



# Financial Accountability

Alliance For Nonprofit Management

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## FINANCIAL ACCOUNTABILITY

### IN THE BEGINNING

Why become a nonprofit?

Are there other groups providing the same service?

Would providing grants have the same impact?

#### **Experience counts**

- Someone who knows about accounting should be involved
- For small organizations, someone outside of the organization can help

#### **Documents needed**

##### *Articles of Incorporation*

- Must note charitable purpose
- Must indicate that assets will be transferred to a 501(c)(3) in the event of dissolution

##### *Bylaws*

- Considered an organizational document
- Sets the size of the Board
- Determines the officers, titles and duties
- Sets quorum guidelines
- Sets standards for the number of meetings per year and the notification requirements
- Can set the requirement for an audit

##### *Conflict of Interest Policies*

- Not currently required
- Questions are currently included in the new Form 1023
- Will most likely be included in the soon to be revised Form 990
- A conflict of interest arises if an individual has competing interests when making decisions affecting the not for profit organization.
- Conflicts can be both real and perceived.
- Potential provisions:
  - Multiple bids should be obtained for services and products before a final selection is made.
  - All contracts with related parties should be on arms length terms.
  - If an individual has a potential conflict she/he should be excused from the board meeting and the ensuing discussion and should not vote on the issue.
  - If compensation matters are involved, data should be obtained showing comparable information for other individuals in like positions in organizations of a similar type and size.
  - The policy should be read by all Board and committee members and employees when service to the organizations starts and annually thereafter.
  - Each person stating that they have done so should sign a statement.
  - The policy should be reviewed and updated each year.
    - ❖ Should outline the types of transactions that can lead to a conflict of interest

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- ❖ The procedures to follow when deciding whether to pursue a course of action involving a member of the Board of Directors or staff
- ❖ Should require arms-length provisions when considering a financial transaction or agreement with a related party
- ❖ The policy should be signed by each individual upon joining the organization
- ❖ The policy should be reviewed annually
- ❖ All volunteers and staff should review and sign a copy of the policy annually
- ❖ The signed policy forms should be maintained by the organization
- Resources for conflict of interest policies
  - ❖ Independent Sector -- [www.independentsector.org](http://www.independentsector.org)
  - ❖ National Council of Nonprofit Associations - [www.ncna.org](http://www.ncna.org)
  - ❖ Board Source – [www.boardsource.org](http://www.boardsource.org)
    - *Managing Conflicts of Interest: Practical Guidelines for Nonprofit Boards*, Daniel L. Kurtz

### ***Whistle blower policy***

- Need to designate an appropriate party to receive information in cases where potential abuse needs to be reported.
- Need to clearly outline the procedures to be followed in these cases
- Resources for whistle blower policies
  - [www.ncna.org](http://www.ncna.org), to resources, to financial accountability
  - [www.aicpa.org/audcommctr/toolkitsnpo/homepage.htm](http://www.aicpa.org/audcommctr/toolkitsnpo/homepage.htm)

## **Obtaining an Employer Identification Number**

### **Registering with the State to do business**

**Form 1023**, Application for Recognition of Exemption Under 501(c)(3) of the Internal Revenue Code

- New form is longer and asks more governance questions
- Consider hiring an attorney or accountant to help complete the form
- The form and the instructions can be found on the IRS website, [www.irs.gov](http://www.irs.gov)
- *IRS Publication 557, Tax-Exempt Status for Your Organization*

**Form 1024**, Application for Recognition of Exemption Under 501(a)

- This form has not yet been revised

### **State exemption**

- Generally need to file for exemption with the State once the IRS has granted exemption
- Check to see if the state grants 501(c)(3) organizations exemption from sales and property taxes

**Form 8734**, Support Schedule for Advance Ruling Period

- Must be filed five years after exemption is granted

### Resources for getting started

- Most States provide guides for starting a nonprofit
  - Emphasis is placed on that particular State's filing requirements, but also provide general guidance
- Greenwood Publishing Group – [www.alibris.com](http://www.alibris.com)
  - *Qualifying as a Nonprofit Tax-Exempt Organization: A Guide for Attorneys, Accountants, and Executive Management*, Robert N. Sughrue and Michelle L. Kopnski
- Nonprofit Financial Center – [www.nfconline.org](http://www.nfconline.org)
  - *Checklist for Starting a Nonprofit – Do It Right the First Time: Starting a Nonprofit Organization in Illinois*
  - *A Brief Guide to Forming a Not-for-Profit*
- University of Minnesota Press – [www.wilder.org](http://www.wilder.org)
  - *Starting and Running a Nonprofit Organization – Second Edition*, Joan M. Hummel
- Amherst H. Wilder Foundation – [www.FieldstoneAlliance.org](http://www.FieldstoneAlliance.org)
  - *How to Form a Nonprofit Corporation – Fifth Edition*, Anthony Mancuso
- John Wiley & Sons – [www.josseybass.com](http://www.josseybass.com)
  - *A Legal Guide to Starting and Managing a Nonprofit Organization*, Bruce Hopkins
- Wiley/Jossey-Bass – [www.josseybass.com](http://www.josseybass.com)
  - *Starting and Managing a Nonprofit Organization: A Legal Guide, Fourth Edition*, Bruce R. Hopkins

### GENERAL LEDGER PACKAGES

#### Considerations

- Price of program
- Features included in the program
- Should you use accrual or cash basis of accounting?

