

A close-up photograph of a desk with various office supplies. In the foreground, a blue calculator and a silver pen are visible. A white calendar for April 2000 is in the upper right, with the date 15 circled. Several sheets of paper with printed text and tables are scattered across the desk. The background shows a wooden desk surface and a lamp.

FINANCIAL REPORTING FOR NONPROFIT ORGANIZATIONS

PROGRAM OBJECTIVES



Understand role of Executive Director and Board with respect to external financial reporting

Understand external financial reporting requirements

- Audited financial statements
- IRS Form 990

Review main components of each report

PROGRAM AGENDA

External Financial Statements (50 mins)

- Board's role
- Types of reports
- Auditors' report and overview of financial statements
- Q&A

Break (10 mins)

IRS Form 990 (50 mins)

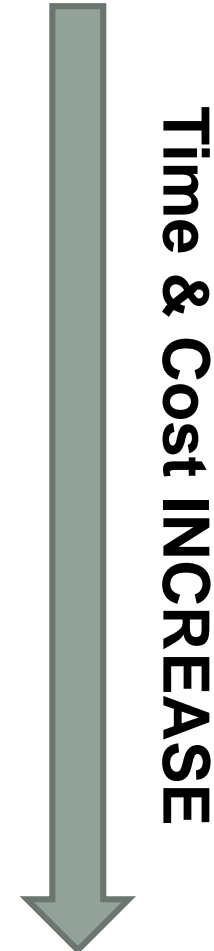
- Board's role
- Filing requirements
- Overview of form and schedules
- Q&A

BOARD'S ROLE – OVERSIGHT OF FINANCIAL REPORTING

| Approve Budget | Monitor Key Financial Indicators | Ensure Adequate Controls | Oversee Audit |
|--|---|--|---|
| <ul style="list-style-type: none">• Are expenses appropriate and consistent with strategic plan?• Monitor budget vs. actual variances | <ul style="list-style-type: none">• Are cash flows adequate?• Are reserves sufficient? | <ul style="list-style-type: none">• Clear job descriptions• Accounting procedures and segregation of duties• Conflict of interest policy | <ul style="list-style-type: none">• Select audit firm• Auditor reports to Audit, Finance, or Executive Committee |

EXTERNAL FINANCIAL STATEMENTS

| Types of Financial Reports |
|--|
| Compilation (\$50K-\$100K contributions) |
| Put financial information into a standard format |
| No testing |
| Lowest level of assurance |
| Review (\$100K-\$300K contributions) |
| Analytical review is performed |
| Limited assurance |
| Audit (\$300K+ contributions) |
| Detailed analysis and testing |
| Auditors report to Board or Audit Committee |
| Highest level of assurance |



AUDITED FINANCIAL STATEMENTS

Auditors' Report

- Management's responsibility
- Auditors' responsibility
- Opinion
 - Unmodified opinion
 - Modified opinion
 - Qualified opinion
 - Adverse opinion
 - Disclaimer of opinion



STATEMENT OF FINANCIAL POSITION

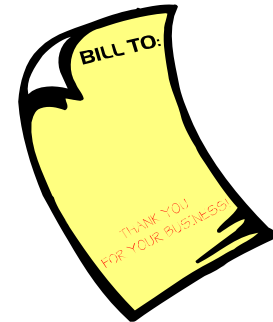


Assets

- What you OWN
 - Current vs. long-term
-

Liabilities

- What you OWE
- Current vs. long-term



Net Assets

- Assets – Liabilities
- Unrestricted
- Temporarily Restricted
- Permanently Restricted

| | <u>2014</u> | <u>2013</u> |
|---|-------------------|-------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 100,340 | \$ 40,655 |
| Short-term investments | 162,453 | 124,908 |
| Accounts receivable | 24,925 | 26,280 |
| Prepaid expenses | 56,402 | 58,845 |
| Contribution receivable | 356,800 | 380,000 |
| Property and equipment | 298,410 | 314,342 |
| TOTAL ASSETS | <u>\$ 999,330</u> | <u>\$ 945,030</u> |
| LIABILITIES | | |
| Accounts payable | \$ 6,338 | \$ 9,783 |
| Long-term debt | 73,653 | 79,592 |
| TOTAL LIABILITIES | 79,991 | 89,375 |
| NET ASSETS | | |
| Unrestricted | 422,145 | 415,558 |
| Temporarily restricted | 490,325 | 435,932 |
| Permanently restricted | 6,869 | 4,165 |
| TOTAL NET ASSETS | <u>919,339</u> | <u>855,655</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 999,330</u> | <u>\$ 945,030</u> |

