

Nonprofit Association of the Midlands

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Nonprofit Financial Management General Practices

- ▶ Capable bookkeeper
- ▶ Accrual accounting
- ▶ GAAP
- ▶ Monthly financial statements
- ▶ Sarbanes Oxley: Financial Records Retention & Destruction, Whistleblower Protection, Conflict of Interest



Capable Bookkeeper

- ▶ Full time vs. part time
- ▶ Outside provider vs. employee
- ▶ QuickBooks and other specialized software



Accrual Accounting

- ▶ Considers items like pledges receivable, unpaid bills, accrued employee time off, unpaid wages, etc.
- ▶ More complex than cash basis accounting, which records only actual receipts and disbursements
- ▶ Depending on the end user of the financial statements, either method might be acceptable



GAAP

- ▶ Pronounced “GAP” – like the clothing store
- ▶ Acronym for generally accepted accounting principles
- ▶ Set of standards which guides accountants in recording transactions and preparing financial statements
- ▶ Not related at all to IRS regulations (different standard setting body)
- ▶ Provides guidance on presentation and disclosures



Monthly Financial Statements

- ▶ Generally informal reporting by management to the board (or bank or others)
- ▶ May not be in accordance with GAAP
- ▶ May be cash or accrual
- ▶ May look different from year-end reports

Sarbanes Oxley

- ▶ Result of Enron and Tyco fiascos. Congressional oversight by new standard setting body governing SEC registrants only
- ▶ Does not necessarily apply to nonprofit entities, but some have used SOX guidance as “best practices”
- ▶ Encourages use of “whistleblower” policies
- ▶ Directs written records retention policy
- ▶ Directs board members to disclose potential conflict of interest situations



Finance and Audit Committees

- ▶ Role on a nonprofit board and relationship with rest of the board
- ▶ Who should be on it?
- ▶ Relationship with bookkeeper, Executive Director, and auditor



Role of a nonprofit board and relationship with the board

- ▶ The finance and audit committee are theoretically supposed to be separate committees
- ▶ Most nonprofits lack the depth of board members in the finance area
- ▶ Finance and audit committee reports to the main board

Who should be on it?

- ▶ CPA's in public practice or industry
- ▶ Knowledgeable investment advisors
- ▶ Business owners (or former owners) familiar with reading and interpreting financial information



Relationship with bookkeeper, Executive Director, and auditor

- ▶ F & A comm. supports bookkeeping function
- ▶ F & A comm. can help with budgeting and planning
- ▶ F & A comm. responsible for interviewing, selecting and retaining outside CPA firm (CPA firm's responsibility is to F & A comm. not nonprofit executive or staff)



Form 990

- ▶ Who does the 990?
- ▶ Ongoing practices throughout the year that make the 990 easier
- ▶ Telling your organization's story through the 990



Who does the 990?

- ▶ The financial piece is typically done by outside CPA with internal staff help on narrative
- ▶ Most of the information in the 990 is public information (except specific donor details)



Best Practices – Form 990

- ▶ The largest part of completing a 990 is answering the questions about activities, events and fundraising
- ▶ The 990 form is available at www.irs.gov and could be kept handy during the year for summarizing events and activities



Telling your organization's story through the 990

- ▶ The second page of the 990 asks for specific information about programs and activities. These should be the paragraphs that summarize the mission and vision of the nonprofit and the clients that are served.



Audits, Compilations, Reviews

- ▶ The difference between them
- ▶ How do I know which is right for my organization?
- ▶ How often should we perform one?



The difference between them

- ▶ Comparative Overview of differences from AICPA
- ▶ “Audit” is the term generally used, but a less expensive “Review” or “Compilation” may be sufficient for end users

How do I know which is right for my organization?

- ▶ Ask your F & A committee for guidance on what level of service is necessary vs. use by donors, grantors, banks, etc.
- ▶ If no one knows what to do, get a stronger F & A committee
- ▶ Size may make a difference (i.e., 4 employee organization with little assets may need only a 990, not even a compilation)
- ▶ Budget may make a difference (\$50k revenue vs. \$500k)



How often should we perform one?

- ▶ As a general rule, it is not cost effective for the nonprofit to switch back and forth between audits and reviews. Once the auditor relationship is established, try to stick with the same level of reporting from year-to-year



Audits

- ▶ What they tell you, what they don't; what they find and can't find
- ▶ Understanding “independence”
- ▶ Best Practices Debate: Audit rotation vs. partner rotation



What they tell you, what they don't; what they find and can't find

- ▶ An “audit” is a set of procedures performed by a CPA firm that provides them with some assurance that the financial statements are fairly presented in accordance with GAAP
- ▶ Won't catch every mistake made by internal staff (establishing a level of “materiality” allows the CPA firm to ignore items less than a certain dollar amount)
- ▶ Some testing of internal controls
- ▶ Cannot prevent fraud if two people involved



Understanding “independence”

- ▶ In order to accept and complete an audit engagement, the CPA firm must be “independent in fact and in appearance”. This could take another entire webinar, but mainly the auditor cannot audit his own work.
- ▶ Monthly statements prepared by CPA firm on a contract basis cannot be audited by the same CPA firm at year-end.
- ▶ CPA firm cannot participate as a board member or on F & A committee



Best Practices Debate: Audit rotation vs. partner rotation

- ▶ Some Sarbanes Oxley authors argue that rotating audit firms every five years is a “best practice” – this is not required in any SOX rules
- ▶ Rotation of audit partners within the same CPA firm can accomplish most of the desired result of the SOX suggestions
- ▶ Institutional knowledge with long-time CPA firm is retained using partner rotation methodology



Contact Information

QUESTIONS, COMMENTS, CONCERNS

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