

Welcome

Financial Management of Non-Profit Organizations

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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?

*Federal tax law provides **tax benefits to nonprofit** organizations recognized as exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code (Code).*

- *The Code requires that tax-exempt organizations must **comply with federal tax law to maintain tax-exempt status and avoid penalties.***

Question: We recently re-incorporated our association as a non-profit with our Secretary of State. If we are interested in pursuing grants from corporations, are we required to become a 501(c)(3)?

What is the best route (and cheapest) to achieve this?

What is the overall cost?

Obtaining 501(c)(3) Status

- In order for a corporation or other qualifying entity to receive 501(c)(3) status, it must apply to the IRS for recognition by filing **Form 1023, Application for Recognition of Tax Exemption**.
- The application is an examination of the organization's structure, governance and programs.
- Filing fee - \$400 if receipts less than \$10,000 - \$850 if receipts more than \$10,000.

Question: I have a question on the relationship between Foundations and Professional Societies.

We have a Foundation which is legally distinct from our professional organization. The Foundation was purposefully set up to be a separate entity but charged to work to support the society. In preparing for a discussion with an attorney as to how to better link these two entities, what questions/considerations/factors would we address.

**Question: Worst case scenario--
the Foundation does things that
are not in the best interest of the
society.**

Currently the society cannot "control" the Foundation's activities. This has NOT happened but we are looking at being proactive to prevent it or lesser disagreements between those on the Foundation's board and the association's board as to how the Foundation's money can be spent.

What activities may jeopardize a public charity's tax-exempt status?

- **Private Benefit**

According to Internal Revenue Service rules, a (501)(c)(3) nonprofit organization must work for the public benefit, refraining from allowing individual board members to benefit financially.

- Failure to comply with IRS regulations can result in penalties and fines (intermediate sanctions).
- Board members must carefully guard against even the appearance of business or financial conflict of interest

What activities may jeopardize a public charity's tax-exempt status?

- **Political Campaign Intervention**

Public charities are absolutely prohibited from directly or indirectly participating in, or intervening in, any political campaign on behalf of (or in opposition to) a candidate for public office.

- **Legislative Activities**

A public charity is not permitted to engage in substantial legislative activity (commonly referred to as lobbying) .

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

Dealing with IRS

What federal information returns, tax returns and notices must be filed

Public charities generally file either a:

- Form 990, Return of Organization Exempt from Income Tax
- Form 990-EZ, Short Form Return
- Form 990-N, Electronic Notice (e-Postcard) for Tax-Exempt Organizations not Required To File Form 990 or 990-EZ.

Dealing with IRS

What federal information returns, tax returns and notices must be filed?

2010 Tax Year and later (Filed in 2011 and later)	Form to File
Gross receipts normally \leq \$50,000	990-N
Gross receipts $>$ \$50,000 and $<$ \$200,000 , and Total assets $<$ \$500,000	990-EZ or 990
Gross receipts \geq \$200,000 , or Total assets \geq \$500,000	990

Dealing with IRS

Filing Dates

- Forms 990, 990-EZ, and 990-N must be filed by the 15th day of the fifth month after the end of the organization's annual accounting period.

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](#)

More information at www.irs.gov

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

- ❑ **The new Form 990**
 - ❑ **It is designed in 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?

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
 - ❑ – any payment over \$600
 - ❑ - to be sent to recipient by January 31st and IRS by February 28th
- ❑ **Contributions**
 - ❑ IRS – must issue acknowledgements of contributions for \$250 and above
- ❑ **Bank accounts**
 - ❑ Who signs the checks?
 - ❑ On-line access makes it easier when officers change
- ❑ **Making investments**
 - ❑ Investment and Interest Earnings
 - ❑ 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.

Board of Director Responsibilities:

Board members are ultimately responsible for the survival, financial viability and program success of the organization.

Ensuring the financial sustainability of the organization
Ensuring the existence of sufficient and appropriate resources

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

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

- ❑ Have we prepared a realistic budget?
- ❑ 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?

Systems that Protect Nonprofit Organizations

- ❑ Written Policies and Procedures
- ❑ Internal Controls
 - ❑ Most effective is the budget
 - ❑ System of checks and balances to prevent errors, fraud, etc.
 - ❑ Controls over expenditures
 - ❑ Control over receipts – pre-numbered receipt vouchers
 - ❑ Records - supporting documentation for checks issued
- ❑ External Audits
 - ❑ If you don't have an audit, what are you doing instead?

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

Revenue		Actual	Budget
	Member Dues		30,000
	Convention Registration		25,000
	Grants		5,000
	Contributions		5,000
			\$ 65,000
Expenses			
	Secretarial		10,000
	Speaker Honoraria		5,000
	Convention Rental		15,000
	Newsletter Printing		15,000
	Office Supplies		5,000
	Postage		5,000
	Telephone		2,000
	Other Expenses		8,000
			\$ 65,000
	Net Surplus/Loss		-

Annual Budget and Activity Income Statement

Revenue		Actual	Budget	Variance
	Member Dues	25,000	30,000	(5,000)
	Convention Registration	25,000	25,000	-
	Grants	5,000	5,000	
	Contributions	-	5,000	(5,000)
		\$ 55,000	\$ 65,000	\$ (10,000)
Expenses				
	Secretarial	10,000	10,000	-
	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	-
	Postage	5,000	5,000	-
	Telephone	2,000	2,000	-
	Other Expenses	6,000	8,000	(2,000)
		\$ 67,000	\$ 65,000	\$ 2,000
	Net Surplus/Loss	\$ (12,000)	-	\$ (12,000)

Balance Sheet

As at Fiscal Year End 31st XX, 200Y			
<u>Assets</u>		<u>Liabilities and Net Assets</u>	
Current Assets		Current Liabilities	
Cash	5,000	Account Payable	11,000
Certificate of Deposit	30,000		
Accounts Receivable	<u>5,000</u>	Long Term Liabilities	
Total Current Assets	40,000	Non-current portion lease	<u>2,000</u>
		Long Liabilities	13,000
Non-Current Assets			
Furniture & Fixtures	5,000	Net Assets	44,000
		plus/minus operational surplus/loss	(12,000)
			<u>22,000</u>
Total Assets	\$ 45,000	Total Liabilities + Net Assets	\$ 45,000

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 organizations exempt status will not be impaired?
- ❑ Does the board provide for internal controls over expenditures to ensure their propriety?

Record Retention

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

Record Retention

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

Internet Resources

- Non-Profit Resource Center
 - www.1800net.com/nprc/
- Alliance for Nonprofit Management
 - <http://www.allianceonline.org/knowledgebase/index.php>
- IRS information
 - <http://www.irs.gov/charities/index.html>

Questions?