

2008 Annual Conference
*Preserving the Mission –
Preparing for the Future*

**Financial Best Practices
Tune Up**



Introductions

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Introductions

Finance

Non-Finance Executive

Board Members

Non-Finance Staff



Objectives

- Interactive exchange of ideas
- Introduce changes related to governance and accountability
- *Overview* of SAS 112, Updated 990, and FASB's
- What you need to do to respond



Why is this important?

- Scrutiny on accounting & reporting processes and need to be lean as evidenced by:
 - SAS 112 and required communications to management regarding controls
 - Changes to IRS Form 990 – additional disclosures
 - New FASB and other GAAP changes

Increased importance on making reporting functions as efficient and effective as possible.



Overview of SAS 112 and COSO

- New Auditor Requirements
 - risk based approach – no longer default to substantive
 - Requires documentation and testing of controls
- Auditor cannot be part of internal controls
 - e.g. can no longer calculate accrued vacation, release from restriction
- Material Weakness in Financial Reporting
- Risk assessment is based on COSO



Overview of SAS112 and COSO

Risk assessment is based on COSO – 5 Key Requirements

1. **Control environment** –
management understands reporting objectives
2. **Risk assessment** –
management understands risks to achieving those objectives
3. **Control activities** –
the policies and procedures to ensure risks are mitigated
4. **Information and communication** –
how well do people in the control activity understand what they are doing and why (do you know why you initial the invoice?)
5. **Monitoring** –
 - Ongoing monitoring – 2nd person in the process
 - Periodic review – selective reviews



Overview of SAS112 and COSO

- If all 5 requirements are not met for any area,
 - Additional audit work is required
 - Deficiencies are reported to the Board
- Outcome – Management Letters will reflect the harsh realities

