Nonprofit Accounting Boot Camp

Presented by

Alan Strand

NTMA Annual Convention
February 22, 2009
Miramonte Resort & Spa
Indian Wells, CA
Nonprofit Accounting Boot Camp
*A Nonprofit Accounting Workshop*

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Before we begin
You should have:
- Phones, laptops in quiet / mute mode
- Presentation
- Other handouts
- Evaluation
- Restrooms are…
Workshop Objectives

Strengthen and improve:
• Understanding of nonprofit accounting concepts
• Financial management skills
• Management of resources
• Identification of risks and opportunities
• Accountability and transparency
• Sustainability of the organization to provide services

Agenda

I. Introduction
   Good and poor financial practices, definitions, the role of the Board.

II. Functional Accounting
   Definition, overview, set-up, chart of accounts, transaction coding, cost allocation

III. Contributions and Net Assets

Agenda

IV. Reporting Matters
   Budgets, Audiences / stakeholders, questions, board reports, comparative statements.

V. Internal Controls
   Risk management, policies and procedures.

VI. The New 990
   What to do right now

VII. Financial Analysis
   Analyzing the reports.
I. The Beginning

15 Good Practices

1. Don’t squeeze expenses into categories where they do not belong.
2. Do report fundraising costs.
3. Reconcile your bank accounts monthly.
4. Establish audit committee even if not required to do so.
5. Account for restricted grants properly.

15 Good Practices (2)

6. If you borrow from TRNA or PRNA return it by end of year.
7. Post audits on your website.
8. Use footnotes on financial statements and tax returns, especially to combat red flags or out-of-the-norm ratios.
10. Present monthly reports to the board/finance committee.
15 Good Practices (3)

11. Think about outcome measurement, not just cost based information; devise methodologies to measure effectiveness of programs.
12. Leave positive cash on balance sheet.
13. Track all in-kind donations through your accounting system.
14. Be consistent.

15 Good Practices (4)

15. Proactive, Board-involved policies and procedures, such as:
   - Accounting Policy and Procedures Manual updated annually
   - Employee Manual reviewed and updated annually by a labor attorney
   - Review of insurance policies
   - Regular staff evaluations
   - Conflict of Interest statements current at Board and staff levels
   - Approval of executive team compensation
   - Training on how to read financials

15 Poor Practices

1. No financial planning exists.
2. Relationship between revenue and expenses, budget and financial reports not understood by board.
3. No insurance against risk.
4. Payroll taxes not paid on time.
5. Don’t know how much the organization owes and don’t know how to find out.
6. Exec and/or finance staff do not understand financial reporting of nonprofits.
15 Poor Practices (2)

7. Consistently spend more money than you receive.
8. Payables mount up and go unpaid.
9. It takes a great deal of time and effort to generate financial reports or financial statements.
10. Critical income sources are declining.
11. Board won’t or can’t raise money or make contributions.

15 Poor Practices (3)

10. Organization regularly dips into restricted or deferred funds for current expenses.
11. Mounting receivables
14. Consistently need an advance on grant or United Way income to meet current expenses.
15. Question whether you can make payroll each month.

If you think there is trouble, get help.

Definitions

- **GAAP** – Generally Accepted Accounting Principles
  The common set of accounting principles, standards and procedures that companies use to compile their financial statements. GAAP is a combination of authoritative standards set by several policy boards.
Definitions (2)

- **OMB** – Office of Management and Budget
- **OMB Circular A-122** – Cost Principals for Nonprofit Organizations, “the total cost of an award is the sum of the allowable direct and allocable indirect costs.”

Definitions (3)

- **Assets**: things you own (cash, furniture, vehicles, etc.)
- **Liabilities**: bills you need to pay (credit card charges, leases, lines of credit outstanding).
- **Revenue / Income**: what you earn (grants, contracts and donations, sales or rental income).
- **Expenses**: costs you incur in the course of doing your work (payroll, rent, office expenses, etc.).

