

girls  
inc.

Inspiring all girls  
to be strong,  
smart, and bold

GIRLS INC.  
**64<sup>TH</sup>**  
**ANNUAL**  
**CONFERENCE**

OCTOBER 1 - 4, 2018







IS YOUR ORGANIZATION PREPARED FOR THE WORST?



# BUSINESS CONTINUITY

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# OBJECTIVES OF TODAY'S SESSION

- Recognizing the crises and disaster risks and the “what if” scenarios that can impact within your organization
- Discuss disaster recovery best practices
- Getting Started and Objectives
- Content of a Business Continuity Plan
- Responsibilities and Objectives
- Business Continuity Life Cycle
- Understand the importance of succession planning within your organization





DISASTER RECOVERY – RECOGNIZING THE RISKS



# BEFORE WE START:

- Does your organization discuss enterprise risk management?
- Is disaster recovery and succession planning part of your discussions?
- Who is included in the discussions?
  - Management?
  - The Board?
  - Specific ERM Committee?
- Do you have a documented disaster recovery plan in place? Succession plan?

# IT CAN HAPPEN AND DOES HAPPEN!

- According to the Federal Emergency Management Agency (FEMA), in 2017, 137 presidential declared disasters have occurred
  - 59 severe storms/flooding
  - 62 fire management
  - 16 times an emergency was declared
- FEMA estimates that upwards of 70% of organizations in the country will experience some form of operational disruption due to severe storms, tornadoes and flooding
- Most organizations only spend between 2% and 4% of their IT budget on disaster recovery planning;
- Of companies that had a major loss of computerized data without a disaster recovery plan:
  - 43% never reopen;
  - 51% closed within two years;
  - only 6% will survive long-term

# COMMON CRISES/DISASTERS TO CONSIDER

- Power Failures
- Floods and other natural disasters
- Building fires
- Internet failure
- Hard drive issues
- Data breaches - failure to secure sensitive client or employee information (by far the most common)



# WHY IS BUSINESS CONTINUITY IMPORTANT?

- Increased dependence for businesses on IT;
- Reliance on business-critical information;
- Importance of protecting irreplaceable data;
- Most organizations rely on their computer systems as critical infrastructure in their business;
- Most do not have a comprehensive business continuity or disaster recovery plan

# PREVENTION/READINESS IS ALWAYS BEST

- Disaster Plan Testing – practice makes perfect
  - Back Up and Recovery Procedures
  - Communication Chain
  - Alternative/Temporary Site Identification
- Data Security:
  - Cloud based storage
  - Encrypted thumb drives (if allowed at all)
  - Employee training (employees are your biggest asset, but can also be your biggest liability!)

# WHAT SHOULD WE BE THINKING ABOUT?

- What state would my business be in if we experienced one of these events?
- How long would it take for us to recover?
- Define all of the efforts needed to get us back in operation?
  - Information technology based
  - Operation based
- How much revenue would we lose if we were “down” for 24, 48, 72 hours?
- How safe are my organization’s assets?

# DISASTER RECOVERY BEST PRACTICES

## **When disaster does strike:**

- Backing up data
  - Cloud based back-up?
- Staffing plan – critical staff to keep operations going
- Communication plan – clients and employees



# WHAT IS BUSINESS CONTINUITY PLANNING?

- Business continuity planning is the process whereby organizations ensure the maintenance or recovery of operations when confronted with adverse events including:
  - Natural disasters
  - Technology failures
  - Human error
  - Terrorism
- The objectives of a Business Continuity Plan (BCP) is to minimize financial loss, continue to help consumers, and mitigate the negative effects that disruptions can have on strategic plans, reputation, operations, etc.

# GETTING STARTED

- Define some important terms and metrics for business continuity planning
  - What is a disaster
  - Key business processes
  - Business critical systems and data
  - Recovery Point Objective (RPO)
    - Defined as the amount of data lost measured in time.
    - Example: If the last available good copy of data upon an outage was from 24 hours ago, then the RPO would be 24 hours.
  - Recovery Time Objective (RTO)
    - Defined as the duration of time and a service level within which a business process must be restored after a disaster in order to avoid unacceptable consequences associated with a break in continuity.

# WHAT ARE THE OBJECTIVES OF A BCP?

- A BCP should reflect the following objectives:
  - To maintain, resume, and recover the overall business.
  - A planning to include all functional departments.
  - A thorough business impact analysis and risk assessment
  - Be validated through testing or practical application.
  - The BCP and test results should be subjected to an independent audit and reviewed by the board of directors.
  - A BCP should be periodically updated to reflect and respond to changes in the organization or its service provider(s).

# BUSINESS CONTINUITY PLANNING CONTENT

- Overview
- Policies and preparedness
- Organization impacts
- Notification strategy / plan activation
- Business process continuity roadmap
- Personnel dependencies / succession
- Technology infrastructure
- Facility and space



# WHO IS RESPONSIBLE?

- Senior management is responsible for:
  - Allocating sufficient resources and knowledgeable personnel.
  - Development of the BCP.
  - Setting policy by determining how the organization will manage and control identified risks.
  - Reviewing BCP test results.
  - Ensuring the BCP is kept up-to-date and approved on an annual basis.
  - Employees are trained and aware of their role in its implementation.

# BUSINESS CONTINUITY PLANNING LIFECYCLE

- Analysis
- Solution design
- Implementation
- Testing and acceptance
- Maintenance

# ANALYSIS PHASE

- Define the team
- Identify your key business processes
- Initiate the planning process
  - Impact analysis
  - Threat analysis
  - Recovery requirements (business & technical)
- Compile your business continuity manual

# ANALYSIS PHASE (CONTINUED)

- Business Continuity Manual

- May be simply a printed manual stored safely away from the primary work location containing:
  - The names, addresses, and phone numbers for crisis management staff;
  - General staff members;
  - Clients and vendors;
  - Insurance contracts;
  - The location of the offsite data backup storage media;
  - Data/systems recovery process

- Include recovery requirements

- Number and types of workstations
- Primary and secondary locations
- Key individuals involved in a recovery effort
- Key applications and data
- Maximum time allowed for an outage
- Peripheral requirements like computers, printers, copiers, faxes, etc.



# BUSINESS IMPACT ANALYSIS

- A business impact analysis (BIA) is the first step in developing a BCP. It should include the following:
  - Identification of the potential impact of uncontrolled, non-specific events on the foundation's business.
  - Consideration of all departments and business functions, not just data processing.
  - Estimation of maximum allowable downtime and acceptable levels of data, operations, and financial losses.

# RISK ASSESSMENT

- A risk assessment is the second step in developing a BCP. It should include the following:
  - Prioritizing of potential business disruptions based upon severity and likelihood of occurrence.
  - A gap analysis comparing the existing BCP, if any, to what is necessary to achieve recovery time objectives.
  - An analysis of threats based upon the impact on the organization, including its consumers, not just the nature of the threat.

