

NOT-FOR-PROFIT FINANCIAL REPORTING AND COMPLIANCE

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Overview

Not-for-Profit Financial Reporting & Compliance

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- I. Internal Financial Reporting
 - I. Monthly reporting
 - II. Governance
- II. External Financial Reporting
- III. Federal Form 990 and MA form PC
 - I. Background
 - II. Common Errors

NFP Internal Financial Reporting

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- Internal Financial Reporting
 - ▣ Not a one size fits all approach
- Basics
 - ▣ Balance Sheet
 - ▣ Statement of activities(actual vs. budget/PY)
 - ▣ Statement of cash flow (Y-T-D)
- Best Practices
 - ▣ Key financial and operating indicators (dashboard)
 - ▣ Statistics by department reflecting the levels of activity (actual vs. budget/PY)
 - ▣ Additional reporting
 - 12 month rolling trend (B/S, I/S & CF)
 - Narrative (*The Story Behind The Numbers*)
- **WHAT ELSE DO YOU PRODUCE???**

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- Balance Sheet Key Items
 - ▣ Total cash/investments position. How much do you have to survive?
 - ▣ Working capital/current ratio
 - ▣ Debt to equity
 - ▣ Unrestricted net assets
- Statement of Activities Key Items
 - ▣ Comparison to budget and **understanding differences**. Be reflective and update budget as necessary
 - ▣ Annual budgetary process – **Be realistic and get input**
- Statement of Cash Flows
 - ▣ Most confusing and underutilized statement
 - ▣ Need to understand where cash comes from and where it is going

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Key Metrics/Dashboard

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Average Peer Group</u>
LIQUIDITY					
Current ratio	2.63	2.04	3.74	3.19	3.60
Working capital, in thousands	4,863	6,393	10,422	9,238	4,684
Days in accounts receivable	50.6	64.4	57.7	63.8	59.0
Days in accounts payable	32.8	99.5	23.5	17.7	50.1
Days cash on hand	23.3	20.7	10.3	3.2	48.2
Days cash on hand - all sources	34.2	32.6	20.3	12.7	88.8
PROFITABILITY					
Operating margin	0.6%	2.2%	-0.3%	-0.8%	-1.99%
Total margin	1.3%	1.6%	0.6%	-0.4%	-0.47%
EFFICIENCY					
Total FTEs	315	321	387	464	224
Operating revenue per Visit	195	202	199	202	250
Average wage per FTE	57,974	60,567	58,610	88,701	57,772
Net revenue per FTE	101,371	109,600	104,465	140,615	118,351
Total expense per FTE	101,224	107,586	105,709	142,538	119,288
Total expense per unit of productivity	194	198	200	283	250
A&G expense ratio	15%	14%	17%	16%	18%



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□ Critical Success Factors

- Incorporate charts and graphs to display certain financial ratios, trends, operating results and financial position
- Issue financial statements within 20 working days of period end
- Financial statements should be self-explanatory with verbal comments to educate the users as to specific issues and concerns related to report, operations and any specific action plans necessary based on the financial results
- Monthly financial package represents an ABRIDGED version of information that management maintains that should be distributed to the finance committee to keep trustees current as to the financial condition of the organization
- **OTHER CSF's FOR YOUR ORGANIZATIONS MONTHLY FS???**

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- Governance - Board Member
 - Board of Directors, Finance Committee, Audit Committee, etc
 - Typically independent individual that has a passion for the NFP's mission
 - Typically non-financial in nature, but are relied on to help make significant financial decisions
 - Have limited time on a weekly/monthly basis due to other commitments (job, other board commitments, etc)
 - Management needs to be clear, concise and organized to make proper use of their time
 - Management needs to keep Board members informed
 - **OTHER TYPICAL CHARACTERISTICS OR LIMITATIONS OF YOUR BOARD MEMBERS???**

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Governance - Board Member, Continued

□ Basic Responsibilities

- Determination and support of the Organization's mission and purpose
- Reviewing the Organization's effectiveness in satisfying its charitable mission
- Selecting the chief executive
- Supporting the chief executive and assessing his or her performance
- Ensuring legal and ethical integrity and maintaining accountability and transparency
- Ensuring effective organizational planning
- Ensuring adequate resources
- Managing resources effectively
- Monitoring the Organization's programs and service accomplishments
- Enhancing the Organization's public image
- Recruiting new board members and assessing the board's own performance