Definitions (4)

- **Direct costs** – Costs connected to a specific activity.
- **Indirect costs** – General and administrative costs not related to a specific program including management, general record keeping, budgeting, financing, soliciting revenue.
- **Directly allocable costs** – Costs that are shared between activities, otherwise known as joint costs such as rent, utilities and telephone.
- **Cost Pool** – A class / place set up to record allocable costs.
Financial Role – Board of Directors

To act as fiduciaries and owners of the corporation

- **Fiduciary:**
  - A person legally appointed and authorized to hold assets in trust for another person.
  - They manage the assets for the benefit of the organization rather than for his or her own profits.
  - Exercise reasonable care = no unnecessary risk.

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Financial Role – Board of Directors (2)

- Responsible for financial well-being.
  - Approve the organization’s 990
  - Make sure monies are handled properly and requirements of funders are met.
  - Help the Executive Director to develop a reserve account.
  - Raise money when necessary.
  - Every board member participates in some way.
  - Participate in budget process.

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Financial Role – Board of Directors (3)

- Provide for a regular financial audit.
  - Via an Audit Committee?
- **Finance Committees**
  - Regularly review financial statements, insurance coverage, asset management.
  - Budgeting
  - Understands the financial details
  - Act as audit committee as well
  - Financial & Risk Management Policies
- Other Committees? Other Roles?
Nonprofit Watchdog Groups

Major ones include:
- Better Business Bureau, www.give.org
- Charity Navigator, www.charitynavigator.org
- Bloggers
  - nonprofitblogexchange.blogspot.com
  - nonprofit.alltop.com

II. Functional Accounting

The Nonprofit Financial System
A Feedback System

<table>
<thead>
<tr>
<th>Activities and Policies</th>
<th>People and Institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal Controls</td>
<td>Board of Directors</td>
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<tr>
<td>External Audits</td>
<td>Treasurer</td>
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<td>Insurance</td>
<td>Finance Committee</td>
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<td>Investments</td>
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<td>Contracts</td>
<td>Executive Director</td>
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<td>Grants</td>
<td>Bookkeeper</td>
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<td>Fundraising</td>
<td>Program Directors</td>
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<tr>
<td>Personnel Policies</td>
<td>Auditor</td>
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<tr>
<td>Risk Management</td>
<td>IRS</td>
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<tr>
<td>Reporting</td>
<td>Attorney General</td>
</tr>
<tr>
<td>Compliance</td>
<td>Donors and Funders</td>
</tr>
</tbody>
</table>
What Functional Means

- Functions are an organization’s major classes of program and supporting services:
  - **Program** services are the activities that fulfill the purpose of the nonprofit.
  - Supporting services are all other activities including:
    1. Administrative & Governance
    2. Fundraising / Fund Development.

Functional Accounting

1. Mirrors the Form 990 and GAAP requirements.
2. It is the best method for both tracking the real costs of program and supporting activities.
3. A valuable tool for management decision making and for meeting reporting requirements.
4. Tells the financial story about your organization.
5. Helps you set an indirect rate.

Setting up Functional Areas

- Aggregated according to the basic purposes.
- Derived directly from the nonprofit's mission and goals.
- Set up separate **cost centers/cost pools** on the general ledger for those activities where you want to accumulate shared costs information.
Setting up Functional Areas (2)

Functional Center Examples:

- Member Services
- After School Education
- Community Outreach
- Advocacy
- Meal Program
- Governance
- Administration
- Fund development
- Cost Pool A

Setting up Functional Areas (3)

<table>
<thead>
<tr>
<th>Program</th>
<th>General</th>
<th>Fundraising</th>
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<tbody>
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<td>$10,000.00</td>
<td>$12,000.00</td>
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<tr>
<td>Total</td>
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<td>$32,000.00</td>
<td>$24,200.00</td>
<td>$56,200.00</td>
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</table>

- Columns are functional centers.
- Rows are what you spend your money on.
- Eliminates the need to keep separate line items for each program or funder.

Chart of Accounts

A good COA...

- Is a road map.
- Simplifies and organizes financial record keeping.
- Is numbered.
- Has account names that are descriptive enough that an outsider could reasonably tell what they are used for.
- Is flexible enough to change with your organization.
Unified Chart of Accounts (UCOA)

- The California Association of Nonprofits developed the Unified Chart of Accounts (UCOA®) with various partners including the National Center for Charitable Statistics and several state CPA Societies.
- Working with state auditors, controllers, treasurers, federal contracts and grants to streamline reporting using the UCOA.