# SOLUTION DESIGN PHASE

- Your goal is to identify the most cost effective disaster recovery solutions based on RPO and RTO based on your risk tolerance levels.
- Develop critical response times and recovery strategies.
- Important ranking of key business applications and processes:
  - E-mail based communications;
  - IT services;
  - Finance;
  - Accounting & reporting;

# IMPLEMENTATION PHASE

- Complete assessment of your IT and operational infrastructure;
  - Significant operational processes
  - Network (communications and security equipment)
  - Servers
  - Workstations
  - Application systems
  - Data files and databases
- Review the findings report (health check);
- Make the necessary improvements;
- Document the new environment.



## TESTING AND ORGANIZATIONAL ACCEPTANCE PHASE

- Test the plan in it entirety or parts
  - Power outages
  - Hardware failures
  - Telecommunications outages
  - Applications test
  - Business process test

# NOTIFICATION STRATEGY & PLAN ACTIVATION

- Who to call
- When to call
- Assessment....how extensive is the damage?
- Plan activation.....yes or no?

# MAINTENANCE PHASE

- Monitoring is the final step in business continuity planning. It should ensure the BCP is viable through the following:
  - Testing the BCP at least annually.
  - Subjecting the BCP to independent audit and review.
  - Updating the BCP based upon changes to personnel and the internal and external environments.
  - Perform training.

# IMPORTANT NOTES

- Organizations should ensure that their BCP manual is realistic and easy to use during a crisis;
- The BCP sits along side crisis management and disaster recovery planning and is a part of an entity's overall risk management.

# BEST PRACTICES

- Implement a back-up and data restore process.
- Due to power outages...
  - Implement a battery back up solution and surge protection strategy;
  - Consider a diesel generator for your data center of facility;
- E-mail application defense....
  - Spam and viruses filtering before they enter your network;
  - Keep your desktops, laptops and mobile devices secure from viruses and theft



SUCCESSION PLANNING – CAN YOU REPLACE YOURSELF?



# WHO DO WE PLAN FOR?

All levels within an organization!

- Board
- CEO
- CFO
- Program Personnel
- Development



# DEVELOPING A PLAN

- Commitment – board and staff
- Planned succession – develop a timeline and stick to it
- Establish emergency plan for unexpected transition or absence
- Cross-training of staff/board
- Determine interim versus permanent solution
- Communication plan – staff, external stakeholders



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# OBJECTIVES OF TODAY'S SESSION

- Discuss policies and procedures you should have as best business practices
- Differentiate the roles of governance and management
- Understand that you can have good internal controls in a smaller business environment
- Review upcoming changes to nonprofit financial statements





## POLICIES AND PROCEDURES

# POLICY V. PROCEDURE V. DESK MANUAL

- **Policy:** a principle of action adopted by governance.
- **Procedure:** a series of actions conducted in a certain order or manner.
- **Desk Manual:** step by step detailed instructions indicating exactly how to complete a task.

# THE ESSENCE OF A GOOD POLICY

- Keep it as short as possible
- Keep it relevant to the audience
- Keep it aligned to the needs of the business
- Keep it aligned to the legislation and regulatory frameworks in which you operate
- Do not marginalize it by aiming to “check the box”, as the policy needs to add value to the overall outcomes and behaviors you are looking to promote



# POLICIES & PROCEDURES TO COVER TODAY

- Gift Acceptance Policy
- Document Retention
- Conflict of Interest

# GIFT ACCEPTANCE

- Manage expectations of donors (policy)
- Guidance to board and staff members (guidelines or procedures)
- Avoid gifts that conflict with the organization's values
- Avoid gifts that the organization is not equipped to dispose of or manage/maintain the value
- Consider posting it to your website



## Gift Acceptance Policy

Acceptance of any contribution, gift or grant is at the discretion of the National Council of Nonprofits. The Council of Nonprofits will not accept any gift unless it can be used or expended consistently with the purpose and mission of the Council of Nonprofits.

No irrevocable gift, whether outright or life-income in character, will be accepted if under any reasonable set of circumstances the gift would jeopardize the donor's financial security.

The Council of Nonprofits will refrain from providing advice about the tax or other treatment of gifts and will encourage donors to seek guidance from their own professional advisors to assist them in the process of making their.

The National Council will accept donations of cash or publicly traded securities. Gifts of in-kind services will be accepted at the discretion of the Council of Nonprofits.

Certain other gifts, real property, personal property, in-kind gifts, non-liquid securities, and contributions whose sources are not transparent or whose use is restricted in some manner, must be reviewed prior to acceptance due to the special obligations raised or liabilities they may pose for the Council of Nonprofits.

The Council of Nonprofits will provide acknowledgments to donors meeting IRS substantiation requirements for property received by the charity as a gift. However, except for gifts of cash and publicly traded securities, no value shall be ascribed to any receipt or other form of substantiation of a gift received by Council of Nonprofits.

# WHY DO YOU NEED A POLICY?

- What happens when you receive a gift from:
  - A tobacco company
  - Gift of a time-share
  - Gift from individual who owns a marijuana growing business in a state where it is legal

# DOCUMENT RETENTION

- A document retention and destruction policy identifies the record retention responsibilities of staff, **volunteers**, board members, and outsiders for maintaining and documenting the storage and destruction of the organization's documents and records (whether in the cloud, on a server, or in a filing cabinet ... yes, email too).
- Legal requirements (state laws differ as to what must be retained)

# DOCUMENT RETENTION - MINIMUM REQUIREMENTS

## Permanently

- Annual financial statements
- Articles of Incorporation
- Audit reports, from independent audits
- Corporate resolutions
- Checks (for important payments and purchases)
- Correspondence (legal and important matters)
- Determination letter from the IRS, and correspondence relating to it
- Insurance records, current accident reports, claims, policies, and so on (active and expired)
- Minute books, bylaws, and charter
- Patents and related papers
- Retirement and pension records
- Tax returns and worksheets
- Trademark registrations and copyrights

# DOCUMENT RETENTION - MINIMUM REQUIREMENTS

## 7 Years

- Accounts payable ledgers and schedules
- Contracts, mortgages, notes, and leases (expired)
- Expense analyses/expense distribution schedules
- Invoices (to customers, from vendors)
- Payroll records and summaries
- Personnel files (terminated employees)
- Timesheets
- Withholding tax statements

## 3 Years

- Employment applications
- Internal audit reports
- Inventory records for products, materials, and supplies

## 2 Years

- Bank reconciliations
- Correspondence (general)
- Correspondence (with customers and vendors)
- Duplicate deposit slips



# PAPERLESS OFFICES

Choose a cloud based, secure storage system for your needs.

Ensure the system has robust backup and data encryption policies

Develop a standard file naming system and a process to share files with your teams.

Ensure proper folder security and access.

Invest in a scanner that will meet your needs.

Encourage electronic copies when available from vendors or suppliers.

Most records can be scanned and securely destroyed

You'll still need...

