using a lower value per pound so that you have a more accurate value of the food.

Food pantries that provide meals can also find the valuation rate for meals at Feeding America.

Other methods to consider are:

- The donations that come from Philabundance including those from SHARE Food Program’s MontCo Hunger Solutions can be valued based on the monthly statement from Philabundance (if provided). You would record (or credit) income - Donated Food - and record (debit) expense - Pantry Expense - Food. This would be done via a journal entry in the accounting system. The entry is made to record the value of the food on your books to properly reflect the impact of your organization.

- Also, you can value food received from either the State Food Purchase Program (SFPP) and/or The Emergency Food Assistance Program (TEFAP) using the values they provide.
2-6-2 | Valuing Donated Services and Space (Rent)

You also want to capture the value of donated services (from both professionals and volunteers) and donated space. This value can be shared with your donors and other stakeholders to communicate your impact.

The rules for valuing donated items, services, and space, and whether you report these on the IRS Form 990 or the Financial Statement, vary. This chart shows you where you should and should not record the value:

<table>
<thead>
<tr>
<th>Report</th>
<th>Form 990</th>
<th>Financial Statement</th>
<th>Annual Report and/or Financial Statement Footnotes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of Donated Product</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Value of Donated Space or Rent</td>
<td>Do not report</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Value of Donated Professional Services</td>
<td>Do not report</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Value of Donated Volunteer Time</td>
<td>Do not report</td>
<td>Do not report</td>
<td>X</td>
</tr>
</tbody>
</table>

Your pantry may reside in donated space. While you would not report the value of the space on your Form 990, you would record the value for your financial statements. To calculate the value of the donated space, determine the fair rental value of similar space in your area. A local realtor or a Google search of area properties for rent can help you find the average rental value per square foot of space. Then multiply the square footage of your space by the average rental value.

For example, you have 1,500 square feet. In your area, similar space rents for $8/square foot. The value of your donated space or donated rent would be $12,000 per month (1,500 x $8) or $144,000 per year ($12,000 x 12 months).

You may also have professionals such as lawyers, accountants, landscapers, or building contractors who donate their services to you. The value of their services can be recognized on your financial statements. The value of the professional service can be determined by asking the provider. Your obligation is to ensure that the cost is reasonable and comparable.

In contrast, the value of volunteers who stock the shelves and run the food pantry would not be recognized on your books. Volunteers do not provide their services in a professional capacity. However, you would want to capture the value of the volunteers' time on your annual report or on your website. You could also note this value in the footnotes of your financial statements (but not on the actual financial statement). Volunteer time is typically valued using the annually updated rate provided by Independent Sector. This time would be calculated annually.

Tracking volunteer time involves tracking the names of the volunteers and the hours worked. If possible, you would also want to capture the emails and addresses of the volunteers to enter them into a database to solicit additional cash or other donations. Volunteers can be your strongest base of donor support.

For the value of donated rent and services that you cannot report on your Form 990, you can note that value within the descriptive sections of your program accomplishments, even though it will not be included in your financial statements.

2-6-3 | Gift Acknowledgment

Gift acknowledgments or thank you notes for donors of products, space, or services should not include the value of the product, space, or service. You can describe what was donated, but do not assign a dollar value to the donation. See further discussion on Gift Acknowledgement in Section 2-3-1.

2-7 | Formal Financial Statements

2-7-1 | Levels of Service

You may engage an outside accounting firm to conduct accounting or audit services at fiscal year-end. There are three levels of financial statement services that an accounting firm could provide. These are explained in greater detail in the Exhibit below. When you are considering what level of service you need, you should consider what the Commonwealth of Pennsylvania requires as part of your charitable registration (see Section 2-3-3) and work through the other considerations listed in Section 2-3-3.

Exhibit 2-7-1 | Levels of Service

<table>
<thead>
<tr>
<th>Level of Service</th>
<th>Description</th>
<th>Footnotes</th>
<th>In conformity with generally accepted accounting principles or other accounting basis</th>
<th>Level of Assurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit</td>
<td>Confirmation with outside parties, testing selected transactions, inquiry and analytics, and other procedures</td>
<td>Included</td>
<td>Yes</td>
<td>Highest</td>
</tr>
<tr>
<td>Review</td>
<td>Inquiry and analytic procedures</td>
<td>Included</td>
<td>Yes</td>
<td>Limited</td>
</tr>
<tr>
<td>Compilation</td>
<td>CPA creates financial statements from the balance sheet and income statement provided by the nonprofit</td>
<td>May be presented with or without footnotes</td>
<td>Yes</td>
<td>None</td>
</tr>
</tbody>
</table>
2-8 | Financial Responsibilities of Boards

Your Board members should have a basic understanding of the Statement of Activities (Profit & Loss), Statement of Financial Position (Balance Sheet), and the Statement of Activities compared to budget. Compare your financial reports in context.

- Compare actual to last year.
- Compare actual to budget.
- Compare actual to target, if you have set goals to reach (See Section 4-2 for a discussion on targets.)

The Board should receive and review the following at least quarterly:

- Statement of Financial Position (Balance Sheet) year to date compared to prior year.
- Statement of Activities (Profit & Loss) year to date compared to prior year.
- Statement of Activities (Profit & Loss) compared to budget.
- Usage statistics such as number of people and families served, pounds of food distributed, and the number of volunteers and total hours of volunteer time (see Section 4-1 for an expanded discussion on Key Performance Indicators).
- Metrics on sources of donations.
- Cash flow to make sure that there are enough funds to sustain the organization (see Section 3-3 for an expanded discussion on cash flow).

At least annually, the Board should look at revenue and expense trends over 3 to 5 years. The budget process is an opportune time to look at these trends.

If the Board only meets quarterly, the Finance Committee should review the statements monthly. In a very small organization, the Finance Committee might only be made up of two people. The Board Treasurer may provide added internal controls by:

- Reviewing the bank statement monthly and initialing the statement to document their review.
- Providing the second signature on checks.
- Reviewing and initialing credit card statements.
- Preparing the annual budget (in small organizations).

See the following sections for further detail: Section 2-4 on internal controls, the charts in Section 2-1 for what Board Members should look for when reviewing statements, and Section 4-2 for other information that the Board should review in conjunction with their financial information.

The Board also has financial fiduciary responsibilities to make sure that:

- IRS and state donor gift acknowledgment rules are followed.
- IRS and state reporting are up to date.
- It reviews the Form 990 and year-end financial statements annually.
- Grants are tracked, and the funds are used for the purpose for which they were received.
- There are internal controls in place and those controls are followed.
- Payroll taxes are timely filed.
Potential conflicts of interest are considered when making decisions. Compensation policies have been followed when setting compensation for the Executive Director.

Board financial management happens in context with Board governance. While this financial toolkit does not cover Board governance, the Board needs to recognize the interplay between Board governance and the finances. Many Board governance best practices incorporate finances as illustrated in the following table:

<table>
<thead>
<tr>
<th>Best Practices</th>
<th>Connection to Financial Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mission alignment</td>
<td>Have we defined our desired outcomes in a way that allows us to measure our success in meeting those outcomes?</td>
</tr>
<tr>
<td>Environmental assessment (industry trends, competitive scan, revenue trends)</td>
<td>What measures do we attach to the environmental assessment and how will we compare our measures to the assessment or score ourselves against the assessment?</td>
</tr>
<tr>
<td>Capacity analysis (staffing needs, resources needed to deliver services)</td>
<td>How will we measure what is required to deliver our desired outcomes? Where are we now? Where do we want to be? What will it take to get there?</td>
</tr>
<tr>
<td>Needs analysis</td>
<td>How do we quantify what our consumers need?</td>
</tr>
<tr>
<td>Succession planning</td>
<td>What financial and time resources do we need to consider when we think about succession planning?</td>
</tr>
<tr>
<td>Organizational life cycle</td>
<td>An organization moves through a number of life cycles-start up, growth, expansion, maturity, dissolution—what do we need to assess and measure to determine where we are and where we want to be?</td>
</tr>
</tbody>
</table>

The table above is only a partial listing of Board Governance Best Practices. For more resources, see www.boardsource.org. Also see Section 4 for a deeper discussion.
3 | ASSESSING AND MANAGING FINANCIAL OPERATIONS

The preceding sections have laid a framework for keeping your records. But financial management is not a passive process. Nonprofits have surprisingly more control over their finances than they may think. The next section will provide you with some basic and some more advanced strategies to pursue.

3-1 | Budgeting

A realistic budget builds a financially strong organization. A budget is a document that lists what the organization is planning for the coming year. It shows what expenses are expected or planned and what revenues are anticipated to come in and from what sources.

3-1-1 | Budget Process

The budget process will:

- Ideally involve at least 2 people.
- Be completed and approved by the Board prior to the beginning of the year you are budgeting for.
- Ideally have a preliminary budget presented to the Board for their review at one meeting and then a final budget presented at the following meeting. This gives the Board time to reflect on the budget, ask questions, etc.
- Allow for amendments if circumstances change significantly during the year. For example, you receive a grant that unexpectedly adds 25% to your revenues.

A budget includes:

- Detailed budget worksheets:
  - Programs (For example, food distribution, job counseling, case worker services, etc.).
    - Changes to current programs.
    - New programs.
    - Programs that are ending.
  - Funding sources.
    - Contribution and grant history for the current and past two years.
    - Any new funding sources secured for the coming year.
  - Salary and benefit information for each person.
    - Divided by program, as applicable.
    - Any known or anticipated increases for employee benefits (e.g. in health insurance).
    - Identify any overtime in the prior year. Are there ways to better manage overtime in the coming year? Should you consider part-time support?
  - Fixed costs evidenced by documentation.
    - Rent-lease schedule.
    - Maintenance contracts.
    - Debt repayment schedules.
    - Insurance quotes from your broker.

- Compare to:
  - Prior years’ actual. It can be helpful to look at 3 to 5 prior years of information with the budget.
  - Current year’s actual and projected.
- Consider if you should get quotes for services (accounting, cleaning, maintenance, etc.) every 3 to 5 years to ensure you are receiving the most competitive price.
Don’t balance the budget by wishing for more contributions!

Look at best and worst-case scenarios. Think about what action you would take in the worst case.

