

## AGENDA

<b>5:45 p.m. - 6:05 p.m.</b>	Arrivals & Refreshments
<b>6:05 p.m. - 6:10 p.m.</b>	Welcome & Introductions
<b>6:10 p.m. - 6:20 p.m.</b>	Interactive Exercise
<b>6:20 p.m. - 7:55 p.m.</b>	Presentations + Questions & Answers <i>SPEAKER: Heidi Coffman, CPA</i>

### **Financial Management & Record Keeping**

Clearly defined policies and procedures for managing money are essential for the health of your organization. They allow organizations to establish credibility and minimize the risk of mismanagement and fraud.

### **Accounting Tools & Concepts**

Solid accounting practices help you keep track of the money coming in and money going out of your organization. Benefits of these practices include allowing organizations to make informed financial decisions, satisfy reporting requirements for funders, and be prepared for financial reviews or audits.

### **Budgeting**

Effective budgets include realistic assumptions about potential funding coming in and expenses that will need to be paid. They allow organizations to plan how they will manage their resources to achieve their program and organizational goals.

### **Filing & Reporting Requirements**

Nonprofits, including incorporated and tax-exempt organizations, are subject to filing requirements at the state and federal level. Understanding these requirements allow organizations to obtain and maintain their nonprofit status.

<b>7:55 p.m. - 8:00 p.m.</b>	Closing Remarks & Evaluations
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## CONTACT INFORMATION

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## REFERENCE GUIDES AND TEMPLATES

### **Community Toolbox, Section 2: Managing Your Money**

<http://ctb.ku.edu/en/table-of-contents/finances/managing-finances/manage-money/main>

### **The Michigan Nonprofit Management Manual, 5th Edition**

<http://www.mnaonline.org>

A comprehensive resource and reference guide for nonprofit organizations. \$75 for MNA members, \$95 nonmembers. For organizations under \$100,000 budget, membership is \$80.

### **Greater Washington Society of CPAs Educational Foundation**

<http://www.nonprofitaccountingbasics.org/>

### **Nonprofit Assistance Fund, Resource Library**

<https://nonprofitsassistancefund.org/resources>

### **Wallace Foundation, Resources for Nonprofit Financial Management**

<http://www.wallacefoundation.org/knowledge-center/Resources-for-Financial-Management/pages/default.aspx>

### **How to Form a Michigan Nonprofit Corporation**

<http://www.nolo.com/legal-encyclopedia/forming-nonprofit-corporation-michigan-36070.html>

Updated by Diana Fitzpatrick, JD

### FINANCIAL MANAGEMENT AND RECORD KEEPING

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#### POLICIES AND PROCEDURES

Establish written policies and procedures for financial management in your organization to create clarity and minimize the risk of error and fraud.

##### Effective Policies Include:

- Requirements for documenting financial transactions** - Outline who will record and maintain financial records and rules for the length of time that records must be retained.
- Separation of duties** - Differentiate responsibilities for different financial roles within your organization in order to minimize the risk of error and fraud.
- Timely reconciliation of bank statement** - Compare your organization's record of financial activity for the month including deposits, withdrawals and checks with your bank account statement. If the balance of your record is inconsistent with the balance on your statement, investigate the causes of the inconsistencies. Work on your reconciliation until there is no longer a difference between the balance of your recorded activity and the balance of the bank statement.
- Regular, (preferably monthly) financial reports** - Provide those designated with monitoring financial activity within your organization (e.g., finance committee) with a balance sheet and a report of revenue and expenses (statement of activity). Compare to your budget projections and analyze variances.
- Oversight** - Establish systems of checks and balances as appropriate to minimize the risk of error and fraud.
- Board Involvement** - Require board approval for certain kinds of transactions or transactions over a certain amount.
- Conflict of interest policy** - Establish guidelines for disclosure and recusal for cases in which board or staff members have a personal or business interest in a decision making process that may influence their judgement.

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#### ROLES AND RESPONSIBILITIES

Effective policies identify roles and responsibilities related to different aspects of financial management.

##### Effective Policies Include:

- Who approves financial decisions about spending in your organization?** For example, who approves the annual budget?
- Who has authority to make day to day financial decisions?** For example, who can make final decisions around spending or contracts?
- Who maintains financial records?** For example, who is responsible for maintaining source documents such as invoices, bank statements or payroll records?
- Who monitors financial activity in your organization?** For example, who reviews account statements? Who prepares financial reports for the Board?
- Who executes financial tasks?** Who signs checks? Do checks require more than one signature? Who deposits cash or checks into your bank account?

**Written procedures outline rules for how individuals with financial management roles are to carry out their duties. For example, when your organization receives an invoice, who has the responsibility to review it, record it, and/or follow up on discrepancies and payment?**

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**FROM THE COMMUNITY TOOLBOX |**

*Tips for Maintaining Money Management Systems in Your Organization*

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**DATA ENTRY  
AND BACKUP**

Any systems that are computerized - accounting, payables /receivables, payroll - need the right numbers put into them constantly so that they'll always be up to date. In addition, they should be backed up regularly - ideally every day - so that you won't lose all your data if the power goes out or if your hard drive crashes. If those systems aren't computerized, the data entry - using pencil and paper - is still just as important, and can be even harder to maintain, because it takes longer.

