



## Nonprofit Finance 101

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## I. What is a Nonprofit Organization?

- Purpose
- Ownership / Control
- Accountability



## Purpose

- Operate for purposes other than to make a profit (although making a profit is OK)
- Have an absence of ownership interest
- Property and income are used only for the Mission of the organization



## Types of Nonprofits

- Religious
- Social Services
- Museums & Cultural
- Scientific
- Educational





## Ownership / Control

- Owned by the public (not individuals)
- Controlled by Board
  - They are responsible to make sure organization fulfills its purpose
  - Board members can be removed
  - Usually all volunteers



## Accountability

- Reports to the public
- Receive contributions / compensation from resource providers who do not expect a commensurate or proportionate monetary return
- Have a responsibility to account for specific funds they have received from donors



## II. Understanding Nonprofit Financial Statements

- Statement of Financial Position
- Statement of Activities
- Statement of Functional Expenses
- Statement of Cash Flows
- Notes to the Financial Statements



## Statement of Financial Position (Balance Sheet)

- Statement Assets – what you have or what you are owed
- Liabilities – what you owe to others
- Net Assets – what is left over





## Net Asset Classifications

- Without Donor Restrictions – Available for use at the discretion of the Board
  - Board Designated – internally designated for specific purposes
- With Donor Restrictions – Use is limited by donor-imposed time and/or purpose restrictions



# Statement of Activities

Type of Change	Comment
Revenues	Shown gross, under each category of net assets, unless incidental in nature
Expenses	Decreases to unrestricted net assets, presented on a functional basis
Gains and Losses	Across all categories, based on nature
Reclassification	Transfers assets from with donor restriction to without donor restriction based on satisfaction of those restrictions



# Statement of Functional Expenses

- Expenses are allocated in three classes:
  - Program Services
  - Management and General
  - Fundraising



# Industry Benchmarks

Classification	Description	Industry Benchmarks
<b>Program,</b> separated by major program	Activities that result in services being distributed to beneficiaries	70%
Support Services: <b>Management &amp; General</b>	Activities such as oversight, business and general financial mgmt	20%
Support Services: <b>Fundraising</b>	Incurred in inducing donors to contribute	10%



# Statement of Cash Flows

- How the entity received and spent its cash
- Categories
  - Operations
  - Investing
  - Financing





## Notes to Financial Statements

- Description of the organization
- Basis of accounting (cash, accrual and modified accrual)
- Fixed assets
- Debt
- Net assets with and without donor restrictions
- Related party transactions
- Subsequent events
- Commitment and contingencies



### III. What is a Financial Audit

- Requirements and Definitions
- Opinions
- Findings
- Other Communication
- Compliance



## Requirements

- When is an audit needed?
  - Grant or Contract Language
  - Public/Private Contributions
  - Fundraising Activities
- Usually based on source of revenue
- Loan requirements also may cause audit

# PA Bureau of Charitable Organizations Requirements

<b>Gross Annual Contributions<sup>1</sup></b>	<b>Registration Fee</b>
Section 162.7(a) organizations	\$15
\$25,000 or less	\$15
\$25,001 to less than \$100,000	\$100
\$100,000 to less than \$500,000	\$150
Greater than \$500,000	\$250

<b>Gross Annual Contributions</b>	<b>Type of Financial Statements Required</b>
Section 162.7(a) organizations	None
\$25,000 or less	Internally Prepared, Compiled, Reviewed, or Audited
\$25,000 to less than \$100,000	Internally Prepared, Compiled, Reviewed, or Audited
\$100,000 to less than \$250,000	Compiled, Reviewed or Audited
\$250,000 to less than \$750,000	Reviewed or Audited
Greater than \$750,000	Audited



## Definitions

- Audit – most thorough examination of financials and consideration of internal controls
- Review – less thorough than an audit; uses primarily analytics to determine reasonableness
- Compilation – no assurance; proper formatting of statements
- Internally Prepared – no external review





## Opinions

- Unmodified
  - Considered a “clean opinion”
  - States that financial statements are “presented fairly”
- Qualified
  - Financial statements have one or more material problems
  - Raises awareness of issues in the opinion letter



## Opinions

- Adverse
  - Financial statements do not conform to GAAP
  - Readers are provided “no assurance” on the figures
- Disclaimer of opinion
  - “No opinion” on financial statements
  - Auditors were unable to apply auditing standards



## IV. Understanding IRS Form 990

- Requirements
- Public Disclosure
- Financial and Non-Financial Information
- Unrelated Business Income