If you aren’t sure about some of your revenue streams you may want to create three budgets:

- Realistic budget.
- Worst-case scenario.
- Best-case scenario (target or goal budget).

Creating three budgets is not as difficult as it might seem if you use an Excel worksheet to create your budget.

Create a worst-case budget:

- Step #1: Create your realistic budget.
- Step #2: Copy the realistic budget and save as the worst-case scenario.
- Step #3: List the worst-case scenarios you are concerned about (ex: contributions dropping by 10%, losing a grantor, employee overtime costs, etc.)
- Step #4: Adjust the budget line items that correspond to your worst-case list.
- Step #5: Consider how you would balance the budget if your worst-case scenario came true. Would you use savings? What expenses would you reduce? Recognize that there are some expenses that are harder to reduce than others. For example, it is harder to move to a new location to pay less rent.
- Step #6: If during the year it looks like your worst-case scenario is coming true:
  - Is the worst-case event temporary or ongoing?
    - Replacing a roof due to heavy snow may be a significant financial burden but it is a one-time cost.
    - Contributions decreasing by 10% because of an economic recession is an impact that is not necessarily permanent, but it could take a few years to recover from.
  - Meet more frequently to make decisions.
    - Consider weekly conversations.
  - When will you make changes.
    - Identify what would trigger you to make the change (ex: if contributions are 20% less than prior year, we will cut expenses).
    - Need to be clear and decisive.
- See additional strategies under expense management.

Having the difficult conversation before the worst-case scenario happens is easier and the plan developed will be less likely to be based on emotions.
Create a best-case budget:

• Step #1: Create your realistic budget.
• Step #2: Copy the realistic budget and save as the best-case scenario. You could also think of the best-case budget as your target budget.
• Step #3: List the best-case scenarios you are hoping for. (Ex: contributions increasing by 10% due to a new donor outreach program, a successful grant application, better negotiated rent, etc.)
• Step #4: Adjust the budget line items that correspond to your best-case list.
• Step #5: Consider what opportunities you might have if your actual results are closer to the best-case budget. Could you expand a program? Build up a stronger reserve? Start a new fundraising initiative?
• Step #6: If during the year it looks like your best-case scenario is coming true:
  o Determine if the upswing in financial performance is temporary or permanent.
    • Receiving a bequest of $50,000 is nice but it isn’t an ongoing positive trend that you can count on in future years.
    • Donations that steadily increase due to a stronger donor development program support you making programmatic changes.
3-2 | Expense Management

Faced with a challenging year or in the process of balancing the budget, an organization may need to cut expenses or manage them differently. Same organizations may not be facing hard times but may want to build up cash reserves. Expense management is not just for difficult situations. Careful management of expenses can free up funds to use for other purposes too.

- Look at expenses over a 3 to 5-year period and identify trends that could indicate savings opportunities.
- Every 3 to 5 years obtain quotes on insurance, maintenance, office supplies, and professional services to ensure you are receiving a competitive price. This doesn’t necessarily mean you need to constantly change providers. Your decision will be based on the costs-benefits of your providers. But the quote process will likely keep your fees competitive.
- Look at your space needs, your rent, and your geographic location. Are there other locations suited to your consumer and staff’s convenience in a slightly different geographic area that is not already being served by another pantry? Do you have more space that you need? Can you sublet some space? Can you re-negotiate your rent? Can you share space with another provider?
- Have an energy efficiency audit done to make sure your utility bills are as low as possible.
- Are there expenses you pay for things you don’t really use or that you could easily avoid, such as dues, memberships, supplies that are automatically reordered, credit cards with high fees, bank service charges, optional maintenance contracts, etc.?
- Are there any cooperative purchasing opportunities in the nonprofit community? Could you establish one with other nearby pantries?
- Can you share assets or other resources with another nonprofit?
- Compare your benefits to other similarly sized nonprofits. Should employees contribute more to healthcare? Are there a mix of plans that you could offer that would allow healthy employees to save on the insurance costs for plans with a higher deductible, yet still let other employees choose a plan with a lower deductible and higher insurance costs? Nonprofits can obtain this information by asking other similarly sized nonprofits in the community.
- Consider hiring part-time personnel if overtime pay is significant.
- Salary freezes.
- Salary cuts.
- Enlist help from all parties: program staff, development staff, Board members, etc.
  - Brainstorm ideas.
  - Network with other area nonprofits to find out what they are doing to manage expenses.

Case Study: Share Assets with another Nonprofit

A domestic violence prevention organization has a van that it uses to transport women to court appointments during the day. At night the van is used by a local homeless shelter to pick up people on the street and take them to a shelter.
3-3 | Cash Flow Projections

Cash flow is money coming in and going out. Money comes in from donors and it goes out for expenses. At different times of the year you have more money on hand than at others. This is your cash flow. If your revenues and expenses are consistent from year to year, you might not have to actively monitor your cash flow. It may be sufficient to look at your Statement of Financial Position (Balance Sheet) throughout the year.

However, if your revenues are not covering your expenses and you are using your savings, roll forward cash flow projections for 12 months, 2 years, and 3 years. Consider the different factors that affect cash flow. Update the projections monthly or quarterly.

Exhibit 3-3-1 | Example of a monthly cash flow projection

<table>
<thead>
<tr>
<th></th>
<th>July</th>
<th>Aug</th>
<th>Sept</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash balance-beginning</td>
<td>$16,000</td>
<td>$18,500</td>
<td>$18,500</td>
<td>$18,000</td>
<td>$16,000</td>
<td>$13,000</td>
<td>$9,000</td>
<td>$4,500</td>
<td>$1,000</td>
</tr>
<tr>
<td>Projected revenues</td>
<td>12,500</td>
<td>11,500</td>
<td>11,500</td>
<td>10,000</td>
<td>9,500</td>
<td>9,500</td>
<td>8,000</td>
<td>8,000</td>
<td>7,500</td>
</tr>
<tr>
<td>Projected expenses</td>
<td>(10,000)</td>
<td>(11,500)</td>
<td>(12,000)</td>
<td>(12,000)</td>
<td>(12,500)</td>
<td>(13,500)</td>
<td>(12,500)</td>
<td>(11,500)</td>
<td>(10,000)</td>
</tr>
<tr>
<td>Cash balance-ending</td>
<td>$18,500</td>
<td>$18,500</td>
<td>$18,000</td>
<td>$16,000</td>
<td>$13,000</td>
<td>$9,000</td>
<td>$4,500</td>
<td>$1,000</td>
<td>$(1,500)</td>
</tr>
</tbody>
</table>

Exhibit 3-3-2 | Example of an annual cash flow projection

<table>
<thead>
<tr>
<th></th>
<th>ye 2020</th>
<th>ye 2021</th>
<th>ye 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash balance-beginning</td>
<td>$16,000</td>
<td>$10,500</td>
<td>$4,000</td>
</tr>
<tr>
<td>Projected revenues</td>
<td>87,000</td>
<td>86,000</td>
<td>76,000</td>
</tr>
<tr>
<td>Projected expenses</td>
<td>(92,500)</td>
<td>(92,500)</td>
<td>(92,500)</td>
</tr>
<tr>
<td>Cash balance-ending</td>
<td>$10,500</td>
<td>$4,000</td>
<td>$(12,500)</td>
</tr>
</tbody>
</table>

Case Study: An organization had developed a steady base of contributions from individuals and area places of worship. They were looking forward to increasing their part time food pantry director to a full-time employee. But they were not sure if they could afford to. They projected out cash flow for the next 18 months and found out that they needed $200 more a month to be able to bring her on full-time. They communicated this to their supporters and two places of worship agreed to increase their support by $100 a month each.
Another way to monitor cash flow is to calculate “months in cash”. This is a commonly used metric in the nonprofit world that is also sometimes referred to as “days in cash”. This metric tells you how many months or days you could continue if all revenues stopped today.

**Exhibit 3-3-3 | Months in Cash**

**How to calculate Months in Cash**

<table>
<thead>
<tr>
<th>How to calculate Months in Cash</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total annual expenses</td>
<td>$180,000</td>
</tr>
<tr>
<td>Less depreciation</td>
<td>(10,000)</td>
</tr>
<tr>
<td>Less non-cash items</td>
<td>(50,000)</td>
</tr>
<tr>
<td>Equals annual cash expenses</td>
<td>$120,000</td>
</tr>
<tr>
<td>Divide by 12 to calculate monthly expenses</td>
<td>$10,000</td>
</tr>
<tr>
<td>Cash in bank</td>
<td>$30,000</td>
</tr>
<tr>
<td>Divide cash in bank by monthly expenses to calculate how many</td>
<td>$30,000/$10,000</td>
</tr>
<tr>
<td>Months expenses you have cash on hand to pay for</td>
<td>3 months</td>
</tr>
</tbody>
</table>

**If you have less than 6 months cash on hand and are not bringing in enough revenues to cover expenses, one of the metrics the Board needs to see every month is “months in cash”.

Nonprofits may set a target to establish an operating reserve of a certain number of months of cash. The Board may determine that they will not take on any new major expenses until they reach 3 months of cash reserves. Ideally you should have 3 to 6 months of cash reserves on hand.
3-4 | Analyzing Your Financial Information

The charts in Exhibit 2-1-1 and 2-1-2 provide a basic analysis of your financial information. This discussion will incorporate that financial analysis with other data.

Where are you getting your numbers? The information you will gather comes from more sources than just your financial statements. What information do you already have?

Gather this information:

- Financial reports:
  - Monthly detail.
  - Year-end audit (if applicable).
- Form 990.
- Data such as:
  - Annual report.
  - Grantor information.
  - Information collected for grants.
  - Donor information.
  - Pounds of food distributed.
  - Number of households served.

What are you looking for?

