

Financial Accountability
Important Stuff Nonprofit
Boards MUST Know

Presenter
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Financial Accountability for Nonprofits

- Finance
- Sales Tax
- Best Practices
- Accountability
- Risk Management



Finance

Basics of
Financial Statements

What are Financial Reports?

How Complicated Must They Be?

- ▀ Basic Reports
 - ▀ Income/Expense
 - ▀ Balance Sheet
- ▀ Intermediate Reports
 - ▀ Compilation
 - ▀ Review
- ▀ Advanced Reports
 - ▀ Audit
 - ▀ Statement of Financial Position



Basic Reports

Handout: Sample Financial Report

Nonprofits < \$50,000/year annual income

- ▀ Income/Expense
 - ▀ (aka: Profit & Loss, P&L, Cash Flow)
 - ▀ Reports income from all sources, all expenses
 - ▀ Include Restricted Funds
 - ▀ Should be provided at every board meeting
 - ▀ What's missing from this one?

	Oct '06 - Sep '07
Income	
FUNDRAISING ACTIVITIES (Profit)	
Net Sales	328.58
Tickets & Fees	724.15
Home Tours	827.50
Pop Tabs	44.00
MOONLIGHT MADNESS	649.05
Total FUNDRAISING ACTIVITIES (Profit)	2,604.74
SERVICE ACTIVITIES	
Fun In Cars	-100.00
EASTER EGG HUNT	51.13
Total SERVICE ACTIVITIES	-48.87
ADMIN INCOME	
TRUFFY DOCKERS/FINES	107.11
Total ADMIN INCOME	107.11
MEMBERSHIP DUES	2,270.00
Total Income	4,942.43
EXPENSES	
COMMITTEES	
TRUFFY SERVICES	400.00
Total COMMITTEES	400.00
void check	0.00
DONATIONS - LOCAL	
DONATIONS - OTHER	1,000.00
SCHOLARSHIP	600.00
MISC DONATIONS	90.00
CHRISTMAS PARADE	9.98
Total DONATIONS - LOCAL	1,739.98
DUES - MEMBERSHIP	1,996.70
Total Expense	4,136.22
Net Income	806.21

Basic Reports

Nonprofits < \$50,000/year annual income


- ▀ Account Balance
 - ▀ (aka: Balance Sheet)
 - ▀ Cash account balance
 - ▀ Asset balance
 - ▀ Should be provided at every board meeting (in some form)
 - ▀ What are Retained Earnings?
 - ▀ Accumulated net income from all previous years

	Jun 29, 13
ASSETS	
Current Assets	
Checking/Savings	
Sand Ridge Bank	5,045.19
Total Checking/Savings	5,045.19
Total Current Assets	5,045.19
Other Assets	
Sound Equipment	7,017.54
Total Other Assets	7,017.54
TOTAL ASSETS	12,062.73
LIABILITIES & EQUITY	
Equity	
Opening Bal Equity	14,998.28
Retained Earnings	-3,769.70
Net Income	527.15
Total Equity	12,062.73
TOTAL LIABILITIES & EQUITY	12,062.73

Basic Reports

501(c)(3) Nonprofits
< \$50,000/year annual income


- ▶ **Year-End Accounting**
 - ▶ Year-End Review
 - ▶ Internal (Audit/Review)
 - ▶ Compilation
 - ▶ Review
 - ▶ Audit
 - ▶ Government Reporting
 - ▶ IRS 990N
 - ▶ State NP20



Intermediate Reports

Annual Income \$50,000 - \$250,000

- ▶ **Same as Basic - PLUS**
 - ▶ Internal Audit Team
 - ▶ CPA Review or Audit
 - ▶ Some detailed reports
 - ▶ Additional Financial procedures
 - ▶ IRS 990 EZ (not 990N)