Internal controls should be designed from the top down

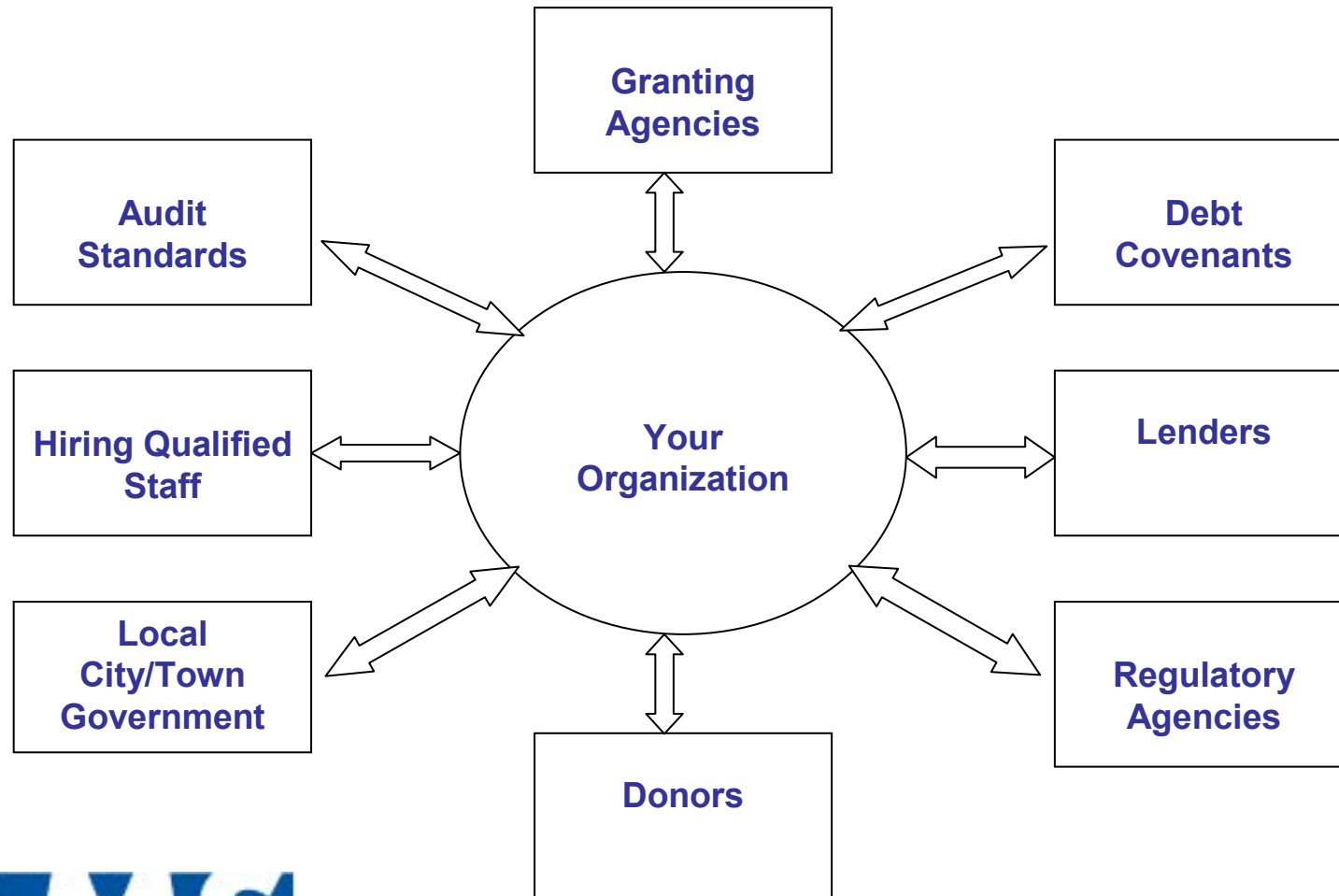


How well do you understand your organization's control objectives?

- Internal Control is a process designed to provide reasonable assurance regarding achievement of objectives in the following areas:
 - Effectiveness and efficiency of operations
 - Financial reporting reliability
 - Compliance with laws and regulations



External Forces



Internal Forces

- Demands for greater transparency and sharing of information in multiple directions
 - all departments
 - Management
 - Board
 - Funders
- Single set of financial standards across the organization