- Look at your trends on your monthly financial reports:

<table>
<thead>
<tr>
<th>Statement</th>
<th>Compare</th>
<th>Consider</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statement of Activities</td>
<td>This year compared to last year.</td>
<td>Why are there differences?</td>
</tr>
<tr>
<td></td>
<td>This year compared to budget.</td>
<td>Why did you miss or exceed expectations?</td>
</tr>
<tr>
<td></td>
<td>3 to 5 years of actual.</td>
<td>Are accounts increasing or decreasing why?</td>
</tr>
<tr>
<td>Statement of Net Position</td>
<td>This year compared to last year.</td>
<td>Why are there differences?</td>
</tr>
<tr>
<td></td>
<td>3 to 5 years of actual.</td>
<td>Are accounts increasing or decreasing why?</td>
</tr>
<tr>
<td>Statement of Functional Expenses</td>
<td>Compare the percentage of expenses spent in program, management, and fundraising.</td>
<td>Are you allocating expenses differently from year to year? Should you change your allocation method?</td>
</tr>
</tbody>
</table>

- Look at overall trends:
  - Compare your financials to your impact. Is it costing you more or less to distribute the same amount of food and/or serve the same number of people?
  - What actions could improve the numbers?
  - Are you hitting your targets?

- Compare or benchmark to other organizations using tools:
  - You can also look at others’ Form 990s on [www.guidestar.org](http://www.guidestar.org) and compare their financial results and outcomes to yours. You may find a variety of information so keep that in mind.
    - Consistency in the application of accounting principles.
• Completing the Form 990 properly.

• Composition of your organization:
  o Revenue mix. See Section 4-3.
  o Look for changes in the funding levels of your different funding sources (individuals, foundations, community organizations, faith based, corporations, etc.)
  o Program mix. What does it cost you to deliver different programs? See Appendix A-4.

**Numbers tell a story. What story are your numbers telling?**

### 3-4-1 | Signs of Trouble

These factors could indicate that your pantry is headed for financial difficulty. Identify the trends. Consider possible causes. Do you need to adjust your current plan?

- Contributions declining compared to prior years.
- Average donation per donor declining.
- Days of cash in hand decreasing. Monitor the rate this is decreasing.
- Financial reports, grant reports, and/or program monitoring reports are late because staffing has been reduced.
- Amount drawn on the line of credit is increasing.
- Government grant coming to an end. Look ahead at contract dates.
- Shifts in public policy impacting client service eligibility.
- Multi-year grant awards coming to an end.
- Fewer grant applications have been written.
- Annual appeal is skipped.
- Newsletter is not going out as frequently.
- Cut backs on donor communications.

**An organization realized their average donation per donor was declining when compared to prior years. In looking for possible causes, they realized that their quarterly newsletter had only gone out to donors twice in the last 10 months due to the illness of one of the volunteers who assisted with the newsletter. They recruited two other volunteers so that they would have a team of three who were responsible for the newsletter. Eight months later their donations per donor had returned to the previous levels.**
A strategic plan is the process of assessing:
- What strengths and weaknesses you possess.
- What are the external opportunities and threats.
- How you will leverage your strengths to take advantage of the opportunities to help consumers become more resilient.

Your strategic plan assesses:
- Where you are now.
- Where you want to be (goals or targets).
- Action steps to get there.

To assess where you are now, you need to use metrics or key performance indicators.

### 4-1 | Metrics and Key Performance Indicators (KPIs)

Metrics or Key Performance Indicators (KPIs) are measures that you select to help you assess your performance. In short:
- **Key**: critical to success.
- **Performance**: some element the organization can influence.
- **Indicator**: quantifiable measure that provides information.

When choosing what KPIs you would use, you should look at your strategic plan. The KPIs should be aligned with your mission, your goals, and the action items from your plan. The KPIs will help you see your progress towards the goals you have set.

**KPIs should be easy to understand.**

You will note that some of the KPIs are related to your finances related and others relate to the impact of your services. Both work hand-in-hand.

---

A food pantry’s total expenses in 2016 were $100,000 and it served 100 households. On average, it cost the pantry $1,000 to serve each household ($100,000/100). In 2018, total expenses were $150,000 and the pantry served 200 households. On average it cost the food pantry $750 to serve each household ($150,000/200). The food pantry was able to serve more people at a lower cost.
Exhibit 4-1-1 | Example KPIs or metrics

Your pantry does not need to use all these metrics.

If you are just starting out, start with these popular food pantry metrics:

- Average pounds of donations and the dollar value:
  - Food
  - Perishables
  - Products
  - Pet food
  - Baby food, formula, and diapers
- Average pounds distributed and the dollar value:
  - Food
  - Perishables
  - Products
  - Pet food
  - Baby food, formula, and diapers
- Number of unduplicated people served.
- Number of households served.
- Number of volunteer hours and the dollar value of the volunteer hours.
- Number of visits.

Other food pantry metrics:

- How many times per year a household is served.
- Number of days a person reports being hungry.
- Percentage of fresh food available at your pantry.
- Metrics around the nutritional quality of the food.
- Meal gap: how many people a food pantry serves compared to the number they should be serving.
- Demographics of your consumers.

Other nonprofit financial metrics:

- Program expenses as a percentage of total expenses.
- Days or months of cash reserve.
- Solvency: your ability to meet long-term obligations (total liabilities as a percentage of total assets).
- Liquidity: your ability to meet short-term obligations (short-term assets as a percentage of short-term liabilities).
- Operating margin: your ability to cover your expenses (net income as a percentage of revenue).
- Average gift per donor.
- Revenue mix: programs, contributions, grants, etc.
- Cost per dollar raised (fundraising efficiency).

💡 You can’t manage what you don’t measure.
4-2 | Dashboards

Data without context doesn’t provide much information. We can organize the pertinent data within a dashboard framework to help Board members more easily visualize and interpret the financial data. Picture your car’s dashboard. The displays and gauges provide important information, such as the speed of the car, the amount of gas, oil life and levels, tire traction on the road, and the status of the engine’s cooling system. Many of us know very little about cars, but we understand the car dashboard.

The financial dashboard serves the same purpose. It communicates information in such a way that it doesn’t matter whether users of the dashboard have a strong understanding of the organization’s finances. However, just as most of us learned the meanings contained on the car dashboard when we started to drive, so we need to learn the meanings contained on the financial dashboard.

The dashboard format that you select will be one that communicates clearly to your management team and your Board. You may have one dashboard that you use to communicate monthly or quarterly and another dashboard with more KPIs that you use to communicate annually.

Tips on designing dashboards:
- Start out with just 3 to 5 KPIs.
- Use charts.
- Use colors (see below).
- Use arrows.

Using colors in your dashboard will indicate how you are doing compared to your goal: good (green), caution (yellow) or red (warning). When you set the thresholds, green would typically be close to or above the target, yellow would be the point the Board should start to discuss potential courses of action if things do not improve, and red would generally mean that the Board should act.

Some nonprofits will provide for a period at a certain level before acting. For example: if an organization is at the red level for more than 3 months, then it will take a certain action to try to improve that KPI.

In other cases, you need to consider if the situation is temporary. For example, in late 2008 and 2009, donations declined. Organizations may have found their donor KPIs in the red until the economy started to turn around. While that explained why the donor metrics were in the red, organizations still needed to act: either use savings to cover expenses, reduce expenses, or seek other funding sources.

For example, the following chart shows the targets that a nonprofit set the status at the 1st quarter (the past) and at the 2nd quarter (the present). Showing both quarters can help you see progress during the year. In the chart, the average corporate donation increased from $2,700 in the first quarter to $2,900 in the 2nd quarter.
In contrast, the average individual donation remained the same in the 1st and 2nd quarters. While that may have been fine in the 1st quarter, the organization expected the average donation to increase by the 2nd quarter and it did not. So, the box is yellow to show that progress is not being made towards the target.

<table>
<thead>
<tr>
<th>Goal</th>
<th>Target by year end</th>
<th>YTD 2\textsuperscript{nd} quarter</th>
<th>YTD 1\textsuperscript{st} quarter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase average $ individual donation by 10%</td>
<td>$60.50</td>
<td>$57</td>
<td>$57</td>
</tr>
<tr>
<td>Increase the # of donors by 10%</td>
<td>1,100</td>
<td>1,050</td>
<td>1,025</td>
</tr>
<tr>
<td>Increase the average $ corporate donation by 10%</td>
<td>$3,080</td>
<td>$2,900</td>
<td>$2,700</td>
</tr>
<tr>
<td>Increase the # of corporate donors by 10%</td>
<td>44</td>
<td>50</td>
<td>42</td>
</tr>
</tbody>
</table>

![💡] Determine the metrics that best connect to your finances and data to your impact and report them to the Board monthly.

You can also use a dashboard to track action. In this case, the organization will need to determine the action steps it wants to take to increase the average donation per donor. It will then monitor the number and continue to report how it is doing.

<table>
<thead>
<tr>
<th>Action</th>
<th>Target</th>
<th>2\textsuperscript{nd} quarter</th>
<th>1\textsuperscript{st} quarter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Visit major donors</td>
<td>10 visits/quarter</td>
<td>9</td>
<td>5</td>
</tr>
<tr>
<td>Quarterly updates to donors</td>
<td>Quarterly</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>Corporate volunteer program</td>
<td>5 volunteer opportunities each quarter</td>
<td>5</td>
<td>4</td>
</tr>
</tbody>
</table>
4-3 Measuring Impact

The financial picture provides you with the resources you need to deliver impact, but you can also report your impact. The following examples illustrate how to use a dashboard to measure other KPIs on impact or action items. A dashboard is helpful in tracking different types of data that you need to monitor.

Reporting on Impact

<table>
<thead>
<tr>
<th>Impact</th>
<th>Target</th>
<th>2\textsuperscript{nd} quarter</th>
<th>1\textsuperscript{st} quarter</th>
</tr>
</thead>
<tbody>
<tr>
<td>People report feeling hungry for fewer days</td>
<td>60% of our clients report feeling hungry for less than 2 days</td>
<td>50%</td>
<td>45%</td>
</tr>
<tr>
<td>Our pantry offers healthy food choices</td>
<td>10% of our pantry provides fresh produce</td>
<td>7%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Reporting on Action Items

<table>
<thead>
<tr>
<th>Action</th>
<th>Target</th>
<th>2\textsuperscript{nd} quarter</th>
<th>1\textsuperscript{st} quarter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Obtain refrigerated equipment to keep more produce fresh</td>
<td>Increase space from 30 cu ft to 60 cu ft</td>
<td>40</td>
<td>30</td>
</tr>
<tr>
<td>Establish new partnerships with providers of fresh produce</td>
<td>3 partnerships by year end</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>

In all cases, the food pantry identified:
- Where they are now.
- Where they want to be.
- Action steps to get there.
- How long it should take to get there.
- What were acceptable milestones along the way.