#### Resource for selecting a general ledger package

- [www.accountingsoftwareworld.com](http://www.accountingsoftwareworld.com)

#### Set-up of program

##### *Chart of accounts*

- Always assign an account number to an account name
  - Categories of accounts
  - Functions
    - ❖ Subaccounts
      - Classes
  - Number of levels of sorting needed
    - ❖ Level 1
      - Programs
      - General and administrative
      - Fundraising

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- ❖ Level 2
  - Grant
- Resource for the chart of accounts
  - Urban Institute – [www.urban.org](http://www.urban.org)
    - ❖ *Unified Financial Reporting System for Not-for-Profit Organizations: A Comprehensive Guide to Unifying GAAP, IRS Form 990 and Other Financial Reports Using a Unified Chart of Accounts*, Wilson C. Levis and Russy D. Sumariwalla

## Using the Program

### Training

- Limit the usage and availability to the program to the accounting department personnel

### Ordering checks

- Do not prepare checks manually unless necessary

### Who does the work?

- Transactions
- Reconciliations
- Review

## INTERNAL CONTROL CONSIDERATIONS ACCOUNTING

### Segregation of duties is key

- Size of the organization determines the ability to involve several people
- Involvement by the Board of Directors

### *Resource for Board responsibilities*

- BoardSource – [www.boardsource.org](http://www.boardsource.org)
  - *Financial Responsibilities of Nonprofit Boards*

## Accounting, bookkeeping and internal controls for specific account types

### *Cash*

- Checks
  - No pre-signed checks
  - Positive pay
  - Lock up unused checks
- Cash receipts/deposits
- Record keeping
- Bank reconciliations
  - Nonprofit Financial Center – [www.nfconline.org](http://www.nfconline.org)

- ❖ *How to Reconcile Your Bank Statement*
- Cash flow management
  - Community Loan Technologies – [www.ctcnet.org](http://www.ctcnet.org)
    - ❖ *Managing Cash Flows*
  - CPA's for the Public Interest – [www.cpaspi.org](http://www.cpaspi.org)
    - ❖ *Simple Cash Management for NPOs*
  - Nonprofit Financial Center – [www.nfconline.org](http://www.nfconline.org)
    - ❖ *Sample Cash Flow Worksheet*
  - Jossey-Bass – [www.josseybass.com](http://www.josseybass.com)
    - ❖ *The Cash Flow Management Book for Nonprofits: A Step-by-Step Guide for Managers, Consultants, and Boards*, Murrey Dropkin and Allyson Hayden

#### ***Investments***

#### ***Accounts receivable***

- Producing receivables invoices

#### ***Pledges***

#### ***Prepays***

#### ***Fixed assets***

- *Statements of Financial Accounting Standards (FAS) – FAS No. 93, Recognition of Depreciation by Not-for-Profit Organizations*

#### ***Accounts payable***

#### ***Deferred revenue***

#### ***Net assets***

- Unrestricted
  - Board Designated
- Temporarily restricted
- Permanently restricted

#### ***Contributions***

- Association of Gospel Rescue Missions – [www.agrm.org](http://www.agrm.org)
  - *Administering Gifts in Kind*
- Financial Accounting Standards Board – [www.fasb.org](http://www.fasb.org)
  - *Accounting for Contributed Services: Survey of Preparers and Users of Financial Statements of Not-for-Profit Organizations*
  - *Statements of Financial Accounting Standards (FAS) – FAS No. 136, Transfer of Assets to a Not-for-Profit or Charitable Trust that Raises or Holds Contributions for Others*

#### ***Exchange transactions***

- *Statements of Financial Accounting Standards (FAS) – FAS No. 116, Accounting for Contributions Received and Contributions Made*
- *AICPA Audit and Accounting Guide, Not-for-Profit Organizations*

#### ***Allocation of expenses***

- Direct identification
- Indirect costs
- Resources for expenses
  - Financial Accounting Standards Board – [www.fasb.org](http://www.fasb.org)
    - ❖ *Statements of Financial Accounting Standards (FAS) – FAS No. 117, Financial Statements of Not-for-Profit Organizations*

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- ❖ *Statements of Financial Accounting Standards (FAS) – FAS No. 93, Recognition of Depreciation by Not-for-Profit Organizations*
- American Institute of Certified Public Accountants – [www.aicpa.org](http://www.aicpa.org)
- ❖ *Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include Fund Raising – SOP 98-2*
- Association of Gospel Rescue Missions – [www.agrm.org](http://www.agrm.org)
- ❖ *Understanding Allocation*

### Approvals

- Need to review all accounting work

### Resources for internal controls and accounting

- Amherst H. Wilder Foundation – [www.FieldstoneAlliance.org](http://www.FieldstoneAlliance.org)
  - *Bookkeeping Basics*, Debra Ruegg and Lisa Venkatrathnam
- American Association of Museums – [www.aam-us.org](http://www.aam-us.org)
  - *Not-for-Profit Accounting Made Easy*, Warren Ruppel
- Nonprofit Financial Center – [www.nfconline.org](http://www.nfconline.org)
  - *Bookkeeping Systems and Their Components*
- Wiley/Jossey-Bass – [www.josseybass.com](http://www.josseybass.com)
  - *Financial and Accounting Guide for Not-for-Profit Organizations*, (there is a cumulative supplement updating this edition) Malvern Gross, Jr., Richard F. Larkin and John H. McCarthy
  - *Wiley Not-for-Profit GAAP 2005: Interpretation and Application of Generally Accepted Accounting Principles for Not-for-Profit Organizations*, Richard F. Larkin and Marie DiTommaso