- Original copies of formation documents
  - Articles of Incorporation
  - Determination Letter
  - Bylaws
- Vehicle titles
- Signed legal contracts
- Operating Permits

# CONFLICT OF INTEREST

- Objective is to reduce organizational – and individual – liability and reputational risk.
- Address the public's intolerance for ethical lapses and duty-of-loyalty breaches by board members, committee members with voting rights and executive officers.
- Comply with state laws governing nonprofit corporations if applicable and they have conflict of interest provisions (policy or process of managing)

# CONFLICT OF INTEREST

- Define conflicts of interest
- Identify who is covered by the policy
- Require disclosure of information that can help identify conflicts of interest (annual disclosure statement)
- Specifies procedures to be followed in managing conflicts of interest (prohibit individuals with conflicts from voting or deciding on matters where there is a conflict)
- Should be signed and dated annually. Good practice to also declare conflicts at start of each board meeting and document in the minutes.



GOVERNANCE VS. MANAGEMENT



**girls**  
**inc.**

# GOVERNANCE RESPONSIBILITIES

- Establishing mission and philosophy
- Strategic direction – setting a direction for the organization that reflects its constituents needs
- Selection and supervision of top management
- Ensuring adequate resources and managing them effectively
- Setting policies to effectively guide operations and programs

# GOVERNANCE RESPONSIBILITIES (CONT'D)

- Reviewing financial and programmatic performance as compared to objectives
- Organization of the board to work effectively
- Recruitment and orientation of new members
- Advocacy for the organization in the community
- Ensuring legal and ethical integrity

# MANAGEMENT RESPONSIBILITIES

- Carry out board policy and directives
- Administer internal controls
- Monitor financial goals and objectives
- Process financial information
- Prepare budgets and financial information
- Provide accurate, timely and meaningful information
- Keep the board appropriately informed
- Maintain key relationships (sponsor, community, etc.)





# DETERMINING DIFFERENT ROLES

- Governance is the ultimate responsibility of the board, while the responsibility of the staff is management.
- Rather than seeing the nonprofit board's job as a function of *management*, it is *first and fundamentally* a responsibility for *ownership*.
- Board should ask, in regards to programs and initiatives, "Why are we doing this, rather than, how can we do it?"





HOW MANY PEOPLE ARE NEEDED FOR GOOD INTERNAL CONTROLS?



# PURPOSE OF INTERNAL CONTROLS

- To safeguard assets
- To produce accurate accounting data
- To contribute to efficient operations
- To promote compliance with board policy and donor restrictions
  - ***BONUS:*** *An employee working under a good system of internal controls is more easily protected from suspicion should any shortages or discrepancies occur.*

Internal controls help to limit the **opportunity** to commit fraud.

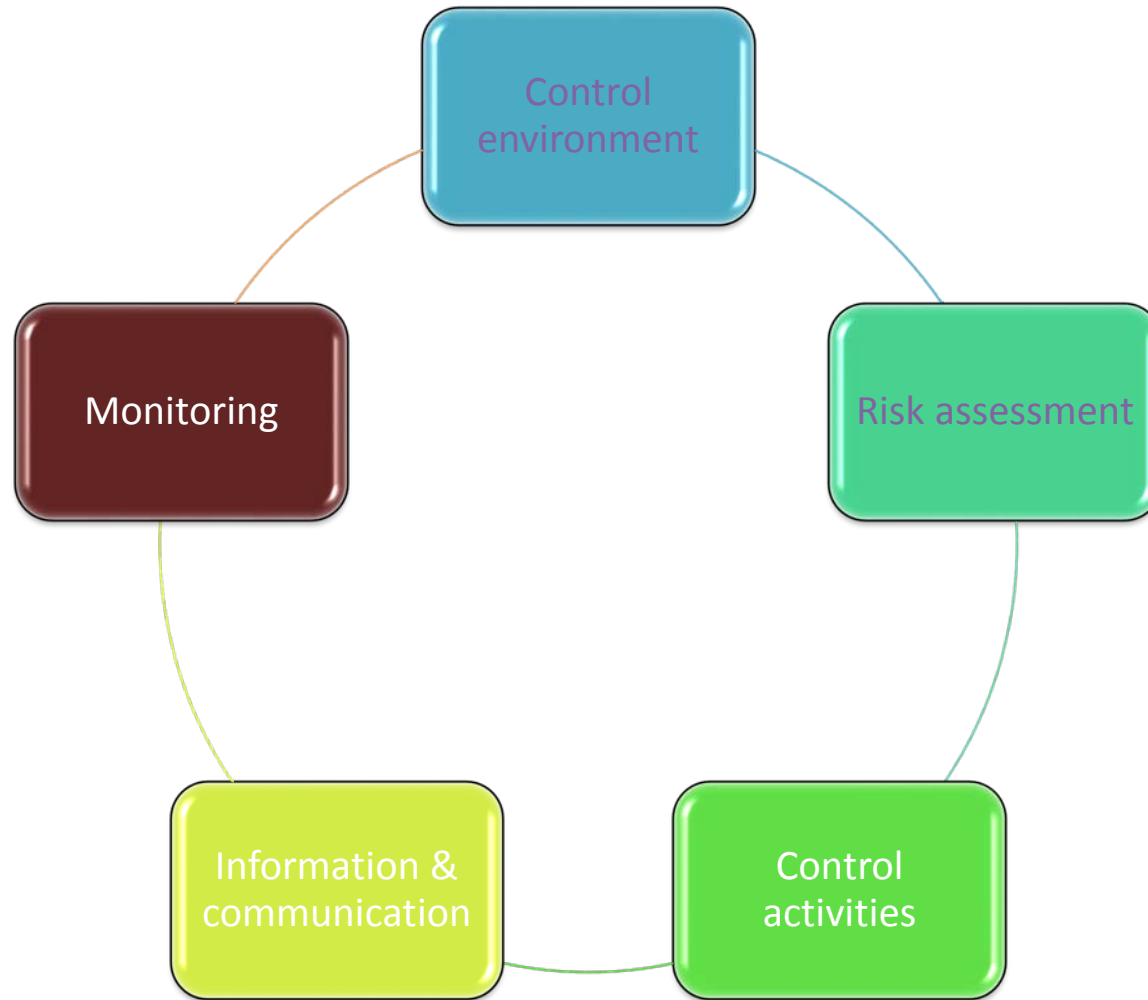
# BACK TO THE BASICS

Internal controls are a PROCESS

PEOPLE affect internal controls

Internal controls provide reasonable, NOT ABSOLUTE, assurance

# ELEMENTS OF INTERNAL CONTROLS



# CONTROL ENVIRONMENT

- Clear lines of authority with importance placed on internal controls
- Publicized code of conduct
- Formal budget process and regular review of variances
- Goal to attract and retain competent staff
- Effective board committees and internal audit functions



# POLICY V. PROCEDURE V. DESK MANUAL

- **Policy:** a principle of action adopted by governance.
- **Procedure:** a series of actions conducted in a certain order or manner.
- **Desk Manual:** step by step detailed instructions indicating exactly how to complete a task.

