

Yes, Non-Profit Organizations Are Different!

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Topical Outline

- Basic differences between for-profit and non-profit organizations
- Contributions and their classification in the financial statements
- Current business and financial trends facing non-profit organizations

Differences Between Non-Profit and For-Profit Organizations

How are non-profits financially different from for-profit entities?

- Rely heavily on donations and contributions
- Exempt from local, state and federal taxation (tax-exempt, but must still file a tax return—the Form 990)
- Lack of a profit motive
- Mission driven

Financial Statement Differences Between Non-Profit and For-Profit Entities

Non-Profit

- Statement of Financial Position
- Statement of Activities
- Statement of Cash Flows
- Notes to Financial Statements

For-Profit

- Balance Sheet
- Income Statement
- Statement of Cash Flows
- Notes to Financial Statements

Financial Statement Differences (Cont'd)

- Statement of Financial Position — includes the organization's assets, liabilities and its "net assets"
- Statement of Activities — reports the organization's revenues and expenses
- Statement of Cash Flows — reports cash inflows and outflows

Financial Statement Differences (Cont'd)

- Non-profits have "net assets" on their statement of financial position. Three types or categories of net assets:
 - Unrestricted
 - Temporarily Restricted
 - Permanently Restricted

Contributions Quiz

Based on the various classifications of “net assets” that must be used by non-profit organizations, let’s take a quiz on classifying some contributions that a non-profit organization might receive.

Current Business and Financial Trends Facing Non-Profit Organizations

- In many instances, overwhelming need/demand for services
- Increased competition for funding
- Increased accountability to funders and donors
- Proper accounting for grants
- Increased IRS scrutiny (through the expanded form 990, donation reporting, etc.)
- Importance of knowing the organization’s “cost of services”

Current Accounting and Financial Trends Facing Non-Profit Organizations

- Fundraising challenges:
 - a. Individual donors*
 - b. Corporations
 - c. Foundations
 - d. Governmental agencies

*Indiana University Study of High Net Worth Donors

Responses to Business and Financial Trends Facing Non-Profit Organizations

- Focus on Best Practices:
 - a. Risk Management
 - b. Governance
 - c. Financial strength (ability to survive)
 - d. Using your financial statements to help the organization

Risk Management

- Start with a definition
- “A methodical approach to identifying the risks (financial, operational, environmental) that may impact the organization and developing a plan to address, respond, and mitigate the identified risk
- Will vary from formal to informal, depending on the size of the organization

Good Corporate Governance

- How the organization is governed is important to prospective donors
- Impacts “organizational reputation”
- Includes board practices; information provided to the board; how the board monitors the organization and its management; effectiveness in achieving mission and overall board effectiveness

Financial Strength

- Knowing how long your organization can survive in a downturn
- Defense interval: Cash/Avg. Monthly Expenses (months of cash available to pay operating expenses)
- Any exposure to bank failure?
- Lines of credit—available? (\$50 - \$100K/\$1 million of revenue)

Financial Strength

- Close monitoring of receivables
- Regular cash flow forecasts—weekly/monthly/quarterly

Using Your Organization's Financials to Help!

“Trust Makes Philanthropy Possible”

- Study done by a group of accounting professors to determine best practices in annual reports of non-profits
- Focus of study was on: completeness, accessibility, transparency, full disclosures and relevance
- Reviewed annual reports of 75 non-profits in a variety of sectors



Using Your Organization's Financials to Help!

Best practices for annual reports:

1. *Complete* audited financial statements with notes and opinion letter should be available
2. Five or more years of annual reports should be *easily available* on the organization's website



Using Your Organization's Financials to Help!

Best practices-annual reports (continued):

3. Audited statements should include all of the basic statements plus notes
4. “A nothing to hide” attitude—financials include ALL relevant information
5. Include non-financial performance data where applicable and useful (e.g., meals served, cases, etc.) and narrative discussion of important trends

Using Your Organization's Financials to Help!

Study of annual reports was published in the fall 2010 issue of “Non-Profit Management & Leadership”

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