Welcome

Financial Management of Non-Profit Organizations

Moira Fathy Baker, Associate Executive Director - Operations, COO and CFO
National Science Teachers Association

Non-Profit is a tax status not a business plan
What role do you play in your Chapter or Associated Group?

A. President
B. Past President
C. President Elect
D. Treasurer
E. Other Board Member
F. Other (not board member)
Are you a 501(c)(3) tax-exempt organization?

A. Yes
B. No
C. Don’t know

...does it matter?
When you joined the board, did you receive any financial information as an introduction to your organization?

Yes

No
In order to understand your fiduciary responsibilities.....

What should you be looking at?
Important financial info to help you understand your organization:

1. IRS filings

All tax-exempt organizations need to file annually with the IRS
2. Audited Financial Statements
   - accompanied by Management Letter from auditor

Does your organization have an annual financial statement prepared by a CPA?
3. Latest Financial Statement

- Allows you to see how your organization is doing right now
4. Operating Budget

Allows you to see the financial plan for the organization
5. Minutes of previous board meetings
What are you asking to review while you are on the board?
1. Operating Budget for the current year
2. Monthly/Quarterly financial statements
What are your organizations Gross Receipts?

A. Less than $50,000 per annum

B. More than $50,000 per annum

C. Don’t know
Dealing with IRS

- **Regulations** for small non-profits - gross receipts less than $50,000 (**2010 Tax Year and later - filed in 2011 and later**)
- **Form 990-N (E-postcard)**

The e-Postcard is due every year by the 15th day of the 5th month after the close of your tax year.
Form 990-N

Information to submit online:
Go to http://epostcard.form990.org
IRS requires the following information:

- **Employer identification number**
- **Tax year**
- **Legal name and mailing address**
- **Any other names the organization uses**
- **Name and address of a principal officer**
- **Web site address if the organization has one**
- **Confirmation that the organization’s annual gross receipts are normally $50,000 or less**

Federal ID number

If you do not know your organization's EIN, you may be able to find it on the following documents:

- The organization's application for Federal tax-exempt status (Form 1023 or Form 1024) or the determination letter you received approving your Federal tax-exempt status
- A prior year return
- The organization's bank statement

If none of the above applies, contact IRS Customer Account Services at 877-829-5500 for assistance
Form 990-N

Late Filing or Failure To File the e-Postcard

- If you do not file your e-Postcard on time, the IRS will send you a reminder notice but you will not be assessed a penalty for late filing the e-Postcard.

- An organization that fails to file required e-Postcards (or information returns - Forms 990 or 990-EZ) for three consecutive years will automatically lose its tax-exempt status.

- The revocation of the organization’s tax-exempt status will not take place until the filing due date of the third year.
Form 990 & 990-EZ

- Required if your organization has more than $50,000 in gross receipts
- Gross receipts less than $200,000, or total assets less than $500,000, you can file the 990-EZ version
- Gross Receipts Defined: gross receipts is the organization’s total revenues from all sources during its annual accounting period, without subtracting any costs or expenses.
- These tax returns are complex, and generally should be completed by a competent tax preparer.
Form 990 & 990-EZ

- The new Form 990
  - It is designed to improve transparency and accountability
  - The new form is much more complex
  - It is designed to increase transparency in non-profit operations
Questions are asked on the 990 with respect to whether the organization follows “good governance” practices.

The original 990 was 2 pages long. The current form is 11 pages long and includes up to 16 schedules.

Part VI of the core form is entirely dedicated to statements regarding governance, management and disclosure.

It asks the following questions:
- How many voting members are on the governing body? How many of them are independent?
- Does the organization have a written conflict of interest policy?
- Does the organization have a written whistleblower policy?
- Does the organization have a written document retention and destruction policy?
- Does the organization contemporaneously document the meetings of the governing body and its committees?
Form 990 Resources and Tools for Exempt Organizations

If you are an officer, director, or employee of an exempt organization, you may find the following materials of particular interest.