Sharing Impact Stories

“Hi Susan, Anne and I shopped via computer, so easy and no long wait in the lobby. Just wanted to tell you how appreciative I am for all that you do. Debra”
Building a Strong Financial Foundation

4-4 | Revenue Mix

Giving USA’s annual report notes year after year that individuals are the greatest source of contributions. Look at your revenue mix. What are the main sources of your revenue? The following examples show different ways that you can analyze your giving.

Once you understand where you are now, you can set targets and action steps to get to where you want to be with your funding.

Exhibit 4-4-1 | Average Giving by Donor

<table>
<thead>
<tr>
<th></th>
<th>Total donated</th>
<th># of donors</th>
<th>Each donor gives an average of</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual contributions</td>
<td>$240,000</td>
<td>1,000</td>
<td>$240</td>
</tr>
<tr>
<td>Corporate contributions</td>
<td>$120,000</td>
<td>50</td>
<td>2,400</td>
</tr>
<tr>
<td>Foundation grants</td>
<td>$70,000</td>
<td>5</td>
<td>14,000</td>
</tr>
<tr>
<td>Government grants</td>
<td>$250,000</td>
<td>2</td>
<td>125,000</td>
</tr>
</tbody>
</table>

Exhibit 4-4-2 | Schedule of Donor Giving by Dollar Amount

<table>
<thead>
<tr>
<th>Donors giving</th>
<th># of donors</th>
<th>Average amount donated</th>
<th>Total donated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $50</td>
<td>750</td>
<td>$50</td>
<td>$37,500</td>
</tr>
<tr>
<td>$50 to $250</td>
<td>300</td>
<td>150</td>
<td>$45,000</td>
</tr>
<tr>
<td>$250-$500</td>
<td>100</td>
<td>350</td>
<td>$35,000</td>
</tr>
<tr>
<td>$500-$1000</td>
<td>20</td>
<td>750</td>
<td>$15,000</td>
</tr>
<tr>
<td>$1000-$10,000</td>
<td>7</td>
<td>5,000</td>
<td>$35,000</td>
</tr>
<tr>
<td>over $10,000</td>
<td>3</td>
<td>25,000</td>
<td>$75,000</td>
</tr>
</tbody>
</table>

$242,500

Shift the mix:

- Donor development program:
  - When current donors give more, why?
  - Why are we gaining new donors?
  - If we look at giving by month, what months are higher and why?
  - What leads donors to tell others about our organization?
  - What are the stories of our successes that our Board needs to hear to share in the community?

- Program service revenues:
  - Is there something we provide that people value and will pay for?
  - If the consumer pays for part of a service will that benefit the consumer?
  - What do our program participants like about our fee-based programs?
  - Should we change the programs offered?

- Sustainability Committee. Consider forming a Sustainability Committee made up of staff, volunteers and perhaps consumers as well as Board members whose focus would be to brainstorm, research, and identify funding initiatives.
Identify what metrics you will use to track your progress. Average gift by donor? Number of donors? Report this metric to the Board monthly.

4-5 | Communicating Impact to Grantors (and Donors!)

Your pantry may apply for grants from community or corporate foundations or the state and local government. What is the grantor looking for when they review your statements? Recognize that more and more donors are looking at this information too.

Your financial reports tell a story of the financial health, good or bad, of your organization.

Funders typically want to see the following financial reports:

- Statement of Financial Position (Balance Sheet).
- Statement of Activities compared to budget (Profit & Loss).
- Audited financial statement or a level of service (reviewed or compiled statement) appropriate to the size of your organization.
- Form 990.
- Operating budget.
- Project budget.

Compare the reports to each other. As applicable, numbers should match up with the corresponding reports and make sense in context. The funders will analyze that story, looking at the same metrics and asking the same questions this toolkit has discussed.

- Items related to your Statement of Activities (Profit & Loss):
  - A large deficit may indicate poor management of funds, declining revenue through loss of grants or individual donors, or a large expense made in advance of expected funding.
    - You need to be prepared to discuss deficits with the funders.
    - Why did the deficit occur?
    - What is your plan to recover and build surplus?
  - A large deficit may temporarily be the result of start-up costs supporting the planning and launch of a new program or service. For instance, you may need to hire staff to train them before revenue streams begin to offset operational costs. It is a good idea to share this information with current and potential funders: be proactive.
  - A large surplus may indicate a pantry did not periodically review its budget throughout the year and underspent funds, or it may mean a large grant came in at the end of the fiscal year and has not yet been spent.
    - Note that some funders will see a surplus as an indication that the organization does not need any more money. Why would a funder give an organization a monetary grant if the organization’s financials show they are flush with cash already?
    - You need to be prepared to discuss your surplus with the funder.
      - What is your target operating reserve? How much surplus do you want to have on hand to fund future operations? In Section 3-3-3, we noted that a best practice is to have 6 months of cash in your operating reserve.
      - Are you building up savings for a specific purpose?
Items related to your Statement of Financial Position (Balance Sheet):
  - How much cash do you have on hand? Do you have a large receivable balance? This could indicate a slow paying contract or reflect a cycle where all funding comes in over a few months.
  - What are your net assets? This is the balance of what you “own” and what you “owe”.
  - How many months could you operate if you didn’t have additional revenue?

Some funders calculate financial ratios such as number of months of operating reserves and days of cash on hand.

Funders have different due diligence processes. Some funders do not call to ask questions and may reject your funding request because of the story your financial documents tell. Some funders are so overwhelmed with funding requests, if an applicant gives them an easy reason to turn down their request – such as large deficits or surpluses or reports that are not clear – the funder will likely turn down the request without further investigation. Be proactive and review your statements with a critical eye. If you have a large deficit or surplus include an explanation.

Be prepared to explain your financial statements to funders. Funders may call with questions. You should be able to answer them or know who to ask. Funders may just want clarity. Perhaps they have a specific question about something in your reports or perhaps they do not understand them.

If a funder does call and you don’t know the answer:
  - Write down their questions. It’s best if you can have someone who knows the financial ins-and-outs of the pantry (may be the Board Treasurer, pantry manager or bookkeeper) speak directly with the funder.
  - The conversation may prompt other questions, and having that person speak with them could avoid further delays. The funder may be working under a deadline.
  - Ideally, you should get back to your funder as soon as possible with answers.

Questions from funders aren’t necessarily a bad thing. Sometimes they just want clarification. Sometimes they want to understand what’s behind the story the numbers are telling.

Some funders may be more understanding about things like deficits than others. It helps to be knowledgeable and prepared should questions arise. It’s even better if your financial reports are clear.
5 | Other Opportunities

There are other opportunities that can strengthen your financial sustainability. Multiservice organizations may consider complementary side businesses such as a café or thrift store. Food pantries of all sizes collaborate formally and informally.

5-1 | Social Enterprise and For-Profit Models

Nonprofits may pursue selling products or services to the public to raise funds for their organization. This pursuit is often called a social enterprise, basically business for the social good. This is different from a for-profit company that may give a percentage of their profits to charity or that may have a social cause element (like Tom’s Shoes). In this case, the nonprofit is doing something that might also be done by a for-profit business. Examples include thrift stores, coffee shops, sale of goods made by program participants, rental of facilities, etc.

When we hear of this working successfully it can be tempting to see this as a magic bullet solution. However, there are a lot of risks when starting an enterprise to raise funds.

Consider:

- Can the business be profitable? How long will it take to become profitable?
- Who are our possible competitors?
- Is the business appropriate given what we do?
- Will the business detract our management from our core mission?
- Do you have for-profit business expertise in-house and/or on your Board?
- You may need to consult with an attorney or accountant.

![Tip]

It is estimated that only 1 out of every 5 start-up for-profit businesses are still in business after 5 years. Proceed with caution if you are considering adding a social enterprise to your organization.

The IRS also looks at enterprises like this and may consider it “Unrelated Business”. When a nonprofit runs an unrelated business, the IRS will charge an unrelated business income tax (UBIT). If you are running a profitable enterprise, it is not a bad thing to owe part of your profits to the IRS; you still get to keep the rest of your profits. But you need to be cognizant of the tax.

Thrift stores are specifically exempt from the Unrelated Business Tax (UBIT). Several nonprofits have found running a thrift store to be a profitable endeavor. However, many have found it to be a loss and therefore a drain on the organization’s overall budget. It is time consuming to sort donations. If you need to rent space and pay staff, the sales of the donated goods might not cover the cost of rent and staffing.

If you pursue a social enterprise, you need to develop a business plan that includes solid and realistic financial projections.
5-2 | Partnerships, Collaborations and Mergers

There is strength in numbers, whether you have informal or formal relationships with other nonprofits. Relationships can take several forms:

- Partnerships
- Collaborations
- Alliances
- Mergers
- Acquisitions

Food pantries sometimes add other services to address the needs of the people they serve. However, partnering with other established organizations may be a more effective and efficient way to meet these needs. It can be a time consuming and challenging process to develop these relationships. But the benefits may outweigh the challenges.

Several organizations work together to establish relationships with and rescue food from retail grocers which is efficiently and safely transported to food pantries for quick distribution. This initiative successfully works across sectors, organizations and a network of service providing agencies to support the community.

5-2-1 | Partnerships, Collaborations, and Alliances

The terms partnerships, collaborations, and alliances tend to be used interchangeably. These relationships can be less formal or more formal with a memorandum of understanding to document the terms of the relationship. Examples of partnerships, collaborations, and/or alliances include:

- Food pantry trades food with another pantry to provide variety or products that their consumers enjoy.
- Food pantry provides food for a soup kitchen or other meals program to make meals.
- Gleaning nonprofit provides fresh produce to food pantries.
- Food pantry partners with other nonprofits to provide their consumers with counseling, job training, substance abuse and mental health services, housing services, etc.
- Two or more food pantries partner on a grant to deliver a specific outcome.
- Food pantries meet periodically to discuss best practices. For example, the regional coalitions and Peer Learning Circle brings food pantries together throughout the year.

