



McConnell Jones LLP and GrowthForce LLC presents:

Bookkeeping and Tax Issues Important to Nonprofit Organizations

August 12, 2009

McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

growthforce 
helping your business grow



QuickBooks for Nonprofits

Unleashing the Power in your World

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GrowthForce LLC

QuickBooks for Nonprofits

Unleashing the Power in your World

- The Nonprofit Edition – Myth vs. Reality
- Meeting the Unique needs of the Nonprofit
- Board Reporting – Making it Easy

Myth vs. Reality

Myth:

Nonprofit offers more functions than other QB Editions

Reality:

The functionality is exactly the same as Standard Premier

Examples:

Nonprofit Menu

- Setup Budgets
- Enter Donations
- Enter Pledges
- Programs/Projects

Pro/Premier Menu

- Company/Planning
- Create a Sales Receipt
- Create Invoices
- Classes

Myth vs. Reality

Myth: NP has better reports

Reality: Same reports with new names

Examples:

Nonprofit Menu

- Biggest Donors
- Budget vs. Actual by Donor
- Program Report
- Statement of Financial Position
- Statement of Financial Income and Expense
- Statement of Functional Expenses (990)

Pro/Premier Menu

- Sales by Customer
- Budget by Job
- Class Transaction Report
- Balance Sheet
- Profit and Loss
- Profit and Loss by Class

Myth vs. Reality

Myth: Multiple users all are required to use NP Premier Edition

Reality: You can mix Pro and Premier on the same network

Recommendation:

Buy Premier NP for development and Pro for everyone else

Myth: Designations on Home Page are helpful

Reality: Sometimes the designations are misleading

Examples:

