

# ACCOUNTING AND BUDGETING FOR NONPROFIT ORGANIZATIONS

MARCH 10, 2016 | HEIDI COFFMAN, CPA

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# Workshop Objectives

**I. Financial Management and Recordkeeping**

**II. Accounting Tools and Concepts**

**III. Budgeting**

**IV. Filing and Reporting Requirements**

# Reference Tools

## MI Nonprofit Manual/NOLO

- **The Michigan Nonprofit Management Manual, 5<sup>th</sup> Edition**, is a comprehensive resource and reference guide for nonprofit organizations. The manual was written and reviewed by experienced industry professionals making it very practical to use and easy to understand.
  - *\$75 for MNA members, \$95 nonmembers. For orgs. under 100k budget, membership is \$80. Available at [www.mnaonline.org](http://www.mnaonline.org)*
- **“Tax Considerations for Nonprofits”**- Michigan Community Resources
  - *Find under “Legal Guides for Nonprofits” at **WWW.MI-COMMUNITY.ORG***
- **www.nolo.com**
  - *Helpful publications such as “Starting & Building a Nonprofit”*

# FINANACIAL MANAGEMENT & RECORDKEEPING

Financial Policies & Procedures, Recordkeeping, Reimbursing Expenses

# Financial Procedures and Policies

- **Why should you establish financial procedures and policies?**
  - *Required to safeguard assets*
  
- **What should your policies include?**
  - *Required documentation of transactions (recordkeeping)*
  - *Separation of duties*
  - *Timely reconciliation of accounts*
  - *Regular, frequent financial reports, including budget to actual reports*
  - *Oversight, active board, conflict of interest policy*

# Information

## Management/Recordkeeping

### ■ Why is it important to keep records organized?

- *Enable easy access and retrieval to support the financial transactions you will record.*
- *Allows you to meet grantor, donor, tax and audit requirements and enable good internal management.*

### ■ What kinds of records do you need to keep?

- *Source Documents, including: invoices, receipts, bank deposits, etc.*

### ■ How long should records be retained?

# Records, continued

## ■ Revenue Records

- *grant documents*
- *bank deposits*

## ■ Expense Records

- *vendor files*
- *check request forms*

# Records, continued

## ■ Payroll Binder

- *Include payroll reports for each payroll, time sheets, and all monthly, quarterly, and annual payroll tax filings.*

## ■ Personnel files

- *Include employment applications and resumes, job description, employment contracts, acknowledgement of policies, evaluations and payroll withholding forms.*

## ■ Contracts, leases and insurance policies



# Reimbursing Expenses

- Establish a Reimbursement Policy and Accountable Plan
- **What are the IRS Rules regarding reimbursement?**
  - *Must have an accountable plan, preferably in writing that requires:*
    - Any expense reimbursement must be for a business purpose that is documented in writing
    - An accounting of the expense must be made within a reasonable period of time, 60 days or less after incurred
    - All excess reimbursements must be returned within 120 days of receipt.

# Separation of Duties

- **Which financial management responsibilities should you separate within your organization?**
  - *Separate responsibilities for accounting function from operating functions*
  - *Segregate responsibilities for invoice receipt and approval, accounting, payment and check signing*
  - *Separate authorization of transactions from custody of assets*

# Timely Reconciliation of Accounts

- **How often must bank statement(s) be reconciled?**
  - *monthly*
- **Who should perform the reconciliation and/or review it?**
  - *preferably by an individual who does not perform the day to day accounting duties of cutting checks and booking deposits.*

# Prepare Monthly Financial Reports

- **What kind of financial reports do you need to prepare on a monthly basis?**
  - *monthly cash flow report – includes a comparison of budget to actual*
  - *Prepare monthly profit and loss and balance sheet*

# Active and Independent Board of Directors

- **What role should your Board of Directors play in the financial management of the organization?**
  - *Distribute financial and budget reports, bank statements to board members on a regular basis, preferably monthly*
  - *Set up and enforce a conflict of interests policy*
  - *Require board approval for transactions over a certain amount or certain types of transactions*