UCOA (2)

- Used with any software, as a stand-alone chart or laid over the chart you now have.
- Mirrors 990 reporting, complies with GAAP accounts, and A-133 Single Audit reports.
- Framework that you will use for budgeting and reporting.
- It is a living document that will constantly be updated and improved.
- Can be downloaded from website.

UCOA (3)

<table>
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<th>Type</th>
<th>Description</th>
<th>Time</th>
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<td>Cash</td>
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<td>1000</td>
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<td>Accounts Receivable</td>
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<tr>
<td>1500</td>
<td>Furniture &amp; fixtures</td>
<td>Fixed Asset</td>
<td>1115 22</td>
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<td>1600</td>
<td>Non-inventory supplies</td>
<td>Prepaid Expense</td>
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<tr>
<td>2100</td>
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<td>2200</td>
<td>Current assets</td>
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<td>8200</td>
<td>Expense</td>
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On Line:

- The UCOA
- The UCOA handbook
- The UCOA key word index

Coding Transactions

Every dollar coming in or going out is identified with a code:

- Funder (Who)
- Expense (What), COA number
- Program (Why)

Payment Requisition Form

<table>
<thead>
<tr>
<th>Requisition No.</th>
<th>Amount</th>
<th>Date</th>
<th>Purchase Order Number</th>
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</thead>
<tbody>
<tr>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payment Date</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Billing Date</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transaction Description and Purpose</td>
<td>Amount</td>
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<td></td>
</tr>
<tr>
<td>Total Amount</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost Allocation</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Account Number</td>
<td></td>
<td></td>
<td></td>
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<td>Account Name</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Account Type</td>
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</tr>
</tbody>
</table>

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Some Goals of Cost Allocation:
- Reporting costs equitably amongst differing activities.
- Maximizing the spending of restricted funds and government contracts.

Q: What is the best / most recommended way to allocate shared costs?

Allocating Expenses
- Any reasonable, consistent criteria for allocating expenses is acceptable.
- Costs take their function from the activities to which they are associated.
  - For example, telephone costs are program or supporting depending on the purpose of the calls.
- Many expenses — such as depreciation, office supplies, telecommunications, and miscellaneous — may be partly or entirely undifferentiated, but must still be allocated.
Allocating Expenses (2)

- On the general ledger you can directly allocate costs through cost centers or allocate invoice-by-invoice.
- First charge cost as direct, then allocate directly allocable/shared/joint costs.
  - Lastly allocate indirect costs (Govt.).

Allocation Methods

- Develop a method or strategy for allocating 'common' expenses.
- Should be in writing
- More than one method OK
- Approved by Executive Director
- Be reasonable
- Be consistently followed

Allocation Methods (2)

- The more popular allocation methodologies in descending order are:
  - Payroll/Salary $ $
  - Cost to Cost/Direct Cost
  - Full Time Equivalence
  - Square Footage
  - Units of Service
Considerations

- Some grants include overhead rates that are different from the true overhead attributable to the grant.
- If this doesn’t reflect a realistic picture, should follow GAAP for financial records and modify the data as needed for submission to grantors.
- SFAS #117 requires all nonprofits to present expenses by functional classifications.

Considerations (2)

- Use Allocation for Cost Recovery!
- Strictly administrative functions (such as accounting and human resources) generally may not be allocated to program services.

Considerations (3)

- Executive activities, including the personnel cost of the executive director, generally should not be considered strictly administrative.
- Similarly, expenses associated with an nonprofit’s headquarters generally should not be considered strictly administrative.
Contributions

- Contributed Services
  Recognized as revenue and expense if (and only if) either of the following is true:
  - The service creates or enhances nonfinancial assets, such as property and equipment, or
  - The service requires specialized skills, is provided by individuals possessing those skills, and would typically need to be purchased if not obtained by donation.
Contributions (2)

Recognized
- Attorney providing necessary legal services.

Not recognized
- Attorney stuffing envelopes or asking for contributions.
- Providing legal advice the group did not ask for.
- Non-attorney providing legal counsel.

Contributions (3)

- Noncash contributions
  - Donated space or rent. Is there a multi-year commitment? Estimate using cost per square foot.
  - Auction or raffle items for fundraising events. Do fundraising staff adequately track donated goods?