## BUDGETS

### Planning for the year

#### Development of the budget

- Political considerations
- Projections

#### Input into the general ledger

- Break out anticipated activity by month
  - Do NOT divide by 12

### Monitoring

#### Resources for budgeting

- American Association of Museums – [www.aam-us.org](http://www.aam-us.org)
  - *Accounting & Budgeting in Public & Nonprofit Organizations – A Manager's Guide*
- Brody, Weiser & Burns
  - *The Nonprofit Budgeting Process*

- Wiley/Jossey-Bass – [www.josseybass.com](http://www.josseybass.com)
  - *Budgeting for Not-for-Profit Organizations*, David C. Maddox
  - *Not-for-Profit Budgeting and Financial Management*, Edward J. McMillen
  - *Activity Based Management: For Service Industries, Government Entities and Nonprofit Organizations*, James A. Brimson and John Antos
- Amherst H. Wilder Foundation – [www.FieldstoneAlliance.org](http://www.FieldstoneAlliance.org)
  - *Coping with Cutbacks-The Nonprofit Guide to Success When Times Are Tight*, Emil Angelica and Vincent Hyman

## STRATEGIC PLANNING

Long-term plan for the organization

Determining programs and goals for a several year period

Building a plan to accomplish the goals

Developing a multi-year financial budget to project the cost and outcome of the plan

### Resources for strategic planning

- American Association of Museums – [www.aam-us.org](http://www.aam-us.org)
  - *Creating and Implementing Your Strategic Plan*
- Board Source – [www.boardsource.org](http://www.boardsource.org)
  - *Step-by-Step: Strategic Planning*
- Brody, Weiser & Burns – <http://16.65.35.60/pdf/pocketbusforwebsite.pdf>
  - *The Pocket Guide to Business Planning*
- Management Assistance Program – [www.mapfornonprofits.org](http://www.mapfornonprofits.org)
  - *Facilitator's Guide to Nonprofit Strategic Planning*
- Wiley/Jossey-Bass – [www.josseybass.com](http://www.josseybass.com)
  - *Creating and Implementing Your Strategic Plan: A Workbook for Public and Nonprofit Organizations, Second Edition*, John M. Bryson and Farnumki Alston
  - *Designing and Planning Programs for Nonprofit and Government Organizations*, Edward J. Pawlak and Robert D. Vinter
  - *Financial Planning for Nonprofit Organizations*, Jody Blazek
  - *Strategic Planning for Nonprofit Organizations, Second Edition*, Michael Allison and Jude Kaye
  - *Strategic Planning for Public and Nonprofit Organizations: A Guide to Strengthening and Sustaining Organizational Achievement, Third Edition*, John M. Bryson
  - *Breakthrough Thinking for Nonprofit Organizations: Creative Strategies for Extraordinary Results*, Bernard Ross and Clare Segal
- Amherst H. Wilder Foundation – [www.FieldstoneAlliance.org](http://www.FieldstoneAlliance.org)
  - *The Five Life Stages of Nonprofit Organizations – Where You Are, Where You're Going, and What to Expect When You Get There*, Judih Sharken Simon with J. Terence Donovan

## FINANCIAL REPORTING

### Statement of Financial Position

### Statement of Activities

#### Interim statements

- By natural category
- Compare to budget
- Should be able to report on each function
- Discrepancies between actual and budget should be identified and discussed
- Projections should be made and action taken to correct any shortfalls
- Always present a statement of position with the statement of activities

#### Resources for financial reporting

- Financial Accounting Standards Board – [www.fasb.org](http://www.fasb.org)
  - *Statements of Financial Accounting Standards – FAS No. 117, Financial Statements of Not-for-Profit Organizations*
  - *Statements of Financial Accounting Standards (FAS) – FAS No. 95, Statement of Cash Flow*
  - *Statements of Financial Accounting Concepts, #4 – Objectives of Financial Reporting by Nonbusiness Organizations*
  - *Statements of Financial Accounting Concepts, #6 – Elements of Financial Statements*
- American Institute of Certified Public Accountants – [www.cpa2biz.com](http://www.cpa2biz.com)
  - *AICPA Practice Aid Series, "Financial Statement Presentation and Disclosure Practices for Not-for-Profit Organizations"*
- Urban Institute – [www.urban.org/url.cfm?ID=311045](http://www.urban.org/url.cfm?ID=311045)
  - *The Quality of Financial Reporting by Nonprofits – Findings and Implications*, Kennard Wing and Mark A. Hagar
- UMI Research Press – [www.alibris.com](http://www.alibris.com)
  - *A Financial Reporting Model For Not-For-Profit Associations*, E. Lewis Bryan
- Jossey-Bass – [www.josseybass.com](http://www.josseybass.com)
  - *Publishing the Nonprofit Annual Report: Tips, Traps, and Tricks of the Trade*, Caroline Taylor
- American Association of Museums – [www.aam-us.org](http://www.aam-us.org)
  - *Presenting: Nonprofit Financials, Understanding Nonprofit Financial Statements*, Tom McLaughlin

## FINANCIAL MANAGEMENT

#### Resources for financial management

- Wiley/Jossey-Bass – [www.josseybass.com](http://www.josseybass.com)
  - *Financial Management for Nonprofit Organizations*, JoAnn Hankin, Alan G. Seidner and John T. Zitlow
  - *Financial Planning for Nonprofit Organizations*, Jody Blazek

- *Generating and Sustaining Nonprofit Earned Income: A Guide to Successful Enterprise Strategies*, Yale School of Management - The Goldman Sachs Foundation Partnership on Nonprofit Ventures
- *Streetsmart Financial Basics for Nonprofit Managers, Second Edition*, Thomas McLaughlin