STATEMENT OF ACTIVITIES

Revenue

- Earned vs. contributed income

Expenses by category

- Program
- Management and general
- Fundraising

Changes in net assets

- Unrestricted
- Temporarily Restricted
- Permanently Restricted



| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|-------------------|
| REVENUES, GAINS, AND OTHER SUPPORT | | | | |
| Contributions | \$ 89,736 | \$ 237,239 | \$ 2,704 | \$ 329,679 |
| Program service fees | 22,417 | - | - | 22,417 |
| Investment return | 5,766 | 497 | - | 6,263 |
| Other | 2,777 | - | - | 2,777 |
| Net assets released from restrictions | 183,343 | (183,343) | - | - |
| TOTAL REVENUES, GAINS, OTHER SUPPORT | 304,039 | 54,393 | 2,704 | 361,136 |
| EXPENSES | | | | |
| Program services | 228,282 | - | - | 228,282 |
| Management and general | 55,629 | - | - | 55,629 |
| Fund-raising | 13,541 | - | - | 13,541 |
| TOTAL EXPENSES | 297,452 | - | - | 297,452 |
| CHANGE IN NET ASSETS | 6,587 | 54,393 | 2,704 | 63,684 |
| NET ASSETS AT BEGINNING OF YEAR | 415,558 | 435,932 | 4,165 | 855,655 |
| NET ASSETS AT END OF YEAR | <u>\$ 422,145</u> | <u>\$ 490,325</u> | <u>\$ 6,869</u> | <u>\$ 919,339</u> |

STATEMENT OF CASH FLOWS

Sources and uses of cash from

- Operating activities
- Investing activities
- Financing activities



| | <u>2014</u> | <u>2013</u> |
|--|------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Increase in net assets | \$ 63,684 | \$ 21,356 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | |
| Depreciation | 23,812 | 18,492 |
| Unrealized gains on investments | (6,263) | (17,240) |
| (Increase) decrease in operating assets: | | |
| Accounts receivable | 1,355 | (6,425) |
| Prepaid expenses | 2,443 | 1,544 |
| Contributions receivable | 23,200 | (10,500) |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable | (3,445) | 2,516 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>104,786</u> | <u>9,743</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Short-term investments, net | (31,282) | (29,827) |
| Payments for property and equipment | (7,880) | (5,480) |
| NET CASH USED BY INVESTING ACTIVITIES | <u>(39,162)</u> | <u>(35,307)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments on Long Term Debt | (5,939) | (5,173) |
| NET CASH USED FOR FINANCING ACTIVITIES | <u>(5,939)</u> | <u>(5,173)</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 59,685 | (30,737) |
| BEGINNING CASH AND CASH EQUIVALENTS | 40,655 | 71,392 |
| ENDING CASH AND CASH EQUIVALENTS | <u>\$100,340</u> | <u>\$ 40,655</u> |

FOOTNOTES AND FUNCTIONAL EXPENSES

Footnotes provide additional detail

- Accounts Receivable
- Fixed Assets
- Investments
- Future lease payments
- Debt agreement terms

Statement of Functional Expenses

- Expenses allocated by type and category

STATEMENT OF FUNCTIONAL EXPENSES

| | Program Services | Management and General | Fund-raising | Total |
|-----------------------------------|-----------------------------|---------------------------------------|---------------------|-------------------|
| Compensation and related expenses | \$ 151,212 | \$ 42,761 | \$ 8,857 | \$ 202,830 |
| Conferences and training | 395 | 502 | - | 897 |
| Depreciation | 20,644 | 2,534 | 634 | 23,812 |
| Insurance | 5,595 | 1,548 | 387 | 7,530 |
| Interest | - | 248 | - | 248 |
| Maintenance of equipment | 324 | 733 | - | 1,057 |
| Occupancy | 31,974 | 2,455 | 314 | 34,743 |
| Postage | 107 | 997 | 996 | 2,100 |
| Printing | 572 | 968 | 1,450 | 2,990 |
| Supplies | 7,221 | 2,082 | 459 | 9,762 |
| Telephone | 3,167 | 581 | 387 | 4,135 |
| Other | 7,071 | 220 | 57 | 7,348 |
| | <u>\$ 228,282</u> | <u>\$ 55,629</u> | <u>\$ 13,541</u> | <u>\$ 297,452</u> |



