



Nonprofit News

Audit and preparation fees are about to get more expensive for nonprofits by Cindy Bergvall, CPA

It is the perfect storm for nonprofits. Higher fuel costs coupled with increases in utility and travel costs are driving up the nonprofit expenses and at the same time, charities who provide health and human services are finding their services are in greater demand as more people struggle with the economy.

Correspondingly, revenues have decreased as donors also feel the economic pinch. And if that isn't enough, recent audit standard changes have increased audit costs and the IRS changes to Form 990 are likely to increase tax preparation costs.

Challenges from every direction: Strategies for dealing with audit and tax changes.

The good news is that there are some steps that you can take to lessen the burden of the audit and tax changes.

Why did this happen?

While the corporate scandals of the last ten years dominated the headlines, the nonprofit world was not without its share of troubles. Nationally and locally there were executive directors who were charged with improperly expensing their organizations for personal items, accusations that agencies were not properly using the funds given to them; and even small organizations like youth soccer and football clubs faced financial loss when volunteer treasurers stole tens of thousands of dollars.

Sarbanes Oxley (SOX) was the legislative result of the public company scandals such as Enron. SOX changed corporate

governance and financial practice by requiring increased oversight, review, transparency, and documentation for public corporations.

While only two provisions of SOX apply to nonprofits (document destruction and the whistleblower policies), the nonprofit industry has not escaped increased scrutiny.

The accounting industry has written a new set of risk assessment standards for nonprofits. These standards are designed to enhance auditors' responses to audit risk and materiality and encourage focus on greater areas of risk of misstatement.

The Internal Revenue Service has changed Form 990, the annual reporting form for nonprofits. One of the goals in changing the form was to provide increased transparency for users of the form, as well as a more uniform format to provide user's with information about the nonprofit.

What does this mean to your nonprofit?

As a result of the new standards, the audit process now involves a more in depth system to identify, assess, and respond to risk. It also imposes greater documentation requirements on the auditor. A common change that the nonprofit might notice with the audit process is the "walk through" where your auditor may trace a few transactions through each financial cycle (cash

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Audit fees...continued from page 1

receipts, cash disbursements, payroll, journal entry, etc). What the nonprofit does not normally see is the added documentation this step will add. The risk assessment process might take just a little more time than on prior audits, but the documentation process requires a significant amount of additional time. That additional time translates into a higher audit cost. It is also possible that there could be increased audit findings (called "deficiencies" under the new terminology) as the internal controls in your organization are examined more closely.

The new Form 990, which can be viewed at the IRS website at www.irs.gov, is also filled with changes. The form asks for more detail in the following areas: governance, programs, financial information, and tax compliance. This additional detail may take your staff more time to compile and will result in more time spent to prepare the Form 990 thus increasing the preparation costs. (See inset for 990 seminar in November)

How will these changes benefit nonprofits?

These changes in the audit and tax area are likely to have a positive effect on the nonprofit industry as a whole. The audit risk assessment changes should improve internal controls. If your organization already has strong internal controls and you are following these controls, the increased documentation and assessment that your auditor needs to do won't necessarily benefit you directly; however, the nonprofit industry as a whole will benefit. As a result, we will see fewer nonprofits in the headlines for lost funds or fraudulent activity, hopefully resulting in an increase in donor confidence and a corresponding increase in donations.

While the information the IRS asks for is cumbersome, it represents good governance practices that all nonprofits should follow. If you don't already have some of the practices in place, be assured that doing so will benefit your organization in the long run. The increased transparency in the financial sections provide you with an opportunity to present more information to your donors and at the same time, you'll want to make sure that your descriptions of programs and activities are detailed and include service results.

How can you make the best of these changes?

■ Look at internal controls. If your internal controls are currently weak, it is probably taking your auditor longer to conduct your audit and possibly costing you more money. Talk to your auditor about internal controls. Be honest about your risk areas. Your auditor can help you design

stronger internal controls regardless of the size of your organization.

■ Make sure you have balanced all your balance sheet accounts. Discuss documentation with your auditor. You may be able to prepare some lead schedules and reconciliations for the audit that will save your auditor time and you money.