## AUDITS

### When are audits needed?

- Grants
- State requirements
- Board of Directors
- Bylaws

### What is an audit?

- How to get ready

### Resources for audit preparation

- Nonprofit Financial Center – [www.nfconline.org](http://www.nfconline.org)
  - *Nonprofit Audit Preparation Checklist*
- PPC – [www.ppcnet.com](http://www.ppcnet.com)
  - *PPC's Guide to Audits of Nonprofit Organizations NPO*
- Board Source – [www.boardsource.org](http://www.boardsource.org)
  - *Checks and Balances: The Board Member's Guide to Nonprofit Financial Audit*, Andrew Lang

## REVIEWS

### How is it different from an audit?

- Analytic procedures
- Inquiries

## COMPILATIONS

### AUDITS UNDER OMB CIRCULAR A-133

#### What are the requirements?

- Required if organization expands more than \$500,000 in federal awards in a fiscal year
- Funds can be received through a third party

#### Compliance testing

- *OMB Circular A-110*
- *OMB Circular A-122*

#### Reports

- Data collection form
  - Signed by both the auditor and the client

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- Corrective action plan
  - Prepared by the client when there are findings

### **Audit guidance**

- *A-133 – Auditing Standards*
- *Audit Guide, Audits of State, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards, American Institute of Certified Public Accountants – www.cpa2biz.com*
- *Statement on Auditing Standards No. 74, Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance*

### **OMB Circulars -- www.whitehouse.gov**

- *A-110, "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations"*
- *A-21, "Cost Principles for Educational Institutions"*
- *A-122, "Cost Principles for Nonprofit Organizations"*
- *A-133, "Audits of States, Local Governments, and Non-Profit Organizations"*

### **Weblinks for federal awards**

- Code of Federal Regulations – [www.gpoaccess.gov/cfr/index.html](http://www.gpoaccess.gov/cfr/index.html)
- Department of Defense – *Per Diem, Travel and Transportation Allowance Committee* – <https://secureapp2.hqda.pentagon.mil/perdiem>
- FedWorld.Gov – [www.fedworld.gov](http://www.fedworld.gov)
- General Accounting – [www.gao.gov](http://www.gao.gov)
- GPO Access – Federal Register – [www.gpoaccess.gov/fr/about.html](http://www.gpoaccess.gov/fr/about.html)
- Office of Management and Budget – [www.whitehouse.gov/omb](http://www.whitehouse.gov/omb)
- Thomas Guide – <http://thomas.loc.gov>
- grants.gov – [www.grants.gov](http://www.grants.gov)
- Firstgov.gov – [www.firstgov.gov](http://www.firstgov.gov)

## **TAXES**

### **Payroll**

#### **W-4, Employee Withholding Allowance Certificate**

- Employee completes at time of hire
- Should be updated annually

#### **State withholdings**

#### **I-9, Employment Eligibility Verification**

- Form is for the Department of Justice, Immigration and Naturalization Service
- Must be completed within 3 days of hire

#### **W-2, Wage and Tax Statement**

#### **W-3, Transmittal of Wage and Tax Statement**

#### **941 for 2005: Employer's Quarterly Federal Tax Return**

#### **940, Employer's Annual Federal Unemployment (FUTA) Tax Return**

*State unemployment*

**Resources for Payroll**

- *Payroll Circular E, Employer's Tax Guide (Including 2005 Wage Withholding and Advance Earned Income Credit Payment Tables)*
- *IRS Publication 393, Federal Employment Tax Forms*
- *IRS Publication 1779, Independent Contractor or Employee*

**Other**

**1099-MISC**, Miscellaneous

**Sales and use taxes**

- Check the various state requirements. Be aware that some states have requirements if an organization holds a meeting/conference in that state.
- Resources for sales taxes
  - National Council of Nonprofit Agencies – [www.ncna.org](http://www.ncna.org)
    - ❖ *Sales Tax Exemptions for Charitable, Educational, and Religious Nonprofit Organizations*
    - ❖ *Should Non Profit Organizations Pay Sales and Property Taxes?*

**BENEFITS**

**Form 5500**, Annual Return/Report of Employee Benefit Plan

- Pension
- Section 125

**INFORMATION RETURNS**

**990**, Return of Organization Exempt From Income Tax

**990EZ**, Short Form-Return of Organization Exempt From Income Tax

**Schedule A**, Organization Exempt Under Section 501(c)(3), Supplemental Information

**Schedule B**, Schedule of Contributors

**Limits**

- Normally not more than \$25,000, no filing
  - Respond to IRS requests for information
- \$25,000 to \$100,000 in gross receipts and \$250,000 or less in assets file Form 990EZ
- Over \$100,000 in gross receipts, file Form 990

**Due date**

- Day 15 of month 5 after the organization's year-end

**Extensions**

- Form 8868, Application of Extension of Time to File an Exempt Organization Return
  - One three-month automatic extension
  - One three-month additional extension

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### ***Resources for information returns***

- American Society of Association Executives – [www.shopasnet.org](http://www.shopasnet.org)
  - *Completing Your IRS Form 990: A Guide for Tax Exempt Organizations*, Michael Sorrells and Andrew Lang
- BoardSource – [www.boardsource.org](http://www.boardsource.org)
  - *The IRS Form 990: A Window to Nonprofits*
- Charities Review Council – [www.crcmn.org](http://www.crcmn.org)
  - *A Donor's Guide to Form 990*
  - *IRS Form 990 Checklist*
  - *Tips for Form 990 Recordkeeping*
- Minnesota Council of Nonprofits – [www.mncn.org](http://www.mncn.org)
  - *Communicating Form 990*
- Jossey-Bass – [www.josseybass.com](http://www.josseybass.com)
  - *990 Handbook: A Line-by-Line Approach*, Jody Blazek
  - *Tax Planning and Compliance for Tax-Exempt Organizations: Rules, Checklists, Procedures, Fourth Edition*

