

Fiscal Management Clinic: Building a Stable Foundation for 501©3 Compliance

Transcending Boundaries Conference
April 28, 2009
Presented by: ECQ Group Inc

9/9/2009

Presented by: ECQ Group

3

Learning Objectives

1. Understanding 501 © 3 Compliance Basics
2. Reviewing Fiscal Management Tools & Processes
3. Communicating Fiscal Information

9/9/2009

Presented by: ECQ Group

2

Why a 501 © 3?

- With tax exempt status you can ensure that contributions are tax exempt (important for individual donors)
- Allows you flexibility and access to applying for grants
- Creates a separate entity to ensure transparency of activities

9/9/2009

Presented by: ECQ Group

3

501 © 3 Overview

You Must:

1. Develop a Mission Statement
2. Form a Board of Directors
3. Develop a Budget
4. Develop a Record keeping system
5. Develop an accounting system,

You Should:

1. File Articles of Incorporation
2. Draft By-Laws
3. Develop a Strategic Plan
4. Develop a Business Plan

9/9/2009

Presented by: ECQ Group

4

501 © 3 Overview

You Must:

6. File for 501 ©3 status
7. File for Federal Employee Identification #
8. File for Tax Exemptions
9. Fulfill charitable solicitation law requirements

Key Agencies &

Resources include:

- IRS (requesting forms on-line- specifically 1023)
- Office of Attorney General- Charities Bureau
- An Attorney (paid or pro bono)

9/9/2009

Presented by: ECQ Group

5

501 © 3- Helpful Tips

- Consider hiring an attorney or accountant to help with filing Certificate of Incorporation and By-Laws
- It is important to file your 1023 within 27 months of the date of when your organization was established or Articles of Incorporation were filed (*extensions can be granted by IRS- if requested*)
- Consider opening a bank account and decide on whether to use a cash method of accounting or an accrual method

9/9/2009

Presented by: ECQ Group

6

501 © 3 Compliance

- Getting Started
 - IRS Form 1023 Application: registering your non profit and responding to additional information from the IRS
- Eligibility Tests
 - **Organizational Test**: ensuring you meet one of the requirements for “exempt purposes” i.e. charitable, religious, scientific or educational purposes
 - **Operational Test**: looking at the organization’s purposes and activities
- Fiscal Oversight
 - Financial accountability
 - Budgeting and planning
 - Managing cash and resources

9/9/2009

Presented by: ECQ Group

7

Mission- It all starts here!

- The tax exempt purpose to which the organization’s resources are dedicated
- Official statement is in your certificate of incorporation as filed with the Department of State.
 - *All your activities and oversight should relate back to your Mission*

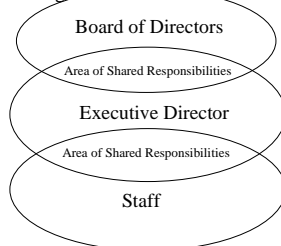
9/9/2009

Presented by: ECQ Group

8

Accountability: Policy & Implementation Spheres

Policy-making



Implementation

9/9/2009

Presented by: ECQ Group

9

Definitions

Fiscal Management Defined:

It is the business practice of monitoring revenue and expenses using sound financial procedures thereby ensuring fiscal integrity and accountability.

Accounting Defined:

- A system that records, presents and interprets financial information

GAAP: Generally- Accepted- Accounting Principles:

- Rules of the road that must be followed in preparing financial statements
- Basically the “Accounting Holy Book”

9/9/2009

Presented by: ECQ Group

10

Fiscal Management Tools

1. BUDGET
 2. CASHFLOW ANALYSIS
 3. BALANCE SHEET
- What do they for you?
 - Help manage cash & resources
 - Help measure your program’s effectiveness
 - Help communicate the fiscal health of your organization to stakeholders
 - Help market your programs

9/9/2009

Presented by: ECQ Group

11

Fiscal Management: Budget

- A financial blueprint
- A guide for spending and decision making
- Reflects organizational priorities as decided by the Board of Directors
- Usually a yearly process undertaken with the Board
- A requirement for funders and the IRS 1023 application

9/9/2009

Presented by: ECQ Group

12

Fiscal Management: Budget

- Compares Revenues & Expenses: Deficit? Surplus? Break-Even?
- Zero Based Budgeting Method- Every year start from scratch (at zero) and build expenses followed by anticipated revenues

9/9/2009

Presented by: ECQ Group

13

Fiscal Management: CashFlow Analysis

- Basically shows the cash inflow and outflow
- Usually shown as a monthly time frame
- Critical to update regularly and review
- Helps facilitate planning for shortfalls
- Not critical for funders to see, yet very important for management to monitor

9/9/2009

Presented by: ECQ Group

14

Fiscal Management: Balance Sheet

- There are 3 components:
 - Assets
 - Liabilities
 - Funds (Equity)
- Captures the organization's financial position from the beginning of time
- Reflects the organization's total worth
- Provides an analysis for funders of the organization's fiscal stability

9/9/2009

Presented by: ECQ Group

15

Fiscal Management: Process

- Internal Controls- critical processes necessary to ensure accountability and compliance with IRS and other agencies
- Internal Controls- a good business practice and a way to ensure a separation of church activities from 501 © 3 activities.

9/9/2009

Presented by: ECQ Group

16

Fiscal Management: Process

- Questions to ask
 - To computerize or not? When does it make sense?
 - When do I need to get outside help? A part time bookkeeper etc.
 - Documentation?
 - How detailed do my Internal Controls need to be?

9/9/2009

Presented by: ECQ Group

17

Communicating Fiscal Information

- Today's environment: Closer scrutiny by all funding sources
- Impact of Sarbanes Oxley Act on non profits
- Transparency
- Keeping information consistent for funders, board members and outside regulatory bodies (such as the IRS)

9/9/2009

Presented by: ECQ Group

18

Communicating Fiscal Information

- IRS Return for Exempt Organizations (FORM 990)
 - Disclosure & Accountability
 - Necessary information to ensure proper allocation of expenses and revenues (Part II of 990)
 - Used by “watchdog” organizations to see how funding is spent
 - Monitors & enhances TRANSPARENCY

9/9/2009

Presented by: ECQ Group

19

Communicating Fiscal Information

- CHAR 500 – NYS Annual Report for Charitable Organizations
 - Filed with IRS 990 for New York State
 - Threshold: If you receive over \$25,000 in contributions and your total revenue is over \$150,000 you must submit CPA audited financial statements
 - VERY IMPORTANT- if it is not filed, you could be fined or Charities Registration number could be suspended

9/9/2009

Presented by: ECQ Group

20

Summary

- Non-profit/Tax Exempt status comes with specific responsibilities and fiduciary duties to donors and to the IRS.
- Sound fiscal management practices are critical- invest in them.
- The Board is an important partner
- Stay on top of information and reporting requirements

9/9/2009

Presented by: ECQ Group

21

FOR USE WITH PERMISSION ONLY