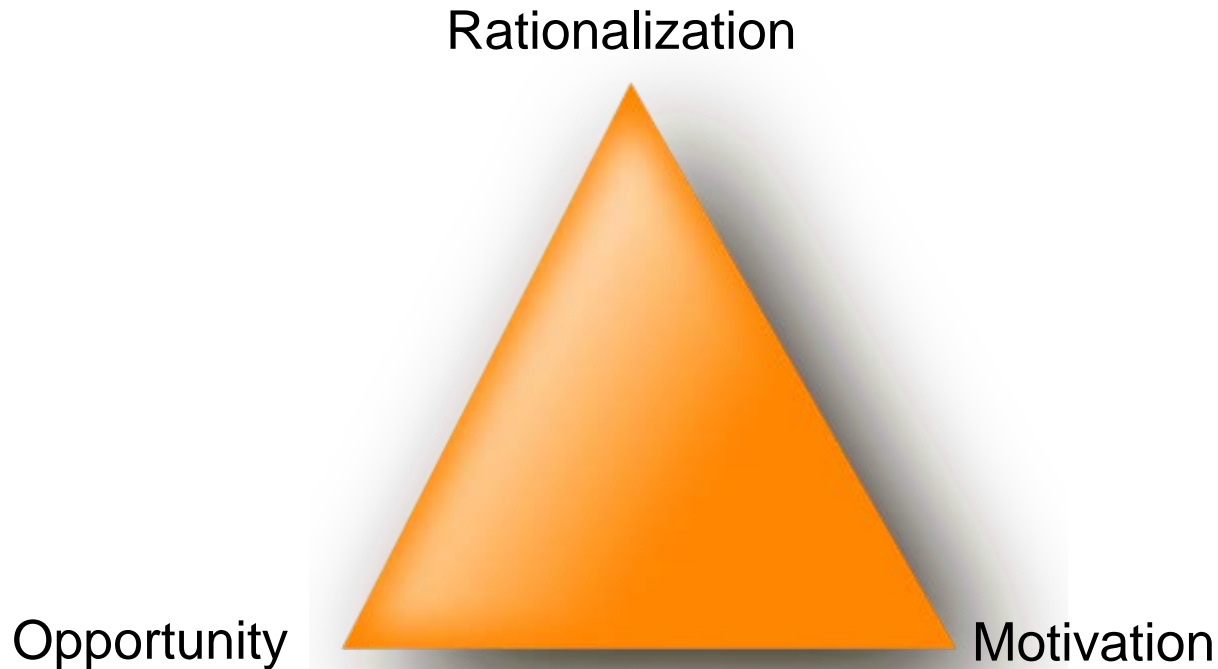
# RISK ASSESSMENT

- Clear objectives about operating, financial reporting, and legal compliance functions
- Entity-wide review to assess and evaluate risk





# BACK TO THE BASICS AGAIN!





# CONTROL ACTIVITIES

- Segregation of duties
- Independent counting or confirmation of assets
- Controlled access to electronic data
- Adequate backup and data recovery procedures

# INFORMATION AND COMMUNICATION

- Support for developing and maintaining effective financial management information systems
- Publicized channels for employees or interested parties to report suspected fraud
- Documented procedures for handling reports of suspected fraud
- Communicating to all employees as well as volunteers



# MONITORING

- Prompt follow-up on budget versus actual variances
- Comparison of actual assets against accounting records
- Are the controls in place still being used?



# KEYS OF GOOD INTERNAL CONTROLS

- No one person can control a transaction from beginning to end
- Involvement of multiple individuals (there is such a thing as too many!)
- Ability to override controls is extremely limited
- Controls can be preventative and detective



# PREVENTATIVE CONTROLS

- Bonding employees
- Background checks
- Dual signature requirement
- Passwords to access accounts
- Locks/security cameras
- Segregation of duties

# DETECTIVE CONTROLS

- Account reconciliation
- Control counts
- Inventory counts
- Surprise cash counts

# 2 PERSON OFFICE

## Bookkeeper

Record all general ledger activity

Reconcile bank statements

Receive cash

Authorize invoices

Write & mail checks

Approve payroll

## President/Treasurer

Read only general ledger access

Review bank reconciliations

Complete deposit slips

Sign checks

Perform bank transfers

Approve timesheets

Distribute payroll

Sign employee contracts



# 3 PERSON OFFICE

## Bookkeeper

Record general ledger activity

Write checks

Reconcile bank statements

## Office Manager

Process and approve invoices

Mailing checks

Receive cash

Approve & distribute payroll

Authorize timesheets

## Controller or President

Completes deposit slips

Signs checks and performs bank transfers

Review bank reconciliations

Sign employee contracts

# 4 PERSON OFFICE

## Bookkeeper

Record general ledger activity

Write checks

Reconcile bank statements

## Senior Accountant

Receive cash

Authorize check requests

Mail checks

Distribute payroll

## Office Manager

Complete deposit slips

Process invoices

Approve invoices

Approve payroll

## Controller or President

Sign checks; approve invoices

Review bank reconciliations

Sign employee contracts

Approve employee timesheets

# CASE STUDY #1

**The Girls, Inc. (Anywhere, USA) has an Executive Director and a Bookkeeper. They both have full access to the general ledger and to check stock. The bookkeeper reconciles the bank account but it is currently not reviewed. The President signs checks. The bookkeeper keeps the signature stamp locked in her desk. The Treasurer of the Board requests to review the bank statements on a quarterly basis.**

- What changes should be made in the internal control structure of this organization?

# STEPS TO SEGREGATE

- General ledger access
- Review of bank reconciliation
- Sign checks
- Bank transfers
- Reconciliations
- Access to checks/stamp

# CASE STUDY #2

**The Angel Church has a Pastor, controller, and bookkeeper. The Pastor is the authorized check signer. The bookkeeper reconciles the bank statements and the controller reviews them. The bookkeeper receives cash/checks and the controller enters them into the general ledger. The bookkeeper makes the deposit and verifies it against the general ledger.**

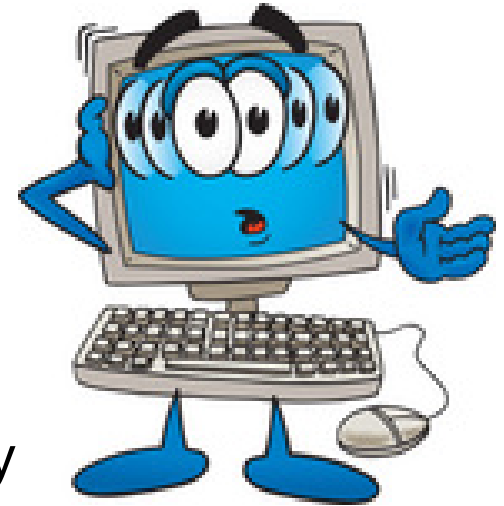
- What changes should be made in the internal control structure of this church?