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- Duty of Care
 - Act with such care as an ordinary prudent person would employ in their position
 - Act in complete good faith and exercise reasonable intelligence in conducting the affairs of the Organization
 - This duty focuses on the process of acting and deciding, not the results
- Duty of Loyalty
 - Board members exercise their power in the interest of the Organization and not for their own self interest or the interest of another organization
 - Annual conflict of interest (COI) policies should be reviewed, be transparent and conflicts (real/perceived) in which public and private interest intersect should be managed
 - This duty focuses on loyalty to the stakeholders (board members and Organization) and maintaining confidentiality
- Duty of Obedience
 - Board members must comply with applicable Federal, state and local laws, adhere to Organization's bylaws and remain guardians of the mission
 - This duty is not merely good faith intentions, but rather compliance and results

NFP External Financial Reporting

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- Why does a non-profit need financial statement?
 - Regulatory based on funding types
 - Gross receipts test (MA)
 - Greater than \$500K = AUDIT
 - Greater than \$200K, but less than \$500K = REVIEW
 - Private Foundations - file 990-PF, no financial statement necessary
 - Compilations are not accepted by the Division of PC's

NFP External Financial Reporting

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- Audited Financial Statements
 - ▣ Statement of Financial Position – FASB ASC 958-210
 - ▣ Statement of Activities – FASB ASC 958-225
 - ▣ Statement of Cash Flows – FASB ASC 958-230
 - ▣ Statement of Functional Expenses – FASB ASC 958-205
 - ▣ Footnote Disclosures
 - ▣ Consolidating schedules (if applicable)

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Responsibilities for Process

- Auditor
 - ▣ Reasonable, but not absolute assurance
 - ▣ Consider Internal Controls – No opinion on internal controls
 - ▣ Inform governing body of difficulties encountered
- Management
 - ▣ Selection & use of appropriate accounting policies
 - ▣ Making estimates within the Fs
 - ▣ Making all required financial disclosures
- Governing Body
 - ▣ Selection of audit firm
 - ▣ Acceptance of audit report
 - ▣ Issue resolution

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Financial Statement Users

- Sophisticated User
 - ▣ Bank – covenant requirements, Financing, etc
 - ▣ Potential Donor – Want to know more about your mission and understand FS
 - ▣ Media – public availability for scrutiny
 - ▣ Regulators
 - ▣ **OTHER USERS??**

- Unsophisticated User
 - ▣ Potential Donor – Do not understand FS, but try to use them to make a donation decision. Management needs to help these individuals.
 - ▣ General public

NFP Compliance Reporting

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- IRS Form 990, Form 990-EZ, IRS Form 990-T & IRS Form 990-PF
 - ▣ Filed with IRS
 - ▣ Deadline is 4 ½ months after the organization's year end
 - ▣ Up to two 90-day extensions
- Massachusetts Form PC
 - ▣ Filed with MA Attorney General
 - ▣ Deadline is the same as the IRS Form 990
- Massachusetts Annual Report
 - ▣ Filed with MA Secretary of the Commonwealth
 - ▣ Deadline is November 1st

What is the Form 990

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1. Annual information return filed with IRS
 - ▣ Principal way IRS gathers information about tax-exempt organizations
2. Not a “tax” return – no tax due
 - ▣ Separate form (990-T) used to report taxable income
3. Report financial, programmatic, governance and mission
4. Not just for numbers
 - ▣ Ubiquitous “describe” and “explain”
5. Requires detailed reporting on:
 - ▣ Activities in furtherance of exempt purpose
 - ▣ Changes in activities and governing documents
 - ▣ Governance, financial transactions among insiders, compensation
 - ▣ Community benefit, bonds and joint ventures
 - ▣ Policies and procedures within the organization
 - ▣ Disclosure of key governance, financial and mission policies
6. Publicly available – sought by and relied on by media, state regulators, donors
 - ▣ www.guidestar.org
 - ▣ www.charities.ago.state.ma.us
7. Form 990 core form (12 parts) and up to 16 additional schedules

