Accounting Guide for Nonprofit Organizations

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Disclaimer

This ***Accounting Guide for Nonprofit Organizations*** provides nonprofit organizations with a broad overview and general guidance on organizing and managing their financial systems. It is not a comprehensive manual on the full scope of nonprofit financial operations, and it should not be relied on as an authoritative guide on managing nonprofit financial systems. The Guide identifies additional resources that nonprofits may use to find more detailed information. Nonprofit organizations using the Guide should also seek the advice of financial experts, such as certified public accountants or other professionals specializing in the finances of nonprofit organizations, to guide them in decisions regarding their financial systems.

This Guide was developed in support of the ongoing partnerships between the County and nonprofit organizations that contract with the County.

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Chapter 1
INTRODUCTION

The purpose of this Guide is to provide recipients of County funding and entities which contract with Solano County (referred to throughout this Guide as "Organization"), with an explanation of basic administrative, accounting and financial requirements for nonprofit organizations. It is not intended to replace the requirements that the federal or state governments have for recipients of federal or state funds. This Guide is intended to assist organizations in their efforts to maintain accountability to their grantors, their boards of directors and the public.

About This Guide

This Guide provides nonprofit organizations with general instructions for achieving a level of administrative and financial competency that will allow them to be eligible for funding by most government granting agencies. In many instances this Guide will refer to federal publications as the best source of information concerning a specific administrative or financial issue. Compliance with federal requirements will generally assure that grant agreement requirements will be met or exceeded. Following these guidelines can help the organization maintain administrative and financial systems that are adequate and will stand up to a review by the funder(s) or a formal audit.

Another purpose of this Guide is to provide County department contract managers and fiscal monitors with a resource for providing ongoing technical assistance to the nonprofit organization. Ongoing technical assistance can help prevent minor problems from becoming major ones that are difficult to resolve or that might result in the loss of funding.

The accounting, financial reporting and internal control standards described in this Guide are fundamental. These standards are not intended to be all inclusive or replace existing procedures or preclude the use of more sophisticated methods. Instead this Guide represents the minimum required procedures and controls that must be incorporated into a recipient's or organization's accounting and financial reporting systems.

Finally, this Guide includes in Appendix F an annotated list of resources for nonprofit organizations seeking more specific information about their administrative and finance needs.

Know Your Funding Sources and Your Contract

A thorough understanding of the grant agreements and contracts is essential to adequately design and administer an accounting system. Key information such as funding sources, effective dates, and ineligible costs are crucial.

The following points are important to a successful accounting system:

- Know where the money comes from and be able to account for it by funding source.
- If federal or state funds are received, research all of the compliance issues that might be tested by the independent certified public accountant (CPA) as part of an annual audit.
- Read and understand the grant agreement or contract and know the restrictions on the use of the funds. If the grant agreement or contract requires the organization provide matching funds in order to earn the full grant or contract amount, it is essential that these funds are identified early and accounted for properly.
- Know the beginning and ending dates of the grant agreement or contract so that the accounting and payroll records can accurately reflect the sources of funds for each of the program components by funding cycle.

Chapter 2
FINANCIAL MANAGEMENT SYSTEMS

The accounting system for a nonprofit organization consists of certain basic components. Such a system helps ensure that financial data and economic transactions are entered properly into the accounting records and financial reports are prepared accurately and on time. An adequate accounting system and good bookkeeping are essential for audits, tax reporting, financial analysis, and accountability to the board of directors, the public, and funders.

Accounting and Financial Reporting

Basis of Accounting

Organizations may elect to use either the **cash basis** or **accrual basis** method of accounting for recording financial transactions. Monthly invoices must be prepared on the same basis that is used for recording financial transactions.

NOTE: The County recommends the use of the accrual basis for recording financial transactions.

Accrual Basis

Under the accrual basis, revenues are recorded in the accounting period in which they are earned (rather than when cash is received). Expenditures are recorded in the accounting period in which they are incurred (rather than when cash is disbursed).

Accruals

Accruals shall be recorded observing the following:

- Only accruals where cash will be disbursed within 6 months of the accrual date should be recorded.
- Recorded accruals must be reversed in the subsequent accounting period.

Prepaid Expenses - Prepaid expenses (e.g., insurance, service agreements, lease agreements, etc.) should only be expensed during a given Agreement year to the extent goods and services are received during that Agreement year.

Cash Basis

Under the cash basis, revenues and expenditures are recorded in the accounting period when cash is actually received or disbursed.

If an Organization elects to use the cash basis for recording financial transactions during the year:

- Necessary adjustments must be made to record the accruals at the beginning and the end of the contract.

- All computations, supporting records, and explanatory notes used in converting from cash basis to the accrual basis must be retained.

Accounting Cycles

There are four principle accounting processes, or cycles, in the operation of a financial management system:

- **Revenue, Accounts Receivable, and Cash Receipts—**This cycle includes making deposits, processing cash receipts, recording receipts, and performing month-end reconciliations.

- **Purchases, Accounts Payable, and Cash Disbursements—**This cycle includes purchasing goods and services, processing invoices, issuing checks, recording checks in the general ledger, and performing month-end reconciliations.

- **Payroll—**This cycle includes gathering payroll information for processing, computing wages and withholding, preparing payroll checks and depositing payroll taxes, performing month-end reconciliations, preparing quarterly tax returns, and preparing annual returns and other forms (W-2s, W-3s, and so on).

- **General Ledger and Financial Statements -** This cycle includes preparing monthly journal entries, reconciling bank accounts, reviewing general ledger activity, posting and adjusting entries, and producing financial statements.

  At year-end there may also be audit adjustments determined by the organization's outside auditors or contract disallowances generated by funders.

General Journal Posting

Journal posting includes recording transactions such as depreciation and amortization plus any other transactions that get posted in batch totals from outside the "real-time" accounting system (payroll is often posted this way) to make sure that all financial changes to the organization are included in the month's general ledger. After the general ledger is complete, it may be adjusted to move revenue or expenses from one account to another.

Adjusting Entries

At times transactions that are known to be in error will need to be corrected. This step is called adjusting.

Adjustments also include allocating revenue and expenses to the appropriate cost centers out of the shared or indirect cost centers. Shared cost centers are generally on the program level and include costs for shared facilities and staff that perform program administration functions. The indirect cost center includes all expenses of the organization that provide a benefit to all of the organization's programs but do not relate solely to any major function of the organization. Usually these include costs that involve the organization's executive and finance functions.

Shared costs can be allocated to all related program cost centers based upon a method that makes sense for the type of cost. Facilities costs such as lease payments, insurance, and utilities are usually allocated based upon the square footage of the space that is shared. Program administration costs are often allocated based upon program units of service or relative percentages of direct wages.

Allocation of indirect costs can be a highly technical and time-consuming process. Organizations that receive direct federal funding may be required to obtain a federal indirect cost rate from the federal agency that provides the majority of the organization's funding. For the rules for determining a federal indirect cost rate, see OMB Circular A-122, "Cost Principles for Non-Profit Organizations." Most organizations do not have a federal indirect cost rate, but if they receive federal funds, they are required to follow federal guidelines for allocating indirect costs. These guidelines are also contained in Circular A-122. There are many acceptable methods for allocating indirect costs, but there are a few key principles to remember:

- Costs must be actual costs, not budgeted costs. If, for ease in producing monthly reports, a fixed percentage is used for allocating indirect costs, this allocation must be reconciled to actual costs at least annually, and preferably quarterly. When choosing an allocation method, keep in mind that each costs center should only be charged with the amount of indirect costs that represents the best approximation of the actual relative benefit that the cost center received from the services that the indirect costs provided.

- For additional considerations for disclosing indirect costs, see the Financial Accounting Standards Board (FASB) pronouncement #117, "Financial Statements of Not-for-Profit Organizations" at the FASB website: http://www.fasb.org/st/summary/stsum117.shtml Also, be aware that "Management and General" and "Fundraising" costs must be segregated on the federal income tax Form 990, "Return of Organization Exempt From Income Tax." For IRS forms, to http://www.irs.ustreas.gov.

Accounting System and Accounting Records

At a minimum, the accounting system must include:

- Checkbooks and check registers
- General ledger
- Subsidiary journals
- Chart of accounts
- Accounting procedures manual
- Complete financial (purchase orders, invoices, receipts, canceled checks, bank account records) and administrative records

Checkbooks and Check Registers

In small organizations the checkbook and check register serve as the combined ledger and journal.

General Ledger

The general ledger organizes information by account based on the chart of accounts. Summary totals from subsidiary journals are entered into the general ledger each month.

Subsidiary Journals

The Organization shall maintain a double entry accounting system (using debits and credits) with a General Journal, a Cash Receipts Journal, a Cash Disbursements Journal and a Payroll Register. Postings to the General Ledger and Journals should be made on a monthly basis.

- **General Journal** - A General Journal shall be maintained for recording adjusting entries, reversing entries, closing entries, and other financial transactions not normally recorded in the Cash Receipts Journal or Cash Disbursements Journal. Entries in the General Journal must be adequately documented, and entered in chronological order with sufficient explanatory notations.

- **Cash Receipts Journal -** A Cash Receipts Journal shall be maintained for recording all cash receipts (e.g. checks, contributions, interest income, etc.). The Cash Receipts Journal shall contain (minimum requirements) the following column headings:

  - date
  - receipt number
  - cash debit column
  - income credit columns for the following accounts:

    - Contributions (one per funding source)
    - Other Income (Grants, sales of supplies/services, rental income, miscellaneous revenue, fees, etc.)
    - Description (Entries in the description column must specify the source of cash receipts.)

- **Cash Disbursements Journal -** A Cash Disbursements Journal shall be maintained for recording all cash disbursements (e.g., rent, utilities, maintenance, etc.). The Cash Disbursements Journal shall contain (minimum requirements) the following column headings:

  - date
  - check number
  - cash (credit) column
  - expense account name
  - description

- **Accounts Payable/Receivable Journal -** Tracks expense and income accruals. Some accounting software packages require setting up all bills as accounts payable and all revenue as accounts receivable, eliminating the cash disbursements and cash receipts journal altogether.

Note (1): Separate expense columns are recommended for salary expense and other recurring expense classifications for each program.

Note (2): Entries in the description column must specify the nature of the expense and the corresponding expense classification if not included in the column heading.

Note (3): Checks should not be written to employees (other than payroll, mileage, travel, and petty cash custodian checks.)

A Check Register may be substituted for the Cash Disbursements Journal, but this is not recommended. If used, the Check Register must contain the same expense classifications and description information required when a Cash Disbursements Journal is used.

Disbursements without supporting documentation will be disallowed on audit. Cancelled checks and credit card statements (VISA, AMEX, department store, etc.) do not constitute acceptable support.

- **Payroll Journal**—A Payroll Journal or Register records all payroll-related transactions. A Payroll Register shall be maintained for recording all payroll transactions. The Register should contain the following:
    - Name
    - Position
    - Social Security Number
    - Salary (hourly wage)
    - Payment Record including:
        - pay period
        - gross pay
        - itemized payroll deductions
        - net pay amount
        - check number

If a Payroll Register is not used, the above information must be recorded in the cash disbursements journal.

The Organization shall ensure compliance with all applicable federal and State requirements for withholding payroll taxes (FIT, FICA, FUTA, SIT, SIU, etc.), reporting, filing (941, DE-7, W-2, W-4 and 1099s), and all applicable tax deposits.

The Organization shall ensure compliance with Internal Revenue Service guidelines in properly classifying employees and independent organizations.

Chart of Accounts

A Chart of Accounts shall be maintained. The chart of accounts lists each item, or account, the accounting system tracks. Each account is assigned an identifying number. Accounts are presented in a specific order:

- Assets
- Liabilities
- Net Assets
- Income (Revenue)—Income from various sources: grants and gifts, fundraising, fees, government contributions, and so on
- Expenses—Salaries and benefits, materials and supplies, rent and utilities, insurance, and so on

A well-designed chart of accounts can streamline the reporting process tremendously. For example, by segregating direct, shared, indirect, and unallowable costs into discrete number sequences the organization can maintain a seamless and transparent accounting system that will produce reports easily and be easy to audit. See Appendix A for a sample chart of accounts.

The organization must consistently post transactions that are of a similar nature to the same account. For example, all expenses for travel shall be posted to the account titled "travel" or "travel expense" and not intermixed with other expense accounts.

TIP

By aggregating related cost centers such as those that support the same program or those that provide matching funds for another grant, even somewhat inexpensive accounting packages can be made to give relevant reports that save time and effort.

Accounting Procedures Manual

A procedures manual documents procedures for approving and recording transactions such as paying bills, depositing cash, and transferring money between funds and who is responsible for what. The procedures can be simple descriptions or memos of how bills, depositing cash, and transferring money between funds are handled. These descriptions or memos can be kept together to form a basic procedures manual. Writing and revising an accounting procedures manual is a good opportunity to see whether adequate controls are in place (see Internal Accounting Control section below). A procedures manual is especially useful when there is turnover in financial management staff and new personnel need to quickly understand how the organization's accounting system functions. A procedures manual should include:

- Budget control procedures for comparing the budget with actual expenditures
- Cash management procedures for projecting cash needs and ensuring program income is used for permitted activities
- Internal controls procedures for defining staff qualifications and duties, lines of authority, separation of functions, and access to assets and sensitive documents (see below for more detailed information)
- Financial reporting procedures to provide accurate, current, and complete disclosure of financial results according to the requirements of funders and for use by the organization's management and board of directors

Financial and Other Records

It is important to retain all original purchase orders, invoices, receipts, canceled checks, bank account records, and any other documents for obligations incurred and use of program income.

The following records should be maintained:

- Administrative, personnel, and program documents and records
- Procurement files
- Policies and procedures manuals
- Correspondence, reports, and legal files (articles of incorporation, by-laws, tax status, board minutes, contracts and other agreements)
- Tax records and audit files

Retention of and Access to Records

The County recommends that organizations retain all records for at least five years after the final payment under the organization's County contract, unless a shorter period has been authorized in writing. Records should also be retained longer if there is litigation, claims, an audit, negotiation, or other action involving the records that started before the five-year period. Under these circumstances, records must be retained until resolution or the end of the five-year period, whichever is longer.

Representatives of the County's contracting departments, the County Auditor-Controller's Office, and other representatives of other authorized government agencies have the right of access to any pertinent records in order to make audits, examinations, excerpts, and transcripts.

Consistent with other state and federal laws regarding privacy and obligations of confidentiality, the organization must also provide citizens with reasonable access to records. However, the open records requirements differ according to County, state, and federal law, so always check with the funding agencies for specific information on what is required of the organization. For more information regarding record retention, please refer to the record retention section in the State Controller's Manual (Accounting Standards and Procedures).

Filing

All relevant supporting documentation for reported program expenditures and revenues shall be filed in a systematic and consistent manner. It is recommended that supporting documents be filed as follows:

- checks -numerically
- invoices -vendor name and date
- vouchers -numerically
- receipts -chronologically
- timecards -pay period and alphabetically

Referencing

Accounting transactions posted to the Organization's books shall be appropriately cross-referenced to supporting documentation. It is recommended that expenditure transactions on the Organization's books be cross-referenced to the supporting documentation as follows:

- invoices -vendor name and date
- checks -number
- vouchers -number
- revenue -receipt number

Supporting documentation for non-payroll expenditures (i.e., operating expenditures) should be cross-referenced to the corresponding check issued for payment. If multiple invoices are paid with one check, all related invoices should be bound together and cross-referenced to the check issued for payment.

Donations and Other Sources of Revenue

Restricted donations and other sources of revenue earmarked specifically for the contract must be spent on allowable contract expenditures.

Single Audit Requirements

OMB Circular 133, "Audits of State, Local Governments and Non Profit Organizations" requires that certain organizations receiving federal awards, including pass-through awards, have annual audits. Details are contained in the respective Circular.

A copy of any Single Audit reports must be filed with the County within the timeframes prescribed by the applicable Circular.

Subcontracts

No Organization shall subcontract services without the prior written consent of the County.

The Organization shall provide County with copies of all executed subcontracts and shall be responsible for the performance of their subcontractors.

Internal Controls

Internal controls safeguard the organization's assets from misappropriation, misstatement or misuse. Each organization shall prepare necessary written procedures establishing internal controls for its personnel.

The organization shall instruct all of its personnel in these procedures and continuously monitor operations to ensure compliance with them.

Internal Accounting Control

Internal accounting control is a series of procedures designed to promote and protect sound management practices, both general and financial.