Contributions (4)

- Donated property and equipment.
- Donated airtime or ad space used by a nonprofit must be recognized, even if not requested by the nonprofit.
- Low-interest or no-interest financing from a donor is a contribution, as is write-off of a debt.


**Contributions (5)**

- Memberships are contributions:
  - If donors motivated by philanthropy, rather than by personal or professional gain.
  - These memberships must be recognized the same way as other contributions — upon receipt or unconditional promise, not incrementally over the stated membership period.

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**Donor Deduction of Gifts**

*What the Donor Does*

- Deduction is the fair value of the gift (less any quid pro quo)
  - Special rules may apply to appreciated property, partial interests, gifts to private foundations.
- Donor must:
  - Substantiate fair value.
  - File Form 8283 for non-cash gifts over $500.
    - Obtain and file qualified appraisal for items over $5,000.
    - Obtain and keep written acknowledgement.

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**Donor Deduction of Gifts**

*What the Donor Does (2)*

- Cannot deduct value of personal services or use of property
  - May be able to deduct unreimbursed out-of-pocket expenses (but rules are complicated)
- Cannot deduct foreign gift.
  - Can deduct if given to a US organization for a foreign program.
Donor Deduction of Gifts

What the Nonprofit Does

- Provides to Donor:
  - Written acknowledgement for all gifts.
  - Amount of gift, or description of non-cash gift. (Better not to furnish donor with valuation information for non-cash items).
  - Statement that payment was a gift (as opposed to payment for goods or services).
  - Statement as to whether anything of value was exchanged (even if nothing was)

Also…

- Help donors learn the rules that apply to them (But don’t give tax advice, it is the donor’s responsibility to obtain it for themselves)
- If gift (over $75) involves a quid pro quo (qpq), provide donor with a statement of the deductible (or non-deductible) portion.

Net Assets

- Net Assets, not net equity
  - Equity in a for-profit business represents what the owners could walk away with if they liquidated the business.
  - Since the people of the state own the nonprofit, and are concerned with results rather than profit – (or at least they should be) we use the term net assets.
  - Assets – Liabilities = Net Assets
Net Assets (2)

- SFAS # 117 provides categories of net assets to reflect donor-restricted contributions:
  - Permanently restricted (PRNA)
  - Temporarily restricted (TRNA)
  - Unrestricted (URNA)
- SFAS #116 requires nonprofits to report contributions according to the types of donor imposed restrictions, if any, attached to them.

Net Assets (3)

- Restricted vs. Unrestricted Funds
  - Unrestricted funds can be spent any way you want. Unrestricted funds can be earned or given to an organization.
  - Restricted funds come in two flavors:

Net Assets (4)

- Temporarily restricted funds
  - Are used by an organization for a specific purpose or project.
  - They are ‘released’ to the organization on a time basis or performance basis
  - You may have the full amount given to you already and sitting in the bank or you may have to submit an invoice to be paid.
Net Assets (5)

- Permanently restricted funds
  - Think endowments.
  - You can’t touch the ‘principle amount’ but generally the interest or proceeds it earns can be used by the organization in the form of unrestricted or temporarily restricted funds.

On Line:
- Auction / Raffle
- Donation Journal Entry
- Guidance
  - IRS Publication for sample letter
- How to handle contributions

IV. Reporting Matters
Budget Overview
- Tool for controlling finances.
  - The operating & cash flow budgets
  - A road map for the year’s “story”
  - Involve staff and board
  - How accurate was last year’s?
- Important part of board and management oversight
  - Must be approved by the board
  - Regularly reviewed by board or board committee

Budget Overview (2)
- Qualities of Effective Budgets
  - Mission based
  - Realistic, matching the outside world
  - Consistent with long-term objectives
  - Flexible
  - Focuses on organizational goals
  - Tie it to Chart of Accounts

Budget Overview (3)
- Budget Problems
  - Mathematical errors
  - No / poor prior year info
  - Mission creep
  - Not considering cash flow
  - Too aggressive or too conservative
  - Not budgeting for the future
  - Did you forget anything?
  - Do all the numbers match?
On Line:
- Article on Budgeting*

Reporting and Accountability
- Identify your audiences (they are many)
  - Who are they?
  - What do they want or expect?
  - What do they NOT want?
  - When do they want it?