The advantages to these arrangements can be strengthened outcomes for the whole community as there is a “warm handoff” for consumers in the continuum of care.
Multiple emergency food providers join a workspace on Slack, a real-time communications platform, to quickly and efficiently notify one another about time sensitive food sharing opportunities. Streamlined communication gets the word out and responded to without disrupting staff productivity, taking a lot of the hassle out of sharing.

5-2-2 | Merger
A merger is two organizations joining to become one. The organizations could be similar, as in two food pantries merging or dissimilar as in a food pantry merging with a multiservice organization.

5-2-3 | Acquisition
With an acquisition, one organization will acquire the other. It is similar to a merger, but typically one partner is clearly the entity that will remain in control after the acquisition. If you find that it is difficult to maintain a small food pantry, but you want to keep your location and your volunteers, you may consider it is better if your food pantry is a second location of another food pantry instead of a separate nonprofit.

5-2-4 | Outsourced Services
Organizations may hire a bookkeeping or accounting firm to take care of the recordkeeping functions. Some organizations provide back office support to several organizations. Sometimes these services are offered through a management services organization (MSO) and can be very cost-effective options, especially for small-scale organizations.

5-2-5 | Caution! Before proceeding
In the long run, partnering with another organization can save time and money and provide greater impact to the community. However, the process of partnering can be very time consuming, costly, and stressful. Before embarking on a new program, consider:

- Need.
- Time.
- Expertise.
- Complexities. Professionals can help identify and assess technology integration and data issues, review personnel policies and benefit structures (including pension and retirement programs), succession planning and similar issues.
- Funds available. For mergers and acquisitions, you need legal help. You may also need to consult with an accounting firm or a consultant to facilitate the conversation.
- The Board needs to be involved in these conversations. It is their fiduciary duty to protect the assets of the organization. Care needs to be exercised when you are thinking of sharing these assets with another organization.

If you are thinking of exploring a more formal partnership, identify small ways that you can work together first. The process can be costly in terms of time and money. You can seek funding from area funders. The Nonprofit Repositioning Fund (www.repositioningfund.org) was established to support long-term transformational strategic alliances and collaborations.
6 | TOPICS UNIQUE TO FOOD PANTRIES THAT ARE PART OF A MINISTRY

A food pantry is a ministry of some places of worship that collect and distribute food to members or the community. They may not operate a choice-style pantry where consumers can come and “shop”; the food and donations may be stored in a closet or spare shelf. The place of worship does not receive any monetary donations for their food pantry from outside its membership. In these cases, the pantry does not need to produce separate financial statements. The activity of the food pantry is reported on the financial statements of the place of worship. However, the place of worship may want to track amounts collected and distributed and volunteer hours so that they can assess and communicate their impact.

A pantry that is open to the public as part of a ministry will need to follow many of the practices noted in this toolkit.

6-1 | Ministry vs. Standalone Nonprofit

A place of worship may have a range of ministries. Those on the left side of the continuum are typically thought of as traditional place of worship programs. Those on the right side of the continuum can start off on a small scale, but due to their nature a separate nonprofit may be formed. The ministries in the middle of the continuum may typically be retained within the legal structure of the place of worship. There are pros and cons to consider when a ministry is detached from the legal structure of the place of worship and a separate nonprofit is formed.

Exhibit 6-1-1 | Range of Place of Worship Ministries
This chart shows the difference between a separate 501(c)(3) entity and if the ministry remains as part of the place of worship.

**Exhibit 6-1-2 | Comparison of a Standalone Nonprofit to a Ministry that is part of a Place of Worship**

<table>
<thead>
<tr>
<th>Separate Standalone Nonprofit with its own 501(c)(3)</th>
<th>Ministry as part of a Place of Worship</th>
</tr>
</thead>
<tbody>
<tr>
<td>Possibly appeals to more funders.</td>
<td>Some grantors or corporate matching programs will not fund a place of worship ministry.</td>
</tr>
<tr>
<td>Cost of Directors &amp; Officers and General Liability insurance adds administrative expense (typically $800 to $1500/year).</td>
<td>Covered by the insurance of the place of worship.</td>
</tr>
<tr>
<td>Potential cost of tax and accounting services as nonprofit grows.</td>
<td>Place of worship and their ministries are not required to file a Form 990 with the IRS or register with the state charitable department.</td>
</tr>
<tr>
<td>Cost of registering with state charitable department.</td>
<td>Place of worship are not required to register with the state charitable department.</td>
</tr>
<tr>
<td>Need to comply with reporting issues such as 1099-Misc filing for contractors.</td>
<td>Filings included with place of worship filings. Place of worship still needs to file the 1099-MISC.</td>
</tr>
<tr>
<td>Required thank you note to donors giving more than $250, IRS &amp; State disclosure requirements. See Reference section.</td>
<td>Required thank you note to donors giving more than $250. IRS disclosure guidelines. Does not need to follow state guidelines.</td>
</tr>
<tr>
<td>Independent Board governance.</td>
<td>May have a separate committee for the food pantry but the ultimate authority is with the governing Board of the place of worship.</td>
</tr>
<tr>
<td>Board members have more responsibility and need to devote more time to administrative functions, such as bookkeeping, reporting, etc.</td>
<td>Some administrative functions will be handled by the administrative team of the place of worship.</td>
</tr>
<tr>
<td>Legal liability rests with the nonprofit.</td>
<td>Legal liability rests with the place of worship.</td>
</tr>
<tr>
<td>Need to contract with a payroll service to handle employee payroll or manage payroll yourself. Need to establish human resource policies and obtain the necessary insurances.</td>
<td>Employees are covered by place of worship payroll, human resources, and payroll processing and transmittal of taxes is handled by the place of worship.</td>
</tr>
<tr>
<td>Need to obtain insurance to cover volunteers and establish volunteer policies.</td>
<td>Volunteers covered under place of worship policies and insurance.</td>
</tr>
</tbody>
</table>
6-2 | Considerations if you are part of a ministry

Talk to the place of worship and make sure the following is being handled appropriately:

- Donor acknowledgements (see Donor acknowledgements in Section 2-3-1).
- Employee vs. Subcontractor (see Nonemployee Compensation in Section 2-3-5).
- Subcontractor needs to receive a Form 1099-Misc.
- Committee review of the financial operations and community impact of the food pantry (see Board Responsibilities in Section 2-8).
- Controls over funds (see Controls over funds in Section 2-4).

Note: Most places of worship are aware of these requirements and handle these situations as part of their fiscal process.

6-3 | Why or why not move from a place of worship to a nonprofit?

There are several reasons why a place of worship may choose to spin off its food pantry ministry into a separate nonprofit:

- Legal separation.
- Corporate protection for the place of worship leadership.
- Funding opportunities from funders that will not provide funds to a place of worship.
- Provide the nonprofit with independent leadership.
- Place of worship doesn’t want to run the food pantry.
- Expand its ministry to serve a broader community.

Recognize that there are significantly more recordkeeping and expenses involved if a place of worship’s ministry becomes its own nonprofit, as you can see in Exhibit 6-1-2 above.

Considerations if you become a separate nonprofit:

- All the items listed above for a ministry of the place of worship are the responsibility of the nonprofit Board PLUS
  - Board meetings.
  - Board policies such as Conflict of Interest, Board Commitment.
  - Directors & Officers liability insurance.
  - Financial recordkeeping.
  - IRS and state filing requirements.
  - Valuing donated food.

Process to become a separate nonprofit:

- Separate incorporation.
  - Legal fees and corporate fees may be $300-$1,000.
- IRS Form 1023 to apply for status.
  - IRS fees and legal or accounting fees to assist with status may be $450 to $2,500.
  - Consider if you can file Form 1023-EZ, typically available if you expect your revenues to be less than $50,000 on average.
Other Options

Fiscal sponsorship

Other food pantries may operate under a fiscal sponsor. A fiscal sponsorship arrangement is when an organization that has decided not to become a separate 501(c)(3) operates under the umbrella of an established nonprofit that provides fiscal sponsor services. Sometimes the organization is not ready to become a 501(c)(3) and other times the organization determines it does not want to take on the administrative responsibilities of managing a separate nonprofit and its needs can better be met by a fiscal sponsor relationship. See the Resources section for more information about fiscal sponsorship. The considerations to separate from a fiscal sponsor are very similar to the considerations to separate from a place of worship.

Partner with an already existing nonprofit

Rather than forming a separate nonprofit, consider if you could join with an existing nonprofit as discussed in Section 5. This is a commonly overlooked but powerful strategy. If you have worked through this toolkit, you have a sense of the administrative time that is necessary to manage the finances of a food pantry. Combining with an already existing pantry will typically increase the program impact, with a proportionally smaller increase in administrative time, because the same administrative structure can support both programming functions. Look for a partner interested in enhancing its community impact and achieving greater scale for its operations.
Conclusion

Managing the finances is a process that involves a team of people including Board members, current staff, fiscal sponsors, key volunteers, and occasionally consumers willing to help advance the pantry’s mission. Share parts of this toolkit with others in your organization. Seek input from key business partners and major donors, if possible. Determine what you already do well and where you want to improve. Set up a timeframe to adapt parts of the toolkit over time. Be deliberate and hold yourself accountable to established and agreed upon timeframes.

If you are unsure if you have the expertise on your Board or with your staff or volunteers, seek outside help, attend seminars and training, and/or consult with an outside accounting firm. Your role as a food pantry to meet the needs of the community is too critical. You cannot ignore the gravity of the financial responsibility that you have undertaken. In today’s environment, a firm financial foundation allows you to be financially nimble to adjust to the continually changing nature of our society.
A | APPENDIX

A-1 | FAQ

Document retention:

- **What documents do I need to keep?**

  See Exhibit A1-1 for a listing of the types of documents that you should retain.

- **Where should I keep these documents?**

  You can use a paper filing system, save your files on the computer, or save your files online using Google Drive or another online system. Make sure that the online system you select has appropriate security features. You should secure files such as payroll, client files, and other confidential information.

- **How long do I need to keep these documents?**

  See the chart at Exhibit A1-1.