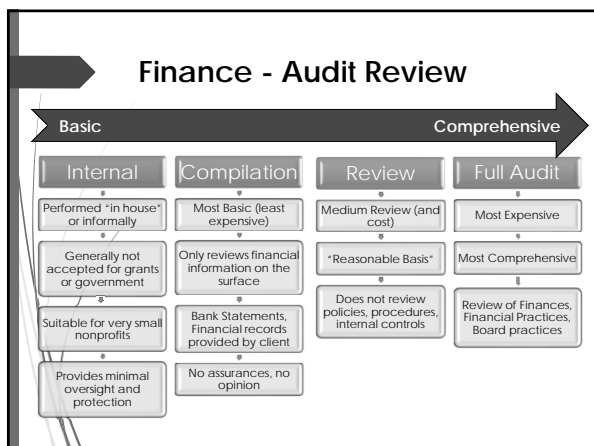


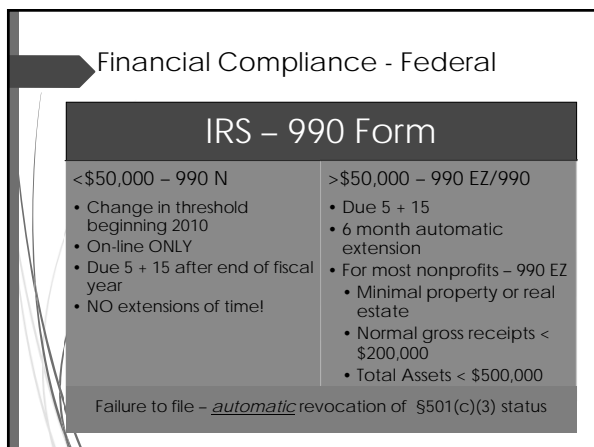
Advanced Reports

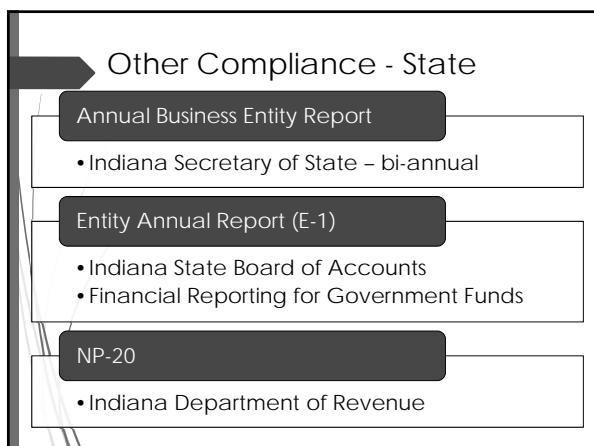
Nonprofits > \$250,000 Annual Income
Also - significant government grants

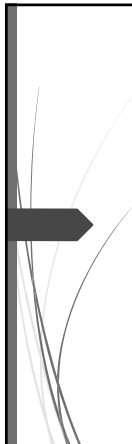
- ▶ All Reports in Basic and Intermediate
- ▶ PLUS -
 - ▶ Additional Financial Procedure
 - ▶ Financial - IRS 990 required
 - ▶ Full Audit
 - ▶ Financial Information
 - ▶ Financial Management
 - ▶ Assets and Inventory

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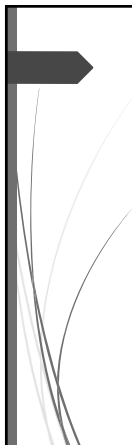






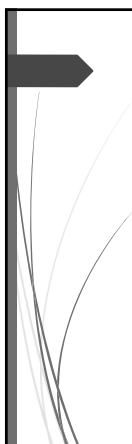
Sales Tax

When do you need to collect sales tax?
When are you exempt from paying sales tax?



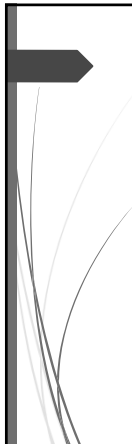
Sales Tax Rules – Collecting and Paying Sales Tax

- **Sales** more than 30 days in a calendar year
 - Intermittent or consecutive
 - What about internet sales?
- Does not apply to sales to members
 - Books, membership supplies, etc.



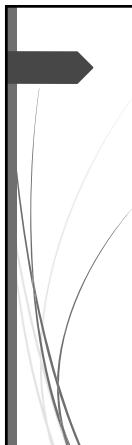
Getting in the System Collecting and Paying Sales Tax

- Indiana Department of Revenue BT-1
 - Online Application
 - \$25 fee
 - Retail Merchant Certificate
- Register for IN TAX (online reporting and paying)



Reporting Requirements Collecting and Paying Sales Tax

- Monthly reporting
 - Even if you DO NOT HAVE SALES
 - Report Zero \$0.00 sales
 - Penalty for failing to report
- Seasonal Reporting
 - Must be approved for seasonal reporting
 - Report only the months of sales
- Report and Pay online
 - Be sure you BOTH Report and Pay



Sales Tax Rules – Exemption from Sales Tax for purchases

- Must be Indiana Nonprofit Corporation
- Must have Tax ID#
 - Does not need to be STATE tax ID#
- Do NOT need to file BT-1
- Exemption from paying sales tax for purchases for nonprofit purposes
 - Does not include meals, hotels
 - May not be worth the trouble (larger vendors)
- Must use ST-105 Form



Best Practices

Best Practices
For Financial Oversight
And Management

Nonprofit Financial "Best Practices"