Massachusetts Form PC

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- ❑ State filing with the Division of Public Charities
- ❑ Every public charity organized or operating in Massachusetts or soliciting funds in Massachusetts must file a Form PC
- ❑ The Form PC become public record
- ❑ Includes 14 pages and required attachments
- ❑ Most of the information comes from the IRS Form 990
 - Financial summary automatically populates (check for accuracy)
 - Top 5 Highest Paid Employees has no dollar threshold
 - Top 5 Highest Paid Independent Contractors has no dollar threshold
- ❑ Common Attachments
 - Names, titles and addresses of officers, directors, trustees and executives
 - Names, titles and address of individuals authorized to sign checks, responsible for custody of funds, distribution of funds, fundraising and financial records
 - Related party transactions stating the name, address, nature of the transaction, amounts and the procedure to authorize the transaction



990-T Unrelated Business Income

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- What is unrelated business income?
 - If a non-profit organization engages in activities that are unrelated to its mission or purpose, it is required to pay income taxes on the net income from the activity
- In general, an activity is an unrelated business activity if it meets the following three requirements:
 - It is a trade or business
 - It is regularly carried on
 - It is not substantially related to furthering the exempt purpose of the organization
- Unrelated business income is recorded on the Form 990-T
- Example: A hospital with a mission statement to provide medical services to the local community operates an offsite parking garage that is available to the public for sporting events and concerts
 - Parking fees for doctors, patients and visitors would not be subject to tax

990-PF (Private Foundation)

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- Purpose
 - Private foundations are exempt under 501(a) as described in section 501(c)(3)
 - To determine the Private Foundation's tax based on the investment income and other activity of the Foundation.
 - To report charitable distributions and activities of the Foundation
 - Provide assurance that the Foundation is operating as intended to avoid potential tax avoidance
 - If the Foundation is making money on their investments and contributions it is taxable unless they are distributing more than earned.

Tax Returns

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Brain Storming Session

- Common problems, issues and questions with 990/Form PC preparation?

Tax Returns

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- Common Errors:
 - Not utilizing the forms as a PR tool to explain and promote mission of the NFP
 - Classification of officers, directors, key employees and HCE (Core schedule)
 - Current vs. former
 - Key Employee Definition
 - > \$150K in reportable compensation **AND** has responsibilities or influence similar to an officer or director
 - Compensation of officers, directors, key employees and HCE (Core & Schedule J)
 - Calendar year vs. fiscal year
 - Greater of box 1 or box 5 of W-2
 - From Organization and all related organizations
 - Deferred Compensation
 - Non-taxable benefits

Tax Returns

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- Common Errors, Continued:
 - Compensation paid to 5 highest paid **independent contractors** (Core schedule)
 - Calendar year vs. fiscal year
 - 990 (>\$100K) vs. Form PC (no threshold)
 - Checklist inconsistent with policies (compensation, COI, whistleblower, record retention, etc)
 - Fundraising/Gaming Activities (Schedule G)
 - Charitable contribution amount (Golf Tournament example - \$100 ticket, normal round of golf costs \$50, actual contribution = \$50)
 - Interested parties (Schedule L)
 - Business transactions with interested persons (board members, key employees, family members, etc). Reportable if a single transaction exceeds \$10K or cumulatively \$100K.
 - Conflict of interest policies
 - Reporting of unrelated business income (990-T)

Other Reporting

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- OMB Circular A-133 (<http://harvester.census.gov/sac/>)
 - Applicability
 - States, local governments and non-profit organizations that **expend** \$500,000 or more of Federal awards in a given year
 - Other organizations as mandated by the Federal agency providing funding
 - An audit conducted under OMB A-133 is called a “Single Audit”
- MA Uniform Financial Report (<https://ufr.osd.state.ma.us/home.asp>)
 - Applicable for entities receiving \$100,000 or more in state contracts
 - Programmatic breakdown of revenues/expenses
 - Surplus revenue retention limits – 5% threshold
 - Audit conducted under Government Auditing Standards
- Form 3ABC Tax Exemption Form

Thank You

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Questions??

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