Requires custom reports to make generating information more efficient



**How do we marry external and
internal forces with internal
processes?**

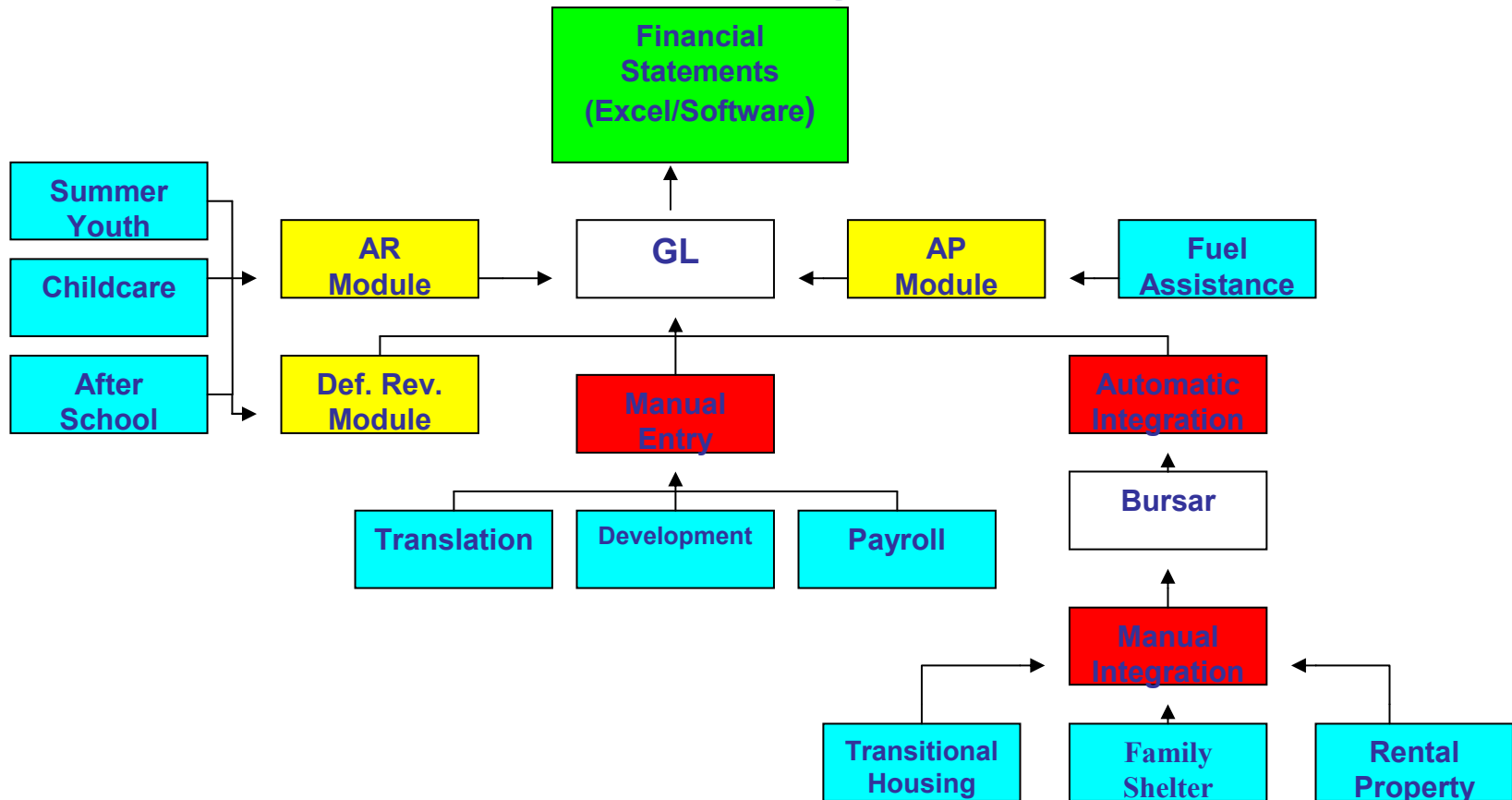


Internal Controls Evaluation

- Identify major risks – macro level
- What are the exposures?
- Where are controls lacking?
- What is the risk that controls will not be effective?



What departments impact financial reporting?



All of these need to be reconciled to your general ledger

Financial Reporting is where it all comes together

- Involve departments in budget process to ensure ability to monitor variances
- Build memory into your accounting processes to mitigate risks during turnover



What do reports tell you?

Strategic plan – Where do we want to go?

Budget – How do we plan to get there?

Statement of Activity – How did we do?

Statement of Position – Where are we now?

Statement of Cash Flow – How did we use our money?

Cash Flow Projection – Do we have enough to get us there?



Meeting the Budget

Fulfilling the mission is the bottom line.

Meeting the budget makes it possible.

Tracking actual results against budget is more important than tracking against prior years.

Variances must be investigated and the appropriate response initiated.

Zero based budgeting leads to a lack of growth!



Meeting the Budget

Board/Management help set strategic plan, staff have task of developing budgets to implement plan

Budgets should be at least one year, but should set multi-year goals

Goal: NOT balanced budget, build reserves

Capital budgets to plan for things that are not part of expenses

Capital costs increase operating costs (maintenance, security, etc.)



Budget to Actual Review

How are we doing?

Allows re-projection to year-end

Should receive monthly

Should be explained by Finance

Variances must be investigated and appropriate response initiated (lower expenses in other areas, new source of funding, etc.)

Revenue Sources

Diversity vs. concentration of risk

Soft vs. hard funding



Understanding the Financial Condition

Reports should be designed for the audience.
There are 4 levels of reporting:

Level 1: Transaction Detail – Finance Department/Department Managers

Level 2: Detailed Financial – Finance Department/Department Managers

Level 3: Management Financial Summary – Exec. Director/Finance Committee

Level 4: Board Financial Summary – Full Board

The various levels of reports help users of varying financial levels to understand information.

Too much detail prevents users from focusing on the risks and opportunities.



Understanding the Financial Condition

Level 3 Reports

Summary of each program revenue and expenses in columns, with net income or loss for each

All columns total to consolidated total for the organization

Properly defining your chart of accounts is *critical* to good reporting



Key Person Redundancy

- If one of your key finance staff never returned to work, would all processes continue without negative impact?
- Would all deadlines be known?
- Do you have all passwords?
- Spreadsheet labeling / naming convention?
- Electronic File Storage?
- What other questions come to mind?