# STEPS TO SEGREGATE

- Makes deposits
- Review of bank reconciliation
- Sign checks
- Cash receipts
- Reconciliations
- Deposit slips

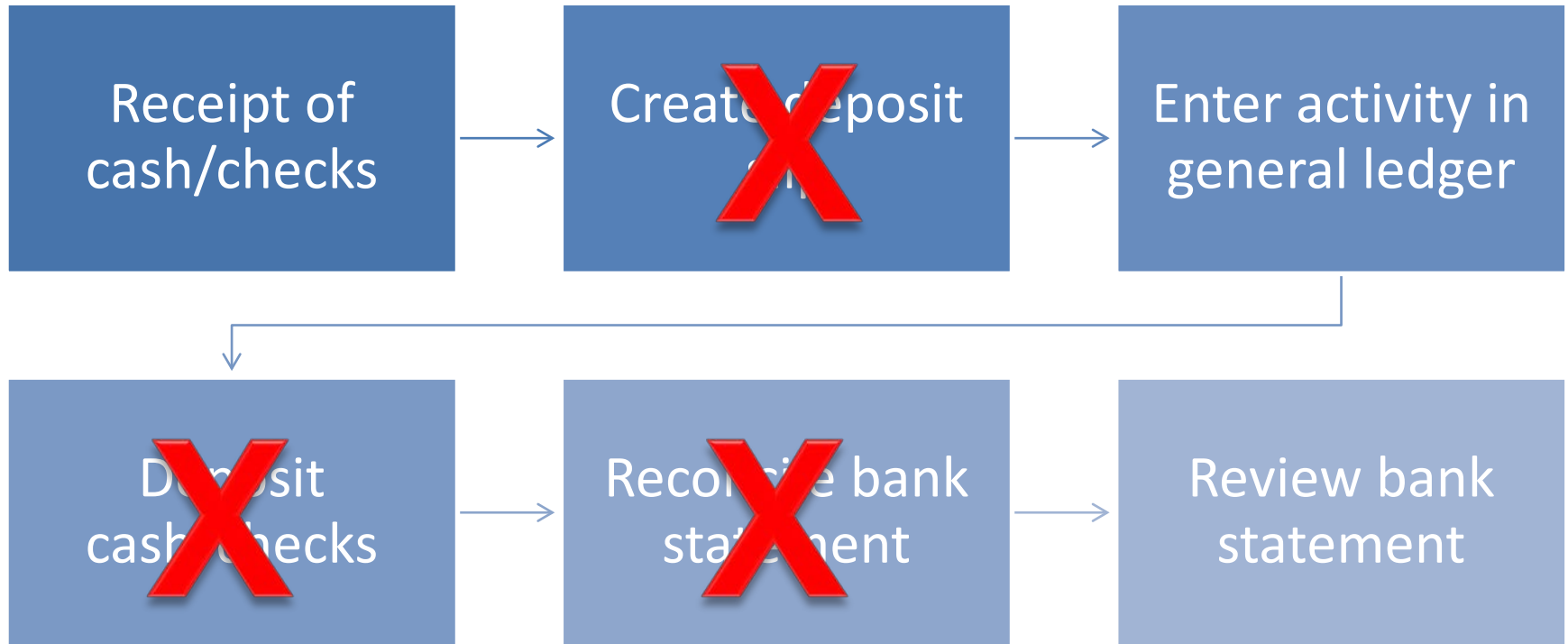
# INFORMATION TECHNOLOGY

- Passwords
- Required vacation time
- Review of user access listings to all systems
- Ensuring audit trail is capturing system activity
- Administrative rights
- External threats
- Banking controls (positive pay, FOB passwords, maximum thresholds for activities, etc.)
- Data recovery and back-ups of system activity