Reporting and Accountability (2)
- We are accountable to:
  - Regulators: compliance with laws, use funds for charitable purpose and no inurement.
  - Funders: use funds as intended, visibility for them.
  - Other nonprofits: no fraud, filtering of meaningful information or abuse.
Reporting and Accountability (3)

- Donors: reports and letters that show funds used as they want or as you promised.
- Public: achieve meaningful outcome, funds used properly.
- Constituents, clients
- Others???

Financial Questions the Board Should Ask

- Have we run a gain or loss? (i.e., are we better or worse off financially than we were a year ago?)
- Are our key sources of income rising or falling? If they are falling, what are we doing?
- Are our key expenses (salary and benefits) under control?
- Do we have sufficient reserves?
- Is our cash flow projected to be adequate?

Financial Questions the Board Should Ask (2)

- Are we regularly comparing our financial activity with what we have budgeted?
- Is our financial plan consistent with our strategic plan?
- Are we filing on a timely basis all the reporting documents we are supposed to be filing?
- Are we fulfilling all of our legal obligations?

Adapted from Financial Responsibilities of Nonprofit Boards by Andrew S. Lang, CPA. Published by BoardSource.
Board Report Needs

- Board Role: To identify and communicate what financial information they will require so that they can meet their fiduciary responsibility.
  - You may have to help them here.
- At a minimum they will need:
  - A statement of activities (profit and loss report) comparing your actuals to your budget and listing any variance.

Board Report Needs (2)

- A statement of financial position (balance sheet).
- A statement of functional expenses.
- List of reporting requirements.
- Copy of audit and/or Form 990
- A Report tracking grants and other restricted funds

Comparative Statements

1. May be year to year, budget to actual and used for almost all statements.
V. Internal Controls

Some Questions to Ask Yourself

- What controls prevent a person from intercepting money intended for our organization prior to it being recorded in our books?
- Are there any forms of compensation or benefits received by our officers, directors, or key employees that were not specifically approved by the board of directors?
- Are there any inappropriate or undisclosed relationships between officers, directors, key employees, vendors, or donors?

Some Questions to Ask Yourself (2)

- How would we characterize the morale, work environment, and professionalism staff and management of our organization?
- Overall, how would we rate our organization in terms of how well we are protected against fraud?
- What is the most important step we could take to further protect our organization against fraud?

From ‘Protect Your Organization Against Fraud: Ten Questions You Should Ask Your Auditor’ from Board Member, Vol. 7, Issue 4, April 1998 by Gerard M. Zack, CPA, CFE. Published by BoardSource.
Internal Accounting Controls
Checklist Summary

- Bond all accounting employees and others who handle cash receipts, make deposits, have access to securities, responsible for purchasing, and wire transfers.
- Cross train employees so that someone else does the job during vacations.
- Use a “For Deposit Only” endorsement stamp on all checks upon receipt.
- Reconcile bank accounts monthly.
- Use competitive bidding.

Internal Accounting Controls
Checklist Summary (2)

- Require written supervisory approval for write-offs, credit memos, employee additions, terminations, and wage changes, and before customer/members are added to or deleted from the master file.
- Use physical or software controls to prevent unauthorized access to systems. Lock it up.
- Require two signatures for all checks. All back up documentation including the original invoice should accompany the check when sent for signature.
- Require bank callback verifications for telephone transfers exceeding a predetermined dollar amount.

Internal Accounting Controls
Checklist Summary (3)

- Ensure that wire transfers are subject to the controls over other disbursements.
- Require time sheets for all employees. Subject these to review and approval by supervisors.
- Never sign blank checks.
- No checks written to “cash.”
- Establish policies for employee expense reimbursement and require employees to submit original receipts for reimbursement.
- Use monthly budgets and investigate significant variances.
### Getting Started with Risk Management