**990T**, Exempt Organization Business Income Tax Return (and proxy tax under Section 6033(e))

### ***Due dates***

- For employees' trust under 401(a), IRAs (including SEPs and SIMPLEs), Roth IRAs, Cloverdell ESA and Archer MSAs.
  - Day 15 of month 4 after the trust's year-end
- All others
  - Day 15 of month 5 after the organization's year-end
- Use Form 8868 for extensions

**990PF**, Return of Private Foundation or Section 4947(a)(1) Nonexempt Charitable Trust Treated as a Private Foundation

### ***Due date***

- Day 15 of month 5 after the foundation's year-end.
- Extensions available are the same as for the Form 990.
- *IRS Publication 578, Tax Information for Private Foundations and Foundation Managers*

### **Transparency**

- Guidestar, [www.guidestar.org](http://www.guidestar.org)
- IRS, [www.irs.gov](http://www.irs.gov)
- E-filing

## TAX ISSUES

### Fundraising

#### *Proposals for grants*

- Include the accounting department in the development of the budgets
- Recovery of costs

#### *Acknowledgements*

#### *Reporting*

- GAAP
  - Fund raising activities are those involving soliciting donors to contribute money, securities, materials, services, facilities and time.
  - American Institute of Certified Public Accountants – [www.aicpa.org](http://www.aicpa.org)
    - ❖ *Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include Fund Raising – SOP 98-2*
- Form 990
  - Page 2, Part III, Column D, Fundraising
    - ❖ Expenses incurred in soliciting contributions, gifts, grants, etc.
    - ❖ Include allocable overhead costs.

### Special events

#### *Reporting*

- GAAP
  - If the activity is an ongoing major or central activity
    - ❖ FASB Statement 117 requires reporting gross amounts of revenues and expenses.
    - ❖ Presentation in the financial statements can be either:
      - The direct costs of the activity can be deducted as a line item from the activity's revenues.
      - The direct costs of the activity can be deducted as a line item in the same section as are other program or supporting services and allocated, if necessary, among those various functions.
  - If the activity is peripheral or incidental
    - ❖ Reporting net amounts of revenues and expenses is permitted, but not required
  - Resource for GAAP
    - ❖ AICPA Audit and Accounting Guide, Not-for-Profit Organizations
- Form 990
  - Revenue
    - ❖ Line 9a
      - Include as gross revenue the retail value of the goods or services provided.
      - In the parentheses, note as contribution revenue the amount collected in excess of the retail value of the goods or services provided.

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- The contribution amount included in Line 9a is included in Line 1a as a contribution.
- Expenses
  - ❖ Line 9b
    - Report only expenses directly related to the goods and services the buyer receives from the event.
  - ❖ Fund raising expenses relating to contributions reported in Line 9a and Line 1a are reported in Part II, Column D.
  - ❖ Items of nominal value
    - If the goods and services given or offered have only nominal value, include all of the receipts in contributions in Line 1a.
  - ❖ The related expenses are reported in Part II, Column D.
- Attached schedule
  - ❖ Include gross receipts, contributions included in gross receipts, gross revenues, direct expenses and the net income (loss) for the three largest fund raising events, as measured by gross receipts.
- Resource for tax
  - ❖ Instructions for Form 990

### **Lobbying**

#### *Registration*

- Check State websites

#### *Definitions*

#### *Reporting*

- Form 990
  - 501(c)(3)
    - ❖ Instructions, Schedule A, Form 990
  - 501(c)(5),(6)
    - ❖ Instructions, Form 990

#### *Resources*

- Alliance for Justice – [www.allianceforjustice.org/research\\_publications/publications](http://www.allianceforjustice.org/research_publications/publications)
  - Numerous books and pamphlet discussing advocacy and reporting requirements
- Amherst H. Wilder Foundation – [www.FieldstoneAlliance.org](http://www.FieldstoneAlliance.org)
  - *The Lobbying and Advocacy Handbook for Nonprofit Organizations*, Marcia Avner
  - *The Nonprofit Board Member's Guide to Lobbying and Advocacy*, Marcia Avner
- Wiley/Jossey-Bass -- [www.josseybass.com](http://www.josseybass.com)
  - *The Legislative Labyrinth: A Map for Not-for-Profits*, Waler P. Pidgeon, Jr. (editor)
- Other
  - Give Voice – [www.givevoice.org](http://www.givevoice.org)
  - Independent Sector – <http://independentsector.org>

## COMPENSATION/INTERMEDIATE SANCTIONS

### Key Terms

- Key employees
- Disqualified persons
- Excess benefit
- Automatic excess benefit

### Resources

- Jossey-Bass – [www.josseybass.com](http://www.josseybass.com)
  - *Intermediate Sanctions: Curbing Nonprofit Abuse*, Bruce R. Hopkins
  - *The Law of Intermediate Sanctions: A Guide for Nonprofits*, Bruce R. Hopkins
- General instruction P, Form 990
- Internal Revenue Service – [www.irs.gov](http://www.irs.gov)
  - *Intermediate Sanctions (IRC 4958) Update, IRS Exempt Organizations Continuing Professional Education Technical Instruction Program for Fiscal Year 2003*
  - “Automatic” Excess Benefit Transactions Under IRC 4958, IRS CPE for 2004