Nonprofit Menu

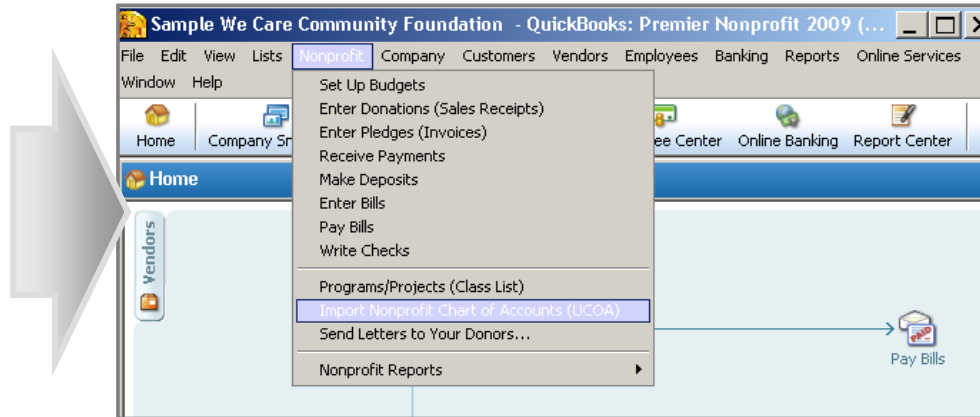
- Donations
- Customers/Donors

Pro/Premier Menu

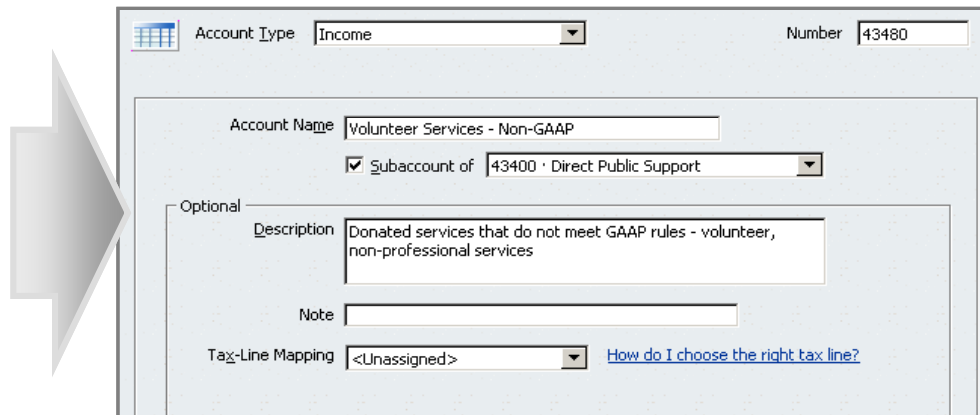
- Sales Receipt
- Customer Center

Myth vs. Reality

One real benefit of QuickBooks Nonprofit Edition



Explanations help ensure proper use of accounts



Myth vs. Reality

Income accounts in UCOA

♦43300 · Direct Public Grants	Income
♦43310 · Corporate and Business Grants	Income
♦43320 · Discounts - Long-term Grants	Income
♦43330 · Foundation and Trust Grants	Income
♦43340 · Nonprofit Organization Grants	Income
♦43400 · Direct Public Support	Income
♦43410 · Corporate Contributions	Income
♦43420 · Donated Art	Income
♦43430 · Donated Prof Fees, Facilities	Income
♦43440 · Gifts in Kind - Goods	Income
♦43450 · Individ, Business Contributions	Income
♦43460 · Legacies and Bequests	Income
♦43470 · Uncollectible Pledges - Est	Income
♦43480 · Volunteer Services - Non-GAAP	Income
♦44400 · Government Contracts	Income
♦44410 · Agency (Government) Contracts	Income
♦44420 · Federal Contracts	Income
♦44430 · Local Government Contracts	Income
♦44440 · Medicare and Medicaid Payments	Income
♦44450 · State Contracts	Income
♦44500 · Government Grants	Income
♦44510 · Agency (Government) Grants	Income
♦44520 · Federal Grants	Income
♦44530 · Local Government Grants	Income
♦44540 · State Grants	Income
♦44800 · Indirect Public Support	Income
♦44810 · Affiliated Org. Contributions	Income
♦44820 · United Way, CFC Contributions	Income
♦45000 · Investments	Income
♦45010 · Costs of Other Asset Sales	Income
♦45020 · Dividend, Interest (Securities)	Income
♦45030 · Interest-Savings, Short-term CD	Income
♦45040 · Other Asset Sales	Income
♦45050 · Other Investment Revenue	Income
♦46400 · Other Types of Income	Income
♦46410 · Advertising Sales	Income
♦46420 · Inventory Sales	Income
♦46430 · Miscellaneous Revenue	Income
♦47200 · Program Income	Income
♦47210 · Bad debts, Est - Program Sales	Income
♦47220 · Member Assessments	Income
♦47230 · Membership Dues	Income
♦47240 · Program Service Fees	Income

Unique Needs of the Nonprofit

- ✓ Tracking In-Kind Contributions
- ✓ Matching Grants
- ✓ Restricted Funds
- ✓ Capital Campaigns
- ✓ Reporting Volunteer Time

Tracking In-Kind Contributions

Add a new income account

Add New Account

Account Type: Income

Account Name: In Kind Donations [Select from Examples](#)

Subaccount of: []

Optional

Description: Donations of goods and services

Note: []

Tax-Line Mapping: <Unassigned> [How do I choose the right tax line?](#)

Save & Close **Save & New** **Cancel**

Record In-Kind Contributions

Make a General Journal Entry:

1. Enter the date of the contribution
2. Click the Account drop down list and choose the appropriate account for the item as if you actually purchased it (i.e. Office Supplies for supplies) and enter the fair market value in the debit column, enter the name of the donor, and choose the appropriate class
3. On the second line click the Account drop down list and choose In-Kind Contribution, enter the fair market value of the contributed item in the credit column

Account	Debit	Credit	Memo	Name	Billable?	Class
Operations:Supplies	100.00		FMV 24 Cases of bottled water	Nice Realtor	<input type="checkbox"/>	Administration
In Kind Donations		100.00	FMV 24 Cases of bottled water	Nice Realtor	<input type="checkbox"/>	Administration

Matching Grants

Additional Customization

Selected Template
Matching Contributions Template is inactive

Header Columns Footer Print

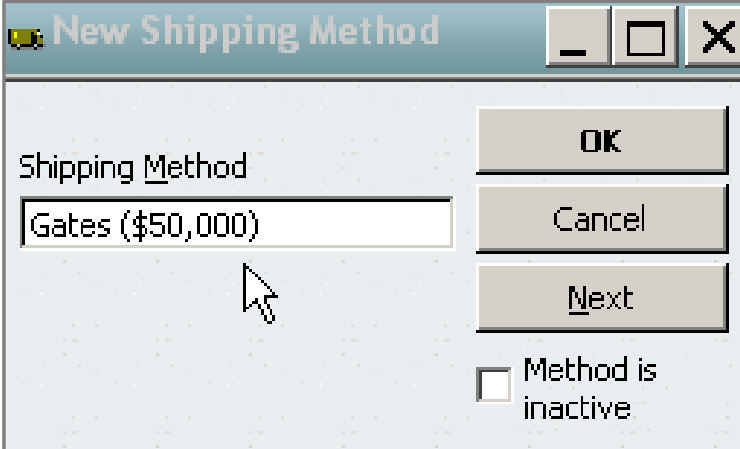
	Screen	Print	Title
Default Title	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	Sales Receipt
Date	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	Date
Sale Number	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	Sale No.
Sold To	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	Sold To
Ship To	<input type="checkbox"/>	<input type="checkbox"/>	Ship To
Check Number	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	Check No.
Payment Method	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	Payment Method
Due Date	<input type="checkbox"/>	<input type="checkbox"/>	Due Date
REP	<input type="checkbox"/>	<input type="checkbox"/>	Rep
Account Number	<input type="checkbox"/>	<input type="checkbox"/>	Account #
Ship Date	<input type="checkbox"/>	<input type="checkbox"/>	Ship Date
Ship Via	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Match For
FOB	<input type="checkbox"/>	<input type="checkbox"/>	FOB
Project/Job	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Project
Other	<input type="checkbox"/>	<input type="checkbox"/>	Other