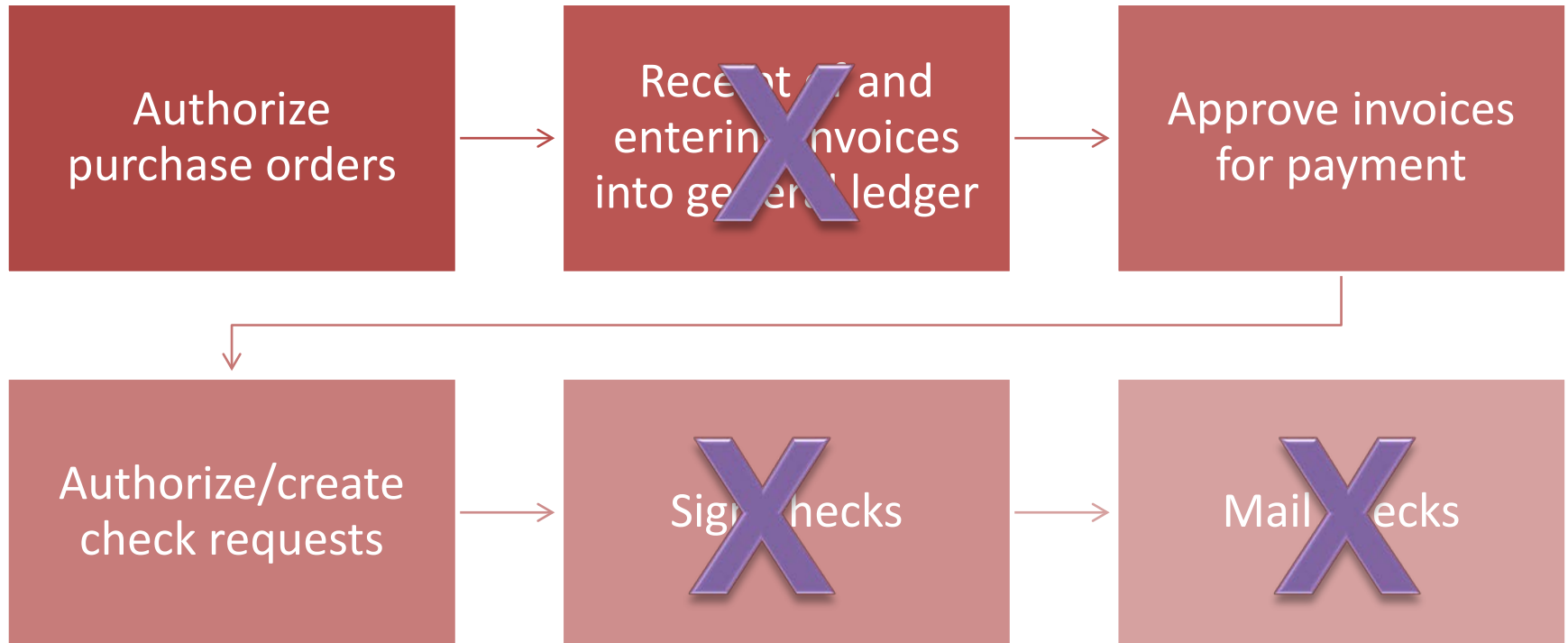




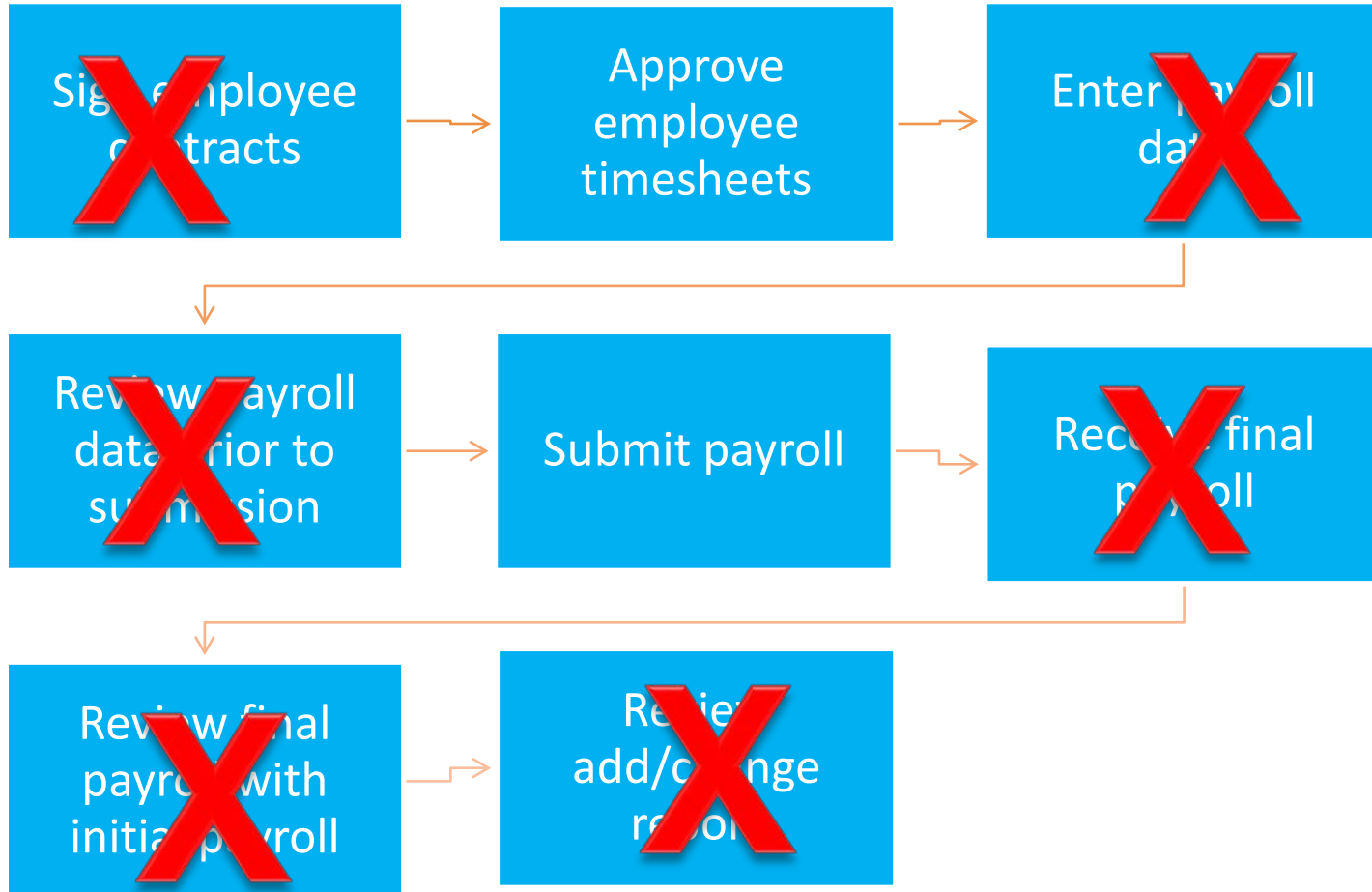
# CASH RECEIPTS



# CASH DISBURSEMENTS



# PAYROLL



# PREPARATION OF FINANCIAL STATEMENTS

- Separate Preparation and Review
- Provide Meaningful Data - Easier for Others to be Involved
- Provide Monthly Reports to Board or Oversight Committee
- Provide Details or Explanation on High Risk Accounts
- Provide Comparisons - Budget, Prior Year, Analytics, Benchmarking
- Have a Process for Asking Questions - How are Issues Resolved

# DO YOU STILL THINK YOU ARE TOO SMALL?

- Involve the Board – Make sure they know their role
- Involve Senior Management and Executive Director
- Use Outside Service Providers
- Develop Internal Audit Function
- Use Your Outside Auditors

