

Operation Unknown: Diving into the World of Common Accounting Items for Nonprofits

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Introduction

Jim Shellenberger, CPA

- ▶ Partner and Member of Not-For-Profit Leadership Team
- ▶ Working with NFPs since 2002
- ▶ Industry specializations: Nonprofits, Affordable Housing, Uniform Guidance
- ▶ Board Member: JT Dorsey Foundation, Ecumenical Retirement Community, Downtown Daily Bread



Introduction

Jackie Winchell, CPA

- ▶ Senior Manager and Member of Not-For-Profit Leadership Team
- ▶ Working with NFPs since 2013
- ▶ Industry specializations: Nonprofits, Affordable Housing, Uniform Guidance
- ▶ Member of M&A Service Committee, M&A DEI Committee, M&A Assurance & Advisory Committee



Enough About us....

Tell us about you!!

Who works for a nonprofit organization?

Who serves on a board of directors of a nonprofit?

Who volunteers with a nonprofit organization?

Agenda

- Have fun!
- Best Practices for Nonprofit Accounting
- Lessons learned (and failures) on Hiring vs. Outsourcing
- Other nonprofit accounting recommendations
- Role of a Board Member from a fiduciary standpoint

Disclaimer

The information contained in this presentation, both that contained in the slides and that expressed by the presenter, is not intended to be complete and comprehensive. To obtain a more detailed understanding of any technical literature mentioned, please consult the full standards and interpretations.

There are also many other topics not being covered due to their narrow applicability or time constraints.



Best Practices for Nonprofit Accounting

Audience Poll



What is the biggest challenge you see in nonprofit accounting?

Best Practices for Nonprofit Accounting

- Know your deadlines and requirements for filings
 - ▶ Who requires an annual financial statement?
 - ▶ The nonprofit itself (check the Bylaws)
 - ▶ State agency
 - ▶ Grantor or funder
 - ▶ Bank or lender
 - ▶ PA Bureau of Charitable Organizations
 - ▶ Others?
- After understanding who requires it, its important to know what is required (basis of accounting, level of CPA service, timing, etc.)

Type of Financial Statement Required in PA

- Nonprofits that solicit donations in Pennsylvania
- Gross Annual Contributions
 - ▶ Do not include government grants
 - ▶ Includes non-cash contributions

Gross Annual Contributions	Type of Financial Statements Required
Section 162.7(a) organizations	None
\$25,000 or less	Internally Prepared, Compiled, Reviewed, or Audited
\$25,000 to less than \$100,000	Internally Prepared, Compiled, Reviewed, or Audited
\$100,000 to less than \$250,000	Compiled, Reviewed or Audited
\$250,000 to less than \$750,000	Reviewed or Audited
Greater than \$750,000	Audited

990 Filing Requirements



Best Practices for Nonprofit Accounting

■ Implement internal policies and controls

- ▶ Establishing internal controls over bookkeeping is one of the first steps to reducing risk of fraud and ensuring good accounting records
 - ▶ Signature authority guidelines for checks, wires, ACH transfers
 - ▶ Restrict bank access
 - ▶ Approval for expenditures
 - ▶ Protect your information
 - ▶ Audit your controls outlined in your procedures manual
- ▶ Code of ethics

Best Practices for Nonprofit Accounting

Let's Discuss!

- ▶ Nonprofit organizations typically have limited staff and resources, as compared to for-profit organizations.
 - ▶ What are some of the internal control struggles of a non-profit? Provide examples.
 - ▶ What are some ways that a non-profit organization can overcome these struggles?
- ▶ Policies and procedures for small entities vs. large entities with large accounting functions

Best Practices for Nonprofit Accounting

Internal Control Steps Any Nonprofit Can Implement

■ Review Invoices

- Invoices should be reviewed by someone with knowledge of related charges prior to being entered into the accounting system. The check signer should review the related invoices for approval when reviewing and signing checks.

■ Review Employee Reimbursements

- Employee reimbursements and credit cards should be reviewed by an employee's superior. The executive director's reimbursement or credit card should be reviewed by someone on the board.

■ Review Payroll Reports

- Payroll reports should be reviewed prior to cash being transferred to the payroll processing company. The executive director should review for gross pay compared to approved wage rates and reasonableness of deductions.

Best Practices for Nonprofit Accounting

Internal Control Steps Any Nonprofit Can Implement

■ Limit Authority

- ▶ Prohibit the person responsible for the accounting of the nonprofit organization from being an authorized signer on banking and investment accounts.

■ Review Significant Contributions

- ▶ Significant contributions should be reviewed by the executive director (or development director) to identify any donor restrictions.

■ Review Donor Restrictions Annually

- ▶ Past donor contributions with restrictions should be reviewed annually to determine if restrictions have been met.

■ Reconcile Donor Records to Accounting Records

- ▶ Prepare a reconciliation between the donation records (donor database) to the accounting records on an annual basis.