Add Ship Via field to sales Forms

Rename – Match For

Matching Grants

- Add a new shipping method using Grant name and amount needed for matching funds
- Record donations using proper sales form and indicate who the match was for in the box under “Match For”



New Shipping Method

Shipping Method
Gates (\$50,000)

OK
Cancel
Next

Method is inactive

Matching Grants

Nonprofit Dummy			
Matching Grants 2008			
January through December 2008			
	◇ <u>Gates (\$50,000)</u>	◇ <u>No shipping method</u> ◇	<u>TOTAL</u> ◇
Ordinary Income/Expense			
Income			
Direct Public Support	10,000.00	0.00	10,000.00
In Kind Donations ▶	<u>0.00</u> ◀	<u>100.00</u>	<u>100.00</u>
Total Income	10,000.00	100.00	10,100.00
Expense			
Operations	<u>0.00</u>	<u>100.00</u>	<u>100.00</u>
Total Expense	<u>0.00</u>	<u>100.00</u>	<u>100.00</u>
Net Ordinary Income	<u>10,000.00</u>	<u>0.00</u>	<u>10,000.00</u>
Net Income	<u>10,000.00</u>	<u>0.00</u>	<u>10,000.00</u>

Restricted Funds

- Two Basic Situations
 - A) Grantor gives the dollars first, then requests detail of how funds were spent
 - B) Grant is given only after money is spent and a reimbursement is requested

The setup and tracking procedures will be the same either way

Restricted Funds

New Customer Type

Customer Type:

Subtype of

Customer type is inactive

OK
Cancel
Next

Add "Restricted Grants" as a customer type

Setup Grantor as a Customer with Restricted Grant as the customer type

New Customer

Customer Name:

Opening Balance: as of [How do I determine the opening balance?](#)

Address Info | **Additional Info** | Payment Info | Job Info

Categorizing and Defaults: Type: Price Level:

Custom Fields:

Restricted Funds

Report will show amount of funds received and how they were disbursed. If there is a loss, that is the amount to submit for reimbursement if that was the type of grant.

Nonprofit Dummy		
Restricted Grant Summary		
January through December 2008		
	◇ We Love Kids Foundation ◇	◇ TOTAL ◇
Ordinary Income/Expense		
Income		
Direct Public Support	7,000.00	7,000.00
Total Income ▶	7,000.00 ◀	7,000.00
Expense		
Contract Services	2,800.00	2,800.00
Operations	500.00	500.00
Payroll Expenses	4,200.00	4,200.00
Total Expense	7,500.00	7,500.00
Net Ordinary Income	-500.00	-500.00
Net Income	<u>-500.00</u>	<u>-500.00</u>

Restricted Funds

Common question: *What is the amount of the restriction that needs to be taken out of restricted funds for the year?*

Answer: *Summary report shows total Restricted Funds received, amounts spent and balance in Restricted Funds that should be on balance sheet.*

11:27 AM 02/24/09 Cash Basis				
Nonprofit Dummy Restricted Funds 2008 January through December 2008				
	◊ Do Good Founda...	United Way	◊ We Love Kids Fo...	◊ TOTAL
Ordinary Income/Expense				
Income				
Indirect Public Support	25,000.00	2,450.00	7,000.00	34,450.00
Total Income	25,000.00	2,450.00	7,000.00	34,450.00
Expense				
Contract Services	4,700.00	1,200.00	2,800.00	8,700.00
Facilities and Equipment	750.00	750.00	0.00	1,500.00
Operations	0.00	500.00	500.00	1,000.00
Payroll Expenses	0.00	0.00	4,200.00	4,200.00
Total Expense	5,450.00	2,450.00	7,500.00	15,400.00
Net Ordinary Income	19,550.00	0.00	-500.00	19,050.00
Net Income	<u>19,550.00</u>	<u>0.00</u>	<u>-500.00</u>	<u>19,050.00</u>