## PUBLIC DISCLOSURE

### What needs to be available to the public

#### *Form 990*

- Three years of returns

#### *Forms 1023 and 1024*

#### *Resources*

- General instruction M, Form 990
- IRS instructions for the Form 1023
- Alliance for Justice – [www.allianceforjustice.org](http://www.allianceforjustice.org)
  - *Give Me Your 990! Public Disclosure Requirements for Tax-Exempt Organizations*

## CONTRIBUTIONS

### Acknowledgements

- When needed
- Noting what is a contribution and what is an exchange transaction
- Value of benefits received
- Items with no substantial value

### Resources

- *General instruction L, Form 990*

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- *IRS Publication 1771, Charitable Contributions, Substantiation and Disclosure Requirements*
- *IRS Publication 526, Charitable Contributions*
  - Written for the donor's deduction purposes
- *IRS Publication 561, Determining the Value of Donated Property*

## **RELATED PARTIES**

### **Joint ventures**

#### *Resources*

- *Joint Ventures Involving Tax-Exempt Organizations, Second Edition* (there is a 2004 cumulative supplement), Michael I. Sanders

### **Individuals**

#### **Other nonprofits**

- Common governance
- Economic control
- Resource
  - *AICPA, Accounting Standards Division, Statement of Financial Position 94-3, Reporting of Related Entities by Not-for-Profit Organizations*

## **STATE REQUIREMENTS**

### **Reporting when charities solicit funds in a state**

- Every state has unique filing requirements.
- Generally the state attorney general's office or the charitable registration office is responsible for charitable registrations and annual filings.
- Generally required if the organization is soliciting donation in the state.
- Many of the state attorney general offices have cooperated to produce a central informational site through the National Association of State Charity Officials.
  - [www.nasconet.org](http://www.nasconet.org)
- Most states accept the Unified Registration Statement (URS).
  - States requiring registration, but do not accept the URS are Alaska, Oklahoma, Colorado and Florida. The District of Columbia also does not accept the form.
  - States that do not require registration are Texas, Indiana, Nevada, Idaho, Wyoming, South Dakota, Nebraska and Iowa.

#### *Resources*

- State websites

### **Fundraising**

Generally requires fundraisers, both in-house and professional solicitors to register and report agreements signed with charities.

## **Lobbying**

Whether lobbying is conducted in-house or through the use of an outside lobbyist, most states require registration and reporting of activities.

- Often there is a low expense threshold

## **Sales/use taxes**

- Check the various state requirements. All states have websites that provide the necessary information.

## **Raffles**

## **UNRELATED BUSINESS INCOME**

### **Regularly carried on**

### **Profit motive**

#### *Resources*

- *IRS Instructions for Form 990T*
- *IRS Publication 598, Tax on Unrelated Business Income of Exempt Organizations*

## **GOVERNANCE**

### **The Role of the Board of Directors**

#### *Resources*

- Committee on Nonprofit Corporations, ABA Section of Business Law – [www.aba.org](http://www.aba.org)
  - *Guidebook for Directors of Nonprofit Corporations, Second Edition*, Jeannie Carmedelle Frey and George W. Overton
- Jossey-Bass – [www.josseybass.com](http://www.josseybass.com)
  - *Why Nonprofits Fail – Overcoming Founder's Syndrome, Funphobia and Other Obstacles to Success*
- Board Source – [www.boardsource.org](http://www.boardsource.org)
  - *Accountability: The Buck Stops Here*
  - *Financial Responsibilities of Nonprofit Boards*, Andrew Lang
  - *Presenting Nonprofit Financial: An Overview of Board Fiduciary Responsibility*, Thomas A. McLaughlin

### **Interim reporting**

### **Audit committees**

- Should establish a separate committee of the Board of Directors.

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- A minimum of three to four members should be considered.
- If possible, one member should have some financial expertise.

### ***Responsibilities should include:***

- Select an auditing firm for confirmation by the Board of Directors.
  - For small organizations, the committee might review the books annually, if an audit is not economically feasible.
- Overseeing the work of the auditors.
- Verify that there are no conflicts of interest between the organization and the external auditors.
  - The audit committee should be aware of all of the services provided by the auditors to the organization.
- Monitor internal controls and their effectiveness.
- Meeting with the auditors:
  - Prior to the audit to discuss any pending issues and understand the scope of the work to be done.
  - Review the audited financial statements and any management letter comments.
  - Discuss the auditor's assessment of the strengths and weaknesses of the audit department and management's involvement in the financial process.
- Present the audit results to the full board for approval.
- Provide financial literacy to all of the board members.

### **Conflict of interest policies**

### **Whistle blower policies**

### **Document retention**

### **Investment policies**

- Establish an investment committee to oversee the investment manager's contract and results.
- An investment policy should document:
  - The types of investments the organization can utilize.
  - The asset allocation percentage allowed for each type of investment vehicle.
  - Establish the goals for investment returns.
  - Withdrawal guidelines.

### ***Resources***

- Jossey-Bass – [www.josseybass.com](http://www.josseybass.com)
  - *Nonprofit Investment Policies: Practical steps for Growing Charitable Funds*, Robert P. Fry, Jr.

### **Reserve policies**

- The policy should establish an amount that the organization will set aside to protect the organization from unforeseen future events with negative financial impacts.

- The amount can be tied to any financial benchmark the Board of Directors feels is appropriate.
- The board should monitor the guidelines periodically to verify continued reasonableness and compliance.