Financial information must be reliable so that managers and the board can make decisions based on accurate information. The following internal accounting control procedures will help ensure that:

- Assets and records of the organization are not stolen, misused, or accidentally destroyed
- The organization’s policies are followed
- Government regulations are complied with

To develop a successful internal accounting control system, identify areas where abuses or errors are likely to occur. For example:

- Cash receipts—Ensure that all cash intended for the organization is received, promptly deposited, properly recorded, reconciled, and kept under adequate security before deposit.
- Cash disbursements—Ensure that cash is disbursed only upon proper authorization of management for valid business purposes, and that all disbursements are properly recorded.
- Petty cash—Ensure that petty cash and other working funds are disbursed only for proper purposes, are adequately safeguarded, and properly recorded.
- Payroll—Ensure that payroll disbursements are made only upon proper authorization to bona fide

employees.

- Grant funds, contract funds, gifts, and bequests—Ensure that all these sources of funds are received and properly recorded, and that compliance with the terms of any related restrictions are adequately monitored.

> **TIP**
>
> Retention of records is essential for audit review and for facilitating program monitoring by the funding agencies. Records may have to be retained longer if required by other local, state, or federal laws. If in doubt about whether something should be retained, do not discard it until the auditor or funder tells the organization it's OK.

The following practices will provide reasonable assurance that abuses or errors do not occur:

Internal Controls for Cash Receipts

To ensure that cash receipts intended for the organization are received, promptly deposited, reconciled, and kept under adequate security, make sure the following activities are performed:

- Promptly deposit all cash received that is intended for the organization.
  - All checks shall be restrictively endorsed upon receipt.
  - Cash received shall be recorded on pre-numbered receipts. Checks shall be recorded on a check remittance log at the time of receipt.
  - Duplicate deposit slips shall be retained and filed chronologically, and shall contain sufficient reference information for comparison to the Cash Receipts Journal (and individual receipts, if applicable).
- Properly identify and record all restricted donations.

  All contract revenues shall be maintained in a bank account. If revenues from other sources are maintained in the same bank account, revenues for each source must be clearly identifiable on the accounting records through the use of cost centers or separate accounts.
- Properly record in the accounts receivables any cash payments received from all funders.

Internal Controls for Cash Disbursements

To ensure that cash is disbursed only upon proper authorization of management for valid business purposes, and that all disbursements are properly recorded, the following procedures should be in place and the organization should perform the following activities.

Segregation of Duties

Financial transactions should not be handled by only one person from beginning to end. Different people should authorize payments, sign checks, record payments in the books, and reconcile the bank statements.

Small organizations with few employees can have one person (paid staff) sign checks and a different person (board treasurer) review disbursements, bank statements, and cancelled checks on a monthly basis.

Specific guidelines for separation of duties for a few select areas are as follows:

- An employee who does not handle cash shall record all cash receipts.
- Bank Reconciliations - Bank statements should be received and reconciled by someone with no cash handling, check writing, or bookkeeping functions. Monthly bank reconciliations should be prepared within 30 days of the bank statement date and reviewed by management for appropriateness and accuracy. The bank reconciliations should be signed by both the preparer and the reviewer. Reconciling items should be resolved timely.
- Disbursements - All disbursements for expenditures, other than petty cash, shall be made by pre-numbered check.
- Blank check stock shall be secured and accounted for to preclude unauthorized use.
- Checks shall not be payable to "cash" or signed in advance. Checks written to employees for reimbursement of out-of-pocket costs must be supported by receipts and invoices.
- A second signature shall be required on all checks, unless otherwise specified in contract.
- If the bookkeeper signs checks, a second signature shall be required on the checks, regardless of limits specified in contract.
- Voided checks shall be marked void with the signature block cut out. The voided checks must be filed with the cancelled checks.
- No checks should be signed in advance.
- Unclaimed or undelivered checks shall be cancelled periodically.
- All supporting documentation shall be referenced to check numbers and marked "paid" or otherwise canceled to prevent reuse or duplicate payments.
- Disbursements without adequate supporting documentation will be disallowed on audit.
- Bonding -All officers, employees, and agents who handle cash or have access to the Organization's funds shall be bonded.

Approvals and Separation of Duties

Written policies should document who can authorize payments. Some organizations designate the executive director for this responsibility, or in very small organizations, the board president or treasurer may approve all purchases.

All disbursements should be accompanied by adequate documentation in the form of receipts or invoices. Employees responsible for approving cash disbursements and/or signing of checks shall examine all supporting documentation at the time the checks are approved and signed. All disbursements, excluding petty cash purchases, shall be approved by persons independent of check preparation and bookkeeping activities.

Larger organizations generally require that managers who are responsible for a budget cost center approve any expenses charged to that manager's cost center.

After approval at the board, executive director, or program director level, the finance director or equivalent should approve the payment for both the identification of budget line item and cost center, and confirm that the expense can reasonably be paid considering the current cash resources of the organization.

Unbudgeted purchases may need additional approval, and significant purchases, such as computers, may need authorization by the board.

Should the organization's bank provide an ATM card, it should be a business ATM card only for depositing funds, not one that can be used for withdrawing cash.

Managing Restricted Funds

Restricted contributions—funds designated for specific purposes by the donor such as buying a building, expanding an existing program, starting a new program, and so on—should be accounted for separately in the organization's books.

Nonprofits can be tempted to borrow against restricted monies when facing a cash shortage. For donors that allow borrowing against funds, the organization's board should set out policies for who approves this, how often such borrowing can occur, how much can be borrowed, and what type of repayment plan should be established. Further, the board of directors should be advised regularly of any interfund loans that occur.

Check Signing

Two signatures should be required on checks over an amount agreed to be significant. More than two people should be given check-signing authority to ensure there are always two people available to sign.

If two people are not available, an imprest account would serve as a control on expenditure. An imprest account is separate from other accounts and has an expenditure limit, say $500. The check signer would use the account to pay bills, and when the account neared depletion, the treasurer or other board members would review expenditures for appropriateness, obtain original receipts, confirm proof of delivery, and then authorize reimbursement of the account.

Internal Accounting Checklist for Paying Bills

The procedures for paying bills should include the following:

- All disbursements, except petty cash, should be made with pre-numbered checks.
- Voided checks should be preserved and filed after mutilation.
- No checks should be made payable to "cash."
- No checks should be signed in advance.

See Appendix B for a complete checklist.

Internal Controls for Petty Cash

Petty cash allows the organization to make small purchases or reimbursements, in cash, for items such as stamps, office supplies, parking, and so on. To ensure that petty cash and other working funds are disbursed only for proper purposes, are adequately safeguarded, and are properly recorded, the following procedures should be in place.

The board or senior management should develop a policy of how much money should be available in cash, and a maximum expenditure that can be paid with petty cash. For example, the board may establish a petty cash fund of $100 and have a policy that states payments for items costing over $15 must be made by check rather than reimbursed through petty cash.

The petty cash fund should be kept in a locked box or drawer. Auditors recommend that only one person, called the custodian, have access to petty cash and be responsible for all petty cash activities. To disburse petty cash funds, the organization should buy or develop petty cash vouchers for documenting each transaction, and determine who in the organization can approve petty cash payments. In some cases, this will be the director; in others, department heads or the petty cash custodian, within guidelines established by the board, may also be designated to approve petty cash.

Petty cash disbursements must be supported by invoices, store receipts or other external authenticating documents indicating the item purchased and the employee making the purchase. In the event that outside (external) supporting documentation is not obtainable for minor disbursements (under $10), such as parking meters, etc., then documentation shall be considered as proper supporting documentation on a basis of reasonableness. Petty cash disbursements should not be used as a substitute for normal purchasing and disbursement practices i.e., payment by check).

The petty cash fund shall be maintained on an impress basis. A check should be drawn to set up the fund and to make periodic reimbursements. Receipts, vouchers, etc., supporting each fund replenishment must be bound together, filed chronologically and cross referenced to the reimbursement check.

Maintaining a Petty Cash Fund

Once the board has determined, with staff input, how large a fund is needed, a check should be written to the petty cash custodian (not to cash) to establish the fund. The custodian should cash the check and place the money in a locked box or drawer.

Use the following procedures to maintain a petty cash fund:

- Reimbursements—The custodian should obtain proof of purchase from the employee, usually a receipt. The employee should also complete a petty cash voucher, detailing the reason and nature for the purchase. After the appropriate person approves the voucher, the employee is reimbursed with cash from the fund.
- In some cases an advance from the petty cash fund can cover an upcoming purchase. For example, an employee needs cash to mail a package and upon returning to the office, completes a voucher for the final amount, attaches a receipt, and returns the change to the custodian.
- Replenishing the fund—When the fund is substantially depleted, the custodian adds up the vouchers and assigns them to appropriate categories (postage, printing and copying, office supplies, etc.). For a petty cash fund of $100, the total of receipts plus cash available should equal $100 so that all funds are accounted for. When the account is balanced, a check is written in accordance with a check authorization procedure established for all disbursements, and the fund is replenished to its original balance of $100.
- Shortages/Overages—The custodian is responsible for all shortages, while overages should be credited to the organization.

> **TIP**
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> The petty cash fund should have enough to cover petty cash expenditures for about a month. If it is too small, the fund will constantly have to be replenished, and if it is too large then excessive cash on hand could be more safely kept in the bank account.

Petty Cash Policies

The following practices will help ensure proper controls on petty cash:

- An imprest cash fund should be maintained for small, incidental expenses.
- There should be a limit to the amount that can be reimbursed.
- Supporting documentation should be required for all petty cash disbursements.
- A petty cash voucher should be filled out with supporting documentation, name of person being reimbursed, and proper authorization from a designated person(s) in the organization.
- Access to petty cash should be limited to one person who is the fund custodian.
- Someone within the organization other than the fund custodian should make unannounced counts of petty cash.

Internal Controls for Payroll

To ensure that payroll disbursements are made only upon proper authorization to bona fide employees, that payroll disbursements are properly recorded, and that related legal requirements, such as payroll tax deposits, are complied with, the following procedures should be in place:

- A payroll/personnel file should exist for each employee and should contain updated salary, benefits, employment status, and withholding information, as well as beginning date of employment and termination date, when applicable. The organization should retain these records for several years after the employee has been terminated and possibly longer if that employee participates in a pension plan. Adequate security must be maintained over personnel and payroll records with access restricted to authorized individuals. Personnel and payroll records should include (but not be limited to) the following:

  - Employee's authorized salary rate
  - Employee information sheet
  - Resume and/or application
  - Proof of qualifications for the position, if required (e.g., notarized copy or original diploma, license, etc.)
  - Performance evaluations
  - Criminal record clearance
  - Citizenship Status
  - Benefit balances (e.g., sick time, vacation, etc.)

- Employee benefit balances (e.g., sick time, vacation, personal time, etc.) should be maintained on at least a monthly basis. Benefit balances should be increased when benefit hours are earned and decreased as hours are used.

- A personnel manual should describe the organization’s policies, established by the board, regarding vacations, holidays, and sick leave. Records should be kept for each employee to ensure that these policies are being followed.

- A timesheet is the most common tool used to document employee hours, including overtime, and authorize payments to employees. Timesheets can be designed to incorporate information about vacation, sick leave, and holidays. Government funders often require timesheets to document employee time spent for their grants or contracts and all other duties they perform. Timesheets are usually submitted by the employee to his or her immediate supervisor for signature, and may also be reviewed periodically by senior management. The person authorizing an employee’s hours should not also prepare the paychecks.

- Timesheets, timecards or time reports must be prepared for each pay period. Timecards or time reports must indicate total hours worked each day by program and total hours charged to each of the Organization's programs. Time estimates do not qualify as support for payroll expenditures and will be disallowed on audit.

- All timecards and time reports must be signed in ink by the employee and the employee's supervisor to certify the accuracy of the reported time.

Limitations on Positions and Salaries

The Organization shall pay no salaries higher than those authorized in the contract, or the attachments thereto, except as proscribed by state or federal law.

If an employee serves in the same or dual capacities under more than one Agreement or program, the employee may not charge more than 100% of their time to the contracts or programs taken as a whole.

Salaried employees who work less than 40 hours per week shall be paid a salary that corresponds with the employee's work schedule.

The salary expense of salaried employees working on more than one Agreement or program shall be allocated to each program based on the ratio of the number of hours worked on each program during the pay period to the total number hours worked during the pay period.

The Organization will make no retroactive salary adjustment for any employee without written approval from the County.

Separation of Duties for Payroll

- Payroll checks should be distributed by persons not involved in timekeeping, preparing of payroll, or reconciling bank accounts.
- All employee hires and terminations, or pay rate changes, shall be approved by authorized persons independent of payroll functions.
- All employee hires and terminations, or pay rate changes shall be approved in writing by authorized persons independent of payroll functions.

Timesheets

Timesheets might be used as follows:

- Direct staff (staff that provide services directly to clients, or as defined by the contract or grant) costs that are paid for by more than one contract, grant, or other funding source, should keep “functional” timesheets, which show hours worked each shift by each separate cost center, or a separate timesheet for each contract or grant.
- Indirect staff (administrative and finance staff that provide services to all parts of the organization) costs may be allocated based on time studies or other objective and measurable criteria such as direct cost ratios, personnel cost ratios, units of service, and so on. Although functional timesheets are not required of indirect staff if one of the aforementioned allocation methods is used, a timesheet showing all hours must still be kept in order to document use of paid time off by the employee.

- If administrative staff are split between direct services (such as the executive director serving part-time as an interim program director) and indirect services, then a functional timesheet is one way of showing the types of hours worked. Alternative methods of allocating time between direct and indirect services usually involve conducting a periodic time study to document how employees spend their time.

Authorization and Payroll Disbursements

Payroll checks should be written using the same procedures used for all other cash disbursements (see above). For additional segregation of duties related to the payroll function, someone other than the payroll check signer should perform the following functions:

- Hold unclaimed paychecks.
- Review the payroll register and post to the general ledger.
- Review payroll-related tax withholding, deposits, and reporting. This is an especially important function for the board, since board members may have personal liability for payroll taxes that have not been properly deposited with the appropriate government agencies.
- Distribute year-end tax summaries (W-2s) to employees and respond to inquiries regarding W-2s.

Payroll Bank Account

A separate bank account for payroll, while not required, is used for issuing paychecks and paying government withholding and other taxes related to payroll. For example, having a dedicated payroll account keeps the check numbers in order since no checks other than payroll checks are issued from the account. Also, since payroll accounts should "zero-out" shortly after each payroll period, any errors are apparent from looking at the account bank statement. Further, because the account contains minimum funds most days of the month, an overdrawn account will help alert finance staff of any unauthorized activity, such as thieves using the account to float counterfeit checks.

Payroll Register

A payroll register, listing who was paid, how much, withholding amount, and check number should be maintained, either as a subsidiary journal if there is a separate payroll account, or as part of the cash disbursements journal when payroll is integrated with other cash disbursements in a manual system. Some organizations require that employees sign the employee register to acknowledge receipt of their paycheck.

Payroll Advances

Payroll advances or loans generally should be avoided. In addition to the extra bookkeeping required, allowing advances could adversely affect the organization's cash flow by creating an additional liability. The organization should state clearly in its written employee policies that pay advances are either not permitted, or if they are, under what conditions, and who in the management staff has authority to approve them. When allowed, advances should be limited to a few, exceptional circumstances and should be required to be paid back within a specified period of time, usually through withholding from the next pay period's paycheck.

Incompatible Activities

Incompatible activities are activities or actions that can create audit exceptions or more serious problems for the organization if not curtailed. For example, use of credit cards in the organization's name is an efficient way of tracking, managing, and monitoring expenditures. However, use of the organization's credit card by an employee for personal expenses, or for expenses not approved by the organization's board or management, can become a major problem if allowed to continue. Any use of the organization's resources, funds, or equipment for personal gain or for certain political activities is against the law.

Internal Controls for Credit Cards

The use of credit cards, both Organization-issued credit cards and an employee's personal credit cards used on behalf of the Organization, should be limited to purchases where normal purchasing and disbursement practices are not suitable.

Credit cards issued in the Organization's name must be adequately protected and usage monitored to ensure that only authorized and necessary items are purchased.

Credit card purchases should be pre-approved by Organization management to ensure that they are reasonable and necessary.

All credit card disbursements must be supported by original invoices, store receipts or other external authenticating documents indicating the item purchased and the employee making the purchase. Credit card statements are not sufficient support for credit card purchases.