Effective Policies and Procedures

- A Successful Methodology is:
 - Visual Flowcharts
 - Concise Narratives
 - Checklists
 - Task Calendars
 - Passwords and Vendor Contacts
 - Position Specific



Put accountability measures in place

- Get staff involved in process of documenting their tasks
 - Can be a component of their annual review goals
- Monthly closing checklist
 - All key control tasks listed with the name of person responsible for completing
 - All key controls should have a second reviewer

A fresh set of eyes can be very valuable



Put accountability measures in place

- Closing calendar with firm dates
 - Set to recur automatically
 - Accessible by all key finance staff
- KPI Dashboards – help to monitor changes
 - e.g. cash on hand, budget to actual, admissions yields, faculty/student ratio, etc.
- Scripted reports automatically generated and sent
- Document each account in the system



The Financial Edge (Sample Data)

File Edit View Options Tools Help

Back Home California Forward General Ledger

Dashboard

Main Dashboard • Customize View • Select Existing Dashboard • Save As... • Delete... • Refresh • Spying

Income Statement - Healthcare Issues Indicator

Last refreshed 04/02/2008 3:45:37 PM

Total Revenue Total Expenses

Actual Budget

How Operating Funds are Spent

Last refreshed 02/18/2008 2:03:13 PM

Administration Other Program Funding Technology

Income Statement - Economic Indicators

Last refreshed 04/02/2008 3:45:42 PM

Total Revenue Total Expenses

Actual Previous

Income Statement - Educational Issues Indicator

Last refreshed 04/02/2008 3:45:45 PM

Chart template: YCD - by function - Plan YCD - broken out by function

Activity Date: Calendar year-to-date

Actual

Revenues

- Operating Revenues
 - Total Operating Revenues: \$811,000.00
- Contribution Revenues
 - Total Contribution Revenues: \$182,200.00

Aged Accounts Payable

Last refreshed 02/18/2008 2:03:22 PM

Expense Accounts Over Budget

Last refreshed 02/18/2008 2:03:25 PM

Income Statement Accounts

Account Number	Account Description	Actual	Budget	Over Budget Amount	Over Budget %
01-1000-00	Office Supplies	\$63,198.04	\$23,309.24	\$40,088.80	172.46%
01-1000-00	Repairs & Maintenance	\$16,748.23	\$871.26	\$15,876.97	1,867.46%

Welcome to General Ledger

start | Home - Microsoft Out... | Microsoft Office Con... | The Financial Edge | 11:07 AM



Year End Closing

What can you do to make this routine?

- Convert your annual closing and audit preparation into a monthly on-going process
- Rather than year end journal entries – monthly
 - Automatic
 - Memorized



Consider electronic integration

- Regular reconciliations
- Understand where detail documentation is maintained
- If journal entries are required to reconcile, consider changing the process

More cost effective in the long run



Change Management

- Involve key 'change agents' who will assist in transition
- Build consensus - what are you trying to accomplish
- How could you do this within your environment
- How does it impact other processes
- Invest in the required resources to accomplish your goals



Maximizing your accounting software

- **Training** - Obtain regular / ongoing training for you and your staff. Most systems are underutilized.
- **Documentation** - Clear processes electronically documented within each module.
- **Use Dashboards**
 - Customize for your institution
 - Unique for each user / department
 - Real time monitoring