<table>
<thead>
<tr>
<th>Phase One</th>
<th>Phase Two</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Risk Analysis:</strong></td>
<td><strong>Risk Response:</strong></td>
</tr>
<tr>
<td>Risk Identification</td>
<td>Risk Control</td>
</tr>
<tr>
<td>Risk Evaluation</td>
<td>Risk Financing</td>
</tr>
<tr>
<td>Risk Measurement</td>
<td>Risk Communication</td>
</tr>
<tr>
<td>Risk Management Committee?</td>
<td>Internal</td>
</tr>
<tr>
<td></td>
<td>External</td>
</tr>
</tbody>
</table>

### Financial Policies

- A must for any size organization.
- Creating them will force you to think about and evaluate how money and other assets move through your organization.
- If you have policies, are they followed? Are they still current and applicable?
- Policies should be designed so that someone new can easily see how your system works.
- Institutional knowledge should not leave when the person filling that position leaves.
- What would you include?

### On Line:

- Fraud check-up worksheet
- Fraud prevention articles*
- SAS 112
- Financial Risk Management
VI. The Form 990

Form 990

- Most commonly used document for evaluating credibility of a nonprofit organization.
- Rarely used as a management tool. Often signed and mailed without being read or reviewed by the board*
- E-Filing - File more than 250 documents to the IRS or (as of 12-06) assets in excess of $10 million, must file electronically. Mandatory for all soon?

Form 990 (2)

- Must be filed by 15th of fifth month after end of your organization’s fiscal year. Can get a six month extension.
- Late and incomplete filings and returns with incorrect information may be subject to penalty of $20 per day up to maximum of $10,000 (less than $1 million) or $100 per day up to $50,000 (over $1 million.)
- Additional fines or imprisonment for fraud or if found to be willingly not filing.
Common 990 Weaknesses
- Not filled out correctly or completely.
- If corrections not completed by due date a fine of $10 per day up to $5,000 to individuals including board members.
- Inadequate description of program services*
- Supporting service expenses combined into one line*

Common 990 Weaknesses (2)
- Improper allocation of expenses
- Displaying too much general & administrative expense
- Misstating – or not stating any - fund development expenses
- Not signed

990 Accountability
- Law: Must make three most current Form 990s available to anyone who requests them via mail or in person.
- GuideStar has posted all Form 990s except list of contributions.
- Trend is for more disclosure, being considered:
  - Public inspection of exempt applications before IRS approval.
  - Releasing results of IRS nonprofit audits to public.
Some Tax Issues

- Unrelated business income tax (UBIT)
- Employees vs. independent contractors
- Public disclosure requirements of 990, 990-T, 1023, supporting documents
- Donation substantiation
- Public support test

Some Tax Issues (2)

- Exemption Threats:
  - Lobbying – It all depends
  - Government $s
  - File the H form, even if you think you will never lobby
  - Private inurement
  - Not serving a charitable purpose
  - Excessive unrelated business income
  - Excessive assets

Updated Form 990

Targeted transition to new form:
Smaller nonprofits have up to 3 years to phase in their use of the new form.

<table>
<thead>
<tr>
<th>May File 990-EZ For:</th>
<th>If Gross Receipts Are:</th>
<th>If Assets Are:</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008 tax year (filed in 2009)</td>
<td>&gt; $25,000 and &lt; $1 million</td>
<td>&lt; $2.5 million</td>
</tr>
<tr>
<td>2009 tax year (filed in 2010)</td>
<td>&gt; $25,000 and &lt; $500,000</td>
<td>&lt; $1.25 million</td>
</tr>
<tr>
<td>2010 and later tax years</td>
<td>&gt; $50,000 and &lt; $200,000</td>
<td>&lt; $500,000</td>
</tr>
</tbody>
</table>
Updated Form 990 (2)

- Organizations with gross receipts of $25,000 or less need to file 990-N.
- Even if you file 990-EZ you will still have to file some schedules.
- Goes into effect for FY 2008 (2009 filings)
  - Short years ending in 2008 (even those beginning in 2008) may use 2007 Form 990.
- New Instructions much broader, more definitions than old 990 instructions.