Capital Campaigns

Strategy for Tracking Contributions and Expenditures

- **Setup Class** – *Capital Campaign or Designated project*
- **Setup Accounts** – *Other Income accounts named Capital Campaign Income and Capital Campaign Expense with appropriate sub-accounts*
- **Setup Items** – *Point to Other Income accounts*
- **Recording Pledges** – *Customize invoice form, use class and appropriate items*
- **Recording Contributions** – *Customize sales receipt, use class and appropriate items*
- **Recording Expenses** – *Enter bills or write checks using Capital Campaign Expense account*
- **Year End Adjustment** – *Create a new Fixed Asset Account for the capital asset; create a new Other Income account (Capitalized Costs) as a subaccount of “Capital Campaign Expense”; make a journal entry to transfer costs to asset account*

Tracking Volunteer Time

1. Create a vendor type for Volunteers

2. Add name to Vendor list

Vendors	
Transactions	
View	Active Vendors
Name	Balance Total
VOL - Johnny B Goode	0.00

3. Create service items

Tracking Volunteer Time

Enter time through Weekly Timesheet/Single Activity

Time/Enter Single Activity

Previous Next Spelling Timesheet Learn about Online Timesheets...


Date 12/29/2008 Billable

Name VOL - Johnny B Goode

Customer:Job

Service Item VOL - Fundraising Class Administration

Duration

 **3.25**

Start Stop Pause

Notes

Stuffed envelopes for year end statements

Save & Close Save & New Clear

Reporting Volunteer Time

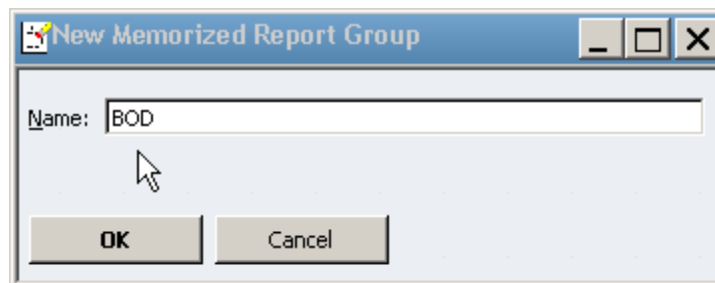
The screenshot shows a QuickBooks report window titled "Time by Name". The report is for a "Nonprofit Dummy" company, covering the period from "01/01/2008" to "12/31/2008". The report is filtered for "Last Fiscal Year" and shows "Total only" columns. The data is sorted by "Default". The report shows the following volunteer time:

Nonprofit Dummy	
Time by Name	
January through December 2008	
◇ Jan - Dec 08 ◇	
VOL - Johnny B Goode	3:15
VOL - Little Miss Sunshine ▶	10:00 ◀
TOTAL	<u>13:15</u>

Board Reporting Made Easy

Make a list of the reports you create and who you send them to.

- | | |
|---|---------------|
| 1. <i>Budget vs. Actual for Month and YTD</i> | <i>BOD</i> |
| 2. <i>Income & Expense by Program</i> | <i>BOD/ED</i> |
| 3. <i>Income & Expense by Month</i> | <i>BOD</i> |
| 4. <i>Statement of Financial Position</i> | <i>BOD</i> |
| 5. <i>Pledges Outstanding</i> | <i>BOD/ED</i> |
| 6. <i>Bills Payable</i> | <i>BOD/ED</i> |
| 7. <i>Disbursements/Month</i> | <i>BOD/ED</i> |



Create a Memorized Report Group for each reporting entity

Board Reporting Made Easy

Profit & Loss Budget Performance

Modify Report... Memorize... Print... E-mail... Export... Hide Header Expand Refresh

Dates This Month From 12/01/2012 To 12/31/2012 Columns Total only Sort By Default