COMMON FINANCIAL RATIOS



| | |
|-------------------------------|--|
| Current Ratio | <ul style="list-style-type: none">• Current Asset/Current Liabilities• Measures ability to pay short-term obligations |
| Debt Ratio | <ul style="list-style-type: none">• Total Debt/Total Assets• Measures portion of total assets financed by debt |
| Days Cash on Hand | <ul style="list-style-type: none">• $\text{Cash \& Cash Equivalents} / [(\text{Total Exp} - \text{Depreciation}) / 365]$• Days of operating expenses covered by cash |
| Overhead Ratio | <ul style="list-style-type: none">• $\text{Mgmt. \& General} + \text{Fundraising Expenses} / \text{Total Expenses}$• “Overhead Myth” |
| Fundraising Efficiency | <ul style="list-style-type: none">• $\text{Total Contributed Income} / \text{Fundraising Expenses}$• Return on fundraising expenses |
| Earned Income Ratio | <ul style="list-style-type: none">• $\text{Earned Income} / \text{Total Revenue}$• Earned income as a percentage of total revenue |

FINANCIAL RATIOS

| | | FY 2014 | |
|-------------------------------|---|-------------------|--------|
| Current Ratio | = Current Assets/ Current Liabilities | 344,120 6,338 | = 54.3 |
| Debt Ratio | = Total Debt/ Total Assets | 73,653 999,330 | = 7% |
| Days Cash on Hand | = Cash & Cash Equivalents/ [(Total Exp - Depreciation)/365] | 100,340 750 | = 134 |
| Overhead Ratio | = Mgmt&Gen+Fundraising Exp/ Total Expenses | 69,170 297,452 | = 23% |
| Fundraising Efficiency | = Contributed Income/ Fundraising Expenses | 89,736 13,541 | = 6.6 |
| Earned Income Ratio | = Earned Income/ Total Revenue | 22,417 361,136 | = 6% |

MANAGEMENT LETTER

Issued by auditors to Board or Audit Committee

- Control deficiency
- Significant deficiency
- Material weakness

Common findings

- Insufficient internal controls
- Inadequate segregation of duties
- Management override of controls
- Preparation of financial statements



IRS FORM 990 - BOARD'S ROLE

Review 990 prior to filing

- Understand differences between audit and 990
- Review disclosures for completeness and accuracy

Consider public relations

- The 990 is open to public inspection
- Is the organization fairly represented by the 990?
- Can we use the 990 as a marketing tool?
- How do we compare to peers or competitors?

TAX FILING REQUIREMENTS



990-N (e-Postcard) - gross receipts are \$50K or less

990-EZ (short form) - gross receipts are less than \$200K and assets are less than \$500K

990 - gross receipts exceed \$200K and assets exceed \$500K

990-T - any tax exempt organization with \$1,000 or more of income from unrelated business

990-PF - private foundations

ESTIMATED TIME TO COMPLETE

| Form | Recordkeeping | Learning about the law or the form | Preparing the form |
|--|------------------|------------------------------------|--------------------|
| 990 | 117 hr., 54 min. | 16 hr., 4 min. | 23 hr., 29 min. |
| 990-EZ | 29 hr., 10 min. | 11 hr., 33 min. | 14 hr., 24 min. |
| Schedule A (Form 990 or 990-EZ) | 39 hr., 56 min. | 6 hr., 51 min. | 7 hr., 48 min. |
| Schedule B (Form 990, 990-EZ, or 990-PF) | 5 hr., 58 min. | 1 hr., 35 min. | 1 hr., 45 min. |
| Schedule C (Form 990 or 990-EZ) | 22 hr., 0 min. | 42 min. | 1 hr., 5 min. |
| Schedule D (Form 990) | 30 hr., 51 min. | 1 hr., 17 min. | 1 hr., 51 min. |
| Schedule E (Form 990 or 990-EZ) | 5 hr., 30 min. | 53 min. | 1 hr., 1 min. |
| Schedule F (Form 990) | 6 hr., 42 min. | 6 min. | 12 min. |
| Schedule G (Form 990 or 990-EZ) | 24 hr., 9 min. | 24 min. | 48 min. |
| Schedule H (Form 990) | 71 hr., 1 min. | ----- | 1 hr., 9 min. |
| Schedule I (Form 990) | 5 hr., 15 min. | 18 min. | 23 min. |
| Schedule J (Form 990) | 13 hr., 21 min. | 2 hr., 34 min. | 2 hr., 54 min. |
| Schedule K (Form 990) | 9 hr., 34 min. | 2 hr., 22 min. | 2 hr., 39 min. |
| Schedule L (Form 990 or 990-EZ) | 5 hr., 30 min. | 1 hr., 5 min. | 1 hr., 13 min. |
| Schedule M (Form 990) | 28 hr., 27 min. | 35 min. | 1 hr., 5 min. |
| Schedule N (Form 990 or 990-EZ) | 7 hr., 53 min. | 42 min. | 51 min. |
| Schedule O (Form 990 or 990-EZ) | 43 min. | ----- | ----- |
| Schedule R (Form 990) | 14 hr., 36 min. | 1 hr., 29 min. | 1 hr., 52 min. |