Graphs and charts are more easily understood



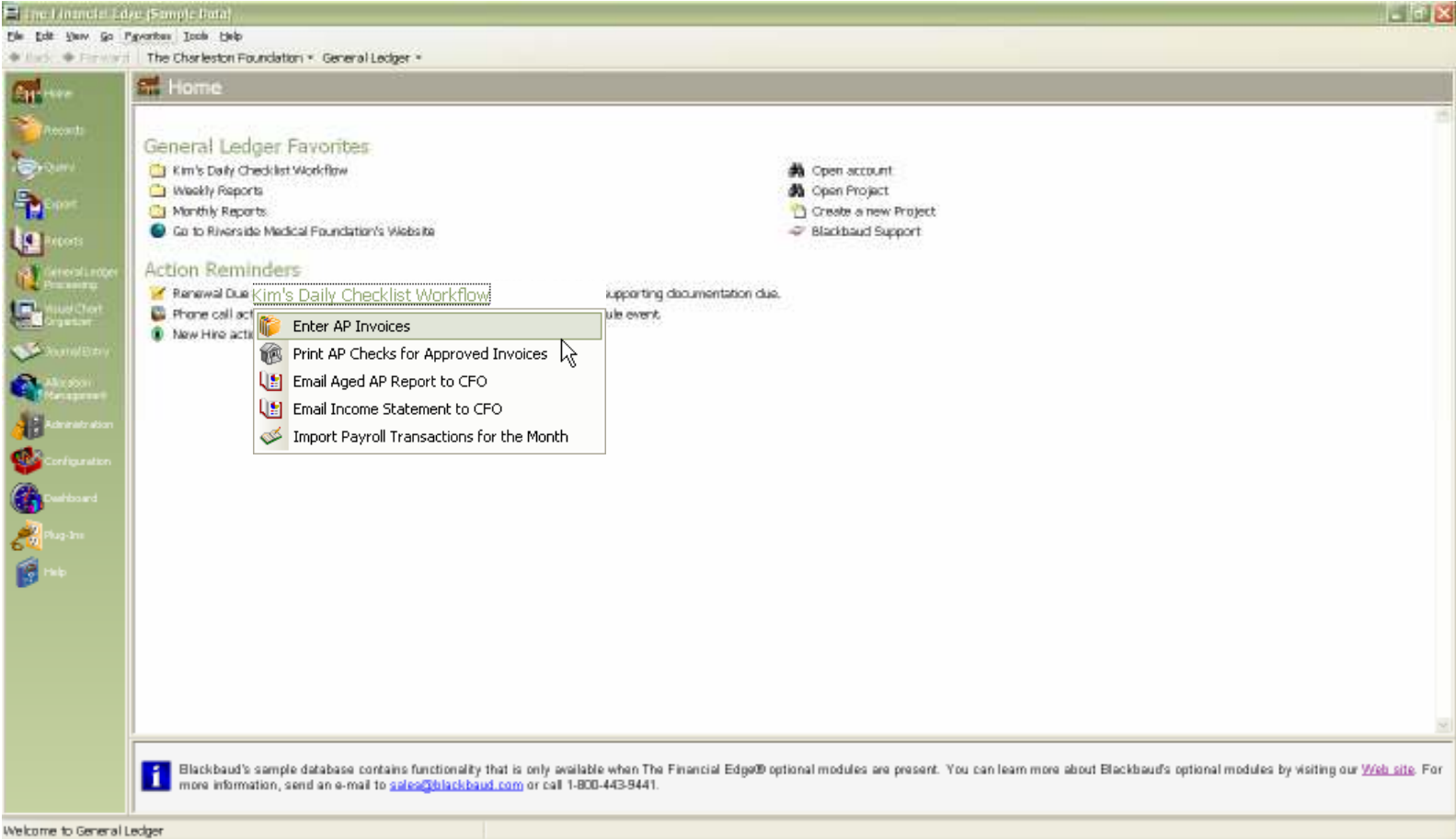
Maximizing your accounting software

- Automate Report Delivery – set to automatically e-mail or provide shortcut to dashboard
- Daily/Weekly/Monthly processes
 - Add schedule on home page for each person
 - Link tasks to electronic files including Excel, PDF, report groups
 - Group report templates into a ‘Task Group’
 - Allows future new users to know which reports need to be run for reconciliations
 - Set to print automatically on a specified date and email to the reconciler without any user intervention

Manages the learning Curve



Maximizing your accounting software



Maximizing your accounting software

- Reduce duplicate entry through integration
 - Post to vs. post through
- Reduce / Eliminate the use of Excel
 - Estimated 20-40% of spreadsheets have errors
 - Employees working outside of accounting system should cause red flags
 - Take inventory of what is being captured in Excel and create a custom report



Maximizing your accounting software

- Ensure segregation of duties by preventing the same user to perform certain functions
 - Can limit access to see certain data
- Electronically maintain all data
 - AP invoice and approval – link the invoice or checks to the transactions.
 - Allows approval electronically.
 - Can scan before or after data entry (barcodes)
 - Can attach emails, Excel spreadsheets, PDF, report queries, etc. to transactions, including AP, deposits, journal entries, and projects.