Internal Controls for Gifts, Grants, and Bequests

Reconcile monthly reports sent to funders with reports from the accounting records for each cost center.

Distribute monthly income statements that include year-to-date information to program staff that manage grants and development staff that monitor gifts and bequests.

Internal Controls for Fixed Assets

A fixed asset is defined as an article of nonexpendable tangible personal property having a useful life of more than two years. The County recommends all fixed assets with an acquisition cost of $1,000 or more per unit be capitalized.

Acquisition cost means the net invoice unit price of an item, including the cost of any modifications, attachments, accessories, or auxiliary apparatus necessary to make it usable for the purpose for which it was acquired.

- **Acquisition** - Fixed asset purchases shall be approved by the Organization's Board of Directors or their authorized representative.

- **Identification** – All fixed assets should be appropriately tagged with an identification number. All fixed assets purchased with contract funds are to be used solely for the benefit of the contract and should be appropriately tagged.

The Organization shall maintain a current listing of fixed assets, including the item description, serial number, date of purchase, acquisition cost and sources of funding.

An inventory of all fixed assets should be conducted at least once each year to ensure that all fixed assets are accounted for and maintained in proper working order.

- Security - Physical security should be adequately maintained over fixed assets to prevent misuse and theft of the organization's property.

- Property Management - The Organization shall assume responsibility and accountability for the maintenance of all non-expandable property purchased, leased, or rented with Contract funds.

The Organization shall report promptly, in writing, to the County all cases of theft, loss, damage, or destruction of fixed assets. The report shall contain at a minimum, item identification, recorded value, facts relating to loss, and a copy of the law enforcement report.

The Organization shall dispose of or return to the County all fixed assets, in accordance with their Contract.

The following procedures will help ensure that fixed assets are protected:

- Maintain an up-to-date inventory of fixed assets that is checked to actual items at least annually. Have inventory performed without access to existing fixed asset schedule.
- Maintain a vehicle maintenance schedule that is reviewed monthly by someone outside of the program in which vehicles are used.
- Make sure that insurance policies cover current fixed asset inventories.
- Label all large-dollar-amount fixed assets with an identification number and the organization's name.
- Reconcile the organization's depreciation schedule with the fixed assets inventory annually.

General Internal Controls

Use the following procedures to monitor other aspects of the accounting system:

- Observe rigorous human resource practices over hiring and firing.
    - Obtain complete hiring documentation.

- Check references and document results.
- Maintain complete personnel files. Perform regular written evaluations and document disciplinary actions.

- Cross-train staff wherever possible.
- Require finance staff to take regular vacations.
- Develop procedures for backing up both software and data files from all of the organization's computers. Store backups in a fireproof location, preferably off-site.

To perform a self-assessment of your organization's internal control structure, see Appendix D for sample questionnaires.

Cost Principles

It is the intent of the County to provide funds for the purpose of Organization providing services required by the Agreement. The Organization shall use these funds on actual expenses in an economical and efficient manner and ensure they are reasonable, proper and necessary costs of providing services and are allowable in accordance with the applicable OMB Circular.

Limitations on Expenditures of Program Funds

The Organization shall comply with the Agreement and the applicable OMB Circular. The Circular defines direct and indirect costs, discusses allowable cost allocation procedures and the development of Indirect Cost Rates, and specifically addresses the allowability of a variety of different costs.

If an Organization is unsure of the allowability of any particular type of cost or individual cost, the Organization should request advance written approval from the County prior to incurring the cost.

- Expenses Incurred Outside the Agreement Period - Expenses charged against program funds may not be incurred prior to the effective date of the Agreement or subsequent to the Agreement termination date.
- Budget Limitation - Expenses may not exceed the maximum limits shown on the contract budget.
- Unspent Funds - The County will determine the disposition of unspent program funds upon termination of the contract.
- Necessary, Proper and Reasonable -Only those expenditures that are necessary, proper and reasonable to carry out the purposes and activities of the Program are allowable.

Allocation of Cost Pools

For Organizations that provide services in addition to the services required under contract, the Organization shall allocate expenditures that benefit programs or funding sources on an equitable basis.

In accordance with the applicable OMB Circular, Organizations shall define their allocable costs as either direct or indirect costs (as defined below) and allocate each cost using the basis most appropriate and feasible.

The Organization shall maintain documentation related to the allocation of expenses (e.g., timecards, time summaries, square footage measurements, number of employees, etc.).

Under no circumstances shall allocated costs be charged to an extent greater than 100% of actual costs or the same cost be charged both directly and indirectly.

Direct Costs

Direct costs are those costs that can be identified specifically with a particular final cost objective (i.e., a particular program, service, or other direct activity of an organization). Examples of direct costs include salaries and benefits of employees working on the program, supplies and other items purchased specifically for the program, costs related to space used by employees working on the program, etc.

For all employees, other than general and administrative, the hours spent on each program (activity) should be recorded on employees' timecards and the payroll expense should be treated as direct charges and distributed on the basis of recorded hours spent on each program.

Joint costs (i.e., costs that benefit more than one program or activity) which can be distributed in reasonable proportion to the benefits received may also be direct costs.

Examples of bases for allocating joint costs as direct costs:

- Number of direct hours spent on each program
- Number of employees in each program
- Square footage occupied by each program
- Other equitable methods of allocation

Indirect Costs

Indirect costs are those costs that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective. Examples of indirect costs include salaries, employee benefits, supplies, and other costs related to general administration of the organization, depreciation and use allowances, and the salaries and expenses of executive officers, personnel administration, and accounting.

Examples of bases for allocating indirect costs:

- Total direct salaries and wages

- Total direct costs (excluding capital expenditures and other distorting items such as subcontractor payments)

Acceptable Indirect Cost Allocation Methods

OMB Circulars describe the following allowable methods for allocating indirect costs:

- Simplified allocation method
- Direct allocation method
- Multiple allocation base method
- Negotiated indirect cost rate

Simplified Allocation Method

This method can be used when an organization's major functions benefit from its indirect costs to approximately the same degree. Using this method, all allocable costs are considered indirect costs and an indirect cost rate is determined by dividing total allowable indirect costs by an equitable distribution base.

Example	
Organization indirect costs	$250,000
Less: Capital expenditures	10,000
Allocable indirect costs	240,000
Total organization indirect salaries	$1,000,000
Indirect cost rate *($240,000/$1,000,000)*	24%
Program direct salaries	$100,000
Program indirect costs (24% x $100,000)	$24,000

Direct Allocation Method

This method can also be used when an organization's major functions benefit from its indirect costs to approximately the same degree. Using this method, all costs except general administration and general expenses are treated as direct costs. Joint costs for depreciation, rental, facilities maintenance, telephone, and other similar expenses are prorated individually to each direct activity on a basis appropriate for that type of cost.

The remaining costs, which consist exclusively of general administration and general expenses, are then allocated using the simplified allocation method previously discussed.

Multiple Base Allocation Method

This method can be used when an organization's major functions benefit from its indirect costs in varying degrees. Using this method, indirect costs are grouped to permit allocation of each grouping on the basis of the benefits provided to the major functions. Each grouping is then allocated individually using the basis most appropriate for the grouping being allocated.

Negotiated Indirect Cost Rates

Agencies have the option of negotiating an indirect cost rate or rates for use on all their Federal programs. The Organization must submit a cost allocation plan to the federal agency providing the most funds to the organization. The approved indirect cost rate is then applied to the total approved direct cost base.

If Organization has a federally approved indirect cost rate, Organization shall submit a copy of the approval letter to County upon request.

Cost Allocation Plan

If the Organization does not have a negotiated indirect cost rate, Organization shall submit an annual Organization-wide Cost Allocation Plan when requested by County. The Cost Allocation Plan shall be prepared in accordance with County instructions and the applicable OMB Circular and include the following information:

- Organization general accounting policies:
  - Basis of accounting (cash or accrual)
  - Fiscal year
  - Method for allocating indirect costs (simplified, direct, multiple, negotiated rate)
  - indirect cost rate allocation base
- Identify the Organization's direct and indirect costs (by category) and describe the cost allocation methodology for each category.
- Signature of Organization management certifying the accuracy of the plan.

Allowable Costs

For organizations receiving federal funding, certain costs are not allowable and, therefore, are not reimbursable. OMB Circular A-122, "Cost Principles for Non-Profit Organizations," specifies which costs are and are not allowable for organizations receiving federal funding. To be allowable, costs must generally:

- Be reasonable for the performance of the award
- Conform to any limitations or exclusions as to the types or amounts of cost items
- Be consistent with policies and procedures that apply to both federal and other organization activities
- Be treated consistently with other costs of the organization

- Be determined in accordance with generally accepted accounting principles
- Not be included as a cost or used to meet cost-sharing requirements of any other federally funded program in the current or prior period
- Be adequately documented

OMB Circular A-122 lists over 50 items of cost, defines and details them, and shows whether they are allowable, not allowable, or allowable only if approved by the granting agency. Some cost items are allowable under some circumstances and not allowable under others. For example, professional service costs such as legal fees are allowable when necessary for a program's purpose, but not allowable when related to claims against the federal government.

Organizations should also refer to their contract or grant agreement for any specific allowable or unallowable cost provisions they may contain.

Unallowable Costs

OMB Circulars address the allowability of a variety of different costs. For all costs, there are certain restrictions and limitations; however, the following costs are not allowable under any circumstances:

- Bad debts
- Contingency provisions
- Contributions and donations
- Fines and penalties
- Fundraising activities
- Interest expense (unless expressly allowed by Federal guidelines)
- Losses on other awards

OVERPAYMENTS

If upon audit, or at any time during the contract agreement year, it is determined that invoices submitted to the County and used as a basis for payments to the Organization were inaccurate, County shall determine the total overpayment and require the Organization to repay County. The County may withhold payments from Organization's future payments for any amounts not returned to the County or credited to the Contract unless otherwise prohibited by State or federal regulations.

MISCELLANEOUS REQUIREMENTS

Insurance

The Organization is responsible for securing and maintaining insurance coverage in accordance with the contract terms. The Organization must notify the County when insurance is revoked, reduced to a level or coverage less than required, or otherwise made ineffective.

Insurance shall include an endorsement naming the County as an additional insured.

Political Activity

No funds, materials, property, or services contributed to the County or the Organization under the contract shall be used in the performance of any political activity, the election of any candidate, or the defeat of any candidate for public office.

Budget Development and Controls

A budget is an organization's annual plan presented in dollars and provides a "roadmap" for showing where the organization is headed. Budgets also provide:

- Board oversight—The board approves the use of the organization's resources by approving the budget. It also monitors actual and budgeted costs to ensure that resources are used as intended.
- Goal focus—An effective budget helps the organization focus resources on its long-term goals.
- Financial control—A budget helps control finances by setting practical limits on the amount that can be spent on specific programs and activities. It also helps ensure that program and activity costs are consistent with revenue.
- Cash forecasting—A special cash forecast budget allows the board to see if the organization will have the cash on hand from month to month to meet its financial obligations.
- Budget timing—At least two or three months before the beginning of the fiscal year management should start thinking about the budget for the upcoming year. The budget ordinarily corresponds to the fiscal year, which should be selected to reflect the organization's operating cycle. For most organizations, the fiscal year is July 1 through June 30.

Who Should Participate in the Budget Process?

Staff and board members must participate in each phase of the budgeting process that affects the line items for which they will later be responsible. Both program staff and financial staff should work with the executive director and board to develop budgets that truly reflect organizational priorities and act as a guide for spending and decision-making.

Steps in the Budget Process

Use the following steps to develop and maintain the budget:

1. Determine the desired programs and activities for the next year(s)

   The executive director, program director(s) and others can decide, given available resources, whether to expand or add to programming or whether programs should be eliminated or scaled back.

2. Budget expenses and revenue

   A budget should be built program-by-program using a list of assumptions that documents the reasons for, or provides explanations for, changes from the previous year. For example, assumptions might relate to the amount of salary increases for the coming year, the percentage and timing of program service fee increases, and the amounts and timing of contract funding or grants expected to be received.

   Look at the current year’s budget and if the actual results are significantly over or under budget, determine the causes of the variances. Variances may be due to changes in the organization’s programs after the budget was completed, or they may be due to inaccuracies in the budget itself. If so, the budget drafters may need to make changes in how they determine revenue and expense budget assumptions.

3. Assemble and review a draft budget document

   After budgeted revenue and expense amounts are determined, the accountant should assemble the information in a draft format for review by staff. Usually the finance committee, including the treasurer and president-elect, has the responsibility to review and approve the draft budget for recommendation to the board.

4. Present the draft budget for board approval

   Questions raised by the board may result in more changes to the draft budget. Once approved by the board, the draft budget becomes the final budget for the upcoming year.

5. Monitor budget versus actuals throughout the year and amend the budget if necessary

   The budget is a useful tool for managing the organization if actual results each month are compared to it. However, if circumstances have changed substantially from those anticipated during the budget process, staff should make management aware so the budget can be amended, if necessary.

Cash Flow Management

Cash flow management is the term used for predicting and managing the flow of revenues coming into the organization so that funds are available when they are needed to pay expenses. If, in a given period, the organization’s expenses exceed income available to pay those expenses, the organization may have a cash flow problem. Inability to pay expenses as they come due can disrupt the operations and impede the organization’s ability to accomplish its mission.

What Is a Cash Flow Forecast or Budget?

A cash flow forecast or budget projects cash receipts and disbursements by month over the coming year. If an organization has more expenses than income, sooner or later it will find itself in trouble. Even if income matches expenses in a given year, the cash from the income may not arrive in time to pay the bills as they come due.

How Is Cash Flow Projected?

Projections of receipts which comprise cash flow, are typically developed as part of the budget process, to anticipate and develop strategies for funding the shortages or investing the surpluses. Cash flow projections follow a format similar to the budget. For each month, anticipate how much money will be received and how much will be spent in each category.

To create a cash flow forecast or budget one must look at the organization's prior year's checkbook as a basis for the cash flow projection for the coming year, adjusting for any anticipated changes that will affect the timing and amount of payments and deposits. These changes might include when the programs are offered, what programs are offered, new funding sources or expiration of previous funding, increases or reductions in interest rates, and so on. While the new cash flow projection will largely correspond to the budget, some cash flow may come in from receivables from the prior year. Also, cash may go out for payments made for last year's bills, and some income and expenses for the current year will be delayed until next year, and therefore, would not be included in the current year's cash flow budget.

To create a cash flow spreadsheet, make a column for each month. Create rows with the following information (see sample in Appendix E):

- Beginning cash, which is ending cash from previous month.
- Rows for each major revenue source.
- Rows for expenses using a level of detail appropriate for the organization.
- A subtotal row for "Revenues over (under) expenses." Calculate that line as revenues less expenses.
- Rows for payments on existing debt, loans to be made to others, fixed asset purchases, and fixed asset sales. Calculate a subtotal for that section.
- A subtotal row for "Cash available before new draws and payments on lines of credit." Calculate it by adding beginning cash and the two subtotals just created.
- Rows for new net draws or payments on any lines of credit. Add another row for the net proceeds (disbursements) for any investments that will be sold (or purchased).
- A total row for "Ending cash balance." Calculate it as the sum of the cash available subtotal, the net new draws on lines of credit, and the investment activity. Link that amount to beginning cash in the following month's column.

Using the Cash Flow Forecast or Budget

The organization should consider its cash situation on a monthly basis. If there are months when cash disbursements exceed cash receipts, the organization must address the shortfall to ensure that payroll is met and programs continue to operate. Generally, the accountant is not responsible for addressing the cash shortfall. Instead, the accountant makes sure those who are responsible for addressing the shortfall have the information they require to make prudent business decisions.

As the year progresses, cash flow projections should be updated. By comparing budgeted cash flows to actual deposits and expenditures, and understanding the nature of any variances, management can strengthen the ability to accurately anticipate cash flow in the future.

Useful Strategies for Adjusting the Timing of Cash Flow

In a simple example, an organization with no cash in the bank has a balanced budget, with $10,000 in revenue and $10,000 in expenses. If the income is received first, the organization will be able to spend it down as expenses are incurred. If, however, the expenses come in before the income, the organization cannot pay its bills until the cash is received. In this case, the organization has a problem with the timing of cash flow rather than a shortage of revenue or an excess of expenses. There are some common strategies for dealing with the timing of cash flows, whether it is a cash shortage or a cash surplus.