<table>
<thead>
<tr>
<th>If you want to:</th>
<th>Check out these resources:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Get a form to fill out, or a publication, for exempt organizations</td>
<td>Tax-Exempt Organizations Tax Kit</td>
</tr>
<tr>
<td></td>
<td>Forms for exempt organizations</td>
</tr>
<tr>
<td></td>
<td>Publications for exempt organizations</td>
</tr>
<tr>
<td></td>
<td>Exempt Employer’s Toolkit</td>
</tr>
<tr>
<td>Find out the requirements to file exempt organizations annual returns</td>
<td>Annual Exempt Organization Returns</td>
</tr>
<tr>
<td></td>
<td>Filing thresholds (which 990 return to file)</td>
</tr>
<tr>
<td></td>
<td>FAQs about the Annual Reporting Requirements for Exempt Organizations</td>
</tr>
<tr>
<td></td>
<td>Filing tips for exempt organizations annual returns</td>
</tr>
<tr>
<td>File a return for the current tax year</td>
<td>Tax Year 2010 Form 990 - Forms and Instructions</td>
</tr>
<tr>
<td></td>
<td>2010 Form 990 - Significant Changes</td>
</tr>
<tr>
<td></td>
<td>Filing electronically</td>
</tr>
<tr>
<td></td>
<td>Form 990 filing tips</td>
</tr>
<tr>
<td></td>
<td>Filing tips for exempt organizations annual returns</td>
</tr>
<tr>
<td>File the annual electronic notice for small tax-exempt organizations</td>
<td>Annual Electronic Filing Requirement for Small Exempt Organizations — Form 990-N (e-Postcard)</td>
</tr>
</tbody>
</table>
990-T Unrelated Business Income Tax Return

- Exempt organization with **gross income from unrelated trade or business of $1,000** or more. (Gross income is Gross receipts minus the cost of goods sold.)

- **Advertising is considered unrelated revenue**

- Sponsorships are **not** considered unrelated ( . . . no arrangement or expectation of any substantial return benefit by that person -- other than use or acknowledgment of that person's name, logo, or product lines in connection with the activities of the tax-exempt organization.)
Dealing with the outside financial world

- **Contracts with outside Advisors**
  - Independent contractors
  - IRS - 1099s

- **Contributions**
  - IRS – must issue acknowledgements of contributions for $250 and above

- **Bank accounts**
  - check fed ID#
  - on-line access makes it easier when officers change

- **Making investments**
  - FDIC insurance

- **Obtaining insurance**
  - Different types of coverage
Insurance

Recommendations for Insurance

- **Directors and Officers**
  - This insurance is used to insure against claims for negligent acts, errors and omissions alleged to have been committed by present or former directors or officers of the corporation.

- **Fidelity Bond**
  - Protects the institution from theft by employees.
  - Should name those who handle money or be a blanket policy.
  - If those handling money are Board Members or volunteers, the policy must specifically state that their acts are covered.
Insurance

Recommendations for Insurance

- **General Liability**
  - Insurance covering an insured’s liability to 3rd parties for causing bodily injury or property damage. “Slip and Fall’ insurance.

- **Property**
  - Building, building personal property, improvements and Money and securities
  - Leased equipment, electronic data processing equipment
  - Valuable papers and records, accounts receivable.
Record Retention

- Minutes of Meetings: Permanently
- Audit Reports: Permanently
- Cash books: Permanently
- Correspondence
  - Legal matters: Permanently
  - General: 2 years
- Financial Statements: Permanently
Record Retention

- Tax Returns: Permanently
- Bank Statements: 3 years
- Deposit slips: 2 years
- Contracts - expired: 7 years
- Contracts - still in effect: Permanently
Financial Planning

- Do we have a current strategic plan?
- Has it been updated in the last 3 years?
If you haven’t done through a strategic planning process, when was the last time you reviewed the usefulness of each of your programs?
Financial Planning

- Is our financial plan consistent with our strategic plan?
- Risk assessment – what is our fall-back position if we do not meet our financial goals?
Sufficient Available Cash Reserves

- Is our cash flow projected to be adequate?
- Are our cash-flow projections reasonable, objective and not overly optimistic?
- Do we have sufficient reserves?
- Has the board adopted a formal policy for the establishment of reserves?
Budgets

- Do we have a current annual budget?
- Are we regularly comparing our financial activity with what we have budget?
- What procedures do we use to make sure that the differences between what was budgeted and what actually happened are being addressed?
# Annual Budget