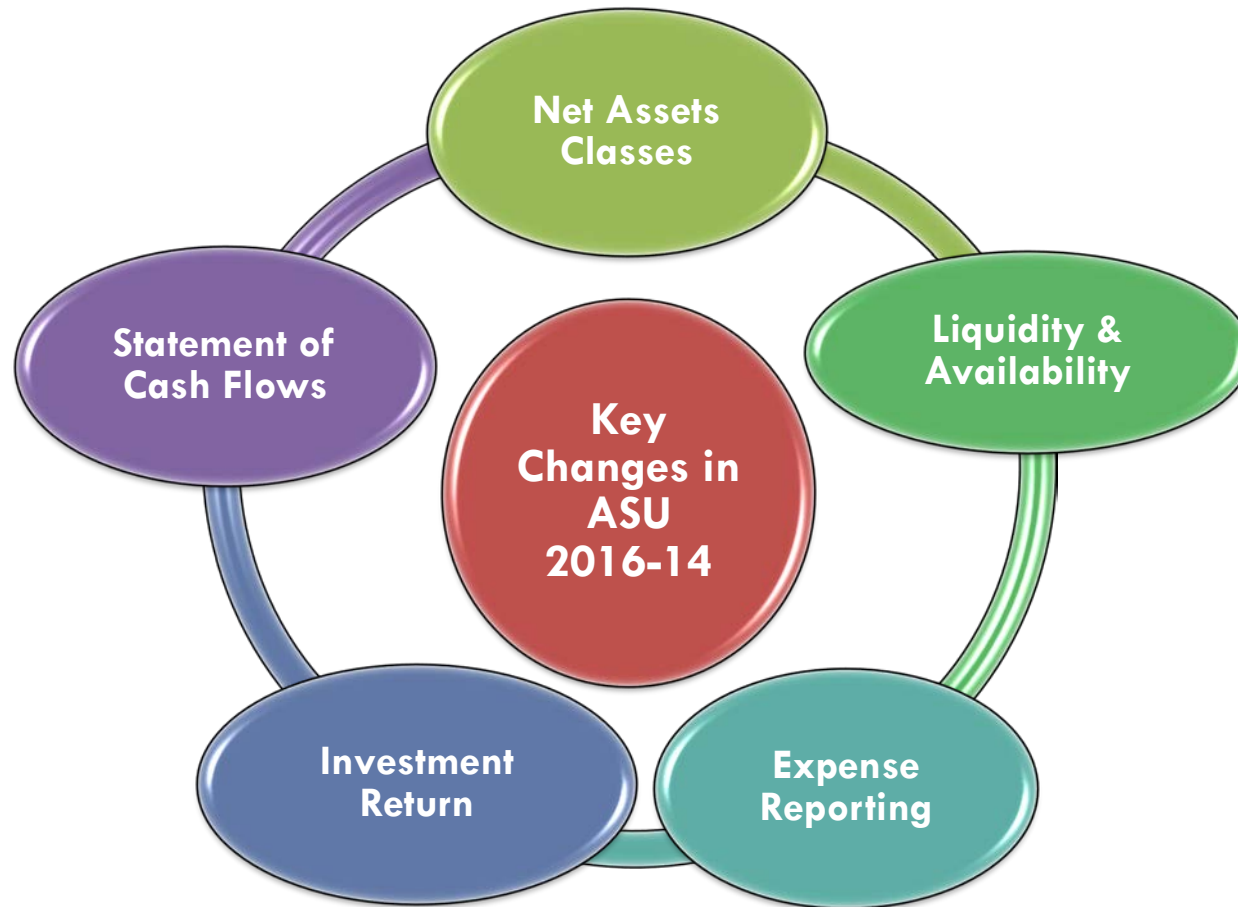


UPCOMING CHANGES TO YOUR FINANCIAL STATEMENTS



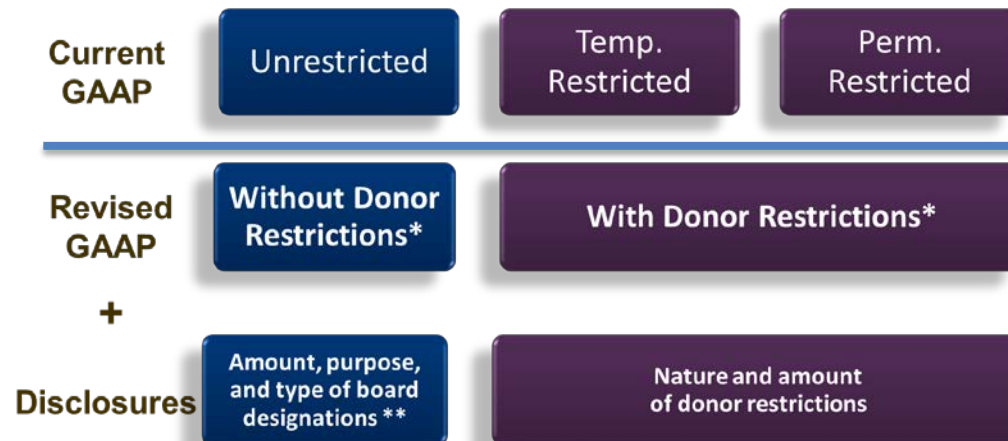


# KEY AREAS AFFECTED





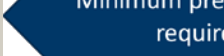
# NET ASSETS




\* NFPs may choose to disaggregate further

\*\* New disclosure requirement

# BALANCE SHEET PRESENTATION

Net assets:		 Minimum presentation required
Without donor restrictions	125,056	
With donor restrictions	162,268	
Total net assets	<u>287,324</u>	

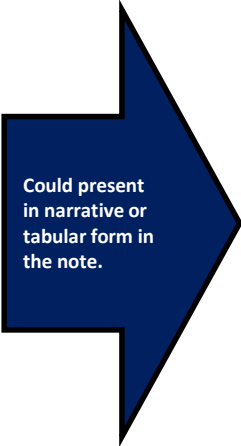
  

 Alternative isaggregation allowed	Net assets:	
	Without donor restrictions -	
	Undesignated	24,931
	Operating reserve	25,000
	Designated by the Board for capital projects	<u>75,125</u>
		125,056
	With donor restrictions -	
	Time restricted for future periods	2,783
	Purpose restricted	11,066
	Endowment fund	<u>148,419</u>
		162,268
	Total net assets	<u>287,324</u>

# BOARD-DESIGNATED NET ASSETS PRESENTATION

May disclose on the face of the statement of financial position or in the notes

Net Assets	
Without donor restrictions	
Undesignated	3,057,607
Designated by the Board for operating reserve	300,000
Designated by the Board for endowment	15,511,186
Invested in property and equipment, net of related debt	21,150,885
	<hr/>
	40,019,678



Could present  
in narrative or  
tabular form in  
the note.

## Note 13 - Net Assets Without Donor Restrictions

The Board of Directors of XYZ Organization has several standing board policies that affect the presentation of board designations on net assets. Bequests without donor restrictions are designated for long-term investment (quasi-endowment). The quasi-endowment fund balance totaled \$35,000 at December 31, 20XX. Additionally, the Board of Directors has established an operating reserve with the objective of setting funds aside to be drawn upon in the event of financial distress or an immediate liquidity need. The operating reserve balance totaled \$1,300 at December 31, 20XX.

# ADJUSTMENTS UPON ADOPTION

## Without Donor Restrictions

- Reclassify “unrestricted net assets” to “net assets without donor restrictions”
- Reclassify any “temporarily restricted net assets” related to implied restrictions on contributions restricted for acquisition or construction of PP&E to “net assets without donor restrictions” (to adopt placed-in service approach)

## With Donor Restrictions

- Reclassify “temporarily restricted” and “permanently restricted net assets” to “net assets with donor restrictions”
- Reclassify any “unrestricted net assets” related to underwater endowments to “net assets with donor restrictions”

# STATEMENT OF ACTIVITIES

## PRESENTATION EXAMPLE 1

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support:			
Contributions	11,989	15,531	27,520
Fees	7,083		7,083
Investment return, net	113	(3,618)	(3,505)
Net assets released from restrictions	6,913	(6,913)	-
Total revenues and other support	26,098	5,000	31,098
Expenses:			
Program A	13,960		13,960
Program B	5,497		5,497
Management and general	4,609		4,609
Fundraising	1,441		1,441
Total expenses	25,507	-	25,507
Change in net assets	591	5,000	5,591
Net assets at beginning of year	124,465	157,268	281,733
Net assets at end of year	125,056	162,268	287,324