Compliance, Competence, and Confidence

- Practice clear, decisive financial governance
- Adopt Ethics and Conflict of Interest Policies
- Implement Financial Controls
- Engage regular, independent financial review
- Promote transparency of Reporting
- Develop a Risk Management Plan
- Know emerging nonprofit financial issues

Clear, Decisive Governance

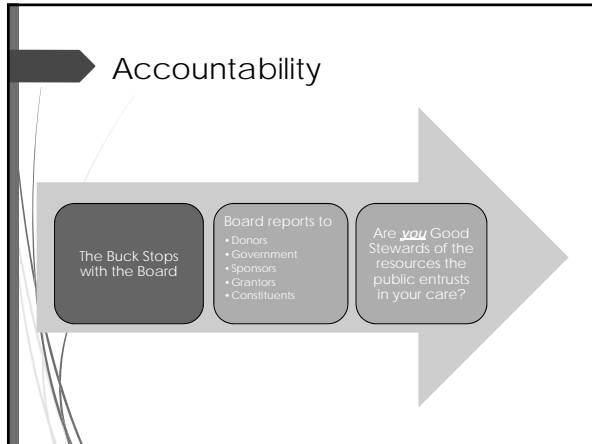
Best Practices for Conduct

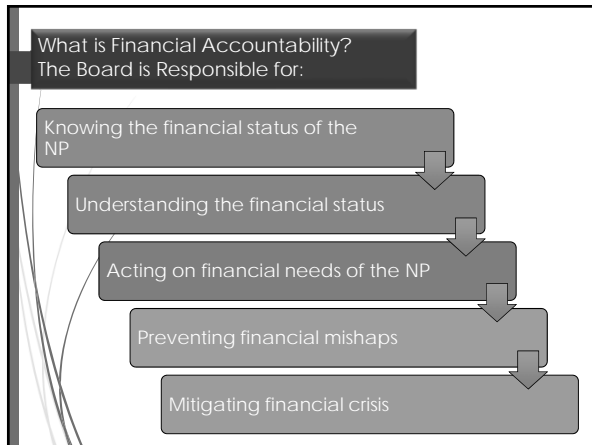
- Proper policies in place
- Review all financial documents
- Procedures to verify data
- Safeguard Nonprofit assets
- Compliance with legal and tax reporting

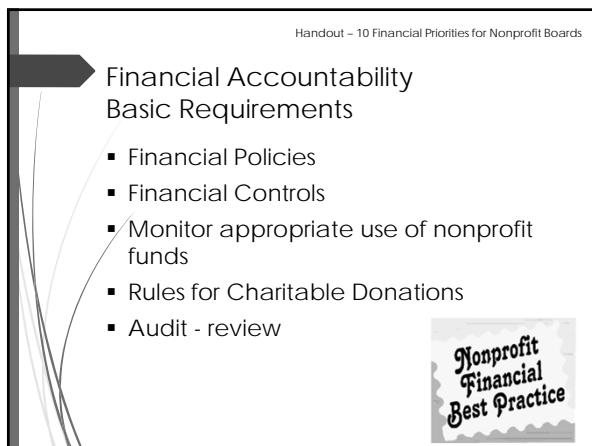


Accountability

Requirements to protect the financial integrity of the nonprofit







Handout - Nonprofit Financial Control Policy

Accountability Financial Policies

- Policies for –
 - Handling Money
 - Recording Money
 - Reporting Money



Handout - 10 Tips for Keeping an Eye on Finances

Accountability - Financial Oversight

Watch the money - Watch the people

- Financial Oversight is the review of both finances and financial practices
- Ensures safe, ethical financial procedures
- Protects Nonprofits and the Directors/Staff
- Provides integrity and transparency to the public
- Catches financial difficulties before they become financial impossibilities

Handout: Top 10 Rules for Charitable Donations

Accountability - Charitable Donations

Watch the Rules regarding charitable donations!

- What can be considered a donation?
- What paperwork is required?
- Donations of goods or funds > \$250 require written acknowledgement
- **Magic language: "No goods or services were provide in exchange for this donation"**

NOTE - donations of TIME and EXPERTISE are NOT deductible!