- **How should I organize them in a system where someone else could find these documents?**

  Generally, you should organize records by function, and then alphabetically. For example, a file drawer may hold bills you have paid and the bills would be filed in alphabetical order. Another file drawer may hold consumer files in alphabetical order.

  If you use an online file system, a folder would represent the function and subfiles would be listed alphabetically.

  You always want to acquaint at least 2 people with your filing system so that when there is transition, there is a clear trail to follow.

  Smaller food pantries often do not have an office to keep records in. Smaller food pantries may find that someone is keeping files in their home or carrying a file bin around. If this is the case, ideally all files should be scanned and maintained in a secure location online. This permits access for Board members or key volunteers, as needed. The online files should be password protected.

  If you store things on your computer system, make sure you back them up regularly. Inexpensive software can be purchased that will automatically back up your system securely to the internet regularly. The Council of Nonprofits has more details on document retention and sample policies here:

<table>
<thead>
<tr>
<th>Type of Document</th>
<th>Minimum Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable ledgers and schedules</td>
<td>7 years</td>
</tr>
<tr>
<td>Audit reports</td>
<td>Permanently</td>
</tr>
<tr>
<td>Bank reconciliations</td>
<td>2 years</td>
</tr>
<tr>
<td>Bank statements</td>
<td>3 years</td>
</tr>
<tr>
<td>Checks (for important payments and purchases)</td>
<td>Permanently</td>
</tr>
<tr>
<td>Contracts, mortgages, notes, and leases (expired)</td>
<td>7 years</td>
</tr>
<tr>
<td>Contracts (still in effect)</td>
<td>Contract period</td>
</tr>
<tr>
<td>Correspondence (general)</td>
<td>2 years</td>
</tr>
<tr>
<td>Correspondence (legal and important matters)</td>
<td>Permanently</td>
</tr>
<tr>
<td>Correspondence (with customers and vendors)</td>
<td>2 years</td>
</tr>
<tr>
<td>Deeds, mortgages, and bills of sale</td>
<td>Permanently</td>
</tr>
<tr>
<td>Depreciation schedules</td>
<td>Permanently</td>
</tr>
<tr>
<td>Duplicate deposit slips</td>
<td>2 years</td>
</tr>
<tr>
<td>Employment applications</td>
<td>3 years</td>
</tr>
<tr>
<td>Expense analyses/expense distribution schedules</td>
<td>7 years</td>
</tr>
<tr>
<td>Year-end financial statements</td>
<td>Permanently</td>
</tr>
<tr>
<td>Insurance records, current accident reports, claims, policies, and so on (active and expired)</td>
<td>Permanently</td>
</tr>
<tr>
<td>Internal audit reports</td>
<td>3 years</td>
</tr>
<tr>
<td>Inventory records for products, materials, and supplies</td>
<td>3 years</td>
</tr>
<tr>
<td>Invoices (to customers, from vendors)</td>
<td>7 years</td>
</tr>
<tr>
<td>Minute books, bylaws, and charter</td>
<td>Permanently</td>
</tr>
<tr>
<td>Patents and related papers</td>
<td>Permanently</td>
</tr>
<tr>
<td>Payroll records and summaries</td>
<td>7 years</td>
</tr>
<tr>
<td>Personnel files (terminated employees)</td>
<td>7 years</td>
</tr>
<tr>
<td>Retirement and pension records</td>
<td>Permanently</td>
</tr>
<tr>
<td>Tax returns and worksheets</td>
<td>Permanently</td>
</tr>
<tr>
<td>Timesheets</td>
<td>7 years</td>
</tr>
<tr>
<td>Trademark registrations and copyrights</td>
<td>Permanently</td>
</tr>
<tr>
<td>Withholding tax statements</td>
<td>7 years</td>
</tr>
</tbody>
</table>
Accounting Systems

- **How do I set up a spreadsheet to organize a ledger?** Accounting software is nice, but a lot of planning gets done on a spreadsheet.

Nonprofits will typically plan their budget for the coming year on an Excel spreadsheet. For financial recordkeeping, a software package, such as QuickBooks or Aplos, should be used regardless of how small a nonprofit is. Financial software is the only system that can provide the necessary financial safeguards and record your finances in an efficient manner. Excel cannot provide such safeguards, and as a result your financial information can be incorrect and not provide you with the information you need. Additionally, you open your food pantry up to potential misappropriation of assets. An Excel spreadsheet is merely a listing of transactions and it does not have the integrity that a software package specifically designed for finances has.

- **What kind of accounting system do I need?**

You will need an accounting software package like QuickBooks or Aplos. Both have online versions that are especially convenient for all volunteer organizations.

- **Why does my pantry need accurate and timely financial reporting?**

Nonprofits are formed because people believe that a community need can be better met together than apart. Every food pantry is entrusted with resources by donors. Donors trust you to make sure the resources get to the people who need them. Your volunteers donate time to you because they believe in the mission. Your Board has a fiduciary duty to honor the trust of your donors and volunteers. Everyone wants to maximize their investment, whether of food, money or time. Accurate and timely financial reporting is a foundational building block to a strong food pantry that honors donors’ investment with you and demonstrates that together we really are accomplishing more than apart.

- **How can my pantry use financial reporting to improve both organizationally and programmatically?**

See Sections 3 and 4 for in-depth answers to this question. See Section 2-1 Understanding the Numbers for a more basic answer to this question.

Grants

- **What do grantors want to see in our finances?**

Grantors want to make sure that you will use their money wisely and as intended. The key in talking to your grantors about your financials is to be prepared. Connect the grantor with someone in your organization who understands your financials and can answer any questions. See Section 4-4 for more details.

- **How do I track timelines and use of grants?**

A food pantry will sometimes receive a grant that needs to be used for a specific purpose within a specific time frame. QuickBooks has a class feature that will allow you to code expenses to specific grants. You may also choose to track grants separately on an Excel spreadsheet. If you use an Excel spreadsheet, make sure
the schedule agrees with your accounting system regularly. See below for an example of how to track grants on Excel.

**Exhibit A1-2 | Grant Tracking on Excel**

<table>
<thead>
<tr>
<th>Date</th>
<th>Name</th>
<th>Check #</th>
<th>Description</th>
<th>Receipts</th>
<th>Use</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2/1/2018</td>
<td>Montgomery County</td>
<td>NA</td>
<td>Funds received</td>
<td>10,000</td>
<td></td>
<td>10,000</td>
</tr>
<tr>
<td>2/16/2018</td>
<td>Whole Foods</td>
<td>3468</td>
<td>Food purchase</td>
<td>(3,500)</td>
<td>6,500</td>
<td></td>
</tr>
<tr>
<td>4/1/2018</td>
<td>Trader Joes</td>
<td>3492</td>
<td>Food purchase</td>
<td>(1,200)</td>
<td>5,300</td>
<td></td>
</tr>
<tr>
<td>6/7/2018</td>
<td>Home Depot</td>
<td>3508</td>
<td>Supply purchase</td>
<td>(500)</td>
<td>4,800</td>
<td></td>
</tr>
<tr>
<td>8/1/2018</td>
<td>Aldi</td>
<td>3560</td>
<td>Food purchase</td>
<td>(700)</td>
<td>4,100</td>
<td></td>
</tr>
<tr>
<td>11/4/2018</td>
<td>Whole Foods</td>
<td>3618</td>
<td>Food purchase</td>
<td>(2,400)</td>
<td>1,700</td>
<td></td>
</tr>
<tr>
<td>1/16/2019</td>
<td>Trader Joes</td>
<td>3754</td>
<td>Food purchase</td>
<td>(1,700)</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>

- **What is restricted vs. unrestricted funding?**

Restrictions are set by the donor. Restricted funds are given by a donor for you to use for a specific purpose and/or within a specific period. You cannot use restricted funds for any other purpose than for what the donor specified. If you do not think that you can meet the terms of the restrictions, you should contact the donor to see if they would be willing to change the restriction to something that you can use the money for or return the funds to the donor. Any changes from the donor should be received in writing. Your Board needs to be involved in any changes to restrictions or return of funds. Note that it is very rare that you would contact a donor to change a restricted gift once you have accepted it. This is not a good practice and does not create good donor relations.

Unrestricted funds can be used for anything related to your organization.

**Special Events**

- **What should we be aware of when planning special events?**

Special events provide funds for your food pantry. They also provide an opportunity to attract new volunteers and donors. Your fundraiser also serves as a “friend-raiser”. It is important to track the costs of the special event: food, location, invitations, etc. You should also track the time spent on the special event, from both paid staff and volunteers. Some organizations find that certain events are so time intensive they detract from the programming (in this case the food pantry) in the weeks leading up to the event.

Also recognize that it can take several years for an event to gain traction and attract people. Start with modest expectations for your special event. Talk to other nonprofits to see what events tend to be less time intensive. Attend other nonprofits’ special events and identify what elements drive the success of the event. Make sure that your Board members and volunteers are confident that they can invite friends and contacts to the event. For gala type events, each Board member is typically expected to buy and fill a table. Plan
events that your Board members and their friends and/or contacts will be willing to attend and support. Make sure that the people who your Board members and volunteers would be inviting are likely to be attracted to supporting your mission.

Other Questions

- **What should I do if I find fraud or that funds have been misappropriated?**
  
  Contact your accountant or Board chair to determine the appropriate next steps. Be careful to prevent the person you are concerned about from having further access. Depending on the nature of the fraud, there are various steps you would need to take. Accountants and lawyers can help determine the best way to proceed in your situation.

- **What information should I provide to my Board and how often?**
  
  You want to provide financial information to your Board preferably every month, but at a minimum on a quarterly basis. If you provide information to your Board quarterly, your Finance Committee or at least one member of the Board should look at your information monthly. The information that you want to provide the Board is detailed at Section 2-8.

  Note that while you may share information with your Board quarterly, you as management and the Board Treasurer should review your financials monthly.

- **We are a small food pantry. What do we need to do?**
  
  Regardless of size, donors are entrusting you with their money, donated goods, and/or time. You need to implement the basic financial concepts in Section 2-1 and the internal controls in Section 2-4. If these seem onerous or outside of the time or skill set of your Board, consider partnering with another larger food pantry (see Section 5).