Required Policies List

- **Conflict of interest policy**
  - Procedures to determine when conflict of interest exists
  - Details appropriate response when identify conflict
  - Requires annual disclosure of conflicts of interest
  - Ensures potential excess benefit transactions are scrutinized
  - Requires periodic review of any transactions with insiders

- **Whistleblower policy**
  - Procedures for addressing complaints from employees regarding financial improprieties or misuse of organization resources

Required Policies List (2)

- **Document retention and destruction policy**
  - Guidelines for maintaining and documenting storage and destruction of electronic and hard-copy files
  - Outlines backup procedures and archiving of documents

- **Expense reimbursement policy**
  - Requires receipts (substantiation) for any expenses to be reimbursed
  - Documents business purpose of any reimbursable expenses (e.g. first-class travel, spousal travel, club memberships, personal services)
  - Document business usage of any corporate assets (e.g. cell phones / laptops)
Required Policies List (3)

- Non-standard gift acceptance policy
  - Requires review of any non-standard gifts
  - Provides for substantiation of cash contributions in excess $250
  - Provides for periodic monitoring or compliance under state charitable solicitation laws

Practices & Procedures List

- Prepares a written document which sets forth the procedures by which the Board of Directors will review the Form 990 before it is filed
- Document insider compensation determination processes and compliance with the intermediate sanctions 3-prong rebuttable presumption of reasonableness
- Procedures for making required documents publicly and readily available

Practices & Procedures List (2)

- Prepare written agreements with professional fundraisers (provide donors and general public with information regarding fundraising costs and practices)
- Document procedures regarding grantee’s eligibility to receive grants (document selection criteria used to award grants or assistance)
- Document procedures regarding limited amount of lobbying which can be conducted
To Do List

- Estimate the total number of volunteers utilized during the year
- Identify any new program service activities started during the year, and any existing program service activities eliminated during the year
- Identify revenue and expenses for three largest program service activities
- Document meetings of Board of Directors committees with authority to act
- Prepare documentation to support classification of workers as independent contractors

To Do List (2)

- Ensure that filing all 1099s when required to do (non-employee services in excess of $600); ensure obtaining Taxpayer Identification Numbers for all recipients
- Prepare documentation of business purpose for all perks (listed on Schedule J, Line 1a) provided to insiders
- Identify non-cash contributions in excess of $5,000 for which tax-exempt organization disposed of within 3 years after receiving (Form 8282 filing requirements); if applicable, need to separately track all different types of non-cash contributions

To Do List (3)

- Identify all key employees under the expanded definition (regardless of whether they earn over $150K of reportable compensation or not); identify all Officers (Executive Director / Chief Financial Officer)
- Break out the revenue and expenses from gaming activities from the general fundraising activities
- Identify any situations where the tax-exempt organization paid a penalty or fine during the applicable year
To Do List (4)
- Update Chart of Accounts (and audited financial statements) to include the expense categories listed on Part IX of the redesigned Form 990
- Identify all related organizations (to be reportable on Schedule R); identify all transactions between the filing tax-exempt organization and those related organizations
- Identify all of the organization's insiders (Board of Directors, Officers, key employees) for the past 5 years; identify all insiders whom the filing tax-exempt organization entered into financial transactions with (make sure have written documentation of all loans between an insider and the tax-exempt organization)

To Do List (5)
- Identify all blood or business relationships amongst all of your insiders
- Convert the Schedule A public support test calculation from the cash method of accounting to the accrual method of accounting
- Ensure all required documents (990 / 990-T / 1023 / Determination Letter / organizational documents) are readily available for public disclosure
- Ensure that organization is preparing Form W-2G when required

To Do List (6)
- Make sure to register with California Attorney General if conducting raffles and make sure to undertake backup withholding if necessary
- Ensure that in compliance with all California rules regarding the conducting of gaming events within the state of California
- Gather all necessary information if making grants to foreign entities or individuals or if conducting foreign activities
- Gather all necessary information if making grants (or scholarship payments) to domestic entities or individuals
VII. Financial Analysis

Financial Statements

Audit Elements as required by SFAS 117:

Management letter
- Recommendations to management & board, any problems.

Notes to Financial Statements
- How it was done and who did it

Financial Statements (2)

Statement of Financial Position:
Assets, Liabilities and Net Assets.
(Balance Sheet)
- Snapshot
- Assets classified by restriction
- Current or Long Term?
What to look for…

In the Statement of Financial Position:

• Changes in receivables and payables, check comparative data or another set of financials

• What are the liabilities? Check the Notes

Financial Statements (3)

Statement of Activities:
Revenue, Expenses, changes in Net Assets. *(Profit & Loss / Income & Expense report)*

• Type of restriction here too

• Measures a certain time period only
What to look for...