We Care Community Foundation
Profit & Loss Budget Performance
 December 2012

Accrual Basis

	Dec 12	Budget	Jan - Dec 12	YTD Budget	Annual Budget
Income					
4 · Contributed support	(1,000.00)	11,250.00	1,022,700.00	989,000.00	989,000.00
5 · Earned revenues	1,100.00	9,866.66	131,426.55	116,000.00	116,000.00
5900 · Special events	0.00	0.00	30,000.00	29,000.00	29,000.00
6900 · Assets released fr restrictions	0.00	0.00	0.00	0.00	0.00
Total Income	100.00	20,916.66	1,184,126.55	1,134,000.00	1,134,000.00
Expense					
7000 · Grant & contract expense	5,000.00	416.67	5,000.00	5,000.00	5,000.00
7200 · Salaries & related expenses	0.00	23,583.34	255,530.00	287,019.00	287,019.00
7500 · Other personnel expenses	0.00	3,566.67	38,700.00	43,300.00	43,300.00
8100 · Non-personnel expenses	7,669.60	6,516.65	87,116.82	80,380.00	80,380.00
8200 · Occupancy expenses	3,150.00	4,399.99	55,556.81	53,700.00	53,700.00
8300 · Travel & meetings expenses	0.00	116.67	4,538.00	3,900.00	3,900.00
8400 · Depreciation & amortization exp	0.00	691.65	3,850.00	8,400.00	8,400.00
8500 · Misc expenses	95.00	408.33	6,400.00	5,000.00	5,000.00
8600 · Business expenses	150.00	0.00	150.00	0.00	0.00
Total Expense	18,064.60	39,699.97	456,841.63	486,699.00	486,699.00
Net Ordinary Income	(15,964.60)	(18,783.31)	727,284.92	647,301.00	647,301.00
Other Income/Expense					
Other Income					
6800 · Unrealized gain (loss)	0.00	0.00	(500.00)	0.00	0.00
Total Other Income	0.00	0.00	(500.00)	0.00	0.00
Other Expense					
9800 · Fixed asset purchases	0.00	6,666.67	0.00	80,000.00	80,000.00
9920 · Additions to reserves	0.00	(2,500.00)	0.00	0.00	0.00
9930 · Program admin allocations	0.00	(98.42)	0.00	0.00	0.00
Total Other Expense	0.00	4,068.25	0.00	80,000.00	80,000.00
Net Other Income	0.00	(4,068.25)	(500.00)	(80,000.00)	(80,000.00)
Net Income	(15,964.60)	(22,851.56)	726,784.92	567,301.00	567,301.00

- Use standard reports
- Add columns
- Filter by Class; Customer Type; Vendor Type; Shipping Method; etc...
- Change headings
- Add footers
- Remove cents

How to Contact GrowthForce

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PowerPoint available at:

<http://www.growthforce.com/webinar.html>

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CERTIFIED PUBLIC ACCOUNTANTS





The New IRS Form 990

*Tene Thomas, CPA
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Form 990 Tax Returns for Nonprofits

- The New IRS Form 990
- Impact of Change
- Recommendations

“We needed a Form 990 that reflects the way this growing sector operates in the 21st century.”

Steven Miller, Commissioner

IRS' Tax Exempt and Government Entities Division

2008 Form 990: IRS Perspective

What the IRS did:

- Released the form December 2007 (no instructions)
- Effective for 2008 tax years (2009 filings) for calendar and fiscal year end taxpayers

Why the IRS did it:

- Current form is out of date and inadequate to serve transparency and tax compliance needs—last major revision was 1979
- Does not portray what organization does

New 990 Overview



The redesign of Form 990 is based on three core goals:

- 1. Enhancing transparency** to provide the IRS and the public with a realistic picture of the organization.
- 2. Promoting compliance** by accurately reflecting the organization's operations so the IRS may efficiently assess the risk of noncompliance.
- 3. Minimizing the burden** on filing organizations.

Phase-in period

An organization can choose to file Form 990-EZ if it satisfies both the gross receipts and total assets tests listed below:

Tax Year	Gross Receipts	Total Assets
2008	> \$25k and < \$1 million	less than \$2.5 million
2009	> \$25k and < \$500k	less than \$1.25 million
2010	> \$50k and < \$200k	less than \$500k

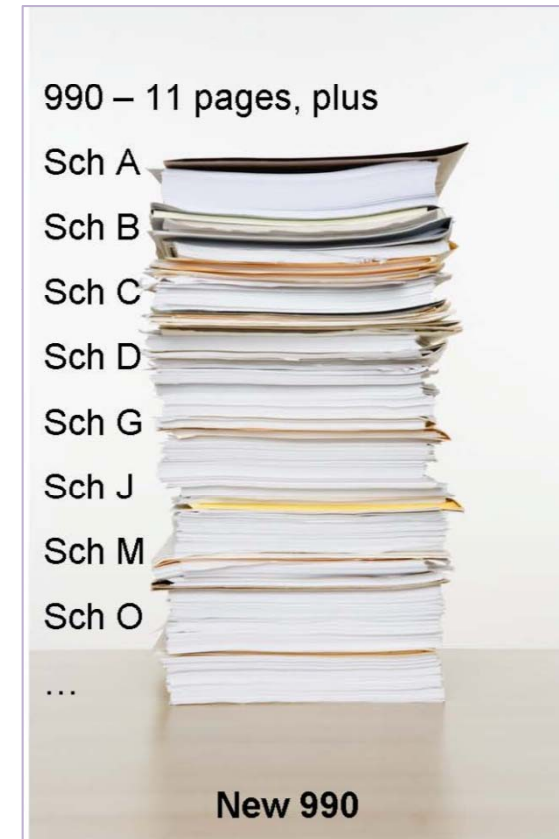
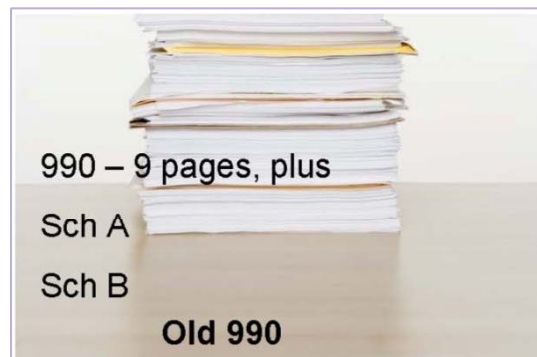
Form 990-EZ has been modified and some of the new schedules implemented in Form 990 will be adopted to the Form 990-EZ to replace certain current attachments.