## MISCELLANEOUS RESOURCES

### PUBLICATIONS

#### Consulting

- Amherst H. Wilder Foundation – [www.FieldstoneAlliance.org](http://www.FieldstoneAlliance.org)
  - *Consulting with Nonprofits – A Practitioner's Guide*

#### Fraud

- Nathan Garber & Associates – <http://charitychannel.com>
  - *Preventing Fraud: How to Safeguard Your Organization*
- Wiley/Jossey-Bass – [www.josseybass.com](http://www.josseybass.com)
  - *Fraud and Abuse in Nonprofit Organizations: A Guide to Prevention and Detection*
  - *Fraud Risk Assessment Guide*

#### Human Resources

- Wilder Foundation – [www.FieldstoneAlliance.org](http://www.FieldstoneAlliance.org)
  - *Resolving Conflict in Nonprofit Organizations – The Leader's Guide to Finding Constructive Solutions*
- Wiley/Jossey-Bass – [www.josseybass.com](http://www.josseybass.com)
  - *Creating Your Employee Handbook: A Do-It-Yourself Kit for Nonprofits*
  - *Human Resource Policies and Procedures for Nonprofit Organizations*
  - *Human Resources Management for Public and Nonprofit Organizations, Second Edition*
  - *Nonprofit Compensation, Benefits, and Employment Law*

#### Legal

- Maryland Association of Nonprofit Organizations – [www.boardsource.org](http://www.boardsource.org)
  - *Legal Obligations of Nonprofit Boards*
- Wiley/Jossey-Bass – [www.josseybass.com](http://www.josseybass.com)
  - *Bruce Hopkins' Nonprofit Counsel*
  - *The Law of Tax-Exempt Organizations, 2004 Supplement, Eighth Edition*
  - *The Law of Tax-Exempt Organizations, Eighth Edition*
  - *The Second Legal Answer Book for Nonprofit Organizations*
  - *The Legal Answer Book for Nonprofit Organizations*

#### Software

- CompassPoint Nonprofit Services – [www4.compasspoint.org](http://www4.compasspoint.org)
  - *Adapting QuickBooks for Nonprofit Organizations*
  - *QuickBooks for Not-for-Profit Organizations - Book - Version 2002*

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- Nonprofit Open Source Initiative – [www.nosi.net](http://www.nosi.net)
  - *Choosing and Using Open Source Software: A Primer for Nonprofits*
- The Sleeter Group – [www4.compasspoint.org](http://www4.compasspoint.org)
  - *Sleeter Group's QuickBooks for Not-for-Profit Organizations*

### **Management**

- The Aspen Institute's Nonprofit Sector Research Fund and the Brookings Institution – [www.nonprofitresearch.org](http://www.nonprofitresearch.org)
  - *Making Nonprofits Work: A Report on the Tides of Nonprofit Management Reform*
- Committee on Nonprofit Corporations, ABA Section of Business Law – [www.abanet.org](http://www.abanet.org)
  - *Guidebook for Directors of Nonprofit Corporations - Second Edition*
- Community Loan Technologies – [www.communityloantech.org](http://www.communityloantech.org)
  - *Managing and Adapting in a Time of Uncertainty*
  - *Nonprofit Financial & Administrative Activity Schedule*
- Jossey-Bass – [www.josseybass.com](http://www.josseybass.com)
  - *Breakthrough Thinking for Nonprofit Organizations: Creative Strategies for Extraordinary Results*
  - *Why Nonprofits Fail – Overcoming Founder's Syndrome, Funphobia and Other Obstacles to Success*
- Amherst H. Wilder Foundation – [www.FieldstoneAlliance.org](http://www.FieldstoneAlliance.org)
  - *Coping with Cutbacks – The Nonprofit Guide to Success When Times Are Tight*
  - *Developing Effective Teams*

### **WEBLINKS**

#### **Capacity Building**

- Alliance for Nonprofit Management – [www.allianceonline.org](http://www.allianceonline.org)

#### **Communications**

- Benton Foundation – [www.benton.org](http://www.benton.org)

#### **Computer**

- The National Christina Foundation – [www.cristina.org](http://www.cristina.org)
- Community Technology Center Network – [www.ctcnet.org](http://www.ctcnet.org)
- US Department of Education's – Community Technology Centers – [www.ed.gov/programs/comtechcenters/index.html](http://www.ed.gov/programs/comtechcenters/index.html)
- US Department of Education's – Technology Innovation Challenge Grants – [www.ed.gov/programs/techinnov/index.html](http://www.ed.gov/programs/techinnov/index.html)
- Web Lab – [www.weblab.org](http://www.weblab.org)
- CompuMentor – [www.compumentor.org](http://www.compumentor.org)

#### **General NFPO**

- Action Without Borders – [www.idealists.org](http://www.idealists.org)

- The National Center for Charitable Statistics – <http://nccsdataweb.urban.org>

### **Healthcare**

- National Health Council – [www.nhcouncil.org](http://www.nhcouncil.org)
- The American Hospital Association – <http://aha.org>

### **Human Resource**

- FreeErisa – [www.freeerisa.com](http://www.freeerisa.com)
- BenefitsLink – [www.benefitslink.com](http://www.benefitslink.com)
- U.S. Department of Labor: Bureau of Labor Statistics – [www.bls.gov/ncs/ebs](http://www.bls.gov/ncs/ebs)
- US Department of Labor: Employee Benefits Security Administration – [www.efast.dol.gov](http://www.efast.dol.gov)
- U.S. Department of Labor: Pension and Welfare Benefits Administration – <http://www.dol.gov>

### **Internet Resources**

- NonProfNet – [www.vcn.bc.ca/volnet/links.htm](http://www.vcn.bc.ca/volnet/links.htm)