■ Review audit entries. The fewer entries you have the more likely you can keep your audit cost down. Some clients have found it beneficial to pay for training to learn how to do the year end journal entries and additional schedules. The one time cost of the training may offset audit increases.

■ Attend training sessions for the new Form 990. The more that you understand the questions and the schedules, the less time consuming it will be to provide the answers to your accounting firm.

■ Consider reorganization or a merger with another nonprofit. This is a drastic step but it might be one that some organizations want to consider. Smaller nonprofits may find that it is more advantageous to merge with another organization of a similar mission. Overhead costs such as fundraising fees, audit costs, insurance and other fees could be better funded by a larger organization. Combined organizations may also be able to more efficiently serve clients, reduce redundant services and qualify for larger grants.

For more information on the information contained in this article, please contact the Bucks County Center for Nonprofit Management, 215-343-2727.

Re-designed Form 990: Preparing Now to File Your 2008 Return

Cindy Bergvall, CPA

Your 2008 tax return won't be due until 2009, but the IRS form changes are extensive. There are policies you may need to adopt now so that you can positively address the numerous disclosures that the IRS is asking of nonprofit organizations, including the data that you need to track during 2008 so that you can accurately file the 2008 tax return.

We will look at the new form and the financial information requested and discuss the IRS questions. We will talk about how potential donors could view the answers and the best way to proactively present your organization. Sample forms and sample policies will be available.

Friday, November 7, 2008

9:00-12:00 pm

Office of Family Service Association, Cornerstone Executive Suites, 670 Woodbourne Rd., Bldg #4, Langhorne, PA. **Cost is \$25 per person includes continental breakfast** Contact Liz Vibber at 215-343-2727 or visit www.buckscountynonprofit.com to register.

Assessing Your Organizational Funding Profile

by Cynthia M. Adams, CEO, GrantStation

Start with the Broadest Picture--Part One

Given today's economy, every organization needs to concentrate its efforts on diversifying its income. Don't make the mistake of being timid about fundraising activities just because we are experiencing a recession.

The first place to look when charging forward with your fundraising activities is to build on existing income streams. If you have a strong membership program, then you'll want to consider taking the next steps to recruit more members, and to upgrade existing members to major donors. If you have a substantial revenue stream from product sales (such as ticket income for your summer Shakespeare in the Park productions, or the spring plant sale you have each year), then consider ways to generate even more income from these already successful earned income streams.

Regardless of the type of fundraising in which your organization engages, if it is currently successful, you want to focus on how you can build on that success.

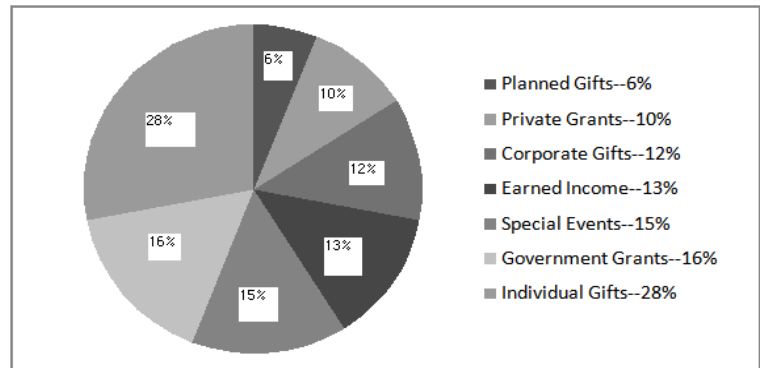
Your next step is to consider new avenues of funding. To help you do this, we have provided a sample chart (see below) that you can refer to as you seek new funding sources, and new types of funding.