- **We are a new food pantry. What do we need to do?**
  
  Regardless of size, donors are entrusting you with their money, donated goods, and/or time. You need to implement the basic financial concepts in Section 2-1 and the internal controls in Section 2-4. If these seem onerous or outside of the time or skill set of your Board, consider partnering with another larger food pantry (see Section 5).

The first 3 things you need to do are:

- Determine if you have the expertise and time to take on the financial responsibilities of the food pantry as outlined in Section 2.
- Set up a basic system of controls as discussed in Section 2-4.
- Obtain an accounting system and start recording your transactions. See Section 2-2.
We want to start a new pantry. There is such great need in our community and we know a lot of people who want to donate food and volunteer.

After reviewing this Financial Toolkit, you will have the information needed to assess the time involved in managing a food pantry. And this is just from the financial standpoint! Volunteers, inventory, donors, and clients also need to be managed. There is a cost of time and money required to handle the administrative tasks so that you can provide a food pantry program. You should contact area nonprofits or other already existing food pantries to see if you can partner with them. A few things to consider:

- Can you join with an existing location to enable them to serve more from their current location?
- If you believe your geographic area needs a food pantry, is there an area nonprofit or another food pantry that you can partner with? It is usually easier and less expensive for an already existing nonprofit to expand, then to start something new from scratch.
- Do you have the expertise among your volunteers to provide the financial and management oversight?
- Do you have the dollars to cover the administrative costs?
501(c)(3)
Nonprofit organizations that meet the requirements under the Internal Revenue code Section 501(c)(3) become tax exempt.

Accounts Payable
The amount owed to others for various goods and services that are received by the organization.

Accounts Receivable
The amount owed to the organization for various goods and services that are provided to others.

Accrued Expenses
The cost of goods or services that have been used, but payment of the bill is not due yet.

Allocation
The process of dividing expenses among different categories within an organization.

Assets
Various items that the organization owns.

Audit
The highest level of assurance that can be provided by an outside CPA firm on your financial statements.

Board-Designated Funds
Funds that the organization’s Board of Directors set aside for a specific purpose; these funds are still considered unrestricted because the condition was not marked specified by a donor.

Bylaws
A formal document outlining what activities an entity may or may not engage in.

Capital Purchase or Capitalization
Recognizing a purchase of an asset with a useful life of greater than 1 year in which the expense exceeds a certain pre-established threshold (for example: $5,000).

Cash Equivalents
Funds that can be easily turned into cash.

Cash Flow Statement
A report that shows the cash inflows and outflows during a period of time.

Cash Basis Accounting
A system of recordkeeping where the transactions using cash being received or spent are recorded.

Compilation
A report prepared by a CPA that assembles the organization’s financials.

Days Cash on Hand
An estimate of the number of days that an organization could continue to pay its expenses with its current cash balances; it can be used to measure a company’s financial stability.
**Deferred Revenue/Deferred Income**
Income for which payment has been received before it has been earned.

**Deficit**
When expenses are higher than income; it could be a negative change in net assets.

**Depreciation**
The decrease in value of a fixed asset over its expected life.

**Fiduciary Duties**
Legal obligation to act in the best interest of another entity.

**Financial Accounting Standards Board ("FASB")**
The national Board which sets the accounting standards known as Generally Accepted Accounting Principles ("GAAP").

**Fiscal Sponsor**
Relationship when a nonprofit organization accepts grants and contributions from a group that does not have tax-exempt status and accepts the responsibility to oversee the use of funds.

**Form 990**
IRS Form 990 is an annual Tax document used by nonprofits to report their finance information.

**Fund Accounting (also referred to as Program Tracking, or in QuickBooks the “Class” feature)**
Accounting that separates information into groups that represent the organization’s structure or restrictions.

**Funds with Donor Restrictions**
Contributions restricted by the donor for a specific purpose or for use during a specific period.

**Funds without Donor Restrictions**
Contributions given without any limitations places on them.

**Generally Accepted Accounting Principles (GAAP)**
The standard rules and regulations for financial accounting established by the Financial Accounting Standards Board to ensure accuracy and consistency.

**General ledger**
A system that records all transactions.

**Grants**
Assets given by one individual to another with nothing expected in return.

**In-Kind Contribution**
Contribution made up of goods or services instead of cash.

**Leasehold Improvements**
Remodeling, renovation, and upgrades to suit a renter’s needs. If this is paid by the nonprofit tenant, the cost becomes an asset and is depreciated over the lease.

**Letter of Determination**
A letter from the IRS stating that the organization has applied for tax-exempt status and that the IRS has determined that the organization is tax-exempt.
Liquidity
A measure of the amount of cash and assets that can be quickly converted to cash.

Mission
The purpose or reason an organization exists.

Months of Cash (see also Days Cash on Hand)
The number of months the organization could operate using only the cash that it currently has.

Notes Payable/Receivable
The amount an organization owes or will receive to/from others for loans.

Occupancy Expense
Every cost that relates to rent, utilities, insurance, assessments, and maintenance for an organization’s programs and offices.

Overhead
Costs that cannot be identified with a specific program but are needed for the general functions of the organization.

Funds that are Perpetual in Nature (formerly called Permanently Restricted Funds)
Contributions that may never be spent by the organization (ex: endowment gifts).

Pledge
A formal commitment to contribute a specific amount.

Prepaid Expense
An expense that is paid before a good or service is used, so it is recorded as an asset on the Statement of Financial Position (Balance Sheet).

Ratio Analysis
The act of converting financial numbers into ratios to look for trends and assess the stability of the organization.

Release from Restrictions
Transfer of funds restricted by the donor into the organization’s unrestricted accounts once the restriction has been satisfied.

Reserves
An agreed upon amount to be set aside by the organization to be used in case of emergency or unexpected loss.

Restricted Funds
Contributions restricted by the donor for use for a specific purpose or to be used within a specific time frame.

Statement of Activities (Profit & Loss)
A report that summarizes the organization’s revenue and expense activity during a specific period.

Statement of Financial Position (Statement of Financial Position)
A consolidated form showing the organization’s financial condition at a moment in time.
### A-3 | Resources and Tools

There are several online resources to supplement this toolkit. Please note that links change over time. If the link no longer is functional, you can search for the resource using the name or topic.

#### A3-1 | Reports & Publications

<table>
<thead>
<tr>
<th>Report Name/Topic</th>
<th>Link</th>
</tr>
</thead>
</table>

#### A3-2 | Videos

<table>
<thead>
<tr>
<th>Topic</th>
<th>Link</th>
</tr>
</thead>
<tbody>
<tr>
<td>Explanation of Nonprofit Accounting</td>
<td><a href="https://www.youtube.com/user/AplosAccounting">https://www.youtube.com/user/AplosAccounting</a></td>
</tr>
<tr>
<td>Explanation of Cash Flows</td>
<td><a href="https://www.youtube.com/watch?v=FA0ACIOzbWc">https://www.youtube.com/watch?v=FA0ACIOzbWc</a></td>
</tr>
<tr>
<td>Explanation of IRS Form 990</td>
<td><a href="https://www.youtube.com/watch?v=V3BncWP9Y_s&amp;list=PLB149CBAE890E439F">https://www.youtube.com/watch?v=V3BncWP9Y_s&amp;list=PLB149CBAE890E439F</a></td>
</tr>
<tr>
<td>Topic</td>
<td>Link</td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------</td>
</tr>
<tr>
<td>Profile of a Fraudster in Her Own Words</td>
<td><a href="https://www.youtube.com/watch?v=q8WKz0Happ8">https://www.youtube.com/watch?v=q8WKz0Happ8</a></td>
</tr>
<tr>
<td>Strategic Planning and Key Performance Indicators</td>
<td><a href="https://www.youtube.com/watch?v=2tuWjtc2lfk">https://www.youtube.com/watch?v=2tuWjtc2lfk</a></td>
</tr>
</tbody>
</table>

### A3-3 | Websites & Other Online Resources

<table>
<thead>
<tr>
<th>Topic</th>
<th>Link</th>
</tr>
</thead>
<tbody>
<tr>
<td>Functional Expenses and the Overhead Myth</td>
<td><a href="http://overheadmyth.com/">http://overheadmyth.com/</a></td>
</tr>
<tr>
<td>Form 990 Public Relations Checklist for 501(c)(3) Organizations</td>
<td><a href="http://www.pano.org/Resources/Form_990_Public_Relations_Checklist_for%20_01(c)(3).pdf">http://www.pano.org/Resources/Form_990_Public_Relations_Checklist_for%20_01(c)(3).pdf</a></td>
</tr>
<tr>
<td>Topic</td>
<td>Link</td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------</td>
</tr>
<tr>
<td>Highlights of Nonprofit Current Events, Research, and Resources</td>
<td><a href="https://nonprofitquarterly.org/category/fundraising/">https://nonprofitquarterly.org/category/fundraising/</a></td>
</tr>
<tr>
<td>Financial Resources from PANO (the PA Association of Nonprofit Organizations)</td>
<td><a href="http://www.pano.org/Standards-For-Excellence/Educational-Resources/">http://www.pano.org/Standards-For-Excellence/Educational-Resources/</a></td>
</tr>
<tr>
<td>Financial Management Resources from Compass Point</td>
<td><a href="https://www.compasspoint.org/tools-and-resources#FinanceStrategy">https://www.compasspoint.org/tools-and-resources#FinanceStrategy</a></td>
</tr>
<tr>
<td>Financial Management Resources and checklists from Propel Nonprofits</td>
<td><a href="https://www.propelnonprofits.org/resources/">https://www.propelnonprofits.org/resources/</a></td>
</tr>
<tr>
<td>This Collaboration Map from LaPiana (Shows the wide range of ways that nonprofits can partner with each other)</td>
<td><a href="http://lapiana.org/insights-for-the-sector/insights/collaboration-and-strategic-restructuring/collaborative-map">http://lapiana.org/insights-for-the-sector/insights/collaboration-and-strategic-restructuring/collaborative-map</a></td>
</tr>
<tr>
<td>The Power of Possibility Site (Provides several resources around strategic partnerships)</td>
<td><a href="https://www.thepowerofpossibility.org/starting-points/">https://www.thepowerofpossibility.org/starting-points/</a></td>
</tr>
<tr>
<td>Fiscal Sponsorship</td>
<td><a href="https://www.councilofnonprofits.org/tools-resources/fiscal-sponsorship-nonprofits">https://www.councilofnonprofits.org/tools-resources/fiscal-sponsorship-nonprofits</a></td>
</tr>
</tbody>
</table>
A-4 | Allocating Functional Expenses

There are 3 primary ways to allocate functional expenses:

- Time studies.
- Building square footage used.
- Direct costs.