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Actual</th>
<th>Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Member Dues</td>
<td>30,000</td>
<td></td>
</tr>
<tr>
<td>Convention Registration</td>
<td>25,000</td>
<td></td>
</tr>
<tr>
<td>Grants</td>
<td>5,000</td>
<td></td>
</tr>
<tr>
<td>Contributions</td>
<td>5,000</td>
<td></td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>$65,000</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Secretarial</td>
<td>10,000</td>
<td></td>
</tr>
<tr>
<td>Speaker Honoraria</td>
<td>5,000</td>
<td></td>
</tr>
<tr>
<td>Convention Rental</td>
<td>15,000</td>
<td></td>
</tr>
<tr>
<td>Newsletter Printing</td>
<td>15,000</td>
<td></td>
</tr>
<tr>
<td>Office Supplies</td>
<td>5,000</td>
<td></td>
</tr>
<tr>
<td>Postage</td>
<td>5,000</td>
<td></td>
</tr>
<tr>
<td>Telephone</td>
<td>2,000</td>
<td></td>
</tr>
<tr>
<td>Other Expenses</td>
<td>8,000</td>
<td></td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>$65,000</td>
<td></td>
</tr>
</tbody>
</table>

**Net Surplus/Loss**

-
## Annual Budget and Activity Income Statement

<table>
<thead>
<tr>
<th></th>
<th>Actual</th>
<th>Budget</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Member Dues</td>
<td>25,000</td>
<td>30,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Convention Registration</td>
<td>25,000</td>
<td>25,000</td>
<td>0</td>
</tr>
<tr>
<td>Grants</td>
<td>5,000</td>
<td>5,000</td>
<td>0</td>
</tr>
<tr>
<td>Contributions</td>
<td>-</td>
<td>5,000</td>
<td>5,000</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>55,000</td>
<td>65,000</td>
<td>10,000</td>
</tr>
</tbody>
</table>

| **Expenses**   |        |        |          |
| Secretarial    | 10,000 | 10,000 | 0        |
| Speaker Honoraria | 9,000  | 5,000  | 4,000    |
| Convention Rental | 18,000 | 15,000 | 3,000    |
| Newsletter Printing | 12,000 | 15,000 | 3,000    |
| Office Supplies | 5,000  | 5,000  | 0        |
| Postage        | 5,000  | 5,000  | 0        |
| Telephone      | 2,000  | 2,000  | 0        |
| Other Expenses | 6,000  | 8,000  | 2,000    |
| **Total Expenses** | 67,000 | 65,000 | 2,000    |

**Net Surplus/Loss**

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Surplus/Loss</strong></td>
<td>(12,000)</td>
<td>-</td>
</tr>
</tbody>
</table>
## Balance Sheet

**As at Fiscal Year End 31st XX, 200Y**

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities and Net Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets</strong></td>
<td><strong>Current Liabilities</strong></td>
</tr>
<tr>
<td>Cash</td>
<td>Account Payable</td>
</tr>
<tr>
<td>5,000</td>
<td>11,000</td>
</tr>
<tr>
<td>Certificate of Deposit</td>
<td>Long Term Liabilities</td>
</tr>
<tr>
<td>30,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>Non-current portion lease</td>
</tr>
<tr>
<td>5,000</td>
<td>13,000</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td><strong>Total Liabilities</strong></td>
</tr>
<tr>
<td>40,000</td>
<td>44,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Non-Current Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Furniture &amp; Fixtures</td>
</tr>
<tr>
<td>5,000</td>
</tr>
<tr>
<td>Plus/minus operational surplus/loss</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
</tr>
<tr>
<td>$ 45,000</td>
</tr>
</tbody>
</table>
Propriety of Expenditures

- Does the board provide oversight to safeguard against waste and fraud?
- Does the board provide oversight of contractual agreements to ensure that the organization's exempt status will not be impaired?
- Does the board provide for internal controls over expenditures to ensure their propriety?
- Are we fulfilling our tax-exempt purpose?
Systems that Protect Nonprofit Organizations

- Accounting Policies and Procedures

- Internal Controls
  - System of checks and balances to prevent errors, fraud, etc.
  - Most effective is the budget
  - Control over receipts – pre-numbered receipt vouchers
  - Supporting documentation for checks issued

- External Audits
  - If you don’t have an audit, what are you doing instead?
Internet Resources

- Non-Profit Resource Center
  - www.1800net.com/nprc/

- Alliance for Nonprofit Management

- IRS information
Questions?