## Filing Requirements

- 990N (e-Postcard)
  - Gross receipts < \$50,000
- 990EZ (Short Form)
  - Gross Receipts < \$200,000 and
  - Assets < \$500,000
- 990 (Long Form)
  - Gross Receipts > \$200,000 or
  - Assets > \$500,000



# Public Disclosure

- Must be “Open to Public Inspection”
  - Form 990 (excluding Schedule B)
  - Form 1023/1024 Application for Exemption
- Must be made available by the NFP or penalties will be assessed
- [www.guidestar.org](http://www.guidestar.org) – posts 990s from IRS but this does not satisfy NFP’s requirement



# The Core Form

- I. Summary
- II. Signature Block
- III. Statement of Program Service Accomplishments
- IV. Checklist of Required Schedules
- V. Statements Regarding Other IRS Filings and Tax Compliance
- VI. Governance, Management, and Disclosure
- VII. Compensation... (with Sections A and B)
- VIII. Statement of Revenue
- IX. Statement of Functional Expenses
- X. Balance Sheet
- XI. Financial Statements and Reporting

# Supplemental Schedules

- A. Public Charity Status and Public Support
- B. Schedule of Contributions
- C. Political Campaign and Lobbying Activities
- D. Supplemental Financial Statements
- E. Schools
- F. Statement of Activities Outside the US
- G. Fundraising or Gaming Activities
- H. Hospitals
- I. Grants and other Assistance to Organizations
- J. Compensation Information
- K. Supplemental Information on Tax Exempt Bonds
- L. Transactions with Interested Persons
- M. Non-Cash Contributions
- N. Liquidation, Termination, Dissolution or Significant Disposition of Assets
- O. Supplemental Information
- P. Related Organizations and Unrelated Partnerships



## Core Form Part I: Summary

- Non-Financial:
  - Mission
  - Board Members
  - Employees
  - Volunteers
- Financial:
  - Summary Revenue, Expenses, Assets, Liabilities, and Net Assets



## Core Form

- Part III: Statement of Program Service Accomplishments
  - “What does the organization do?” Section
- Part VI: Governance, Management, Disclosure
  - “Are they doing the right thing?” Sections
- Part VII: Compensation
  - “Who” and “How Much” Section



## Core Form

- Part VIII: Revenue
- Part IX: Expenses
- Part X: Balance Sheet
  - “What are the Finances?” Sections
- Part XII: Financial Statements and Reporting



## V. Consideration of Social Return on Investment

- How efficiently will a charity will use their support?
- How well has it sustained its programs and services over time?
- What is their level of commitment to being accountable and transparent?

*Methodology from CharityNavigator.org*

A piggy bank and a stethoscope with coins on a pink background.

## Financial Health – Efficiency

Reveals how well a charity manages its finances day to day.

- Program Expenses – higher is better
- Administrative Expenses – lower is better
- Fundraising Expenses – lower is better
- Fundraising Efficiency – lower is better



A white piggy bank is positioned in the upper left corner. Below it, a magnifying glass with a blue handle is focused on a pile of various coins, including pennies, nickels, and dimes, on a pink background.

## Financial Health – Capacity

Reveals how well a charity has sustained its programs and services over time and whether it can continue to do so.

- Program Expenses Growth – positive is better
- Working Capital Ratio – higher is better
- Liabilities to Assets Ratio – lower is better



## Accountability & Transparency

- *Accountability* is an obligation or willingness by a charity to explain its actions to its stakeholders.
- *Transparency* is an obligation or willingness by a charity to publish and make available critical data about the organization.

*Transparency increases credibility & accountability.*  
*-Park Won-soon*



## Data from 990

- Independent Board
- Material diversion of assets
- Audited financials prepared by independent accountant with an audit oversight committee
- Loan(s) to or from related parties
- Documents Board meeting minutes



## Data from 990

- Copy of Form 990 to organization's governing body in advance of filing
- Conflict of interest policy
- Whistleblower policy
- Records retention and destruction policy
- CEO listed with salary
- Process for determining CEO compensation
- Board members listed and not compensated





## Data from Charity's Website

- Board members listed
- Key staff listed
- Audited financials
- Form 990
- Privacy policy



## Investigate the Charity

Learn about the charity's accomplishments, goals, and challenges.

- Review the Charity's website
- Search other resource websites (Google search/reviews)
- Contact the charity



## Questions to Ask

- Alignment of Mission, Solicitations, and Resource Allocation
- Clear logic for achieving results
- Information from external validators
- Constituent voice
- Published evaluation reports





# Questions



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