Key Aspects of the New 990

- Focus on activities, not just numbers
- New Summary page – snapshot of the organization
 - Mission
 - Governance
 - Key Financials, operation and compensation information
- Checklist of schedules – completion of “Trigger Questions”

990 – The Form and Schedules

- Total number of pages included in the core form and all schedules – 80!!!!
- Most organizations will end up filling an additional five schedules!



Components of the Core Form

- Part I Summary
- Part II Signature Block
- Part III Program Services Accomplishments
- Part IV Checklist of Required Schedules – “Trigger Questions”
- Part V Other IRS Filings and Tax Compliance
- Part VI Governance, Management, and Disclosures
- Part VII Compensation
- Part VIII Statement of Revenues
- Part IX Statement of Functional Expense
- Part X Balance Sheet
- Part XI Financial Statements and Reporting

Supplemental Schedules

Schedule	Topic	Schedule	Topic
A	Public Charity Status *	I	Grants
B	Contributors *	J	Compensation *
C	Political and Lobbying Activities	K	Tax Exempt Bonds
D	Financial Statement Detail *	L	Transactions with Interested Persons
E	Schools	M	Non-cash Contributions
F	Foreign Activities	N	Significant Disposition of Assets
G	Fundraising and Gaming	O	Supplemental Information *
H	Hospitals	R	Related Organizations

** Denotes the schedules most organizations will file*

Most Significant Changes

- Part I – Front page summary snapshot
- Part III – Program accomplishments
- Part IV – Checklist for required schedules
- Part VI – New corporate governance section
- Part VII – Compensation and excess benefit transactions
- New schedules to replace existing “unstructured attachments”
 - Compensation Reporting – Schedule J
 - Fundraising Activities
 - Grants and Other Assistancess
 - Reporting on Tax Exempt Bonds
 - Gifting Activity

Form 990: Part I – Summary

- Develop and maintain a positive public image. The 990 can be used as a marketing tool to influence prospective donors.
- Description of organization's mission
- Snapshot of additional information related to activities and governance
 - Number of voting members of governing body
 - Number of independent members of governing body
 - Total number of employees
 - Total number of volunteers
 - Total unrelated business income
 - Net unrelated business income
- Revenue and expenses and balance sheet reporting in summary
 - Two-year comparison
- Describe accomplishments that helped fulfill your mission during the year

Form 990: Part III – Program Accomplishments

WHO?

- Describe the organization's mission
 - Use the 990 as your new marketing tool

WHAT?

- Promote activities and significant accomplishments
- Describe three largest programs
 - Measured by expenses incurred
 - Reporting of expenses including grants
 - New reporting of revenue derived from the activity

WHY?

- Why does the organization exist?
- Present accomplishments for each program including statistical data to support how the program is fulfilling the organization's exempt purpose

Form 990: Part IV – Checklist for required schedules

Checklist of required schedules involves 37 questions

- A “yes” answer will “Trigger” additional schedules required for completion
- A “yes” answer allows the IRS to focus on organizational activities which are likely to result in violation of tax rules

Form 990: Part VI – Corporate Governance

Organizations should adopt policies that promote good governance and operational transparency

- Governing Body and Management
 - Number of voting members and independent members on board
 - Business and family relationships among directors and officers
 - Delegation of control to a management company
 - Whether organization has members or stockholders and their power to elect directors and approve other transactions
 - Whether organization keeps minutes of board and committee meetings
 - Whether a copy of 990 is provided to governing board before it is filed
- Disclosures
 - Describe how governing documents, conflict of interest policy and financial statements are made available to the public

Form 990: Part VI – Corporate Governance

- Policies
 - IRS admits not all policies are required by law; however, in public statements about the form, the IRS has indicated that exempt organizations that fail to indicate that they have followed recommended governance policies may be at a **significantly greater risk of audit**.
- Policies for which there is a “yes” or “no” question:
 - Conflicts of Interest Policy
 - Whistleblower Policy
 - Document Retention and Destruction Policy
 - Compensation Policy
 - Policy Requiring Safeguarding Exempt Status with Respect to Transactions and Arrangements with Joint Ventures and Subsidiaries Expense Reimbursement Policy
 - Expense Reimbursement Policy (Schedule J)
 - Gift Acceptance Policy (Schedule M)
- The goal is for organizations to answer “yes” to all questions. If you can’t, then consider adopting new policies and practices.