Best Practices for Nonprofit Accounting

Internal Control Steps Any Nonprofit Can Implement

■ Review Monthly Bank Statements

- ▶ The review should be completed by someone other than the bookkeeper or person responsible for recording accounting transactions. Also include investment statements and any debt/line of credit accounts.

■ Review Monthly Financial Statements

- ▶ Review of monthly financial statements should be completed by the executive director and/or the board of directors. Questions should be directed to program directors to understand trends and results.

■ Create a month-end and year-end closing checklist

- ▶ Create a checklist of all of the month and year-end steps that need to be taken to close the financial period. Journal entries, account reconciliations, etc. Checklist should be initialed by the preparer and the reviewer of each step, and then reviewed by the executive director or the board.

Best Practices for Nonprofit Accounting

■ Review donor/grant restrictions

- ▶ Ensure incoming contributions are properly assessed and labeled from the moment they are identified and appropriate documentation is maintained
- ▶ Review all restricted contributions on a regular basis to correct any mistakes
- ▶ Track spending of contributions with restrictions
- ▶ Segregate contribution that are available for immediate use
- ▶ Prevent spending funds that are without restrictions when you have restricted funds that could be used first

Best Practices for Nonprofit Accounting

■ Reconcile donor records to accounting records

- ▶ Prior to recording the total year-end contributions, a reconciliation between the donation records (donor database) and the accounting records should be prepared
- ▶ Remember to include both cash and non-cash donations

Best Practices for Nonprofit Accounting

■ Review monthly financial statements

- ▶ Internal financial statements should be reviewed by the executive director and/or board of directors prior to approval
- ▶ Statement of financial position and statement of activities as of and for the year-end
- ▶ Internal financial statements can include a comparison of actual revenue and expense recorded to the approved budget, a breakout of any non-operating transactions which were considered outside the normal course of business
- ▶ Projection of cash flow/cash needs for the next fiscal year

Best Practices for Nonprofit Accounting

■ Track In-Kind Contributions

- ▶ Does your nonprofit receive trades for goods or services? Do donors buy items on behalf of your organization?
- ▶ Must track for disclosure in GAAP financial statements the following:
 - ▶ Was the contributed nonfinancial asset monetized or utilized?
 - ▶ The policy (if any) the organization uses to determine whether to monetize or utilize the asset
 - ▶ A description of donor restrictions placed on the asset, if applicable
 - ▶ The principal market or most advantageous market used to arrive at fair value
 - ▶ The valuation technique used to estimate the asset's fair value

▶ Needed for the 990!

Lessons Learned (and failures) on Hiring vs. Outsourcing

Audience Poll

Who is struggling to find
qualified talent to fill open
positions?

Hiring vs. Outsourcing

■ Benefits to Hiring

- ▷ Keep control of essential business functions
- ▷ Greater engagement with employees
- ▷ Skills can be transferable
- ▷ Have a say in salary and schedule
- ▷ Likely invested in your mission

Hiring vs. Outsourcing

■ Pitfalls to Hiring

- ▷ Finding quality talent
- ▷ Cost of benefits, in addition to competitive salaries
- ▷ Finding, interviewing, and negotiating can take substantial time
- ▷ Time to train and onboard employee

Hiring vs. Outsourcing

■ Benefits to Outsourcing

- ▷ Improve efficiencies and reduce costs
- ▷ Gain higher level of expertise
- ▷ Stay current on regulations and laws
- ▷ Little training and onboarding required

Hiring vs. Outsourcing

■ Pitfalls to Outsourcing

- ▷ Outsourcing of management to your provider
- ▷ Lack of communication and measurement
- ▷ Not all outsourcing providers are created the same
- ▷ Bookkeeper vs. someone who specializes in nonprofits



Hiring vs. Outsourcing

■ Functions to consider outsourcing

- ▷ Accounting/bookkeeping
- ▷ Information technology
- ▷ Human resources
- ▷ Facility management
- ▷ Others?

Other Nonprofit Accounting Recommendations

Other Nonprofit Accounting Recommendations

- Reporting and accounting calendar
 - ▷ WHY? A comprehensive listing of the key deliverables, dates, and deadlines
 - ▷ What can you develop deadlines for?
 - ▷ Milestones to achieve deadlines

Other Nonprofit Accounting Recommendations

- Developing the next leaders
 - ▷ Management acts as talent champions
 - ▷ Identify organizational needs and development opportunities
 - ▷ Create individualized development plans with employees
 - ▷ Follow through on the development plans

Other Nonprofit Accounting Recommendations

■ Electronic storage and availability of documents

- ▶ Do you have a document retention policy?
 - ▶ Define all activities and availability of documentation to employees and other stakeholders
 - ▶ Assess your electronic data storage policies (cloud, on-premises, etc.)
 - ▶ Specify each document type
 - ▶ Document storage method, location, and time frame
 - ▶ Identify individual responsible for document retention, destruction, and access

**What is the fiduciary
responsibility of a
board member?**

Fiduciary Responsibility

- The Board's *fiduciary* duty is a legal duty to act solely in the nonprofit organization's interests. Board members hold the organization in trust for the public good and the fulfillment of the organization's mission. They are expected to exercise judgment in a way that best serves the organization and its beneficiaries.