### **Legal**

- FindLaw – [www.findlaw.com](http://www.findlaw.com)
- Internet Law and Regulation – <http://ilrweb.com>
- The Supreme Court of the United States – [www.supremecourtus.gov](http://www.supremecourtus.gov)
- American Bar Association – [www.aba.org](http://www.aba.org)

### **Federal News**

- Congressional Record – [www.gpoaccess.gov](http://www.gpoaccess.gov)
- FedWorld.Gov – [www.fedworld.gov](http://www.fedworld.gov)
- GPO Access – Federal Register – [www.gpoaccess.gov](http://www.gpoaccess.gov)
- Government Printing Office Access Online Resources – [www.access.gpo.gov](http://www.access.gpo.gov)
- Thomas Guide – <http://thomas.loc.gov>

### **NFPO News**

- Charity Channel – [www.charitychannel.com](http://www.charitychannel.com)
- Chronicle of Philanthropy – <http://philanthropy.com>
- NonProfNet – [www.vcn.bc.ca/volnet/links.htm](http://www.vcn.bc.ca/volnet/links.htm)
- Center for Nonprofit Advancement – <http://wcanonprofits.org>
- The Nonprofit Times Online – [www.nptimes.com](http://www.nptimes.com)

### **NFPO Services**

- United Way of America – [www.unitedway.org](http://www.unitedway.org)
- Virtual Community of Associations – [www.vcanet.org](http://www.vcanet.org)
- Center for Nonprofit Advancement – <http://wcanonprofits.org>

### **Pension**

- FreeErisa – [www.freeerisa.com](http://www.freeerisa.com)

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- US Department of Labor: Employee Benefits Security Administration – [www.efast.dol.gov](http://www.efast.dol.gov)
- U.S. Department of Labor: Pension and Welfare Benefits Administration – [www.dol.gov](http://www.dol.gov)

### **Private Foundations**

- The Foundation Center – [www.fdncenter.org](http://www.fdncenter.org)
- Council on Foundation – [www.cof.org/foundationnews](http://www.cof.org/foundationnews)

### **Public Policy**

- Independent Sector – <http://independentsector.org>
- National Council of Nonprofit Associations (NCNA) – [www.ncna.org](http://www.ncna.org)
- Nonprofit Sector Research Fund – [www.nonprofitresearch.org](http://www.nonprofitresearch.org)
- OMB Watch – [www.ombwatch.org](http://www.ombwatch.org)
- Project on Government Oversight (POGO) – [www.pogo.org](http://www.pogo.org)
- Software
  - TimeValue Software – [www.tcalc.com](http://www.tcalc.com)
  - CompuMentor – [www.compumentor.org](http://www.compumentor.org)

### **Volunteer**

- Energize – [www.energizeinc.com](http://www.energizeinc.com)
- Network For Good – [www.helping.org/nonprofit](http://www.helping.org/nonprofit)
- Volunteer Match – [www.volunteermatch.org](http://www.volunteermatch.org)

### **Management**

- American Society of Association Executives (ASAE) – [www.asaenet.org](http://www.asaenet.org)
- Nonprofit Resource Center – <http://not-for-profit.org>
- Nonprofit Risk Management Center – [www.nonprofitrisk.org](http://www.nonprofitrisk.org)

### **Accounting**

- American Institute of Certified Public Accountants (AICPA) – [www.aicpa.org](http://www.aicpa.org)
- CPAnet – [www.cpalinks.com](http://www.cpalinks.com)
- Financial Accounting Standards Board – [www.fasb.org](http://www.fasb.org)
- General Accounting – [www.gao.gov](http://www.gao.gov)
- Greater Washington Society of CPAs (GWSCPA) – <http://gwscpa.org>

### **Fundraising**

- American Association of Fundraising Counsel – [www.aafrc.org](http://www.aafrc.org)
- Association of Fundraising Professionals (AFP) – [www.afpnet.org](http://www.afpnet.org)
- Gifts In Kind International – [www.giftsinkind.org](http://www.giftsinkind.org)
- Grants.gov – [www.grants.gov](http://www.grants.gov)
- Planned Giving Resources, Inc. – [www.pgresources.com](http://www.pgresources.com)

### **Tax**

- Department of the Treasury – [www.ustreas.gov](http://www.ustreas.gov)

- General Explanation of the Joint Committee on Taxation U.S. Congress – [www.house.gov/jct](http://www.house.gov/jct)
- GuideStar – [www.guidestar.org](http://www.guidestar.org)
- Internal Revenue Service (Posting of Section 527 Filings, Charities, Publications Online) – [www.irs.gov](http://www.irs.gov)
- RIA Tax – [www.riatax.com](http://www.riatax.com)
- National Center for Charitable Statistics (NCCS) – <http://nccsdataweb.urban.org>
- National Taxpayers Union – [www.ntu.org](http://www.ntu.org)
- Tax Analysts Online – [www.tax.org](http://www.tax.org)
- The Tax Foundation – [www.taxfoundation.org](http://www.taxfoundation.org)
- Sales Tax Institute – [www.salestaxinstitute.com](http://www.salestaxinstitute.com)
- Sister States Tax Directory – [www.sisterstates.com](http://www.sisterstates.com)
- United States Code – <http://uscode.house.gov/search/criteria.php>
- United States Tax Code Online – [www.fourmilab.ch/ustax/ustax.html](http://www.fourmilab.ch/ustax/ustax.html)
- United States Tax Court – [www.ustaxcourt.gov](http://www.ustaxcourt.gov)