Form 990: Part VII – Compensation

- Disclosure of compensation and other financial arrangements with officers, directors, key employees and highly compensated independent contractors
 - Calendar year W-2/1099 compensation reporting should match
 - Other compensation – retirement/fringe benefits
- Includes the reporting organization and related organizations
- Does the compensation of those listed appear justifiable in light of the organization's activities and the person's responsibilities?

Schedule J – Compensation Information

- Required to be completed if Part VII includes:
 - Any former officer, director or trustee, key employee, or highest compensated employee
 - Individuals whose reportable compensation and other compensation (i.e. benefits) from the organization and related organization is greater than \$150,000
 - Any person who receives or accrues compensation from any unrelated organization for services rendered to the organization

Schedule J – Compensation Information *(continued)*

- The following disclosures are required:
 - Whether the organization provided any severance payments, supplemental nonqualified deferred compensation or equity-based compensation arrangement
 - Whether any payments are contingent on revenue or net earnings
 - Whether the organization provides any non-fixed payments
 - Whether the organization made any payments subject to the initial contract exception
- “Yes” response to the above requires an explanation

Impact of Changes

- Reporting burden will increase for all organizations especially those with complex activities/structures
- Organizations may not currently have systems in place to gather the information required to be reported
- Organizations must begin to implement systems to gather the required data
- Organizations should review policies and process when addressing narrative questions within the filing which will allow for a **favorable** reporting

Recommendations

1. Form a committee with appropriate members of management (CFO, Development officer, HR) and the Board (Treasurer, Executive and/or Compliance Committee Chair) to review the new 990 in detail
2. Solicit assistance as needed from CPA and/or legal counsel
3. Identify areas and questions that the organization should focus on (i.e. What new policies should be adopted? Is the organization in compliance with applicable laws? Do we have the necessary information?)
4. Focus on weaknesses and questions that result in unfavorable answers
5. Identify and prioritize action steps
6. Allocate resources (human and financial) to implement action steps
7. Implement the necessary changes

Recommendations *(continued)*

Preparing for operational impact and identifying weaknesses:

Part I: *Summary*

Snapshot of the organization's purpose, staffing, sources of financial support, and use of funds.

1. Is the brief description of the organization's mission or most significant activities candid and positive?
2. Does current year data compare favorably or unfavorably with the prior year?

Part III: *Statement of Program Service Accomplishments*

Consider this section your chief marketing tool to promote the Organization's accomplishments.

1. Are the three program services described consistent with the organization's mission statement and information on its website?
2. Are the three program services described in sufficient detail to present a comprehensive and accurate portrayal of the organization to the Form 990 user?

Recommendations *(continued)*

Preparing for operational impact and identifying weaknesses:

Part IV: *Checklist of Required Schedules*

Trigger Questions – Many of the questions deal with activities that the IRS considers likely to result in violation of tax laws.

1. Is the organization engaged in one or more activities that are under scrutiny by the IRS?
2. Should the Board consider changes in its policies and procedures, especially if question 25a or b, 26, or 27 is answered yes

Part VI: *Governance, Management, and Disclosure*

Adopt policies and practices that promote good governance and operational transparency.

1. If the Organization can't answer "yes" to any of the questions, board should consider new policy
2. If the Organization has policies, are they public?
3. Maintain minutes for all meetings
4. Provide 990 to Board for review, prior to filing return. Be able to adequately describe the review process.

Recommendations *(continued)*

Preparing for operational impact and identifying weaknesses:

Part VII: *Compensation of Officers Directors, Trustees, Key Employees*

The IRS is concerned that many exempt organizations are providing excessive compensation and benefits to directors (or trustees) and certain employees.

1. Does the compensation of those listed in Part VII appear justifiable in view of the organization's activities and their responsibility?

Part VIII: *Statement of Revenue*

Financial Statement data provides insight to the Organization's operations and activities.
Remember...Numbers Don't Lie!

1. Does the revenue data indicate too much reliance on source that could be jeopardized by a weak economy, declining stock market, or other external factor (i.e. should alternative revenue sources be considered or emphasized?)

Recommendations *(continued)*

Preparing for operational impact and identifying weaknesses:

Part IX: *Statement of Functional Expense*

Don't forget...
Numbers Don't Lie!