From: Pennsylvania Association of Nonprofit Organizations, Standards for Excellence Program

FIDUCIARY RESPONSIBILITY

■ Duty of Care –

- ▶ Show up, participate, remain informed about all aspects of the organization (**THIS INCLUDES FINANCES**),
- ▶ Take appropriate actions to help the organization meet its goals and objectives.
- ▶ Read and understand financial reports, track spending, and participate in strategic planning and also responsible for making sure the nonprofit's records are kept accurately and preserved.

FIDUCIARY RESPONSIBILITY

■ Duty of Loyalty –

- ▶ Must also be loyal to the organization.
- ▶ Do not use the organization for own personal or professional gain.
- ▶ If there is a conflict of interest, disclose it.

FIDUCIARY RESPONSIBILITY

■ Duty of Obedience.

- ▶ Need to be aware of the laws that affect the organization and ensure that the organization follows them.
- ▶ Fully understand and follow all of the organization's own governing documents (**AND FINANCES**) and are also responsible for helping the organization carry out its stated goals.

FIDUCIARY RESPONSIBILITY

Let's Discuss!

- ▶ Who are nonprofit board members responsible to?
- ▶ What are they responsible for? Give examples!
- ▶ What is one thing nonprofit board members should be educated more on?

FINANCIAL RESPONSIBILITIES

Non-profit Board members with financial duties on the Board are responsible:

- To the **IRS**, the **State**, and **external stakeholders** to make sure the non-profit's finances, and financial reports, are accurate and complete.
- To **Donors** and the **Community** to ensure the non-profit is carrying out its mission.
- For communicating the **true** financial situation to all stakeholders.
- For communicating financial information in a manner that helps the Board (**and management**) understand how the organization is operating.

10 Questions Every Board Member Should Ask At The Next Board Meeting

QUESTIONS TO ASK

1. Are we profitable? (i.e., Are we better or worse off financially than we were a year ago?)



QUESTIONS TO ASK

2. Are our key sources of income rising or falling?
If they are falling, what are we doing about them?



QUESTIONS TO ASK

3. Are our key expenses, especially salary and benefits, under control? Who's monitoring?



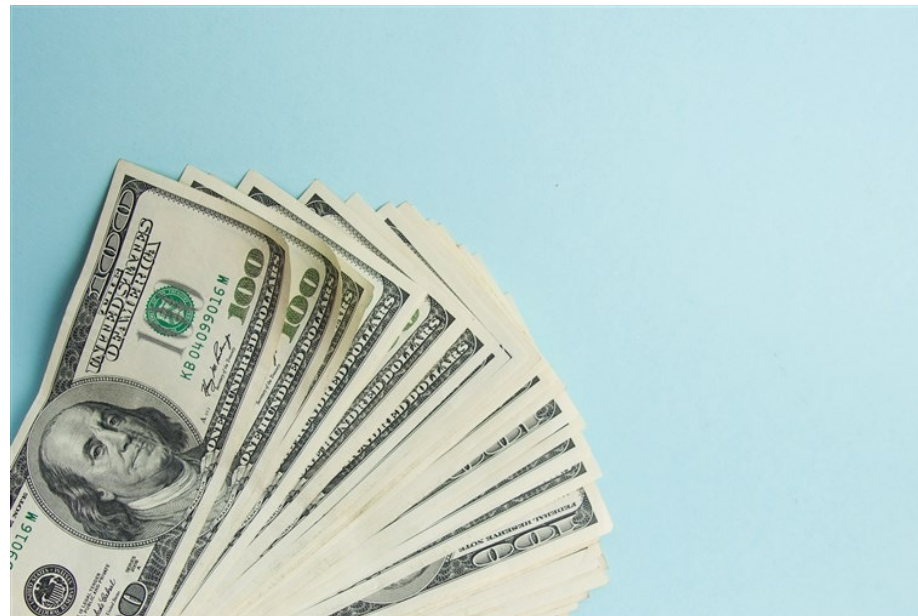
QUESTIONS TO ASK

4. Do we have sufficient reserves? Has the board adopted a formal policy for the establishment of reserves?



QUESTIONS TO ASK

5. Is our cash flow projected to be adequate? What changes can we predict, and not predict?



QUESTIONS TO ASK

6. Are we regularly comparing our financial activity with what we have budgeted?



QUESTIONS TO ASK

7. Is our financial plan consistent with our strategic plan?

PLANNING



QUESTIONS TO ASK

8. Are our staff satisfied and productive?



QUESTIONS TO ASK

9. Are we filing on a timely basis all the documents we are supposed to be filing?



QUESTIONS TO ASK

10. Are we fulfilling all of our legal obligations? Have there been any legal inquiries of the organization?



QUESTIONS?

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