Cash Shortfalls

The following options can help an organization address a cash shortfall:

- Postpone fixed asset purchases
- Negotiate extended payment terms on large annual expenses or fixed asset purchases, or finance the purchase of equipment by leasing
- Postpone raises in salaries or hiring additional employees
- Postpone implementing new programs or services
- Reduce operating expenses
- Reduce program services
- Move up or schedule additional fundraising events
- Pursue uncollected membership dues or other receivables
- Withdraw funds from operating reserve funds
- Borrow funds from either financial institutions or supporters of the organization
- Request advances from funding sources
- Liquidate investments

- Ask vendors about the possibility of delaying payments in the short term and determining a mutually agreeable date for making payments

> **TIP**
>
> By conducting cash flow analysis on a regular basis, an organization possesses a valuable tool for anticipating any fiscal problems early so that corrective measures can be taken and fiscal "emergency" can be avoided.

Cash Surpluses

To address cash surpluses, an organization can:

- Take advantage of projected temporary cash surplus by making short-term investments in certificates of deposit, money market funds, or US Treasury bonds
- Buy supplies on sale that will be used over the course of the year

Board Review of Cash Flow Forecast/Budget

In addition to reviewing the organization's revenue and expense budget, the board should review the organization's cash flow forecast/budget. The review should also include any measures relating to managing cash flow that involve commitments on the part of the organization, such as loans or revised terms with vendors.

Monthly Update of Cash Flow Forecast/Budget

Update the cash flow forecast/budget each month to account for any changes in the expected timing of cash receipts or disbursements. As each month passes, add another month to the forecast so that it always covers the upcoming 12-month period.

Cash Flow Forecast/Budget versus Statement of Cash Flows

A cash flow forecast/budget should not be confused with the financial statement called "Statement of Cash Flows." The "Statement of Cash Flows" describes changes in cash from year to year due to operating surpluses or deficits, makes adjustments for non-cash items such as depreciation, and shows increases or decreases in accounts payable and accounts receivable. The "Statement of Cash Flows" is a required financial statement for nonprofit organizations. See the "Financial Reporting" section below.

Financial Reporting

Financial statements are the end products of the accounting process, summarizing all of the financial transactions of the organization for the period. The Financial Accounting Standards Board's Statement No. 117, "Financial Statements of Not-for-Profit Organizations," requires nonprofits to prepare annually three primary financial statements:

- Statement of Financial Position
- Statement of Activities (Income Statement)
- Statement of Cash Flows

In addition, nonprofits must provide information about expenses as reported in their financial classifications (program services and supporting services). Voluntary health and welfare organizations are also required to present a statement that reports expenses by their natural classification (for example, salaries, rent, telephone, printing, and so on). Other nonprofits are encouraged to report in both formats as well. The following sections briefly describe the information included in each statement.

Statement of Financial Position

The Statement of Financial Position reports amounts of the organization's assets, liabilities, and net assets (fund balances) at a specified date. This statement was previously known as the balance sheet. The statement of financial position includes:

- Assets - Properties and resources the organization owns and can use to achieve its goals.
- Current Assets - Cash accounts, certificates of deposits and other investments, and items such as receivables that will be converted to cash within one year.
- Fixed Assets - includes land, buildings, and equipment
- Liabilities - Debts of the organization (what is owed). Current liabilities typically include accounts payable to vendors, short-term loans due, withheld payroll taxes due, and so on. Long-term liabilities include long-term debt, mortgages, and so on.
- Net assets (previously called fund balances)—Represents the net of assets over liabilities. There are three classes of net assets that must be reported: unrestricted, temporarily restricted, and permanently restricted. Restrictions are determined by the conditions that donors place on their contributions.

Statement of Activities

The Statement of Activities reports revenues, expenses, and the resulting change in net assets for the year. Changes are reported for each of the three classes of net assets (unrestricted, temporarily restricted, and permanently restricted). This statement was previously known as the Income Statement or Statement of Revenue, Expenses, and Changes in Fund Balances.

Statement of Cash Flows

The Statement of Cash Flows reports how the organization's cash position changed during the year. Cash flow information is divided among receipts and disbursements from investing, financing, and operating activities. Many nonprofits ask their auditors to prepare this statement.

Other Reports

In addition to the financial statements required for audit purposes, nonprofits are required by federal and state governments to file various information returns to maintain their tax-exempt status and document tax compliance. For information on how to obtain forms and information from federal and state agencies, see Appendix D.

Internal Reports

Each nonprofit organization faces different financial issues and has different resources to bring to financial functions, and each organization will choose a different set of financial reports to prepare and analyze. At different times an organization will need different reports to provide information to support its decision-making. These reports can answer basic questions about an organization's activities and overall health.

Monthly Reports

The following monthly reports may be required:

- Statement of Financial Position (or Balance Sheet) shows in a monthly format what the annual statement shows (see above). The report will answer questions like, "What is our financial health?" and "Can we pay our bills?"
- Statement of Activities (or Income Statement) shows in a monthly format what the annual statement shows (see above). The report allows budget-to- actual comparisons and helps answer the question, "What has been our overall financial performance this month and to date?"
- Department Income and Expense Statement also shows budget-to-actual information. How does actual financial experience compare with the budget? Is specific action called for, such as limiting expenses in certain areas? Does experience indicate a change in the budget is appropriate?
- Narrative Report includes tax and financial highlights, important grants received, recommendations for short-term loans, or other means of managing cash flow. This is an executive summary of financial highlights, analysis, and concerns.

Quarterly Reports

The following quarterly reports may be required:

- Fundraising report shows actuals versus projections for donations and serves as a status report on all foundation proposals. This report helps answer the question, “Are fundraising results on track?”

- Cash Flow Projection for the next six months helps answer the question, “Do we anticipate a cash surplus or shortage?”
- Payroll Tax Report answers the question, “Have payroll tax reports been submitted on time and tax deposits been made?”
- Fee for Service Report shows the number of fee-paying clients and revenue against projections. This report helps answer the questions, “Are we servicing approximately the same number and type of clients as we had anticipated?” and “If not, what action or change is appropriate?”

Annual Reports

The following annual reports may be required:

- Annual Federal Forms, including Form 990 and Schedule A, and state reports. Has the organization fulfilled its reporting responsibilities to federal and state governments?
- Draft Financial Statements for Year should include the Statement of Activities, Statement of Position, and Income Statement for each program. Aggregate financial statements should include narrative and show key trends. This report should focus on internal management decision-making and help answer the following questions:
  - What was our financial performance over the past year?
  - In what ways and for what reasons was performance different from the budget?
  - What financial implications must be taken into account when planning the upcoming year?
- Audited Financial Statements for the entire organization should include the Statement of Position, Statement of Activities, Statement of Cash Flows, and Statement of Functional Expenses (see page 3-1). This report should focus on external accountability and financial disclosure to funders and the public.
- Management Letter from the Auditor may include recommendations related to the accounting system, internal controls, and financial planning.

Who Should Prepare the Financial Reports?

The person responsible for filing the financial reports depends somewhat on the size of the organization.

Small Organizations

In a smaller nonprofit, the board treasurer or outside accountant/bookkeeper might prepare the financial information for all in-house financial statements, and work with the executive director to prepare the narrative with financial highlights to be presented to the board. The program director, if the organization has one, would ordinarily prepare the quarterly fee-for-service report. Similarly, the director of development would prepare the quarterly fundraising report.

The executive director might report first to the board treasurer, who can then keep the full board apprised of the organization's financial status.

In addition, key staff members such as program directors and the director of development should have the opportunity to review income and expense reports for the whole organization.

Large Organizations

A controller or finance director prepares the financial reports in a larger organization.

When the board is large enough to include a finance committee, that committee reviews all financial statements and reports on financial activity to the full board. The finance committee will often review the numbers in greater detail than the full board.

The full board may be better able to respond to aggregate information with important financial trends and issues highlighted in an accompanying narrative report. While each board member should have the opportunity to review organization-wide income and expense reports to understand the impact their department's activities have on the whole organization, members who are inexperienced at reading financial statements may get lost in overly detailed statements.

To help the board fulfill its oversight function, it is important for the executive director and the finance committee to present the information in as clear and concise a manner as possible.

Reports for County Departments

Although the County is striving to make financial (and performance) reporting uniform across departments, some departments may require a special report designed for a particular purpose and only for that department.

Independent Auditor's Report

In addition to the internal reports an organization's management may need, the audit report and management letter should be addressed directly to the board of directors because of the board's oversight function. Typically, the auditor works with the finance staff to prepare federal and state reports and the auditor may be included at board meetings during which presentations are given.

Reporting Requirements of State Agencies

See Appendix D for more information and how to contact the state agencies to obtain the reporting forms listed below.

California Secretary of State

- Form SI-100, Statement of Information, must be filed biennially before the end of the calendar month during which the original articles of incorporation were filed.

California Attorney General—Charitable Trusts Forms

- Form CT-1 is a registration form that must be filed before the organization engages in charitable solicitations.
- Form RRF-1 must be filed annually within 4 ½ months after the end of the organization's accounting period with the Registry of Charitable Trusts. Some organizations (hospitals, schools and religious organizations) are exempt from filing.
- Form CT-9 is used by individuals who wish to file a complaint against a charity or public benefit corporation.
- Instructions for Dissolving a Nonprofit Corporation include items such as how to handle remaining funds held in trust.
- Commercial Fundraiser and Nonprofit Raffle Program Forms—There are numerous forms for organizations engaging in a variety of charitable fundraising activities.

Chapter 3
AUDITS

A financial audit is a process for testing the accuracy and completeness of information presented in an organization's financial statements. The testing process enables a certified public accountant (CPA) to issue what is referred to as an opinion on whether or not the organization's financial statements represent its financial position fairly and whether they comply with generally accepted accounting principles (GAAP). GAAP is determined by the American Institute of Certified Public Accountants (AICPA).

The audit report is addressed to the board of directors as the trustees of the organization. The report usually includes the following:

- Cover letter—Signed by the auditor, stating the opinion, described above.
- Financial statements—Including the statement of financial position (balance sheet), statement of financial activity (income statement), and statement of cash flows. Health and social service organizations also have a statement of functional expenses that reports expenses by both functional and natural classifications. Functional expenses include costs for major programs or services and natural expenses include fixed costs like salaries and discretionary costs like grants to subrecipients. Many audits show comparative information between fiscal years.
- Notes to the financial statements—As required by GAAP, these might include information about functional expenses, a depreciation schedule, further information about contributions, information about volunteer services, and other significant information not obvious in the financial statements.

In addition to the materials included in the audit report, the auditor often prepares a management letter that cites areas in the organization's internal accounting control system that the auditor evaluates as weak or needing improvement.

Performance audits are audits that examine the operational or management aspects of a program; evaluate the efficiency of a program's service delivery; determine whether a program is in compliance with laws, rules, and regulations governing the program; and determine whether the program's services are effective in producing the results called for by the program's mission and by the program's funding sources. Performance audits are not done as part of a routine audit of the financial statements, and must be arranged for separately if the organization wants such an audit.

What Does an Independent Auditor Do?

To test the organization's financial statements, the auditor requests information from individuals and institutions to confirm bank balances, contribution amounts, conditions and restrictions, contractual obligations, and monies owed to and by the organization. The auditor will review physical assets, journals and ledgers, and board minutes to ensure that all activity with significant financial implications is adequately disclosed in the financial statements. In addition, the auditor will select a sample of financial transactions to determine whether there is proper documentation and whether the transactions were posted correctly into the books. In addition, the auditor will interview key personnel and read the procedures manual, if one exists, to determine whether the organization's internal accounting control system is adequate. Depending on the size of the organization and the number of documents to be reviewed, the auditor can spend several weeks at the organization's office.

Auditors are not expected to guarantee that 100 percent of transactions are recorded correctly. They are only required to express an opinion as to whether the financial statements, taken as a whole, fairly represent the organization's financial picture.

An Unqualified Opinion includes wording such as, "In our opinion, the accompanying financial statements present fairly the financial position of ABC agency at the fiscal year ending June 30, 2004, in conformity with generally accepted accounting principles."

A Qualified Opinion is issued when the accountant believes the financial statements are, in a limited way, not in accordance with generally accepted accounting principles. A qualified opinion might include wording such as, "in our opinion, except for the omission of …the accompanying financial statements present fairly…"

What Does an Auditor Not Do?

An auditor is **not** expected to perform the following functions:

- Create records (journals, ledgers, reports, and so on) that the organization should have created and should be maintaining as part of its accounting system.
- Initiate or record transactions.
- Perform analyses outside the scope of work of the audit.
- As noted above, auditors do not guarantee that every transaction is recorded correctly; rather they render an opinion on the organization's financial picture.
- Audits generally are not intended to discover embezzlements or other illegal acts such as fraud unless there is reason to believe such acts are taking place. Therefore, a "clean" or unqualified opinion should not be interpreted as an assurance that such problems do not exist.

When Is an Audit Necessary?

An independent, annual audit may be required by the funding organization or by a lender the organization has a loan agreement with.

Nonprofit organizations that receive over a certain amount in direct or pass-through federal funding during a single fiscal year are usually required to have an audit performed by a CPA. "A-133" audits are required when organizations expend over $500,000 of federal dollars in a single year (see "Federal

Awards," below, for more information).

The State of California SB 1262, California's Nonprofit Integrity Act of 2004 requires all nonprofits with annual revenues of at least $2 million (exclusive of grants from, and contracts for services with, governmental entities for which the governmental entity requires an accounting of funds received) to have an audit prepared by an "independent" CPA in conformity with generally accepted auditing standards (as set forth in the Government Auditing Standards issued by the Comptroller of the United States, also known as the 'Yellow Book'). Corporations must meet audit committee requirements as defined by SB 1262 and the audited financial statements shall be available for inspection by the Attorney General and be made available to members of the public.

The organization may choose to obtain an audit even if not legally required to do so. For example, the organization's board of directors may seek assurance that the financial information it is considering as part of its oversight function is accurate and complete. In cases where financial problems or irregularities have occurred, the board and the general public may look to an audit to provide assurance that these problems have been resolved. Also, the audit process can be valuable to the executive director and finance staff since it confirms the financial picture and helps strengthen internal control procedures. An audit signals a new phase in an organization's maturity. As financial transactions become more complex, undergoing the rigors of an audit will help staff understand and develop the financial systems required to track and manage finances responsibly.

In some circumstances the funding department may require an audit because the organization is experiencing financial difficulty and is unable to identify or resolve the cause. In addition, an audit may be required because the funding department or other entities such as the Office of the Auditor-Controller or District Attorney are aware of possible inappropriate, illegal, or fraudulent activities on the part of an organization's personnel.

Many funders request audited financial statements and may accept statements prepared in-house. Funders may also accept a CPA review (see definition below) in lieu of an audit.

Some County departments have an ongoing requirement that their Organizations obtain an audit from an outside CPA on an annual basis. These departments have made the audit requirement part of the County's contract. Although the contract may not have an audit requirement, the County Auditor Controller recommends that all nonprofit, community-based organizations that have contracts with the County undergo an annual financial audit by an independent auditing firm.

Not all nonprofits may be subject to an annual audit requirement. However, the Organization must permit the County to audit, examine, and make excerpts and transcripts of books and records, and to make audits of all invoices, materials, payrolls, records, or personnel and other data related to all other matters covered by the agreement, whether funded in whole or in part by the agreement. All data and records are to be maintained in an accessible location and condition for a period of not less than five years after final payment under the agreement or until after a final audit has been resolved, whichever is later. In other words, should the County choose to conduct an audit of the organization, the organization will need to provide the information the County's auditors request so they can conduct their review.

Alternatives to an Audit

A CPA review is a more limited examination of the financial statements by a certified public accountant. During the review, the CPA asks questions of management and conducts some analysis, but does not undertake the extensive testing required for an audit. However, a review does not provide assurance, as a complete audit does, that the financial picture is fairly presented.

A compilation is a report prepared by an accountant using financial data supplied by the organization. The accountant organizes the financial information into standard financial reporting formats, but does not review the numbers for accuracy or provide assurance regarding the information that is included.

Federal Awards

A federal award is financial assistance provided by the federal government to support or accomplish a public purpose. The assistance may be provided in cash or property, and it may come as a grant, contract, loan, or in other forms such as commodities. Federal awards do not include direct federal cash assistance to individuals, such as Social Security or Medicare payments. Federal awards can be received directly from the federal government or indirectly as pass-throughs from other award recipients. These other recipients can be states, counties, cities, or other governmental entities, even other nonprofit organizations.