# ACCOUNTING TOOLS & CONCEPTS

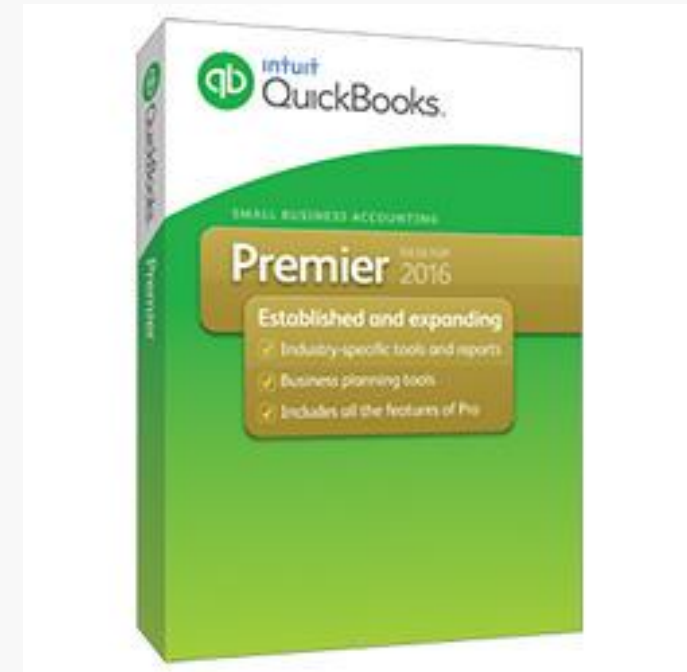
# The Role of the Accounting System

- **What is the purpose of an accounting system?**
  - *To enable day to day management of organizational assets*
  - *To provide timely, accurate financial information to management and third party stakeholders (grantors, donors, governmental authorities, creditors)*
  - *Financial statements provide information necessary to make informed organizational decisions*

# Accounting Tools

## QuickBooks Premier Nonprofit Edition

- Integrated accounting software
- Available to Tech Soup members for \$50 at [techsoup.org](http://techsoup.org), vs \$339 at Costco
- Microsoft Excel, spreadsheet software for budgeting, grant allocation, QB exports reports to Excel





# Accounting Tools, continued

## Chart of Accounts

The Chart of Accounts is a listing of the assets, liabilities, net asset, revenue and expense accounts.

# Accounting Methods

## ■ Cash Basis

- *Recognize revenue when cash received, expenses when actually paid.*
- *Not acceptable under GAAP (generally accepted accounting principles). If a review or audit is required by a funder, conversion to accrual basis will need to be done.*

# Accounting Methods, continued

## ■ Accrual Basis

- *Revenue is recorded when earned or an unconditional promise is made, expense is recorded when it is owed.*
- *Required by most third party users of financial statements, including funders and banks.*

# Pros & Cons of Methods

## Cash Basis

### Pros

- Easier to use
- Requires less time, training

### Cons

- Least accurate financial data
- Doesn't manage cash flow

## Accrual Basis

### Pros

- More complex
- Requires more time, training

### Cons

- Accurate picture of financial results
- Manages cash flow

# Internal Financial Reporting

- Statement of Activities (Profit and Loss)
  - *Reflects the organization's revenue, expenses, and the net result, or change in net assets over a specific period of time*
  - *Revenue can be classified as unrestricted, temporarily restricted or permanently restricted*