Maximizing your accounting software

- Cash Management
 - Timely posting of cash
 - Reduces staff time required to make deposits
 - Electronic copy of all checks tagged to the deposit in the GL
 - No need to copy and distribute all checks



Challenges

- Institutional 'Consensus Building' is usually one of our largest challenges
- Commitment from the Board down to the staff
- Time and Resources
- Departmental Training / Mentoring



990 Updates

- **990-N** - Organizations with gross receipts less than \$25,000
 - First e-Postcards are due for tax years ending on or after December 31, 2007.
 - Due every year by the 15th day of the 5th month after the close of your tax year. (e.g. tax year ended on December 31, 2007, the e-Postcard is due May 15, 2008)
- **990/990EZ** - Organizations with gross receipts more than \$25,000
 - Due every year by the 15th day of the 5th month after the close of your tax year. (e.g. tax year ended on December 31, 2007, the 990 is due May 15, 2008)
- **The 990 has been redesigned for the 2008 tax year** (e.g. June 30, 2008, will file new form by November 15, 2008)



2008 Form 990

11 Page core form, plus 16 activity related
schedules



11 Page Core Form

Part I – Summary (# Board Members, # Independent, Mission, UBIT)

Part II – Signature Block

Part III – Program Service Accomplishments (Rev and Exp by Program)

Part IV – Checklist of Required Schedules

Part V – IRS Filings and Tax Compliance

Part VI – Governance, Management and Disclosure

Part VII – Compensation

Part VIII – Statement of Revenue

Part IX – Statement of Functional Expenses

Part X – Balance Sheet

Part XI – Financial Statements and Reporting



Additional Schedules Based Upon Activities

Schedule A: Public Charity Status

Schedule B: Contributors

Schedule C: Political and Lobbying Activities

Schedule D: Supplemental Financial Detail

Schedule E: Schools

Schedule F: Foreign Activities

Schedule G: Fundraising and Gaming

Schedule H: Hospitals



Additional Schedules Based Upon Activities (cont.)

Schedule I: Grants

Schedule J: Compensation

Schedule K: Supplemental Information on Tax Exempt Bonds

Schedule L: Transactions with Interested Persons

Schedule M: Non-Cash Contributions

Schedule N: Termination or Significant Disposition of Assets

Schedule O: Supplemental Information

Schedule R: Related Organizations



Schedule D: Supplemental Financial Detail

- Consolidates much of the information currently provided in various attachments to the Form 990
- Reporting Areas
 - Donor Advised Funds
 - Conservation Easements
 - Collections of Art, Historical Treasures, or Similar Assets
 - Endowment Funds
 - FIN 48 – Footnotes related to uncertain tax positions



Part VI: Governance, Management and Disclosure

- Number of Voting Members of the Board?
- Number of Voting Members that are independent?
- Family and business relationships amongst officers, directors and key employees
- Delegation of control to management company?
- Significant changes to organizational documents?
- Material diversion of the organization's assets?
- The organization has members or stockholders who may elect members of the Board?



Part VI: Governance, Management and Disclosure (cont.)

- Decisions of the Board are subject to approval by members, stockholders or others?
- Minutes are kept of Board Meetings?
- Minutes are kept of Committee Meetings?
- The organization has policies and procedures to ensure that operations of chapters affiliates and branches are consistent with those of the organization?
- The Form 990 was provided to the Board before it was filed?
- Description of the process used to review the 990



Part VI: Governance, Management and Disclosure (cont.)

- Policies

- Conflict of interest policy?
- Key people are required to disclose annually interests that could give rise to conflicts?
- Does the organization regularly and consistently monitor and enforce compliance with the conflict of interest policy? If yes, describe how.
- Whistleblower policy?
- Document retention and destruction policy? (includes emails)



Part VI: Governance, Management and Disclosure (cont.)

- Policies (cont.)
 - Did the process for determining the compensation of the following persons include a review and approval by independent persons, comparability data and contemporaneous substantiation of the deliberation and decision:
 - CEO, Executive Director, or top management official?
 - Other officers or key employees
 - Describe the process



Part VI: Governance, Management and Disclosure (cont.)

- Policies (cont.)
 - Participation in a joint venture with a taxable entity during the year?
 - If yes, has the organization adopted written policy or procedure requiring the organization to evaluate its participation in joint venture arrangements under applicable federal tax law, and taken steps to safeguard the organization's exempt status?

Part VI: Governance, Management and Disclosure (cont.)