NOTE

It is important to remember that grants from state agencies or municipalities can actually be pass-throughs of grants of federal funds and, therefore, be considered federal awards to *the* organization.

What Are Your Responsibilities When Receiving Federal Awards?

As a recipient of federal funds, the organization has the responsibility to spend those funds properly. Recipients also have an obligation to comply with the federal laws and regulations that relate to the grant funds. Should the organization violate the laws and regulations governing the grants(s), the government has a number of remedies: it can suspend the grant, question the grant expenditures and request a refund of its money, or worse for more severe violations.

As a recipient of federal awards, it is the organization's responsibility to comply with both the specific grant requirements and with all the corresponding government laws and regulations. This is accomplished by:

- Structuring the accounting system and internal controls to address compliance with laws and regulations.
- Complying with the requirements imposed on all entities receiving federal funds, such as administrative requirements.
- Complying with provisions specified in individual grants and contracts.

For organizations receiving federal awards, compliance with applicable laws and regulations is required, regardless of the size of the organization or whether or not the organization is subject to a single audit.

For federal awards, the term Internal Control means a process established to provide reasonable assurance that:

- Operations are effective and efficient
- Financial reports are reliable
- Applicable laws and regulations are complied with

See Appendix E for a list of federal government document resources.

Recipient, Subrecipient, or Vendor?

A recipient is a non-federal entity that expends federal awards received directly from a federal awarding agency to carry out a federal program. A subrecipient is an entity that expends federal awards received from a pass-through entity to carry out a federal program. A subrecipient may also be a recipient of other federal awards directly from a federal awarding agency. A vendor is an organization providing goods or services that are required for the conduct of a federal program (that is, a buyer-seller relationship). A nonprofit organization may be a prime recipient, subrecipient, or a vendor, depending on the circumstances.

If the organization is a subrecipient, it must comply with all the grant compliance requirements that go along with receiving federal funds, just as though it had received the funds directly from the federal government. If the organization is a recipient that passes federal funds through to a subrecipient, it is responsible for monitoring the subrecipient's compliance with grant requirements. If the organization is simply a vendor, or a contracted service provider, however, it is generally not subject to the various grant compliance requirements. Therefore, the difference between a vendor and a subrecipient is significant, and can greatly affect an organization's level of responsibility to the government. (Refer to Circular A-133 for more detailed information on differences between subrecipient and vendor, see Appendix D.)

OMB Circular A-110 Requirements

Office of Management and Budget (OMB) Circular A-110, "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and other Non-Profit Organizations," imposes administrative requirements for nonprofit organizations receiving federal grants (awards).

These administrative requirements include the following categories (see Appendix D and the respective sections of A-110 for more detailed information).

Financial and Program Management

These requirements pertain to requirements of an accounting and financial management system, cash management requirements, treatment of contributed services, treatment of program income, rules for budget and program scope revisions, non-federal audit requirements of different entities, allowable costs detailed in OMB Circular A-122, and period of availability of funds.

Property Standards

These requirements pertain to management and disposal of property purchased with federal funds:

- Insurance—Minimum coverage requirements
- Real property—Use and disposition
- Federally—Owned and exempt property requirements
- Equipment purchases—Use and record keeping
- Supplies and other expendable property—Use and disposition
- Intangible property—Rights and title to property developed and purchased with federal funds
- Property trust relationship—Property to be held in trust for beneficiaries of the program

Procurement Standards

All organizations are required to follow specific procurement standards in the following categories:

- Recipient responsibilities—Includes contractual responsibilities
- Codes of conduct—A written code of conduct is required for employees engaged in the award and administration of contracts
- Competition—Procurement is to be conducted in a competitive environment
- Procurement procedures—Establishment of procurement procedures and use of disadvantaged businesses
- Cost and price analysis—To be performed and documented
- Procurement records—Records to be maintained
- Contract administration—Requires a contract administration system be maintained
- Contract provisions—Requires certain provisions for all contracts and subcontracts

Reports and Records

- Monitoring and reporting program performance
- Retention and access requirements for records

Termination and Enforcement

In the event a contract is terminated or an organization does not comply with its grant requirements or other laws and regulations, the federal government may take any of the following measures:

- Temporarily withhold payments until the problem is corrected
- Disallow all or a part of the cost of items relating to the noncompliance
- Suspend or terminate the current award
- Withhold further awards
- Take other legal remedies

OMB Circular A-133 Requirements

Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations," defines audit requirements for nonprofits receiving federal funding (referred to as a "Single Audit"). The organization may be subject to these audit requirements even if the money received is passed through another agency. For example, a County housing authority may make a grant to a local nonprofit housing developer that contains US Department of Housing and Urban Development (HUD) funding. The local housing developer is subject to A-133 audit requirements even though the grant was not directly from HUD. The most current information on Circular A-133 is at the Office of Management and Budget website (see Appendix D for more information).

The threshold amount for having a Single Audit has been raised several times; the most recent change raised the threshold from $300,000 to $500,000, effective December 31, 2003. As a result, many organizations are no longer required to have a single audit. However, the organization should be aware that the threshold amount is the total amount of funding granted by a particular federal agency to the recipient entity (usually a County department), so while the organization may receive $100,000 from a particular federal grant and another organization may receive $400,000 from the same grant, both organizations would be included in a single audit of that $500,000 grant award.

Organizations not required to undergo a Single Audit must still be prepared to make their records available for review or audit by the federal agency or inspector general of the federal agency that provided funds or the Government Accountability Office (GAO). In addition, the County department that is the primary recipient (pass-through entity) of the federal funds is responsible for the subrecipient's compliance with laws and regulations, providing the subrecipient with the federal requirements that must be followed. The department can monitor the subrecipient by reviewing the single audit (if available), performing site visits, reviewing the subrecipient's records, maintaining regular contacts with the subrecipient, or having an independent auditor perform a limited scope audit. If the primary recipient determines that the subrecipient is not in compliance with applicable laws and regulations, it must act expeditiously to address the noncompliance. In addition, these organizations must make records available for review or audit by appropriate officials of the federal agency and GAO in addition to the primary recipient (pass-through entity) (see Circular A-133, §___.200(d).

Organizations that are required to have a single audit may choose to have a program-specific audit (see Circular A-133, §___.200(a), "Audit required") if the organization expends federal monies under only one federal program (excluding research and development programs) and the program's laws, regulations or grant agreements do not require a financial statement audit of the auditee (see Circular A-133, §___.200(c).

Smaller organizations may be able to combine a regular audit of the whole organization with a program-specific A-133 audit of the program receiving federal funding. The amount of the total combined federal funding will determine the type of audit required under A-133. The following table shows when an A-133 audit is not required, when a program-specific audit may be elected, and when an organization-wide single federal audit is required:

Total Federal Awards Expended	**One Program**	**More than One Program**
$0 – $499,999	No Audit	No Audit
$500,000 or more	Program-specific or A-133 Single Audit	A-133 Single Audit

A-133 audits test financial information. However, the A-133 audit looks more closely at tracking and classifying revenue from federal sources. In addition, the audit looks for compliance with general and specific government audit requirements, which cover both financial and non-financial factors such as program effectiveness, client eligibility, efficiency with which resources are used, and so on. The audit also tests internal control procedures more rigorously than a standard audit, making sure that adequate systems are in place for complying with the requirements noted above. Because of the expanded procedure involved and increasing reporting requirements for the auditor, the audit may cost substantially more than a traditional audit and involve more time from staff. You should be allowed to build these additional costs into the grant. In practice, however, many nonprofits receiving federal pass-through funding have had difficulty convincing their government funders to include audit costs in their grants.

NOTE

Even with the revisions of Circular A-133 and the elimination of the single audit requirement for many organizations, the responsibility to comply with laws and regulations relating to federal funds is not eliminated. Nonprofit organizations are still required to properly account for their federal awards, comply with applicable laws and regulations, and cooperate with any audits of federal awards that the federal government may choose to perform, even if they are not required to have a single audit.

In summary, if the organization receives $500,000 or more in federal funding, whether directly or indirectly, and that funding is for more than one program, then an organization-wide A-133 audit is required. In addition, a program which receives more than $500,000 in combined federal awards is likely to be classified as a major program, and, therefore, subject to significantly more testing by the auditor. Whether a program is major or non-major is based on the dollar value of expenditures during the audit period. A program is a major program when total expenditures equal or exceed three percent of total federal funds expended by the organization or $500,000, whichever is greater. A program is non-major when expenditures are below this threshold.

According to Position Statement No. 6, issued by the President's Council on Integrity and Efficiency Standards Subcommittee, the A-133 single audit must be annual when the nonprofit has annual financial audits. In other words, if the organization is usually audited annually, then the organization must also have an A-133 audit annually if the organization gets federal funds over the threshold. If, however, the organization is usually audited every other year, then the organization may also undergo an A-133 audit every other year, but the report must cover both years under consideration.

If the organization receives funds from a non-federal agency or grantor, the organization should ask if the grant includes federal funds. In some cases, the grantor may not know the answer even though they are required to notify the organization whenever federal funds are included in the award. The organization is required to make a good faith effort to determine if federal funds are included in the award. Each federal award is identified with a number from the Catalogue of Federal Domestic Assistance (CFDA) and granting agencies should provide the CFDA number(s) for any federal funds included in the award since organizations are required to report this number as part of an audit. When federal funding is received, the organization should alert the auditor right away, so it can get help setting up the proper systems for complying with government regulations. The organization may also want to get a copy of the OMB Compliance Supplement, which describes the A-133 requirements and serves as a guide for auditors performing single audits. The organization should identify someone on the staff who will be responsible for monitoring compliance with federal guidelines. To obtain the compliance supplement, go to the OMB website at www.whitehouse.gov/omb/circulars/a133_compliance/04/04toc.html.

How to Prepare for an Audit

Most nonprofit organizations use the services of outside CPAs. These services most often relate to performing the annual audit or preparing tax returns. Generally, fees charged for a CPA's services are based on the actual or estimated time spent on an engagement. Therefore, minimizing the time CPAs spend on an engagement can often lower fees.

A nonprofit's audit is addressed to its board of directors, who have ultimate financial accountability for the organization. The board's finance or audit committee should recommend an auditor for approval by the full board. If the organization does not have an appropriate board committee, the director or an individual board member can bring a recommendation to the board. Some important considerations when selecting an auditor are:

- Experience in the nonprofit sector—Because there are differences between for-profit and nonprofit accounting and in how financial statements are interpreted, an auditor who has other clients in the nonprofit sector is likely to be more helpful and efficient.

- Experience with other nonprofits in the area of work—Consider an auditor experienced with similar agencies who knows the specific reporting requirements of the primary funding sources.

- Training in Government Accountability Office (GAO) standards—If the organization is required to have an audit that meets government standards, the auditor must fulfill GAO's continuing education requirements, among others. Be sure to specify that the audit must meet "Government Auditing Standards."

- References for the Audit Firm and the Auditor—In addition to experience, look for indications the auditor has the technical expertise, communications skills, and flexibility to conduct the audit in an efficient and effective manner. A good working relationship with the auditor will help ensure the audit goes smoothly.

- Fee—Compare bids from auditors regarding the fees they charge to do the work required. Some good auditors work for nonprofits for a reduced fee. Some firms produce a low bid the first year to get the business then raise their fee substantially in subsequent years. Auditors without necessary nonprofit auditing experience may take longer to produce an audit, causing them to raise their fee in later years. They may also prepare a report that has less value to the board and the public because the work supporting it is not sufficient. Also, they may require nonprofit staff, which is typically overburdened, to do more work for the audit than should be expected. Finally, some auditors who charge a lower fee do not do sufficient work in preparing a management letter detailing areas of weakness in the accounting system. Such a letter is an important management tool, of benefit to both the board and staff. On the other hand, an expensive audit does not guarantee an excellent product. The goal is to get the reports and advice that the organization needs and can understand for a reasonable fee.

Changing Auditors

The recommendations regarding changing auditors after an organization has established a relationship with one individual or firm differ depending on whom one asks. Auditors argue that, if the organization is getting the information it needs from the audit and are satisfied that the reports are complete and usable, it is unwise to start over with a new auditor. Management consultants reply that, after a period of few years, auditors may be unable to provide the organization with new insights. In addition, bidding out the audit may provide an incentive to the current auditor to maintain reasonable fees. It may be useful to talk to one or two other qualified auditors every few years to determine whether the upheaval of working with a new auditor will be offset by better quality, lower fees, and/or new perspectives.

What Information is needed for an Audit?

To prepare for an audit ask the auditor what information the organization will be required to provide. Many auditors prepare a list of records they will need to examine, forms that will need to be completed, and questions that will need to be answered. Following are some types of information that may be required. See Appendix D for a sample pre-audit questionnaire.

Confirmations

A confirmation is an independent statement that supports the financial information in the records. Auditors will ask the client to prepare confirmation letters on letterhead (they will provide the format) to the bank(s), funders, attorney, and people and organizations the client owes money to and who owe money to confirm the amounts reflected in the books. Confirmations are mailed by and returned directly to the auditor to ensure their credibility.

Evidence of Internal Controls

The auditor will meet with staff members or request that they complete a questionnaire documenting the procedures relating to spending and receiving money and using other resources, complying with laws, donor restrictions and regulations, maintaining property and equipment, and recording financial information in the books.

Documentation

The auditor will request a number of schedules (lists) of information related to the following:

- Assets
  - Accounts receivable—Who owes the organization money, how much, and when was it due?
  - Property and equipment (fixed assets)—When were assets acquired, how much did it cost, how long are they expected to last, how much are they depreciated each year, and how much has been depreciated to date? Many nonprofits ask their auditors to maintain this schedule for them and to prepare the annual calculation of depreciation.
- Liabilities
  - Payables—Who the organization owes money to, how much the organization owes each individual/organization. Copies of invoices or loan agreements.
  - Deferred Revenue—Any contributions deferred due to donor conditions or restrictions. Provide the information under grants and contributions, in the Revenue section below.
- Revenue
  - Grants and contributions—Funder/donor names and addresses, grant period, grant amount, when received, restrictions, and copies of the grant letters and grant applications. In the case of individual contributions, the auditor will specify which donors to include on this list based on a minimum level of contributions they will establish based on the overall budget and total contributions.
  - Donated services and materials- The organization may be required to place a dollar value on contributions of certain services and materials. Prepare a list of these donations to discuss with the auditor.
  - Special events and benefits—Show income and expenses, and documentation for the value of goods or services which donors received (and, therefore, are not included in the tax-deductible portion of their payment).
  - Documentation—Such as contracts and invoices, names and addresses, registrations, and so on, for fees from memberships, tuition, performances, and other services.
  - Inventory—If the organization sells t-shirts, books, or other products, keep a record of sales throughout the year so that beginning inventory can be reconciled with inventory at the end of the year.
- Expenses
  - Payroll records—Including federal and state tax returns related to payroll, and vacation records.

While some nonprofits rely on their auditors to prepare schedules such as those above based on information provided by an organization's staff, the organization can save on the cost of the audit by preparing the majority of these schedules internally— using staff or board volunteers—rather than asking the auditor to prepare them.

In addition to the schedules noted above, be prepared for the auditor to review the following items:

- Board minutes
- Leases and other contracts
- Bank statements, bank reconciliations, checkbooks, and cancelled checks
- Financial files for paid bills and deposits
- Components of the accounting system—Chart of accounts, journals and ledgers, printouts if the system is computerized, trial balance, and so on
- Budget for the fiscal year being examined

Finally, the organization will want to consider the non-financial aspects of an audit. The staff should understand what is involved in an audit, that it is a routine examination of financial and other information, and that they may be asked a few questions. You should assign one person to be the audit coordinator. In a small nonprofit, that may be the bookkeeper or executive director. In a larger organization, it may be the finance director. The audit coordinator should have access to all information the auditors may need, and should plan to be available to the auditors while they are on-site. In addition, some thought should be given to setting aside a physical location for the auditors so they can work efficiently.

When Does the Audit Begin?

Most organizations select an auditor prior to the end of their fiscal year. About the time the fiscal year ends, management will want to meet with the auditor to determine what information will be required for the audit. If the financial management system is reasonably well organized, the audit can usually begin within two months of the end of the fiscal year. However, new government funding and other complicating factors may extend the amount of time needed to prepare for the audit.

Chapter 4
MISCELLANEOUS

This chapter contains miscellaneous information regarding the financial systems that is not covered elsewhere.