1. Are compensation and benefits consuming most of the organization's revenue?
2. Are certain expenses justifiable?
3. Does G&A and Fundraising expenses appear excessive relative to total program services expenses?

Part X: *Balance Sheet*

The Balance Sheet provides information that can indicate whether the organization is financially healthy

1. Is an excessive amount of cash being kept in noninterest bearing accounts
2. Are resources being diverted from program services activities to related party loans?
3. Does an increase, if any, in accounts payable and accrued expenses during the year suggest potential cash flow problems?
4. If the organization has restricted assets are the restrictions being observed?

Recommendations *(continued)*

Preparing for operational impact and identifying weaknesses:

Part XI: *Financial Statements and Reporting*

1. If the organization does not have an independent audit, are its financial resources sufficiently large to make an independent audit prudent?
2. If audited, does each member of the group responsible for overseeing the financial reporting process receive a copy of the auditor's report and any additional communications (such as internal control communications or a management letter)?

Schedule J: *Compensation Information*

Schedule J expands upon Compensation information requirements of Part VII of Form 990 to help identify evidence of waste, extravagance, and financial abuse.

1. If any box on line 1a is checked, is the economic benefit warranted or should it be re-examined?
2. Does the organization require strict accountability for expense reimbursements to prevent abuse?
3. Is the organization setting compensation based on one or more methods? If yes, should non-fixed compensation be modified to avoid windfall payouts?

Additional Information

- **Revised 990:**

<http://www.irs.gov/charities/article/0,,id=181091,00.html>

- **Form 990-N:**

<http://www.irs.gov/charities/article/0,,id=169250,00.html>

<http://epostcard.form990.org/>

- **Sample Governance Policies:**

The Nonprofit Policy and The Nonprofit Board's Guide to Bylaws

www.boardsource.org

The National Council of Nonprofit Associations

www.ncna.org

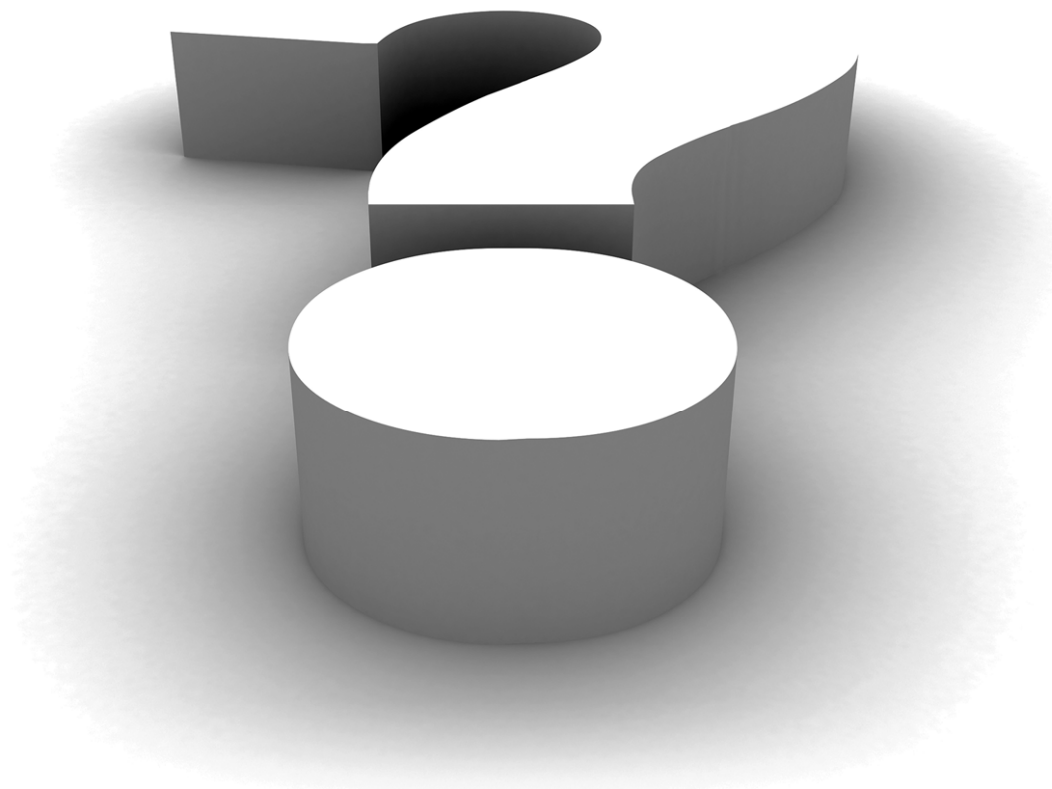
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Questions & Answers



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