- Disclosure

- How do you make your Forms 1023, 990 and 990T available to the public (own website, another's website, upon request)?
- Describe whether (and how) you make your governing documents, conflict of interest policy and financial statements available to the public



Compensation: Part VII and Schedule J

- Expansion of form to include current and former officers, directors, trustees, key employees, and highly compensated employees (HCE)
- Former individuals (excluding Directors and Trustees) are subject to a five year look-back
- Former Directors and Trustees who receive more than \$10,000 of reportable compensation are not restricted by any look-back period
- Current and former HCE (\$100,000 including benefits) are not restricted by any look-back period
- Reports compensation paid by filing organization and related organizations.

Existence and effectiveness of controls over compensation



Schedule L: Transactions with Interested Persons

- Interested Person: “any director, principal officer, or member of a committee with governing board delegated powers, who has a direct or indirect financial interest”
- Doing Business: the new form does not explain or define (donated services – doing business?)
- Disclose
 - Excessive Compensation
 - Loans to/from
 - Grants or assistance benefiting interested persons
 - Business Transactions



Schedule G: Fundraising and Gaming

- State solicitation requirements are not being adhered to by many organizations; Attorney General's are using the internet and are checking for noncompliance
- IRS secured and researched nine state databases to identify organizations that had filed with the state, but not with the IRS
- 381 organizations failed to file 572 Forms 990; Numerous other delinquent filings, including forms 990-T, 940, 941, 945, 730, and 11
- New focus on gaming
- Disclosure of professional fundraising arrangements and fees paid



990 Summary

- Very little, if any, accounting changes
- Lots of additional documentation in year 1
- Questions are rhetorical – IRS would like to see “Yes”

*Get and attorney and accountant
on your board!*



FASB Update

FASB Hired a person who is dedicated to responding to the issues of Nonprofits



FASB Update

FIN 48 – Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109

- Effective for years beginning after December 15, 2006
- Deferral of effective date for *non-public* entities does not apply to institutions with conduit debt
- **Clarifies accounting for uncertainty in income tax positions recognized in an entity’s financial statements in accordance with FASB Statement No. 109.**
- **The term “tax position” is broad, including:**
 - a decision not to file a tax return
 - the characterization of income or a decision to exclude reporting taxable income in a tax return
 - a decision to classify a transaction, entity or other position in a tax return as exempt



FASB Update

FIN 48 – Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109

In most cases, implementation will require enhanced documentation by institutions around existing uncertain tax positions

If applicable:

- Sources of unrelated business income

- Methodology to allocate costs to unrelated business income streams

- Existence of for-profit subsidiaries

- Information reported on form 990-T

- Findings from prior taxing authority examinations

- Conclusions of tax consultants



FASB Update

Statement No. 157 – Fair Value Measurements

- Effective for years beginning after November 15, 2007
- Provides a framework of how to measure fair value
- Applies when other FASB Statements require or allow election of fair value measurements
- Revises the definition of fair value
- The price that would be received for an asset or paid to transfer a liability in a current transaction between marketplace participants in the reference market for the asset or liability (***exit price***)
- Enhances disclosures about fair value



FASB Update

Statement No. 157 – Fair Value Measurements

- **Fair Value Now Required**

 - Contributions – Day 1 (FAS 116)

 - Debt and marketable equity investments (FAS 124)

 - Assets held in trust by others (FAS 136)

 - Certain split interest agreements (NFP AAG)

- **Fair Value Now Permitted**

 - Other investments (NFP AAG)

 - “Day 2” accounting for contributions receivable, split interest liabilities, and certain other financial assets and liabilities (FAS 155 and 159)



So What Does All Of This Mean To You?

- SAS 112- Auditors will not be able to help you in ways they have historically done
- 990 Changes – IRS Monitoring of Board Accountability
- FASB – More Complicated Accounting



What Should You Do To Respond

- Complete Risk Assessment and Improve Internal Controls
 - Reduce Institutional Memory Loss
 - Use technology to improve controls
 - Effective and clear procedures
- Educate Board and Management
 - Board/Committee Mission Statements and Responsibilities (i.e. Finance Committee responsible for understanding/ensuring long-term sustainability)
 - Agenda should be set by mission statement (safe, affordable, quality housing) then by opportunities/Risks
 - ALL members of the Board should understand basic financial impact of decisions
 - Report on Accountability – should be in a format Board understands



What Should You Do To Respond

- Review and document related party transactions and compensation
- Discuss the auditors needs for the current year
 - FASB
 - 990 Documentation
 - Additional Internal Control Testing



Questions?