Nonprofit Tax Status

The Guide will not discuss in detail the process for applying for tax-exempt status since organizations using the Guide will have already obtained an exemption. Generally, to obtain tax-exempt status, nonprofit organizations must apply for tax-exempt status and be designated as exempt by the Internal Revenue Service. For a California exemption, organizations must file an exemption application form FTB 3500 with the California Franchise Tax Board.

There are many categories of tax-exempt organizations, but a large number are organizations that provide a range of services to the public and that are funded with public and private monies. Many of these organizations are designated as 501(c)(3) organizations under the Internal Revenue Code and must have one of the following specific purposes to qualify for tax-exempt status:

- Religious
- Educational
- Charitable
- Scientific
- Literary
- Testing for public safety
- Fostering national or international sports competition
- Prevention of cruelty to children or animals

State and Federal Tax Reporting Requirements

State and federal tax reporting requirements change frequently and organizations should use the latest information available when filing returns with state and federal taxing authorities. For more information on this topic and links to websites, see the following sources of information and see Appendices D and F:

For the state exemption, see the Franchise Tax Board publication, "Exempt Organizations" at the FTB's California Taxes Information Center at the website www.ftb.ca.gov/exemptbus.html .

The California Board of Equalization Publication 18, "Tax Tips for Nonprofit Organizations," contains useful information on the tax status of various types of nonprofit organizations. See the BOE website at: www.boe.ca.gov/pdf/pub18.pdf .

"Overview of Exempt Organizations" summarizes tax-filing requirements for California nonprofits and discusses differences between state and federal requirements. This publication can be obtained at the website www.ftb.ca.gov/forms/misc/927.pdf.

For federal information on tax status and reporting requirements for nonprofit organizations, see the IRS publication 557, "Tax Exempt Status for Your Organization" at www.irs.gov/pub/irs-pdf/p557.pdf

California Franchise Tax Board (www.ftb.ca.gov)

Form 199, Exempt Organization Annual Information Return, must be filed within 5 ½ months after the end of the fiscal year.

Form 109, Exempt Organization Business Income Tax Return, must also be filed 5 ½ months after the end of the fiscal year.

Internal Revenue Service (www.irs.gov/charities)

Form 990 or 990EZ, Annual Return, must be filed within 4 ½ months after the end of the fiscal year.

Prohibition on Provision of Excess Benefits

Tax exempt, 501(c)(3) organizations are prohibited from providing excess benefits to insiders or operating for the private benefit of insiders, or for individuals who control the organization or who created the organization. For example, providing members, employees, or other insiders organizational funds or assets (private incurement) through payment of dividends, distribution of surplus funds, payment of unreasonable compensation, or making loans to insiders at less than market rates, is prohibited. There are penalties associated with these activities that can be reviewed in detail at the IRS website.

Prohibition on Lobbying and Participation in Political Campaigns

Tax-exempt organizations are prohibited from taking part in lobbying as a "substantial" part of their activities and prohibited from participating in any political campaign. The degree to which lobbying activities are "substantial" is an interpretation made by the IRS, unless the organization elects to have a specific limit placed on lobbying expenditures and files a report every year. The IRS specifically identified the following activities as unallowable when performed in relation to a political candidate:

- Engaging in fundraising
- Donating money

- Endorsing a candidate
- Distributing information
- Performing any service or action that is detrimental or beneficial to a candidate

Nonprofit Organization Board Responsibilities and Development

Boards have a dual role: to support and assist with staff-led work and to provide governance over the organization.

In the support role, board members work for the success of the organization by raising money, bringing outside contacts and information to the organization, providing special skills such as law and accounting, and acting as ambassadors to the community.

In the governance role, the board's primary goal should be protecting the public interest. Governance responsibilities for board members include selection of the top executive (director or CEO), assessment of the executive's performance, review and authorization of plans and commitments including the budget, ensuring compliance with legal and contract requirements, and monitoring and evaluating the organization's work.

Access to Meetings

Nonprofit organizations should provide public access to at least two public meetings per year. The issues addressed at these meetings should be of the same general nature and significance as those addressed at regular or special meetings. In at least one of these meetings, the public should have a chance to address the board on board membership and to propose candidates for the board.

Meeting Notice

In general, nonprofit organizations are required to provide public notice of each public meeting in advance of the meeting. The advance notice may vary by type of organization; therefore, organizations should be familiar with the applicable guidance governing public meetings.

Access to Records

Nonprofit organizations are required to maintain and make available for public inspection and copying, a minimum amount of financial information about the organization. The public may request additional information, but its provision is voluntary and not compulsory.

Dispute Resolution

Members of the public who seek and are unable to obtain additional financial information or who have a complaint about an organization’s compliance with the law can submit a request or complaint to the County department that is responsible for the organization’s contract.

Chapter 5
CHART OF ACCOUNTS

The chart of accounts should include every account that the accounting system tracks. The chart will help the organization keep track of financial information on an ongoing basis and help management make good financial decisions. By using a chart of accounts to record financial information, the organization will be able to easily produce reliable financial reports.

In determining what to include in the chart of accounts determine the following:

- What reports does management want to prepare? For example, is the organization required to produce external reports and internal reports for management and decision-making?

- What financial decisions, evaluations, and assessments does management need to make on a regular basis?

- What level of detail do they require?

- What is the capacity for tracking financial information?

The chart of accounts should correlate to the categories in the budget so management can compare budgeted amounts to actual income and expenses. It should also correlate with line-item categories that must be reported on IRS form 990, "Return of Organization Exempt from Income Tax."

In developing income categories for the chart, think about how to show different sources of income so management can track fund-raising efforts and see which sources have restrictions. If the organization collects fees from these activities, decide if all fee income can be combined into one account or if income from different fees should be shown. Also, consider the various expense categories needed and what level of detail will be needed for reporting. Organizations may want to have an office supplies category, for example, but will not need to account separately for pens, paper, rubber bands, and so on.

There are other factors to consider in determining the categories of revenues and expenses for the chart. If the organization has more than one site, management may need to track information separately for each site. If the organization has more than one program, management may want to track office supply expenses separately for each program. It is important to understand that the Financial Accounting Standards Board (FASB) Statements Nos. 116 and 117, state that nonprofits should report revenues and expenses in at least three categories: unrestricted, temporarily restricted, and permanently restricted. Therefore, the chart of accounts should reflect this categorization.

Generally, the chart of accounts should be kept as simple as possible. When it is not clear which account a transaction should be assigned to, the chart probably needs revision or the criteria for assigning chart numbers needs to be clarified.

EXAMPLE OF CHART OF ACCOUNTS

The example chart of accounts in Appendix A shows how an organization might track income and expense items, along with conventions that are usually observed when assigning account numbers. This sample can be used as a guide for developing the chart of accounts. Account categories are presented in standard order as they are presented in the Statement of Position (balance sheet). The account categories are assets, liabilities, and net assets (or fund balances). Income and expense accounts follow the Statement of Position accounts.

Account categories are in standard order, beginning with accounts presented in the Statement of Position (balance sheet):

- Assets

  Tangible items the organization has, including cash, accounts receivable, equipment, and property. Assets are held in descending order of liquidity with cash and assets easily converted to cash listed first and fixed assets like property and equipment listed last. Asset accounts usually start with the number "1."

- Liabilities

  Liabilities are obligations due to creditors such as loans and accounts payable. Current liabilities that are due within the current year are usually listed first, followed by long-term liabilities. Accounts payable and payroll taxes are usually listed before other payables. Deferred revenue and other liabilities are listed further down the list. Liabilities accounts begin with the number "2."

- Net Assets (fund balances)

  Net assets (formerly known as fund balances) reflect the financial worth of the organization. Net worth shows the balance remaining after obligations are subtracted from the organization's total assets. If the organization receives only unrestricted funds, it will have one net asset account, but if the organization receives temporarily or permanently restricted funding it will have more than one net asset account. Net asset accounts begin with the number "3."

The numbering system for accounts in the chart allows for expansion of each category as needed. This permits a greater level of detail to be presented as the organization grows.

Certain related accounts are grouped together with related numbers. For example, the general, or heading number for payroll taxes is 7310. Note that one does not post information to this header account number, only to those below it. Below the heading number, each type of payroll tax is assigned its own number for posting, that is, "FICA" expense is 7311, unemployment insurance is 7312, and so on.

Capturing complex financial information in the chart of accounts requires a multi-tiered chart. For example, the organization may need to track temporarily and permanently restricted funds, separate programs or departments, separate sites, and so on. For example, if the organization has three programs—counseling, tutorial, and recreation— it might assign each its own account code as follows:

Counseling 01 Tutorial 02 Recreation 03

When these codes are added to other codes for expense items in the chart, one would attribute salaries for counselors as follows:

7210 - 01

7210 - 01 Salary Counseling Program

Supplies for a recreational program would be posted to:

7710 - 03

7710 - 03 Supplies Recreational Program

The organization could also track two programs and sites by adding a third tier. If the organization had two sites where tutorial programs were given, the first site could be assigned the letter “A” and the second the letter “B,” so salaries would be divided between:

7210 – 02 - A and 7210 - 02 - B

7210 – 02 - B Salary Tutorial Site B Program

As the chart becomes more complex, management will be able to produce more detailed reports. As the accounting system becomes more complex, computerized accounting systems become more necessary. The following is a sample chart of accounts showing broad account headings and codes presented in the model chart of accounts developed by the Nonprofit Management Group for nonprofit organizations. This example shows how the chart of accounts can be tailored to specific needs of an organization. To obtain a copy of the complete model chart of accounts, contact:

Nonprofit Management Group Department of Public Administration Baruch College/CUNY 17 Lexington Avenue, Box 336 New York, NY 10017

(212) 447-3659

Appendix A

Example Chart of Accounts

Assets

1010 Cash

- 1011 Checking Account
- 1012 Petty Cash

1020 Savings and Temporary Cash Investment

1030 Accounts Receivable

1040 Allowance for Doubtful Accounts

1050 Pledges Receivable

1060 Allowance for Doubtful Accounts

1070 Grants Receivable

1130 Prepaid Expenses

1610 Land

1620 Building

1640 Equipment

Liabilities

2010 Accounts Payable

Expenses

7110 Salaries & Wages of Officers, Directors, etc.

7210 Other Salaries & Wages

7310 Payroll Taxes, etc.

- 7311 FICA Payments (Employer' share)
- 7312 Unemployment Insurance & Taxes
- 7313 Workers, Compensation Insurance
- 7314 Disability Insurance

7520 Accounting Fees

- 7520 Audit & Accounting Fees
- 7521 Bookkeeping Services "Outside
- 7522 Payroll Services "Outside
- 7523 Bank Service Charges

7710 Supplies

2410 Loans from Trustees & Employees

2510 Mortgage Payable

Net Assets

3100 Current unrestricted net assets

Revenue

4010 Contributions (Direct Mail)

4050 Special Events (Gift Portion)

4100 Donated Services and Use of Facilities

4220 Corporate Grants

4230 Foundation Grants

4510 Government Contributions

5040 Sales to Public of Program-Related Inventory

5060 Other Program Service Fees

5110 Membership Dues “Individuals

7810 Telephone

7910 Postage & Shipping

8010 Occupancy

- 8011 Office Rent
- 8012 Janitorial & Similar Service Fees

8110 Equipment Rental & Maintenance

8210 Printing & Duplicating

8220 Publications

8310 Travel

8710 Insurance

Appendix B

Internal Accounting Checklist for Paying Bills

The following are a few examples of common internal accounting controls related to paying bills:

- All disbursements, except petty cash, should be by pre-numbered check.
- Voided checks should be preserved and filed after mutilation.
- No checks should be made payable to "cash."
- No checks should sign in advance.
- A cash disbursement voucher should be prepared for each invoice or request for reimbursement. The voucher should show check date, check number, payee, amount, description of account to be charged, authorization signature, and accompanying receipts.
- Authorized persons should approve all expenditures in advance.
- Signed checks should be mailed promptly.
- The check signer should review the cash disbursement voucher for each amount for proper authorization and supporting documentation of expenses.
- Invoices should be marked "paid" with the date and the amount of the check.
- Requests for reimbursement and other invoices should be checked for mathematical accuracy and reasonableness before approval.
- The cash disbursement journal should be prepared monthly with details of checks written (number, payee, amount, and description of expense account to be charged).
- Check-signing authority should be vested in persons at appropriately high levels in the organization.
- The number of authorized check signers should be kept at a minimum.
- Checks over a certain amount require two signatures.
- Bank statements and cancelled checks should be received and reconciled by someone other than the person who authorizes expenditures and signs the checks.
- Unpaid invoices should be kept in an unpaid invoice file.
- A list of unpaid invoices should be prepared and reviewed periodically.
- Someone other than the person(s) who approves the invoices for payment should review invoices from unfamiliar or unusual vendors.
- If there is an accounts payable register, payments should be promptly recorded to avoid double payments.

- If purchase orders are used, pre-numbered purchase orders should be used with all transactions.
- Advanced payments to vendors and/or employees should be recorded as receivables, and controlled in a manner that assures they will be offset against invoices or expense vouchers.
- Employees should be required to submit expense reports for all travel-related expenses on a timely basis

Appendix C
Payroll Accounting Checklist

The following are a few examples of common internal accounting controls related to payroll:

- Detailed timesheets should document employee hours, including overtime.
- Timesheets should be signed by the employee's immediate supervisor authorizing payment for work.
- Employment records maintained for each employee should detail wage rates, benefits, taxes withheld each pay period, and any changes in employment status.
- Payroll-related taxes (federal income tax, state income tax, employee and employer share of social security, and other taxes) should be withheld and paid to federal and state agencies on a timely basis.
- The executive director and board treasurer should review all the payroll tax returns.
- Written policies and procedures should include accounting for vacations, holidays, sick leave, and other benefits.
- A list of payroll checks written, with appropriate withheld taxes, should be maintained either through the cash disbursement journal or a separate payroll register.
- A separate payroll bank account should be maintained.

Appendix D

XXX ORGANIZATION

Internal Control Questionnaire

For the fiscal year ended June 30, 201X

Completed by: **Date:**

If completed by more than one individual, please include all names and the sections completed by each.

Control Environment

The control environment sets the tone of an organization influencing the control consciousness of its people. Control environment factors include the following:

- Integrity and ethical values
- Commitment to competence
- Participation by the governing body
- Management's philosophy and operating style
- Organization structure
- Assignment of authority and responsibility
- Human resources policies and practices

The following questions are to assist in obtaining an understanding of the control environment:

Control Environment	Yes	No	NA	Test WP Ref	Comments
1. Is the governmental unit's organizational structure appropriate for the size and complexity of the entity?					
2. Are delegations of authority and responsibility current and in writing?					
3. Do managers routinely follow up on delegations of authority and responsibility to subordinates?					
4. Are the reporting relationships appropriate?					
5. Do key managers possess the appropriate knowledge and experience in light of their responsibilities?					
6. Does the governmental unit have formal job descriptions or other ways of defining particular job tasks?					

Control Environment	Yes	No	NA	Test WP Ref	Comments
7. Have employee job responsibilities, including specific duties, reporting relationships, and constraints been clearly communicated?					
8. Are employees adequately supervised?					
9. Are employees held accountable for performance and results achieved?					
10. Are there related employees with job assignments that create opportunities for collusion?					
11. Are all personnel in a position of trust adequately bonded in accordance with applicable legal requirements?					
12. Has a formal code of conduct, including policies on conflicts of interest, been adopted, and are employees required periodically to make a declaration of compliance?					
13. Do accounting personnel have the background, education, and experience appropriate for their duties?					
14. Are background and references checked for new accounting personnel?					
15. Is adequate training provided for new accounting personnel?					
16. Does previous experience with the Governmental unit indicate competence and integrity on the part of Governmental unit personnel?					
17. Do accounting employees take regular vacations and are duties rotated when employees are on vacation?					

Control Environment	Yes	No	NA	Test WP Ref	Comments
18. Is the turnover of accounting personnel relatively low?					
19. Do written personnel policies exist?					
20. Has management communicated a commitment to strong internal control?					
21. Is management's attitude that overriding or bypassing established controls is unacceptable?					
22. Does the "tone at the top" include explicit moral guidance about what is right and what is wrong and is it established and communicated throughout the organization?					
23. Does management demonstrate a concern for control by performing important internal control procedures such as approvals and regular preparation or review of reconciliations?					
24. Are controls over authorization of transactions established at an appropriate level?					
25. Does the public perceive this organization to be adequately controlled?					
26. Does management have a conservative attitude toward financial reporting?					
27. Does the governmental unit take appropriate action for known departures from approved policies or unacceptable business practices or conduct that might significantly affect the financial reporting process?					
28. Does it appear that management demonstrates integrity in its everyday dealings with citizens, employees, suppliers, and other parties?					