The following example will look at each element. Note there are other ways that these calculations could be made. Larger food pantries may use sophisticated software that handles the calculation. This is an example of the process.

The first chart allocates salaries based on time studies. A time study involves an employee who may perform duties in each of the 3 categories tracking their time for about a 3-week period. At the end of the 3 weeks, they calculate how many hours were spent in each category. After the time study, it is determined that 60% of the Executive Director's time is spent on program activities, 20% on management, and 20% on fundraising.

Exhibit A-4-1 | Sample Time Study

<table>
<thead>
<tr>
<th>Employee staff meeting</th>
<th>Hours spent</th>
<th>Hours summarized</th>
</tr>
</thead>
<tbody>
<tr>
<td>M T W Th F Total</td>
<td>Program</td>
<td>General</td>
</tr>
<tr>
<td>1 1.0</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>2 2.0</td>
<td>2.25</td>
<td>5</td>
</tr>
<tr>
<td>3 3.0</td>
<td>18.25</td>
<td>6</td>
</tr>
<tr>
<td>4 8.0</td>
<td>60%</td>
<td>20%</td>
</tr>
</tbody>
</table>
Exhibit A-4-2 | Percentage Allocation by Person Based on Time Study

Each employee’s percentage time use is listed.

<table>
<thead>
<tr>
<th>Management and Fund-Raising</th>
<th>Program Expenses</th>
<th>General</th>
<th>Annual Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Director</td>
<td>60%</td>
<td>20%</td>
<td>20% $70,000</td>
</tr>
<tr>
<td>Bookkeeper</td>
<td>10%</td>
<td>80%</td>
<td>10% $30,000</td>
</tr>
<tr>
<td>Social Worker</td>
<td>100%</td>
<td></td>
<td>$22,000</td>
</tr>
<tr>
<td>Social Worker</td>
<td>100%</td>
<td></td>
<td>$26,000</td>
</tr>
<tr>
<td>Development Director</td>
<td>30%</td>
<td>10%</td>
<td>60% $30,000</td>
</tr>
<tr>
<td>Community Liaison</td>
<td>75%</td>
<td>10%</td>
<td>15% $32,000</td>
</tr>
</tbody>
</table>

Exhibit A-4-3 | Allocate the Salary Dollars

The percentage is applied to each salary to determine an overall payroll allocation percentage to apply to related payroll expenses.

<table>
<thead>
<tr>
<th>Management and Fund-Raising</th>
<th>Program Expenses</th>
<th>General</th>
<th>Raising</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Director</td>
<td>42,000</td>
<td>14,000</td>
<td>14,000</td>
<td>$70,000</td>
</tr>
<tr>
<td>Bookkeeper</td>
<td>3,000</td>
<td>24,000</td>
<td>3,000</td>
<td>$30,000</td>
</tr>
<tr>
<td>Social Worker</td>
<td>22,000</td>
<td>-</td>
<td>-</td>
<td>$22,000</td>
</tr>
<tr>
<td>Social Worker</td>
<td>26,000</td>
<td>-</td>
<td>-</td>
<td>$26,000</td>
</tr>
<tr>
<td>Development Director</td>
<td>9,000</td>
<td>3,000</td>
<td>18,000</td>
<td>$30,000</td>
</tr>
<tr>
<td>Community Liaison</td>
<td>24,000</td>
<td>3,200</td>
<td>4,800</td>
<td>$32,000</td>
</tr>
<tr>
<td>Total Payroll</td>
<td>126,000</td>
<td>44,200</td>
<td>39,800</td>
<td>$210,000</td>
</tr>
</tbody>
</table>

Overall payroll allocation  
60.00%  21.05%  18.95%  100.00%
Next you would examine how you use your space and allocate your total square footage.

**Exhibit A-4-5 | Square Footage Study**

<table>
<thead>
<tr>
<th>Square footage study</th>
<th>Management Expenses</th>
<th>Program and General</th>
<th>Fund-Raising</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>sq ft</td>
<td>1600</td>
<td>100</td>
<td>100</td>
<td>1800 sq feet</td>
</tr>
<tr>
<td>% calculation</td>
<td>89%</td>
<td>6%</td>
<td>6%</td>
<td></td>
</tr>
</tbody>
</table>

**Exhibit A-4-6 | Apply Square Footage Percentage to Occupancy Related Expenses**

<table>
<thead>
<tr>
<th>Apply sq ft % to occupancy related</th>
<th>Program Expenses sq ft</th>
<th>Management and General sq ft</th>
<th>Fund-Raising sq ft</th>
<th>Total sq ft</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building and equipment maintenance</td>
<td>3,733</td>
<td>233</td>
<td>233</td>
<td>4,200</td>
</tr>
<tr>
<td>Insurance</td>
<td>4,444</td>
<td>278</td>
<td>278</td>
<td>5,000</td>
</tr>
<tr>
<td>Rent</td>
<td>32,000</td>
<td>2,000</td>
<td>2,000</td>
<td>36,000</td>
</tr>
<tr>
<td>Utilities</td>
<td>12,444</td>
<td>778</td>
<td>778</td>
<td>14,000</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>1,778</td>
<td>111</td>
<td>111</td>
<td>2,000</td>
</tr>
</tbody>
</table>

You may also have expenses that clearly fit into one category or another; those expenses would be classified to the specific account. After this process the total of direct expenses might look like this:
Exhibit A-4-7 | Direct Expenses charged to Categories

<table>
<thead>
<tr>
<th>Allocated based on actual expenses</th>
<th>Management Expenses</th>
<th>Fund-Raising</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advertising</td>
<td>1,500</td>
<td>1,500</td>
<td>$3,000</td>
</tr>
<tr>
<td>Postage</td>
<td>200</td>
<td>200</td>
<td>800</td>
</tr>
<tr>
<td>Printing and publication</td>
<td>500</td>
<td>500</td>
<td>2,000</td>
</tr>
</tbody>
</table>

The result of the functional expense allocation process is these 3 processes are combined in 1 chart. Orange represents the payroll related expenses, purple represents occupancy related, and green represents direct expenses.

This same methodology can be used to allocate expenses to different programs. You would track time by program and view the space that each program uses.
## Exhibit A-4-8 | Ending Functional Expense Statement

### Statement of Functional Expenses

<table>
<thead>
<tr>
<th></th>
<th>Program Expenses</th>
<th>Management Expenses</th>
<th>Fund-6/30/20 Expenses</th>
<th>Total Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Personnel:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries</td>
<td>$126,000</td>
<td>$44,200</td>
<td>$39,800</td>
<td>$210,000</td>
</tr>
<tr>
<td>Payroll taxes and employee benefits</td>
<td>18,900</td>
<td>6,630</td>
<td>5,970</td>
<td>31,500</td>
</tr>
<tr>
<td>Staff development</td>
<td>1,200</td>
<td>421</td>
<td>379</td>
<td>2,000</td>
</tr>
<tr>
<td><strong>Total Personnel Expenses</strong></td>
<td><strong>146,100</strong></td>
<td><strong>51,251</strong></td>
<td><strong>46,149</strong></td>
<td><strong>243,500</strong></td>
</tr>
<tr>
<td><strong>Operations:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advertising</td>
<td>1,500</td>
<td>-</td>
<td>1,500</td>
<td>3,000</td>
</tr>
<tr>
<td>Building and equipment maintenance</td>
<td>3,733</td>
<td>233</td>
<td>233</td>
<td>4,200</td>
</tr>
<tr>
<td>Equipment rental</td>
<td>2,040</td>
<td>716</td>
<td>644</td>
<td>3,400</td>
</tr>
<tr>
<td>Insurance</td>
<td>4,444</td>
<td>278</td>
<td>278</td>
<td>5,000</td>
</tr>
<tr>
<td>Postage</td>
<td>200</td>
<td>200</td>
<td>800</td>
<td>1,200</td>
</tr>
<tr>
<td>Printing and publication</td>
<td>500</td>
<td>500</td>
<td>2,000</td>
<td>3,000</td>
</tr>
<tr>
<td>Professional fees</td>
<td>-</td>
<td>5,000</td>
<td>-</td>
<td>5,000</td>
</tr>
<tr>
<td>Rent</td>
<td>32,000</td>
<td>2,000</td>
<td>2,000</td>
<td>36,000</td>
</tr>
<tr>
<td>Supplies</td>
<td>1,260</td>
<td>442</td>
<td>398</td>
<td>2,100</td>
</tr>
<tr>
<td>Telephone</td>
<td>840</td>
<td>295</td>
<td>265</td>
<td>1,400</td>
</tr>
<tr>
<td>Travel</td>
<td>1,020</td>
<td>358</td>
<td>322</td>
<td>1,700</td>
</tr>
<tr>
<td>Utilities</td>
<td>12,444</td>
<td>778</td>
<td>778</td>
<td>14,000</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>2,700</td>
<td>947</td>
<td>853</td>
<td>4,500</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>1,778</td>
<td>111</td>
<td>111</td>
<td>2,000</td>
</tr>
<tr>
<td><strong>Total Operating Expenses</strong></td>
<td><strong>64,460</strong></td>
<td><strong>11,857</strong></td>
<td><strong>10,183</strong></td>
<td><strong>86,500</strong></td>
</tr>
<tr>
<td><strong>TOTAL EXPENSES</strong></td>
<td><strong>$210,560</strong></td>
<td><strong>$63,108</strong></td>
<td><strong>$56,332</strong></td>
<td><strong>$330,000</strong></td>
</tr>
<tr>
<td></td>
<td>63.8%</td>
<td>19.1%</td>
<td>17.1%</td>
<td></td>
</tr>
</tbody>
</table>