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**PAYING BILLS  
AND BILLING**

Your system is useless unless someone actually does the paperwork on a regular basis, and keeps careful records.

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**PAYROLL AND  
PAYROLL TAXES**

Someone has to make sure that Social Security, Medicare, state and federal taxes, unemployment, and workers' compensation are all paid correctly and on time. In addition, whoever is in charge of payroll has to keep up with changes in the tax laws, as well as with any changes in employee benefits, so that he withholds the proper amount from employees' checks in either case. W-4 forms (employees' declarations of the number of their exemptions) have to be on file, and W-2 forms (the employer's declaration of how much was withheld and paid in all categories of taxes from each employees' pay for the year) have to be issued to employees, with copies sent to the federal and state governments, between January 1 and January 31.

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**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.

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**PRINTED FORMS**

If you use purchase orders or other printed forms for financial systems, they have to be available when they're needed, whether that means buying generic ones, running them off on a computer printer or copier, or ordering them from a printer.

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**EVALUATE**

In addition to general system maintenance, it's important to evaluate systems continually to make sure they're working efficiently, and to make changes where necessary to make your money management as effective as possible.

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### ACCOUNTING CONCEPTS & TOOLS

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#### IMPORTANT ACCOUNTING CONCEPTS:

**Generally Accepted Accounting Principles (GAAP)** are regulations which dictate how accounting procedures must be carried out. They are developed by two boards of the American Institute of CPA's (AICPA), the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB).

A **line-item** is an expense or revenue category (e.g. salaries, telephone, office supplies).

A **line-item budget** is a budget agreed upon with a funder that specifies how much of the funder's money will be spent on each line-item. It could also refer to any budget that is broken out by line-item.

An **accounting system** refers to methods by which an organization keeps track of and manages money. There are various accounting systems that an organization can use, but the goals of all of them are to assure the accurate recording of financial transactions, and that financial reports necessary for management are prepared accurately and in a timely fashion.

**Cash basis accounting** is a system in which an organization only records revenue when cash is received and only records expenses when they are paid. It is used by many small organizations that have minimal unpaid expenses and uncollected revenue. This system is not accepted under GAAP. A conversion to accrual basis will be necessary if the organization undergoes a review or audit to meet funder or government requirements.

**Accrual basis accounting** is a system in which an organization records income when it is earned or a commitment is made by a funder and expenses when they are owed.

**Payables** are expenses which the organization owes, but has not yet paid (e.g. outstanding invoices, rent payments, etc.).

**Receivables** are items of income that the organization is owed (e.g. for services or goods you have already supplied, or outstanding payments from funders).

A **Chart of Accounts** is a list of categories used to group your financial transactions. Accounts are generally divided into five categories: assets, liabilities, net assets, revenues, and expenses. Each account is assigned an identifying number for use within the accounting system. Examples of accounts include things such as the payroll account, office supplies, donations, etc.

**Assets** are items that have economic value (e.g. cash, investments, etc.).

**Liabilities** are items that are owed by the organization (e.g. mortgage, unpaid invoices).

**Net assets** are an organization's net worth, the difference between assets and liabilities. Generally accepted accounting principles (GAAP) call for an organization's net assets to be classified as unrestricted (donations not tied to a specific timeframe or purpose), temporarily restricted (donations or grants restricted to a certain period and/or purpose), or permanently restricted (donations tied to an endowment indefinitely governing use of funds).

**Revenues** are sources of income for the organization (e.g. grants, donations, payment for services).

**Expenses** are items and services that an organization spends income on in order to operate.

A **statement of financial position** is a nonprofit balance sheet that shows an organization's assets, liabilities, and net assets.

# ACCOUNTING CONCEPTS & TOOLS

## IMPORTANT ACCOUNTING CONCEPTS (CONT.):

A **statement of activities** shows an organization's income and expenses and resulting changes to net assets over a specific period of time.

An **audit** is a process for testing the accuracy and completeness of information presented in an organization's financial statements. This testing process lets an independent Certified Public Accountant issue what is referred to as an **opinion** on how fairly the agency's financial statements represent its financial position and whether they comply with generally accepted accounting principles (GAAP).

An alternative to an audit is a **review**, which is a more limited examination of the financial statements by a CPA. During a review, a CPA asks questions of management and conducts some analysis, but does not undertake the extensive testing required for an audit. A review provides only limited assurance that the financial picture is fairly presented.

## COMPUTERIZED ACCOUNTING TOOLS:

**Microsoft Excel** Spreadsheet Software

Accounting Software - **Quick Books** Premier Nonprofit Edition is a popular choice. It is available to Tech Soup members for \$50 at [techsoup.org](http://techsoup.org).

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### BUDGETING

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#### ANNUAL BUDGET CREATION

Creating an annual budget allows organizations to plan how it will manage its resources to achieve program and organizational goals over the course of a fiscal year.