Control Environment	Yes	No	NA	Test WP Ref	Comments
29. Is management satisfied that all employees are honest?					

Risk Assessment

An entity's risk assessment for financial reporting purposes is its identification, analysis, and management of risks relevant to the preparation of financial statements that are fairly presented in conformity with generally accepted accounting principles. Risks relevant to financial reporting include external and internal events and circumstances that may occur and adversely affect an entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Risks can arise or change due to circumstances such as:

- Changes in the operating environment, new or revamped information systems
- New personnel
- Rapid growth

The following questions are to assist in obtaining an understanding of how management considers risks relevant to financial reporting.

Risk Assessment	Yes	No	NA	Test WP Ref	Comments
1. Are there mechanisms to identify and react to changes that can have a more dramatic and pervasive effect on the entity, and may demand the attention of management? a. New laws or regulations that affect the entity or its activities? b. New or redesigned information systems? c. New technology incorporated into the information systems?					
2. Do controls exist for approving decisions regarding financing alternatives and accounting principles, practices, and methods?					
3. Has management identified and analyzed entity risks relating to: a. Changes in the operating environment? b. New personnel? c. New or revamped information systems? d. Rapid growth? e. New technology? f. Restructuring? g. Other operations? h. Accounting pronouncements?					
4. Has management estimated the significance of the risks relevant to the preparation of financial statements?					
5. Has management taken appropriate steps to manage these risks?					

Information and Communication

The information system is relevant to financial reporting objectives, which includes the accounting system, consists of the methods and records established to record, process, summarize, and report entity transactions (as well as events and conditions) and to maintain accountability for the related assets, liabilities, and equity. The quality of system-generated information affects management's ability to make appropriate decisions in controlling the entity's activities and to prepare reliable financial reports.

Communication involves providing an understanding of individual roles and responsibilities pertaining to internal control over financial reporting.

The following questions are designed to assist in obtaining sufficient knowledge of the information system relevant to financial reporting and the means by which the governmental unit communicates financial reporting roles and responsibilities.

Information and Communication	Yes	No	NA	Test WP Ref	Comments
1. Is a budget calendar used for the orderly submission and approval of the budget?					
2. Are budgets prepared for all significant activities regardless of whether mandated by law?					
3. Is the budget prepared in sufficient detail providing a meaningful tool with which to monitor subsequent performance?					
4. Are budgets published if required by law?					
5. Are estimated revenues and appropriations recorded in the accounting records for later comparison to actual amounts realized or incurred?					
6. Are plans and budgets effectively communicated throughout the organization?					

Information and Communication	Yes	No	NA	Test WP Ref	Comments
7. Are actual expenditures compared to budget timely with reasonable (monthly) frequency?					
8. Are reports discussed with departmental personnel and are there explanations for significant variations from budget?					
9. Are all Governmental unit policies and procedures clearly stated and systematically communicated (manuals, handbooks, etc.)?					
10. Do the policies and procedures support internal control?					
11. Do procedures exist to ensure that the financial information system has included all transactions applicable to the reporting period?					
12. Do procedures exist to ensure that financial reports are supported by either, underlying account records or other documentation?					
13. Do procedures exist to ensure that only authorized persons can alter or establish new accounting principles, policy, or procedure to be used by the entity?					
14. Are the principle accounting, treasury, and custody functions segregated?					
15. Are there channels of communication for people to report suspected improprieties? a. Is there an ability to contact someone other than a direct supervisor? b. Is anonymity permitted?					
16. Is there timely and appropriate follow-up action taken by management resulting from external party communications, such as:					

Information and Communication	Yes	No	NA	Test WP Ref	Comments
a. Customer complaints? b. Notification of errors in billings? c. Notification of inappropriate behavior by an employee?					

Control Activities

Control activities are the policies and procedures that help ensure that management directives are carried out. Control activities relevant to an audit of the governmental unit's financial statement are categorized in the following functional areas:

- Imprest Cash (petty cash disbursements)
- Cash in Bank
- Cash Receipts
- Fixed Assets
- Expenditures/Accounts Payable
- Payroll

The next several pages include questions related to these functional areas in order to assist in obtaining an understanding of the control activities.

Control Activities – Petty Cash/Revolving Fund

Does the governmental unit have a petty cash or revolving fund? ________________

(If yes, proceed with questions below. If no, proceed to next functional area.)

Complete the table below to describe each petty cash or revolving fund maintained by the governmental unit.

Fund Type (Petty Cash Or Revolving)	Amount	Account Type (Cash Or Bank Account)	Custodian

Control Activities – Petty Cash/Revolving Fund	Yes	No	NA	Test WP Ref	Comments
1. Are the funds authorized by the governmental unit's governing body?					
2. Are the funds maintained on an imprest basis?					
3. Are funds segregated from other cash?					
4. If the petty cash fund is cash, is access restricted by means of a locked cash drawer or box?					

Control Activities – Petty Cash/Revolving Fund	Yes	No	NA	Test WP Ref	Comments
5. Does the governmental unit avoid commingling collections with petty cash or revolving funds?					
6. Are funds restricted as to: a. Maximum amount for individual disbursements from the fund? b. Maximum amount of disbursements in any one year?					
7. Does the size of the petty cash or revolving fund(s) and the expenditure limit meet the needs of the governmental unit?					
8. Is responsibility for each fund assigned to only one person?					
9. Is the custodian independent of employees who handle receipts?					
10. Are the accounting records inaccessible to the custodian?					
11. Does someone other than the petty cash custodian have custody of unclaimed wages?					
12. Does someone independent of the custodian periodically reconcile the petty cash or revolving fund(s)?					
13. Is a formal voucher used for all disbursements from the fund(s)? (If no, skip to question # 17)					
14. Are vouchers executed in full in ink or otherwise in such manner as to make alterations difficult?					

Control Activities – Petty Cash/Revolving Fund	Yes	No	NA	Test WP Ref	Comments
15. Does a manager or other responsible employee other than the custodian approve vouchers?					
16. Are the amounts of vouchers spelled as well as written in numerals?					
17. Are disbursements properly supported by vendor documents?					
18. Are claims for reimbursement authorized by someone other than the fund custodian?					
19. Are warrants for reimbursement made out to the order of the fund custodian?					
20. Is cashing of personal checks prohibited? If not: a. Is the amount of each check limited to a specific amount? b. Are such checks presented immediately for deposit or payment? c. Is there a limitation on frequency of cashing checks? d. Are these checks limited to the petty cash fund?					

Control Activities – Bank Accounts

Control Activities-Bank Accounts	Yes	No	NA	Test WP Ref	Comments
1. Are all bank accounts authorized by the governing body of the governmental unit?					
2. Are all disbursements made by check?					
3. Are physical and accounting controls over unauthorized use of blank check stock adequate?					
4. Is there a specified custodian for blank check stock?					
5. Are checks pre-numbered and used in sequence?					
6. Are checks prepared by specified employees who are independent of invoice approval?					
7. Do employees preparing checks compare all data on supporting documents to checks?					
8. Are all checks or check requests approved for payment by the check signer or other responsible employee?					
9. Are checks recorded in the disbursement journal as prepared?					
10. Is a check protector used?					
11. Are voided/spoiled checks properly mutilated and retained?					

Control Activities-Bank Accounts	Yes	No	NA	Test WP Ref	Comments
12. Does the governing body of the governmental unit authorize check signers?					
13. Are authorized check signers independent of: a. Cash receipts and petty cash? b. Purchasing and receiving? c. Timekeeping for payroll checks?					
14. Are the banks notified when a new signer is authorized or a previous signer leaves the employ of the governmental unit?					
15. Are two signatures required on checks over a stated amount?					
16. Is the signer furnished with invoices and supporting data and are they reviewed prior to signing the check?					
17. Are all supporting documents properly canceled at time of signature to prevent duplicate payment?					
18. Is there control over the signature stamps used to sign checks?					
19. Is the drawing of checks to cash or bearer prohibited?					
20. Is signing blank checks forbidden?					
21. Is custody of checks after signature and before mailing handled by an employee independent of all payable, disbursing, cash, receiving, and general ledger functions?					

Control Activities-Bank Accounts	Yes	No	NA	Test WP Ref	Comments
22. Are there adequate controls over non-check disbursements such as debit memos and wire transfers (passwords, bank callback verifications exceeding predetermined dollar amount)?					
23. Are there adequate procedures for approving and recording interbank transfers?					

Control Activities – Bank Reconciliations

Control Activities – Bank Reconciliations	Yes	No	NA	Test WP Ref	Comments
1. Are bank accounts reconciled promptly after the end of each month?					
2. Are reconciliations made by someone other than the person(s) who receipt or disburse cash?					
3. Are bank statements and paid checks delivered in unopened envelopes directly to the employee preparing the reconciliation?					
4. Are all reconciliations and investigations of unusual reconciling items reviewed and approved by an official who is not responsible for receipts and disbursements?					
5. Do the reconciliation procedures for all bank accounts include the following, with respect to deposits: a. Comparisons of dates and amounts of daily deposits as shown on the bank statements with the governmental unit's records? b. Investigation of bank transfers to determine that both sides of the transactions have been properly recorded in the governmental unit's records? c. Deposits or collection items subsequently charged back by the bank?					
6. Do the reconciliation procedures for all bank accounts include the following, with respect to disbursements: a. Comparison of canceled checks with the check register or disbursement journal as to number, date, payee, and amount?					

Control Activities – Bank Reconciliations	Yes	No	NA	Test WP Ref	Comments
b. An accounting of the sequence of check numbers? c. Examination of canceled checks for authorized signature(s), irregular endorsements, and alterations?					
7. Does a responsible governmental unit official review completed bank reconciliations?					
8. Are checks outstanding for a considerable time periodically investigated and when applicable is payment stopped, and an entry made to restore amount to cash in the governmental unit's records?					

Control Activities – Cash Receipts

Control Activities - Cash	Yes	No	NA	Test WP Ref	Comments
1. Does the governmental unit receive cash and checks directly from others? If no, skip this functional area/section.					
2. Are collections controlled by cash register, pre-numbered receipts, or other equivalent means if payments are made in person?					
3. Are numerical sequences of cash receipts (manual) accounted for?					
4. Are all checks restrictively endorsed immediately upon receipt?					
5. Are receipts accounted for and balanced to collections on a daily basis?					
6. Do facilities exist for adequately safeguarding undeposited cash receipts?					
7. Are all collections deposited intact?					
8. Are all collections deposited on a timely basis (preferably daily)?					
9. Do controls exist over the collection, timely deposit, and recording of collections for any remote collection location?					
10. Are post-dated checks, disputed items, unidentified receipts, NSF checks, checks charged back by banks, and similar items subject to normal receipt control, and received and investigated by persons independent of deposit preparation?					

Control Activities – Fixed Assets

Control Activities – Fixed Assets	Yes	No	NA	Test WP REF	Comments
Acquisition					
1. Does the governmental unit have a formal capitalization policy?					
2. Are purchases of fixed assets formally approved by the governing body or other responsible official? If other, include name/title in comments.					
3. Are fixed asset additions recorded in the board minutes?					
4. Do controls exist to: a. Distinguish between capital and operating expenditures b. Distinguish between capital and operating leases? c. Ensure all costs associated with acquiring the fixed assets are capitalized?					
Disposition					
5. Is authorization by the governing body or other responsible official required for the sale or retirement of fixed assets? If other, include name/title in comments.					
6. Are fixed asset deletions recorded in the board minutes?					

Control Activities – Fixed Assets	Yes	No	NA	Test WP REF	Comments
7. Does the governmental unit properly dispose of all surplus equipment?					
8. Are all proceeds from the sale of fixed assets deposited into the county treasury?					
Physical Control And Safeguards					
9. Are detailed records maintained for all purchased, donated, self-constructed, or leased assets?					
10. Is accountability for fixed assets at each location properly established?					
11. Is equipment properly identified by metal numbered tags or other means of positive identification?					
12. Is a physical inventory of fixed assets performed on an annual basis?					
13. Are responsibilities for the periodic physical inventories of capital assets assigned to responsible officials who have no custodial or record keeping responsibilities?					
14. Are discrepancies between the physical inventory and the fixed asset listing reported and resolved promptly?					
15. Are items adequately safeguarded from loss due to fire, theft, or misplacement?					
16. Are fixed assets adequately insured?					

Control Activities – Fixed Assets	Yes	No	NA	Test WP REF	Comments
17. Are periodic reviews and appraisals made relative to insurance considerations?					
18. Is the use of fixed assets by individuals for personal use prohibited?					
19. Are fixed assets loaned to other governmental agencies only upon approval of the governing body?					

Control Activities – Expenditures/Accounts Payable

Control Activities – Expenditures/Accounts Payable	Yes	No	NA	Test WP Ref	Comments
1. Is the governing body, or some responsible person, authorized to make purchases on behalf of governmental unit? If other, indicate name/title and any purchasing limits (type and amount) in the comment section.					
2. Is there a current purchasing policies and procedures manual?					
3. Are competitive bids required and bid copies retained on file? Indicate threshold in comment section.					
4. Are purchases made in accordance with applicable legal requirements (e.g., public contract law)?					
5. Do personnel independent of payables, disbursing perform the purchasing function, and cash receipts functions?					
6. Are steps taken to ensure that goods received are accurately counted and examined prior to approving payment?					
7. Are governmental unit representatives aware of the need to obtain and forward proper documentation to support payments to vendors or employees?					

Control Activities – Expenditures/Accounts Payable	Yes	No	NA	Test WP Ref	Comments
8. Are claims for payment of vendor invoices approved by the governing body or some other responsible governmental unit official? If other, include name/title in comment section.					
9. Does the individual(s) review applicable supporting documents prior to authorizing payment?					
10. Is the payment of expenditures recorded in the governmental unit's board minutes?					
11. Are payments made only on the basis of original invoices?					
12. Is adequate approval required for reimbursement to employees for travel and other expenses?					
13. Are vendor month-end statements reviewed for non-current invoice dates?					
14. Are vendors paid on a timely (monthly) basis?					
15. Does the governmental unit have formal year-end cutoff procedures?					
16. Are accruals and other liabilities, periodically reviewed for reasonableness by an appropriate person?					

Control Activities – Payroll

Control Activities – Payroll	Yes	No	NA	Test WP Ref	Comments
1. *Has the governmental unit adopted a formal personnel policy?*					
Personnel And Rate Authorizations					
2. Is written authorization by the Board, or other responsible official, required to place individuals on the payroll? *If other, include name/title and scope of responsibility in comment section.*					
3. Is written authorization by the Board, or other responsible official, required to terminate an individual's employment? *If other, include name/title and scope of responsibility in comment section.*					
4. Are all changes in employment (additions, terminations, salary and wage rates, and benefits) recorded in the governmental unit's board minutes?					
5. Are personnel files maintained? Check the following items maintained in file: a. Employment application b. New employee investigation c. Date employed d. Current rate of pay and pay rate history e. Position f. Authorization to work in U.S. (INS form I-9), Specimen signature g. Termination date h. Other (note in comment section)					

Control Activities – Payroll	Yes	No	NA	Test WP Ref	Comments
6. Are appropriate records maintained for accumulated employee benefits (vacation, sick days, pension data, etc.)?					
7. Do physical controls exist over personnel records that prevent their loss or use by unauthorized personnel?					
8. Are all new salary ranges and benefits approved by the governing body?					
9. Are wages at or above the federal minimum wage?					
10. Are employee benefit matters monitored by individuals who are knowledgeable of the applicable legal, actuarial, and accounting requirements?					
11. Are notices of additions, separations, and changes in salaries, wages, and deductions promptly reported to the payroll processing function?					
Timekeeping And Payroll Preparation					
12. Do employees prepare and sign timesheets/cards to support regular hours worked, overtime and authorized time off?					
13. Does a responsible governmental unit official authorize and approve vacations, sick leave, overtime, and compensatory time off?					
14. Is the approval of a responsible governmental unit official on time cards or other attendance record required prior to preparing payroll?					