The following fundraising rules of thumb have been used to develop this sample chart:

- √ Private grant awards usually apply to general operating or special projects and should make up about 5-10% of an organization's annual budget.
- √ Between 10% and 15% of an organization's annual income should be generated via special event(s).
- √ Earned income should make up at least 10-15% of an organization's annual income. The more earned income an organization can generate, the better.
- √ No single source of funding, with the exception of government grants and earned income, should exceed 25% of an organization's annual income.
- √ Organizations that are more than ten years old should run a capital or endowment campaign once every five years.
- √ Organizations that are 15 years old or older should receive 6-8% of their annual income from the interest income generated via their endowment/planned gifts.

There are no rules, such as these, that apply to every nonprofit organization. You should ask your fundraising committee (if your board of directors has established such a committee) to help develop a set of benchmarks, such as these, that you can apply to your organization. Each organization will have a different profile. But do remember to push yourselves so that you are always attempting to diversify.

The following pie chart is a sample of a healthy income profile for a nonprofit organization:



You can see that this organization has numerous revenue streams that equate to a financially healthy, sustainable organization, which is exactly the goal you should set for your organization.

Assessing Your Organization

What does the income for your organization look like? Is it a healthy mix, or do you need to focus on diversification? Take a few minutes and create your own profile.

A simple way to prepare your own organizational profile is to take your operating budget, and look at all of the income streams. Add this list to an Excel spreadsheet, along with the amount of income that is generated from each revenue stream. Use the charts and graphs function of Excel to help you create a pie chart to visually demonstrate your existing situation.

You can use the profile you create, along with the rules developed by your fundraising committee, to help your board understand the need to diversify your funding sources, and which areas of fundraising you want to focus on in the coming year. Now is a good time to plan for the 2009 calendar year.

Though each of these income streams is very important, here at GrantStation we obviously focus mainly on securing grant awards. To that end, next week we'll discuss diversifying your grants income.

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BBCo Community Bulletin Board

We are pleased to accept your submissions of jobs and special announcements. E-mail directly to: Liz Vibber, lvibber@bbco-cpa.com. For a more complete listing, visit our website at www.buckscountynonprofit.com

Congratulations to **Briar Bush Nature Center** named a Nickelodeon Parents' Pick winner for 2008 in the Best Day Camp category. www.briarbush.org

Director of Public Relations and Development-**Network of Victim Assistance (NOVA)** is seeking a creative and energetic team player to assist the agency in developing the resources it needs to achieve its strategic vision. Resumes to: Barbara Clark, Executive Director Network of Victim Assistance 2370 York Road, Suite B-1 Jamison, PA 18929 bclark@novabucks.org

Executive Director, **Interfaith Housing Development Corporation** of Bucks County, seeks an energetic individual to lead the organization in it's continuing growth. Candidates for position of Executive Director should have experience in program management, fund raising, grant and proposal writing, publications and events, competent in computer use and staff management. Send resume to Executive Committee, c/o 263 Green Valley Rd., Langhorne, PA 19047

visit www.buckscountynonprofit.com/bulletinboard.htm for complete job postings.

Are You missing Out?

The Bucks County Center for Nonprofit Management's e-newsletter is filled with special announcements & opportunities. To be added to our e-list, contact Liz Vibber lvibber@bbco-cpa.com

2008 NONPROFIT MANAGEMENT TRAINING SEMINAR SERIES

The Bucks County Center for Nonprofit Management is pleased to bring you the following seminars. The fundraising programs will be held at the Pennsylvania Biotechnology Center of Bucks County, 3805 Old Easton Rd. Doylestown, PA. Registration begins at 8:30 and programs end at 12:00pm. Cost is \$35 per seminar or register for all 3 sessions at the special rate of \$90. To register, contact Liz Vibber, 215-343-2727; lvibber@bbco-cpa.com or visit our website at www.buckscountynonprofit.com

FALL 2008

9/18/2008--Board Development

10/16/2008--Individual & Major Gifts

11/13/2008--Annual Giving

11/7/2008-Re-designed 990:Preparing Now to File Your 2008 Return

This special encore session will be held in Langhorne in the office of Family Service Association. **Cost is \$25** and the session will be held from 9:00-12:00pm at the Cornerstone Executive Suites, 670 Woodbourne Rd., Bldg #4, Langhorne, PA. See registration info above.

Fall, 2008

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