**NPS Training Organization**  
**Statement of Activities**  
From 1/1/2013 Through 12/31/2013

	Health Care	Social Services	Food Services	Day Care	Total
<b>Revenues</b>					
Grant Revenues	2,144.95	2,130.51	517.72	1,728.45	6,521.63
Contributions	0.00	0.00	0.00	0.00	0.00
Investments	0.00	655.00	1,110.47	1,500.00	3,265.47
Education & Program Revenues	21,067.35	17,095.45	7,322.56	22,292.62	67,777.98
Other Revenues	811.20	0.00	0.00	0.00	811.20
Net Assets Released from Restrictions	0.00	0.00	0.00	0.00	0.00
<b>Total Revenues</b>	<b>24,023.50</b>	<b>19,880.96</b>	<b>8,950.75</b>	<b>25,521.07</b>	<b>78,376.28</b>
<b>Expenses</b>					
Salaries	830.00	900.00	1,270.00	0.00	3,000.00
Overtime Expense	275.00	275.00	50.00	0.00	600.00
Social Security Taxes	0.00	0.00	0.00	0.00	0.00
Medicare Taxes	0.00	0.00	0.00	0.00	0.00
Federal Unemployment Taxes	0.00	0.00	0.00	0.00	0.00
State Unemployment Taxes	0.00	0.00	0.00	0.00	0.00
Worker's Comp Expenses	0.00	0.00	0.00	0.00	0.00
Health Insurance	0.00	0.00	0.00	0.00	0.00
Life Insurance Exp	0.00	0.00	0.00	0.00	0.00
Retirement Matching Exp	0.00	0.00	0.00	0.00	0.00
Other Employee Benefits	0.00	0.00	0.00	0.00	0.00
Contract Services	0.00	0.00	0.00	0.00	0.00
Consulting Expenses	27,749.80	0.00	0.00	(919.73)	26,830.07
Legal and Professional Fees	0.00	0.00	0.00	24,305.72	24,305.72
Public Relations Expense	0.00	0.00	7,742.34	0.00	7,742.34
Building Rent	0.00	0.00	0.00	12,952.30	12,952.30
Utilities and Maintenance Expenses	0.00	0.00	2,130.19	2,000.00	4,130.19
Office and Other Supplies Expense	1,644.63	350.00	50.00	200.00	2,244.63
Depreciation Expense	0.00	0.00	0.00	0.00	0.00
Direct Food	0.00	0.00	0.00	0.00	0.00
Direct Transportation	0.00	1,392.07	0.00	0.00	1,392.07
<b>Total Expenses</b>	<b>30,499.43</b>	<b>2,917.07</b>	<b>11,242.53</b>	<b>38,538.29</b>	<b>83,197.32</b>
<b>Revenues over Expenses</b>	<b>(6,475.93)</b>	<b>16,963.89</b>	<b>(2,291.78)</b>	<b>(13,017.22)</b>	<b>(4,821.04)</b>
<b>Beginning Net Assets</b>					
	<u>2,204,950.89</u>	<u>2,325,314.62</u>	<u>932,151.82</u>	<u>5,807,466.60</u>	<u>11,269,883.93</u>
<b>Total Beginning Net Assets</b>	<b>2,204,950.89</b>	<b>2,325,314.62</b>	<b>932,151.82</b>	<b>5,807,466.60</b>	<b>11,269,883.93</b>
<b>Adjustments to Net Assets</b>					
	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
<b>Total Adjustments to Net Assets</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Ending Net Assets</b>	<b><u>2,198,474.96</u></b>	<b><u>2,342,278.51</u></b>	<b><u>929,860.04</u></b>	<b><u>5,794,449.38</u></b>	<b><u>11,265,062.89</u></b>

# Statement of Financial Position (Balance Sheet)

## ■ Statement of Financial Position (Balance Sheet)

- *Net Assets or Equity, = Assets less liabilities. It represents revenues less expenses since the date of inception.*
- *Net assets can be:*
- *Unrestricted, i.e. donations that are not restricted to a certain purpose*
- *Temporarily restricted until spent in accordance with the donor or grantor's terms, or*
- *Permanently restricted, with donor stipulations the never expire, most commonly, endowment funds where the income is available for operations, the principle is retained permanently.*

# Statement of Financial Position

NON-PROFIT ORGANIZATION		
STATEMENT OF ACTIVITIES		
	20xx	20xy
<b>Assets</b>		
Cash and cash equivalents	\$ 131,414	\$ 144,032
Contracts & Grants Receivable	1,111,902	720,970
Prepaid Expenses	16,387	34,168
Property, Plant & Equipment (net of depreciation)	533,346	491,774
<b>Total Assets</b>	<b>\$ 1,793,049</b>	<b>\$ 1,390,944</b>
<b>Liabilities and Net Assets</b>		
Accounts Payable & Accrued Expenses	\$ 329,203	\$ 253,402
Deferred Revenue	74,919	75,646
Line of Credit	145,000	
<b>Total Liabilities</b>	<b>549,122</b>	<b>329,048</b>
<b>Net Assets</b>		
<b>Unrestricted</b>		
Undesignated	708,401	563,225
Invested in Property, Plant & Equipment	533,346	491,774
<b>Total Unrestricted</b>	<b>1,241,747</b>	<b>1,054,999</b>
Temporarily Restricted	2,180	6,897
<b>Total Net Assets</b>	<b>1,243,927</b>	<b>1,061,896</b>
<b>Total Liabilities &amp; Net Assets</b>	<b>\$ 1,793,049</b>	<b>\$ 1,390,944</b>

- 3-part statement
  - Assets
    - What is owned
  - Liabilities
    - What is owed
  - Net Assets
    - What is left
    - *Theoretically, if all assets are sold to pay off all liabilities, net assets would remain*
- Audit typically shows 2 years



# BUDGETING

Visit the Nonprofits Assistance Fund's Resource Library for helpful reference materials & templates around planning and managing your budget.  
<https://nonprofitsassistancefund.org/resource-categories/financial-management>

# FILING & REPORTING REQUIREMENTS

State and Federal

# Filing and Reporting Requirements – Initial Filings

- State of Michigan – Form CD502, Articles of Incorporation for a Domestic Nonprofit Corporation
- <http://www.nolo.com/legal-encyclopedia/forming-nonprofit-corporation-michigan-36070.html>