Control Activities – Payroll	Yes	No	NA	Test WP Ref	Comments
15. Are responsibilities for supervision and timekeeping functions segregated from personnel, payroll processing, payroll check disbursement, and general ledger functions?					
16. Are persons responsible for preparing the payroll independent of other payroll duties (e.g. time keeping, distribution of checks), and are they denied access to other payroll data or cash?					
17. Does payroll perform the following functions: a. Check time card/attendance records for computations of payroll period hours? b. Review time card/attendance records for proper authorizations? c. Check overtime hours, rates, and computations? d. Review time records for unapproved erasures and alterations? e. Verify pay rates?					
18. Is the payroll subject to final approval before payment by someone independent of payroll preparation and time keeping?					
Payroll Checks And Distribution					
19. Is payment of wages in cash prohibited, except in prescribed circumstances?					
20. Do payroll checks contain detail of gross pay and deductions?					
21. Is there a reconciliation of gross net pay amounts as shown on tax returns to total payroll on the payroll register and general ledger?					

Control Activities – Payroll	Yes	No	NA	Test WP Ref	Comments
22. Does an appropriate person review monthly payroll-related accruals for completeness and reasonableness?					
23. Is the total of W-2 wages for the year reconciled to the general ledger and payroll register?					
24. Are returned or unclaimedW-2's investigated by a person other than payroll and time keeping personnel?					
25. Does someone independent of time keeping and preparation of payroll checks, or envelopes distribute paychecks?					
26. Are payroll checks released only upon presentation of proper identification of the employee?					
27. Are employees prohibited from accepting another employee's payroll check?					
28. Are unclaimed/undistributed payroll checks returned to an employee who is not associated with the payroll function?					
29. Is a continuing record maintained of all unclaimed wages?					

Monitoring

Management monitors the controls it has established to consider whether they are operating as intended and that they are modified as appropriate for changes in conditions. Monitoring is a process that assesses the quality of internal control performance over time. It involves assessing the design and operation of controls on a timely basis, and taking necessary corrective actions. This process is accomplished through ongoing activities, separate evaluations, or by various combinations of the two.

The following questions will assist in obtaining sufficient knowledge about the monitoring activities of the governmental unit.

Monitoring	Yes	No	NA	Test WP Ref	Comments
1. Is management sufficiently involved in day-to-day operations to identify significant variances from expectations?					
2. Does management exercise reasonable control over activities so that there is an absence of crisis conditions in governmental activities or accounting, (e.g. well organized work areas, no unusual delays, and adequate documentation for all significant transactions?					
3. Is there adequate monitoring of decentralized activities and accounting systems?					
4. Do personnel, in carrying out their regular activities, obtain evidence as to the adequacy of internal controls (for example, is data used to manage operations periodically compared and reconciled to financial reporting information)?					
5. Is management adequately involved in designing and approving accounting system procedures?					

Monitoring	Yes	No	NA	Test WP Ref	Comments
6. Does management take appropriate follow-up action for identified problems or weaknesses in internal controls (including matters communicated by the auditors)?					
7. Are there periodic comparisons of amounts recorded by the accounting system with physical assets?					
8. Are budgets required for governmental funds and proprietary funds?					
9. Are budgets submitted to administrators in accordance with an established time schedule?					
10. Are actual results compared with budgeted results, and significant deviations investigated by a designated responsible official?					
11. Are there established procedures for amendments of budgets that require adequate support (e.g., forecasts) for authorization of amendments?					
12. Does management use budget variance reports, operating analysis, or interim financial reports to monitor operations?					

Appendix E
Government Resources

US Internal Revenue Service

For federal tax compliance information and forms, refer to the following sources:

- For the current Form 990 and 990EZ, Return of Organization Exempt From Income Tax, go to: www.irs.gov/eo and type "990" in the "Search Forms and Publications" search box. You may also call (866) 816-2065 (toll free). Note that Form 990 or 990EZ, must be filed within 4 ½ months after the end of the fiscal year.
- To file for an employer identification number (EIN) and for comprehensive tax information, including applying for tax exemption for nonprofit organizations, forms and other resources, go to www.irs.gov or call (866) 816-2065.
- Also, for complete information on tax status and reporting requirements for nonprofit organizations, see the IRS publication 557, "Tax Exempt Status for Your Organization" at the following website: www.irs.gov/pub/irs-pdf/p557.pdf
- The IRS website's special area for exempt organizations at www.irs.gov/charities has tax information for nonprofit organizations.

US Office of Management and Budget

For the most current information that includes changes or updates to the OMB circulars, go to the Office of Management and Budget website at www.whitehouse.gov/omb/circulars/.

Federal government documents can also be obtained from:

- Superintendent of Documents U.S. Government Printing Office P.O. Box 371954 Pittsburg, PA 15250-7954
- Order desk telephone: (202) 512-1800 Order desk fax: (202) 512-2250

The following OMB documents affect nonprofit organizations receiving federal grants:

- OMB Circular A-110, "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Institutions," imposes administrative requirements for nonprofit organizations receiving federal grants (awards).
- OMB Circular A-122, "Cost Principles for Non-Profit Organizations," provides guidance for determining the allowability of costs for federal grants.
- The Single Audit Act of 1984 is the federal statute that requires audits of entities receiving federal

awards over a certain dollar amount.

- The Single Audit Act Amendments of 1996 increased the threshold for when a single audit or program-specific audit is required for fiscal years beginning after June 30, 1996.
- OMB Circular A-133 was revised in 2003 to increase the dollar threshold used to determine when a single audit or program-specific audit is required for fiscal years beginning after December 31, 2003.
- OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," establishes audit requirements for entities that receive federal awards. The circular was revised in 1997 and 2003.
- OMB Circular A-133 Compliance Supplement explains how to determine which compliance requirements are applicable to a particular federal award. In March 2003, OMB released an updated edition of the Compliance Supplement that added federal programs and enhanced the independent auditors' requirements that apply to subrecipient monitoring. OMB has indicated that additional federal programs will be added to the Compliance Supplement in the future.

California Franchise Tax Board

For state tax compliance information and forms, refer to the following sources:

- California tax forms and information can be obtained by going to www.ftb.ca.gov or by calling (800) 852-5711 or (800) 338-0505. Note that Form 199, Exempt Organization Annual Information Return, must be filed within 5 ½ months after the end of the fiscal year, as must Form 109, Exempt Organization Business Income Tax Return.
- On the state exemption, see the Franchise Tax Board publication, "Exempt Organizations" at the FTB's California Taxes Information Center at www.taxes.ca.gov/exemptbus.html
- Another Franchise Tax Board publication, "Overview of Exempt Organizations," summarizes tax-filing requirements for California nonprofits and discusses differences between state and federal requirements. This publication can be obtained at the website:

  www.ftb.ca.gov/forms/misc/927.pdf

You may reach the Franchise Tax Board at:

Franchise Tax Board
Exempt Organizations Unit
P.O. Box 1286
Rancho Cordova, CA 95741-1286
Telephone: (916) 845-4171

California Board of Equalization

The California Board of Equalization Publication 18, "Tax Tips for Nonprofit Organizations," contains comprehensive sales and use tax information for various types of nonprofit organizations. The publication describes in detail what types of sales by nonprofit organizations are exempt from taxation. Go to the BOE Website at: www.boe.ca.gov/pdf/pub18.pdf

California Employment Development Department

For information about payroll taxes, go to www.edd.ca.gov/employer.htm and look for links to information under "Taxes." You may also call (916) 653-0707 for information.

California Secretary of State

Nonprofit organizations must file their Articles of incorporation with the Secretary of State and file Form SI-100, Annual Statement of Information, biennially before the end of the calendar month during which the articles of incorporation were filed.

For specific information on filing for nonprofit corporations, go to the Secretary of State's website at www.ss.ca.gov/business/corp/corporate.htm and click on "Statement of Information" on the left. This takes you to a page where you then click on "Domestic Nonprofit Corporations" to obtain information and forms.

For further information, contact:

Secretary of State
Statement of Information Unit
1500 11th Street
Sacramento, CA 95814

Telephone: (916) 657-5448
Website: www.ss.ca.gov
Filing fee: $20

California Office of the Attorney General–Registry of Charitable Trusts

There are three types of nonprofit corporations in California: public benefit corporations, mutual benefit corporations, and religious corporations. Nonprofit corporations or organizations that provide services for the public good are, under California law, "public benefit" organizations or charities. Such services may be for poverty relief, advancement of education or religion, promotion of health, governmental purposes, or other purposes beneficial to the community. As the legal overseer of charities that do business in California, the Attorney General works to protect the interest of all public beneficiaries within his jurisdiction. The Attorney General may conduct investigations and bring legal actions to protect the assets of California charities and insure the assets are used for their intended charitable purposes. There are also special conditions under which organizations are permitted to hold raffles to raise money for charitable purposes. Nonprofit, "public benefit" organizations' assets are irrevocably dedicated to charitable purposes and cannot be distributed for private gain. When such an organization dissolves, its assets must be distributed to another organization(s) that has a similar purpose. A public benefit corporation, except for educational institutions and hospitals, must register and report to the Attorney General's Registry of Charitable Trusts.

There are two required forms, the CT-1 Registration Form for registration of a new organization, and the RRF-1 Registration/Renewal Fee Report, which must be filed annually within 4 months and fifteen days of the end of an organization's accounting period.

In September 2004, the California legislature enacted a new law that amended various existing laws relating to charitable organizations. The law (Senate Bill 1262) contains numerous provisions relating to registration, reporting and auditing requirements for organizations and individuals soliciting funds for charitable purposes. For information, contact the California Office of the Attorney General at the Websites below:

www.caag.state.ca.us/charities

Also, for comprehensive legal information about nonprofit organizations in California, see "Attorney General's Guide for Charities" at caag.state.ca.us/charities/publications/gfc.pdf

Also, see the supplement to this Guide at caag.state.ca.us/charities/publications/supplement2001.pdf

The California Attorney General may also be reached at:

Office of the Attorney General–Charitable Trusts
455 Golden Gate Avenue, #11000
San Francisco, CA 94102-3664

Telephone: (415)703-5500

or

Office of the Attorney General–Charitable Trusts
1300 I Street, Suite 1101
P.O. Box 944255
Sacramento, CA 94244-2550

Telephone: (916) 445-2550

Appendix F
Sample Cash Flow Budget

Sample Cash Flow Budget	Total Budget	Jan	Feb	Mar	Apr	May	Jun
Expected Revenues							
Gvmt Grants	35,000				12,000	4,000	16,000
Foundation Grants	50,000		5,000		7,500	15,000	
Individuals	12,000			1,500			30,000
Fees for Service	55,000	3,000	4,500	4,500	5,000	5,000	3,000
Total Revenue	152,000	3,000	9,500	6,000	24,500	24,000	49,000
Expected Expenditures							
Salaries & Fringe							
Executive Director	38,000	3,167	3,167	3,167	3,167	3,167	3,167
Program Directors	50,000	4,167	4,167	4,167	4,167	4,167	4,167
Secretary	27,000	2,250	2,250	2,250	2,250	2,250	2,250
Rent	12,000	1,000	1,000	1,000	1,000	1,000	1,000
Supplies	11,000	5,000					6,000
Telephone	3,300	300	250	300	500	350	250
Postage	2,500	150	150	150	1,500	150	150
Copying	2,950	100	100	100	1,000	100	100
Total Expenses	146,750	16,134	11,084	11,134	13,584	11,184	17,084
Net Income <Loss>	5,250	<13,134>	<1,584>	<5,134>	10,916	12,816	31,916
Cash on Hand – Beginning	2,648	2,648	<10,486>	<12,070>	<17,204>	<6,288>	6,528
Ending Cash Available (Before Loan Activity)	7,898	<10,486>	<12,070>	<17,204>	<6,288>	6,528	38,444
Loan <Loan Payback>	0	12,000	0	6,000	<10,000>	<8,000>	0
Cash After Loan Activity	7,898	1,514	<70>	796	1,712	6,528	38,444

Appendix G

Websites and Acknowledgements

There are far too many websites about all aspects of organizing and managing nonprofit organizations to list here, but searching the Internet for information is a primary means for getting answers to just about any question one may have about the organization, so be sure to take advantage of it. Simply searching under “nonprofit organizations” or “nonprofit finance” using the Google search engine will yield millions of pages of information. Below are a few sites that are excellent resources for information on all aspects of nonprofit organization fiscal operation and management. Some information is free while access to other information requires a membership fee.

Alliance for Nonprofit Management

www.allianceonline.org

The Alliance for Nonprofit Management is the professional association of individuals and organizations devoted to improving the management and governance capacity of nonprofits—to assist nonprofits in fulfilling their mission. Look at the Frequently Asked Questions (FAQs) page for extensive information on nonprofit financial management.

Basic Guide to Non-Profit Financial Management

www.mapnp.org/library/finance/np_fnce/np_fnce.htm

This guide, written by Carter McNamara, MBA, PhD, provides extensive information on all aspects of nonprofit organization and management. It also provides numerous resources for further information. The guide includes a document titled Basic Overview of U.S. Nonprofit Financial Management that describes activities that are a regular part of the annual accounting cycle. www.mapnp.org/library/finance/np_fnce/basics.htm

California Association of Nonprofits

canonprofits.org

CAN’s mission is, “to promote, strengthen and advance the influence, professionalism, accountability and effectiveness of nonprofit organizations in a manner that builds their capacity to accomplish their missions and preserves the idealism and value of nonprofit organizations in California.” CAN has information about the “Nonprofit Integrity Act” (SB1262) recently enacted into California law, Chapter 919.

Guidestar

www.guidestar.org/about

Guidestar facilitates access to information about the operations and finances of nonprofit organizations. Guidestar’s vision is to create an interactive "marketplace of information" that connects nonprofit organizations, donors, foundations, and businesses. This connection will serve as the backbone of a more effective, efficient, and well-informed nonprofit sector.

Internet Nonprofit Center

www.idealist.org/if/idealist/en/FAQ/Nonprofit/Home/default

The Internet Nonprofit Center publishes the Nonprofit FAQ , a resource of information provided by participants in many online discussions about nonprofits and their work. First-time users may want to look at the Guide to Using the FAQ .

National Council of Nonprofit Associations
www.councilofnonprofits.org

The National Council of Nonprofit Associations (NCNA) is a 501(c)(3) membership-based organization of state and regional associations that represent thousands of nonprofits throughout the country. Members work at the state and local level to provide training and technical assistance to improve the operations and effectiveness of organizations while promoting the value and accountability of the nonprofit sector.

SBA SCORE
www.score.org/pdf/SCORE_NonProfBizTools.pdf
The SBA SCORE has a business guide for nonprofits that contains use information on forming Strategic Plans and Business Plans.

Small Business Administration Online Women's Business Center

www.sba.gov/aboutsba/sbaprograms/onlinewbc/index.html

The U.S. Small Business Administration's Office of Women's Business Ownership (OWBO) promotes the growth of women-owned businesses through programs that address business training and technical assistance, and provide access to credit and capital, federal contracts, and international trade opportunities. With a women's business ownership representative in every SBA district office, a nationwide network of mentoring roundtables, women's business centers in nearly every state and territory, women-owned venture capital companies, and the Online Women's Business Center, OWBO is helping unprecedented numbers of women start and build successful businesses.

Acknowledgements

The County of Solano Auditor-Controller's Office staff who developed this Accounting Guide are grateful to the numerous individuals who contributed their time to review this document and offer their comments and suggestions for improving it.

There are many sources of comprehensive information on how to set up and manage an accounting system for nonprofit organizations. One source that was particularly helpful in developing the Guide was the Nonprofit Financial and Accounting Manual (Ninth Edition), produced by the Practitioners Publishing Company. The manual is both a training manual and a technical resource for performing day-to-day nonprofit record keeping activities and for preparing internal and external financial statements. The manual also covers topics such as nonprofit taxation, processing receipts, processing purchases and payments, processing payrolls, maintaining the general ledger, federal grant compliance, audits, the budget process, and selection of accounting software products. It is especially useful for organizations just starting up and for organizations that are in the process of expanding on and improving their financial management systems.

To obtain a copy of the manual, contact:

Practitioners Publishing Company
P.O. Box 966
Fort Worth, TX 76101-0966
Telephone: (800) 323-8724
http://ppc.thomson.com/sitecomposer2/

The Alliance for Nonprofit Management

The Alliance (see the Alliance website above) is a professional association of individuals and organizations devoted to improving the management and governance capacity of nonprofits and to assist them in fulfilling their mission. The Alliance convenes a major annual conference, networks colleagues year-round online, and provides member discounts on books and other publications. Access to some services requires a membership fee.