990 VS. AUDITED FINANCIAL STATEMENTS

Entities may be consolidated in audit

- Supporting organizations

Different order for financial info

Different categories and groupings of accounts

Must be able to reconcile all differences



HOW TO USE 990 AS PR TOOL

Part I – Summary Financial Information

Part III – Program Accomplishments

- Programs during the tax year with statistics

Narrative sections throughout return

Schedule O – Supplemental Information

Open to public inspection

- www.guidestar.org
- Your organization's website

990 – MAIN FORM

| | |
|---------------------------|---|
| Part I | <i>Summary</i> |
| Part III | <i>Statement of Program Service Accomplishments</i> |
| Part IV | <i>Checklist of Required Schedules</i> |
| Part V | <i>Other IRS Filings and Tax Compliance</i> |
| Part VI, Section A | <i>Governance, Management, and Disclosure</i> <ul style="list-style-type: none">• Family or business relationships• Significant diversion of assets<ul style="list-style-type: none">• http://www.washingtonpost.com/wp-srv/special/local/nonprofit-diversions-database/ |

990 – MAIN FORM

| | |
|---------------------------|--|
| Part VI, Section B | <i>Policies</i> <ul style="list-style-type: none">• Process for Board review of 990 <i>prior</i> to filing• Conflict of interest policy• Whistleblower policy• Document retention policy• Process for determining compensation |
| Part VII | <i>Board Listing and Compensation</i> <ul style="list-style-type: none">• Officers/directors/trustees• Key employees• Five highest compensated employees (above \$100K)• Compensation from related organizations• Five highest compensated independent contractors (over \$100K) |

990 – MAIN FORM

| | |
|------------------|--|
| Part VIII | <i>Revenue</i> |
| Part IX | <i>Functional Expenses</i> <ul style="list-style-type: none">• Expenses broken down by type and category (program, management & general, and fundraising) |
| Part X | <i>Balance Sheet</i> |
| Part XI | <i>Reconciliation of Net Assets</i> |
| Part XII | <i>Financial Statements and Reporting</i> <ul style="list-style-type: none">• Accounting method (cash, accrual, or other)• Audit or compilation/review• Committee responsible for oversight of the audit, compilation, or review |

SCHEDULE A – PUBLIC CHARITY STATUS AND PUBLIC SUPPORT

Part I – Reason for Public Charity Status

- IRS determination letter
- Supporting organizations

Part II & III – Public Support Test

- 33 1/3% minimum public support
- 10%-facts-and-circumstances for Part II only

Additional questions for supporting organizations

SCHEDULES B, C, & D

Schedule B – Schedule of Contributors

- All contributions \$5K or more
- 509(a)(1) organizations - greater of \$5K or 2% of total contributions
- Not open to public inspection

Schedule C – Political Campaign and Lobbying Activities

Schedule D – Supplemental Financial Statements

SCHEDULES G, I, & J

Schedule G – Fundraising or Gaming Activities

- Over \$15K

Schedule I – Grants and Other Assistance

- Over \$5K and domestic only

Schedule J – Compensation

- Executive compensation
- Compensation tied to revenue or net income
- Compensation detail for those listed in Part VII

SCHEDULES M, O, & R

Schedule M – Non-cash Contributions

- More than \$25K

Schedule O – Supplemental Information

- Required and optional disclosures/explanations
- Public Relations considerations

Schedule R – Related Organizations

PROGRAM OBJECTIVES RECAP

Understand role of Executive Director and Board with respect to external financial reporting

Understand external financial reporting requirements

- Audited financial statements
- IRS Form 990

Review main components of each report

KEY TAKEAWAYS

Board's Role

- Approve budget
- Monitor key financial indicators & metrics
- Ensure adequate controls
- Oversee audit
- Review 990 prior to filing
- Review 990 for completeness & accuracy

Tools

- Common financial ratios
- “Overhead Myth” handout
- Form 990 Public Relations Checklist



QUESTIONS?