In the Statement of Activities

• Change in assets this year, other years.
• Income types, check in the Notes.

---

<table>
<thead>
<tr>
<th>SUPPORT AND REVENUE</th>
<th>Temporarily</th>
<th>Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unrestricted</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government grants</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal</td>
<td>$ 383,639</td>
<td></td>
<td>$ 383,639</td>
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<tr>
<td>State</td>
<td>430,047</td>
<td>430,047</td>
<td>660,094</td>
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<tr>
<td>Other</td>
<td>121,273</td>
<td>147,500</td>
<td>268,775</td>
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<tr>
<td>Contributions</td>
<td>70,434</td>
<td>70,434</td>
<td>70,434</td>
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<tr>
<td>Donated services</td>
<td>55,561</td>
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<td>55,561</td>
</tr>
<tr>
<td>Donated goods</td>
<td>40,028</td>
<td>40,028</td>
<td>40,028</td>
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<tr>
<td>Rental income</td>
<td>154,475</td>
<td>154,475</td>
<td>154,475</td>
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<tr>
<td>Investment income</td>
<td>1,392</td>
<td>1,392</td>
<td>1,392</td>
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<tr>
<td>Other income</td>
<td>34,968</td>
<td>34,968</td>
<td>34,968</td>
</tr>
<tr>
<td>Net increase from investments</td>
<td>(24,301)</td>
<td>(24,301)</td>
<td></td>
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<tr>
<td>Total Support and Revenue</td>
<td>1,626,978</td>
<td>20,679</td>
<td>1,647,657</td>
</tr>
</tbody>
</table>

---

Financial Statements (4)

Statement of Cash Flow

• How money moves through an organization

Functional Expense Report

• Numbers categorized by functional (program) areas.
What to look for...

In the Functional Expense Statement

- Comparative $$?
- Fundraising & admin versus program spending.
- Where does the money go?

Financial Ratio Analysis
Financial Ratio Analysis

How ratios are used, what they tell us

• Pros and cons of ratios (not the whole story)

Some examples:

• Number of Months of Operating Cash Reserves – rule of thumb is to try to build up three months. Could there be too much cash reserves? Calculated by: (Unrestricted Cash and Investments/Average Months Expenses)

Financial Ratio Analysis (2)

• Functional Spending – Total program costs / total expenses.
  *What is a good number?*

• Fundraising efficiency ratio (Cost to Raise a Dollar) – Fundraising expense / contributions & special event income.
  *What is a good number?*

Financial Ratio Analysis (3)

Other Common Ratios

• **Current Ratio** – measures liquidity (Current Assets/Current Liabilities)

• **Receivables Turnover** – measures activity (Revenue source generating receivables/Receivables)

• **Rate of Return on Assets** – measures profitability (Net Income/Average Total Assets)

• **Debt to Total Assets Ratio** – measures coverage (Debt/Total Assets or Equity)

• **Working Capital** – Excess of current assets minus current liabilities
Challenge To Financial Analysis

- Information only as good as the numbers.
- Differing requirements, terminology, differing dates for filing by institutional funders, and poor quality of nonprofit accounting make consistency and accuracy a challenge.
- Income can also camouflage real loss and/or instability.

Exercise

Looking at the set of financials you are given:

- What red flags do you see? What questions do you have? Do you need more information?
- If you were a funder, would you fund them?
- If you were a bank, would you give them a loan?

Online Resources

- www.notforprofitaccounting.net
  There you will find:
  - Blog
  - IRS publications, downloads & training
  - Articles
  - A place to ask and respond to questions
  - Many other Resources
Finally…

- Ultimately all about programs, services and outcomes.
- Are you able to achieve your mission?
- The numbers present one picture, but are not the only picture.
- They help show the cost of achieving the outcomes and you can ask, “is it worth it?”
- Hopefully the tools you learned today can help you do this.
- Executive, program and finance staff all need to work together to make it happen.

Thank you!

And a tremendous thank-you to these CPAs and others whose work and support informed this workshop

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