# Form SS-4, Form 1023-EZ

- SS-4, Application for Employer Identification Number, required for tax filing and reporting purposes, can file online
- Form 1023-EZ, Streamlined Application for Recognition of Exemption under Section 501(c)(3) of the Internal Revenue Code
- Can be a corporation, unincorporated association or trust

# Form 1023-EZ

- Complete Form 1023-EZ Eligibility Worksheet

- Ineligible if:

  - Annual gross receipts will  $> \$50k$  in any of next three years or  $> \$50k$  in last 3 years

  - Total fair market value of assets  $> \$250K$

  - A foreign entity, mailing address, or successor to a terrorist organization

Must be filed online, \$400 fee

# State of Michigan Filings

- Nonprofit Corporation Annual Report

Due 10/1, \$20 fee, list charitable purpose,  
resident agent, address, current officers and  
directors

President, secretary and treasurer required, even  
if same individual

3 or more directors must serve on board

# State of Michigan Filings

- After IRS 501( c )(3) exemption is obtained, file Initial Solicitation Form CTS01
- Required for charitable organizations when they start to solicit donations and grants in the State of Michigan
- Form will determine required annual filing to state
- If total nongovernmental grant, net fundraising, and net gaming income equal \$525k or more, the state requires an audit. If these sources are greater than \$275k and less than \$525k, a review is required

# Renewal Solicitation Form CTS - 02 and Request for Exemption CTS - 03

- If solicit over \$25k and have paid individuals conducting fundraising activities, will be required to file Renewal Solicitation Form annually, 6 months after the end of fiscal year
- If do not solicit and receive over \$25k in any 12 month period and fundraising function conducted by unpaid staff or contractors, can file for exemption
- If exempt, may need to file annual financial statement with state or provide annual IRS return, must provide to its members and public



# Registration and Inventory Form for Corporations and Unincorporated Associations

- Required for organizations exempt from filing the Renewal Solicitation License
- Annual financial report requirement waived if gross receipts less than \$25,000 for the fiscal year, value of total assets at all times is less than \$100,000, the organization does not intend to solicit or does not receive more than \$8,000 in any 12 month period

# State of Michigan Filings

## Sales, Use and Withholding Tax, Unemployment Tax

- Form 518, Registration for Annual Taxes, required for all of above taxes
- Nonprofits do not have to remit sales tax unless annual sales > \$5k. Once they reach \$5k, all sales that year are subject to sales tax
- Use tax is tax paid on purchases of goods from out of state

# Sales, Use and Withholding Tax and Sales Tax Exemption

- After registration is filed, state will determine the frequency of your filings of Form 5080, Sales, Use and Withholding Taxes Monthly/Quarterly Return
- Form 5080 due the 20<sup>th</sup> of the month after month end or end of quarter
- Annual return Form 5081, Sales, Use and Withholding Taxes Annual Return due last day of February after the end of the calendar year
- Nonprofits do not have to pay sales tax on items purchased for program services. Provide Form 3372, Michigan Sales and Use Tax Certificate of Exemption, and IRS determination letter to vendors

# Other Michigan Filings- Unemployment and Property Tax

- Michigan tax registration form covers unemployment tax also
- Unemployment tax is due quarterly by the 25<sup>th</sup> of the following month, electronic filing is required on Form 1028 in the MIWAM system
- Tax is levied on first \$9,000 or \$9,500 of employee's earnings annually
- Personal property tax exemptions available for nonprofits and any corporation owning less than \$80,000 in assets
- Real property tax exemption also available to nonprofits

# Audit and Organizational Tax Requirements

- An audit has to be arranged each year, for which someone in the organization has to gather and provide all the necessary financial and other records, often including Board meeting agendas and minutes, actual contracts and grant agreements, and records of services provided or activities conducted. In addition, the Form 990 (for the IRS) and any relevant state tax forms have to be completed and sent to the appropriate agencies **within three and a half months of the end of the organization's fiscal year.**

# IRS Annual Filings

- If gross receipts are normally \$5k or less, no IRS annual filing is required
- Form 990-N required for nonprofits with gross receipts that are normally \$50,000 or less annually
- “Normally” requirement is defined by IRS
- Form 990-N is an Electronic Notice for tax exempt organizations not required to file Form 990 or Form 990-EZ

# Form 990-EZ Requirements

## Independent Contractor Tax Forms

- If gross receipts <\$200k and total assets < 500k, Form 990-EZ can be filed
- All 990 filings due the 15<sup>th</sup> day of the 5<sup>th</sup> month following the end of the fiscal year
- Independent contractors paid \$600 or more for services in a calendar year must be issued a Form 1099 by 1/31 of the following year, Forms 1099 issued must be filed with the IRS accompanied by Form 1096 by the last day in February