# STATEMENT OF ACTIVITIES

## PRESENTATION

### EXAMPLE 2

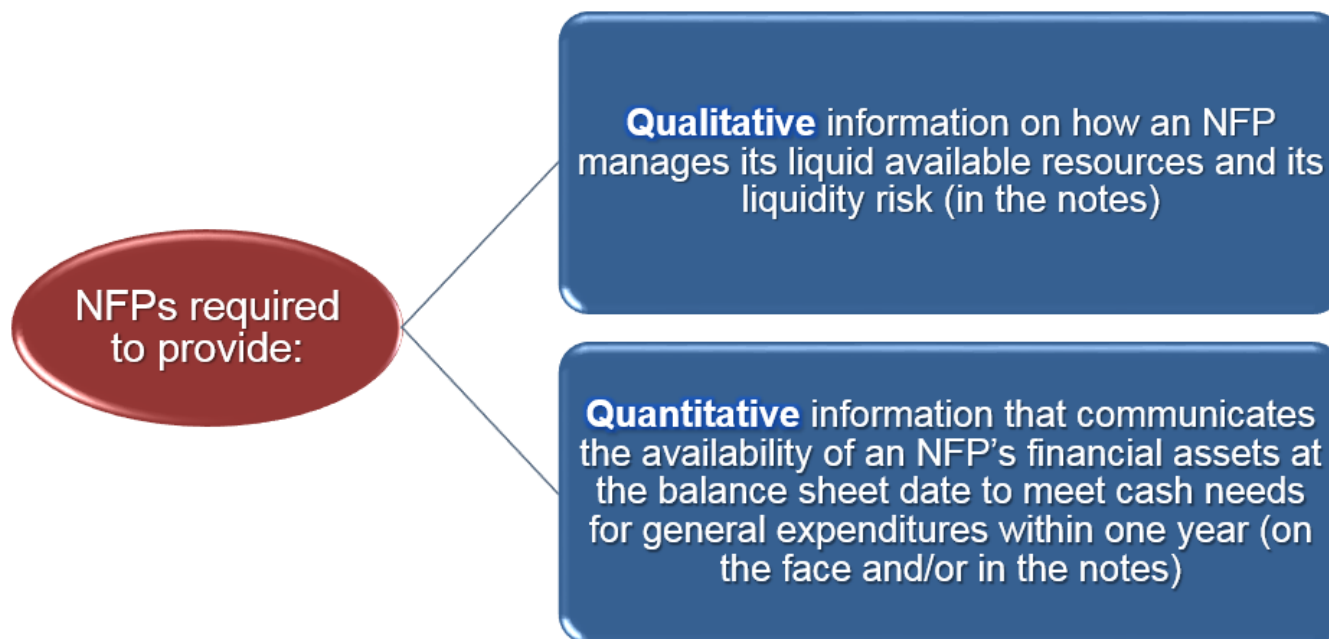
	Without Donor Restrictions	With Donor Restrictions			Total
		Program Restrictions	Endowment Funds	Total	
Revenues and other support:					
Contributions	11,989	3,487	12,044	15,531	27,520
Fees	7,083			-	7,083
Investment return, net	113		(3,618)	(3,618)	(3,505)
Net assets released from restrictions	6,913	(1,112)	(5,801)	(6,913)	-
Total revenues and other support	26,098	2,375	2,625	5,000	31,098
Expenses:					
Program A	13,960			-	13,960
Program B	5,497			-	5,497
Management and general	4,609			-	4,609
Fundraising	1,441			-	1,441
Total expenses	25,507	-	-	-	25,507
Change in net assets	591	2,375	2,625	5,000	5,591
Net assets at beginning of year	124,465	11,474	145,794	157,268	281,733
Net assets at end of year	125,056	13,849	148,419	162,268	287,324

# OPERATING MEASURE CONSIDERATIONS

Reinforcing current GAAP requirement about transparency of components of any operating measures presented:

- *NFPs utilizing an operating measure that reflects governing board designations, appropriations, and similar actions (internal transfers) must report these types of internal transfers appropriately disaggregated and described by type (either on the face of the statement of activities or in the notes)*

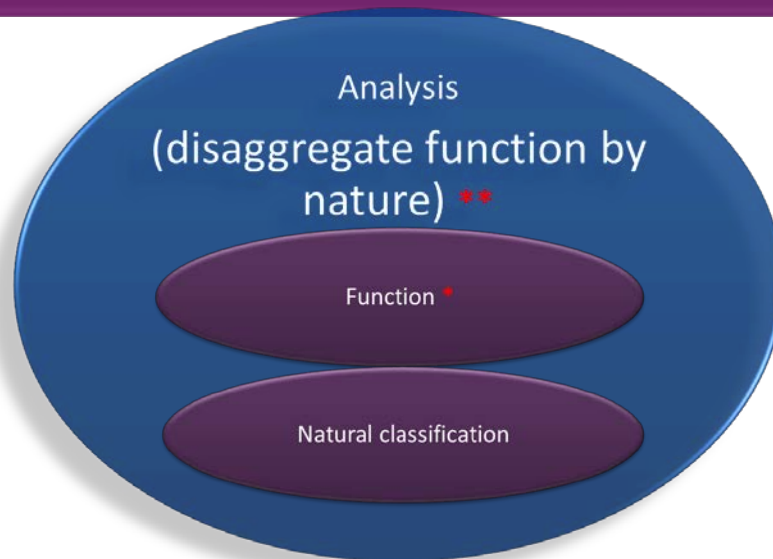
# LIQUIDITY AND AVAILABILITY





# EXPENSE REPORTING

Report expenses by function and nature *in one place*



## Where to Report?

**Statement of Functional Expenses**

**Statement of Activities**

**Notes to Financial Statements**

**Do not report as supplementary information**

**Describe allocation methods used**

**\* currently required in GAAP**

**\*\* choice of location; Board may explore segment reporting instead for HC in Phase 2**

# EXPENSE REPORTING (CONT'D.)



NFPs required to provide qualitative disclosures about methods used to allocate costs among program and support functions



ASU also provides enhanced guidance on allocations from M&G expenses

- Key concept: ***direct conduct*** or ***direct supervision***

# EXAMPLE 1

## *ANALYSIS OF EXPENSES*

PRESENTATION IN THE NOTES OR A SEPARATE STATEMENT

	Program Services			Supporting Activities			
	Program A	Program B	Program Subtotal	Management & General	Fund- raising	Supporting Subtotal	Total Expenses
Salaries, benefits, and taxes	\$ 7,400	\$ 5,625	\$ 13,025	\$ 1,130	\$ 960	\$ 2,090	\$15,115
Grants to other organizations	2,075	2,675	4,750				4,750
Supplies and travel	890	1,512	2,402	213	540	753	3,155
Services and professional fees	160	2,090	2,250	200	390	590	2,840
Office and occupancy	1,160	1,050	2,210	218	100	318	2,528
Depreciation	1,440	1,370	2,810	250	140	390	3,200
Interest	171	164	335	27	20	47	382
Total expenses	<u>\$ 13,296</u>	<u>\$ 14,486</u>	<u>\$ 27,782</u>	<u>\$ 2,038</u>	<u>\$ 2,150</u>	<u>\$ 4,188</u>	<u>\$31,970</u>

# EXAMPLE 2

## *ANALYSIS OF EXPENSES*

PRESENTATION ON THE FACE OF THE STATEMENT OF ACTIVITIES

Expenses:	
Grant activities -	
Grants	12,125
Salaries, benefits and taxes	1,808
Occupancy costs	970
Depreciation	845
Supplies	1,255
Other	56
	<hr/>
	17,059
Management and general -	
Salaries, benefits and taxes	452
Occupancy costs	243
Depreciation	211
Supplies	314
Other	14
	<hr/>
	1,234
	<hr/>
Total expenses	18,293

# WHAT ARE PROGRAM SERVICE EXPENSES?

Per 958-720-45-3:

*Program services are the activities that result in goods and services being distributed to beneficiaries, customers, or members that fulfill the purposes or mission for which the NFP exists. Those services are the major purpose for and the major output of the NFP and often relate to several major programs.*

# REPORTING OF INVESTMENT RETURN

## How to present?

- **Net presentation** of investment expenses against investment return on the face of the statement of activities
  - Netting limited to external and **direct** internal expenses
  - May report net return in **multiple**, appropriately labeled lines (e.g., from different portfolios, in different net asset classes, or in operating versus nonoperating)

## What to disclose?

- Disclosure of investment expenses **no longer required**
  - If reported, carefully label and don't include in expense analysis
- No longer require disclosure of investment return **components**

# CLA'S COMMITMENT TO THOUGHT LEADERSHIP



- Tax Reform
- Article

[Tax Reform Implications for Exempt Organization Employers and Employees](#)



- Regulations
- Tool

[CLA Resources Can Help Nonprofits Implement FASB 2016-14 Financial Reporting](#)





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