#### Considerations Include:

- Determine budget timeline.** Set a target date by which date the budget needs to be approved by the Board. The budget should be prepared, revised and approved before the fiscal year that it covers.
- Outline your budgeting process.** Assign and document roles, responsibilities, and deadlines.
- Agree on goals and priorities.** Consider what the organization would like to accomplish in the upcoming year. What programs and activities will it implement to achieve its goals? What will the organization need to spend money on to implement those programs and activities?
- Forecast expenses.** Estimate the amount of money that you will need to spend in the coming year, broken down into the categories you expect to spend it in - salaries, office expenses, program costs, cash reserves, etc. Use conservative estimates.
- Forecast income.** Estimate the amount of money you expect from different funding sources in the upcoming year through grants, fundraising efforts, memberships, and sales of goods or services. Use conservative estimates.
- Understand the interaction of expenses and income.** Take funding restrictions into consideration. For example, how much of the funds from a particular source are able to be used toward salaries or other operating costs? What expenses can be funded from which sources?
- Create a budget document.** A budget spreadsheet should at minimum include projected expenses by category and projected revenue by source, preferably showing from what source line items will be covered. If the balance of expenses and revenue is unequal, consider how you will address the budget gap (e.g. cut expenses, try to raise more money). Your budget document may also include a cash flow projection to estimate how much money you will have available to pay expenses each month.
- Ensure that budget line items align with accounting line items.** The structure of the budget should allow comparisons between the budget and accounting documents.
- Monitor the budget and make adjustments as the year progresses.** Determine how your organization will deal with variances and who will have authority to make financial decisions.

Source: KU Work Group for Community Health and Development. (2015). Chapter (43), Section 5: Managing Finances. Lawrence, KS: University of Kansas. Retrieved March 1, 2016, from the Community Tool Box: <http://ctb.ku.edu/en/table-of-contents/finances/managing-finances/manage-money/main>; Greater Washington Society of CPAs Educational Foundation. Accounting and Bookkeeping-Accounting 101. Retrieved: March 7, 2016: <http://www.nonprofitaccountingbasics.org/accounting-bookkeeping/accounting-101>; Nonprofit Assistance Fund. 10 Step Annual Budgeting Checklist. Retrieved: March 1, 2016: [https://nonprofitsassistancefund.org/sites/naf-prod/files/publications/10\\_step\\_annual\\_budgeting\\_checklist\\_2014.pdf](https://nonprofitsassistancefund.org/sites/naf-prod/files/publications/10_step_annual_budgeting_checklist_2014.pdf) Fiscal Management Associates. 5 Step Guide to Budget Development. Retrieved: March 7, 2016: <http://www.wallacefoundation.org/knowledge-center/Resources-for-Financial-Management/Pages/A-Five-Step-Guide-to-Budget-Development.aspx>

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## **FILING AND REPORTING REQUIREMENTS**

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### **STATE OF MICHIGAN\***

**Articles of Incorporation for a Domestic Nonprofit Corporation - Form CD – 502:** To incorporate as a nonprofit in Michigan

**Initial Solicitation Form for the Charitable Organizations and Solicitations Act (COSA), CTS – 01- State of Michigan, Department of Attorney General:** To register organizations that will be soliciting charitable donations.

**Registration and Inventory Form for Corporations and Unincorporated Associations, CTS - 05 – State of Michigan, Department of Attorney General:** One time registration for organizations exempt from registering to solicit under the Charitable Organizations and Solicitations Act.

Annual financial report requirement waived if:

- Gross receipts less than \$25,000 annually
- The value of the organization's 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

**Request for Exemption from Charitable Organizations and Solicitations Act (COSA) and Supervision of Trustees for Charitable Purposes Act, CTS - 03 – State of Michigan, Department of Attorney General:** Exempt organizations may need to file annual financial statement with state or provide annual IRS return

**Renewal Solicitation Form, CTS - 02 and Request for Exemption CTS – 03:** For organizations soliciting donations over \$25,000 or that pay staff or contractors to conduct fundraising activities

**Michigan Sales and Use Tax Certificate of Exemption - State of Michigan, Department of Treasury:** Use this form to claim exemption from Michigan sales and use tax on qualified transactions.

**Taxes Form 518 - Registration for Annual Taxes:** To register for various business taxes and licenses

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### **INTERNAL REVENUE SERVICE\***

**Form 1023 – EZ, Streamlined Application for Recognition of Exemption under Section 501(c)(3) of the Internal Revenue Code - IRS:** To obtain exemption from income tax

**Form SS-4 - Application for Employer Identification Number (EIN):** An EIN is a nine-digit number assigned to sole proprietors, corporations, partnerships, estates, trusts, and other entities for tax filing and reporting purposes.

### **Annual 990 Filings**

**Additional filing requirements:** Including those related to hiring employees, earning income unrelated to the charitable purpose of the organization, etc.

*\*Please note that this list is not exhaustive. Consult with an accountant or tax attorney for further reference.*

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