Handout - Conflict of Interest Policy
Handout - Document Destruction Guidelines


Accountability - Governance

Conflict of Interest

- Personal Benefit
- Abuse of Status

Ethical Standards

- Board - Staff - Volunteer - Donor



Ethics/Conflict of Interest


Best Practices for Integrity

- ▶ Conflict of Interest Policy
 - Signed by Board and Staff annually
 - Practiced openly
 - Transparency critical to credibility!
- ▶ Ethics
 - Newspaper Headline Test
 - Appearance of Impropriety



Improving Fiscal Health

- ▶ *General Tips for Healthy Nonprofits*
 - Pay attention to finances as well as mission
 - Recruit Board members based on need
 - Embrace in-kind donations - but have a plan
 - Make smart decisions about facilities
 - Growth is not always good - watch "mission creep" and inadequate capacity



Risk Management

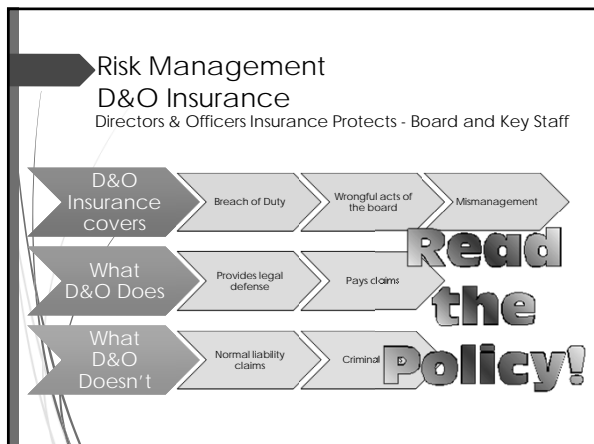
Steps to Identify and manage nonprofit financial risk

Risk Management for Nonprofits

- Best Practices to Prevent Financial Crisis
 - Identify Risk
 - Ranks Risk
 - Identify Policies to manage risk
 - Implement protections
 - Implement procedures in event of crisis

General Liability Insurance

- Don't Leave Home Without It!
 - "Slip and Fall" insurance for basic activities
 - Personal Injury
 - Property Damage
- Most places require it
 - Facility rental
 - Working with other organizations
- NOTE - Usually DOES NOT COVER MEMBERS







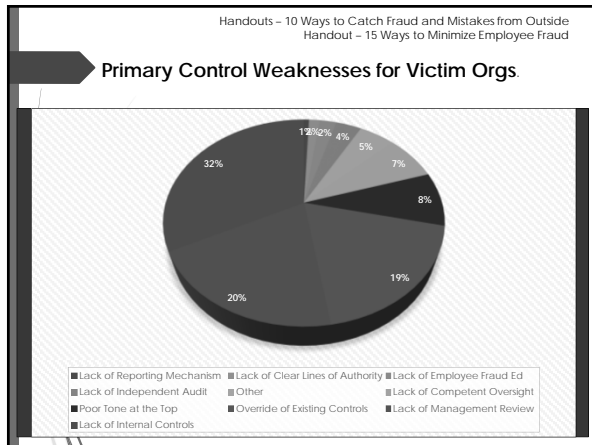
Who Commits Fraud?

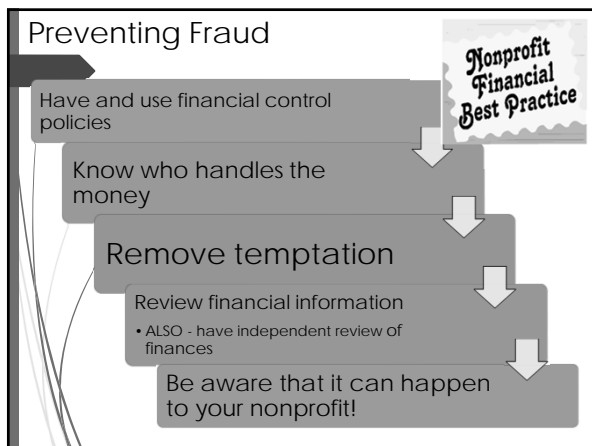
- High-level fraudsters (Officers/Directors) cause greatest damage – more than 3x more costly, and take longer to detect.
- More than 85% have never been previously charged or convicted.
- Behavior warning signs: Living beyond means and experiencing financial difficulty

Do anti-fraud measures help prevent fraud?

- YES – The 2014 Global Fraud Study found that organizations that had common controls in place had
 - Significantly fewer losses (in # and \$)
 - Shorter time-to-detection

2014 Global Fraud Study, Association of Certified Fraud Examiners





Know Emerging Nonprofit Issues
Best Practices to Staying Current

- ▀ Subscribe to Nonprofit forums
 - ▀ Board Source, INRN workshops
- ▀ Listen to your stakeholders
 - ▀ What concerns affect them?
- ▀ Listen to your professionals
 - ▀ Attorney, CPA




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Any Questions?

Thank you for your attention!

Miriam Robeson, Attorney



Today's materials are available on Miriam's Website:
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