NONPROFIT NAVIGATOR

Summer 2014

ABOUT US

Our not-for-profit niche at Henry & Horne, LLP was officially formed 28 years ago, but we have been serving the not-for-profit community since we opened our doors in 1957. We are dedicated to Arizona's nonprofit community, and as a local firm with such a long history, we truly understand what is important to our nonprofit clients. Our team members receive quality continuing education specifically in non-profit topics and are continually researching various nonprofit issues, which results in a very broad level of nonprofit expertise.

HENRY & HORNE, LLP
Certified Public Accountants

Changes on the Horizon for Nonprofit Financial Reporting

By Colette Kamps, CPA

Big changes could be coming soon to nonprofit accounting standards! The Financial Accounting Standards Board (FASB) has a project they've been working on relating to the financial statements of nonprofit organizations where they are taking a look at several different financial reporting areas. One of these areas is with net asset classification. There is a possibility that the current three classes (*unrestricted, temporarily restricted, and permanently restricted*) could be replaced with only two classes (*with donor-imposed restrictions and without donor-imposed restrictions*). The idea behind this is to focus on describing both *how* and *when* the resources can be used.

In addition, the FASB is also discussing alternatives for a requirement for presentation of an *intermediate operating measure* in a nonprofit organization's statement of activities. The goal is to improve comparability between nonprofits and to allow an organization to clearly present amounts that are available for current operations versus those that are set aside for a long term purpose. This may result in separating mission-related income and expenses from non-mission related activities, such as investment return and related expenses. The other dimension being considered is the period of availability of the resources – to allow an organization to improve communication as to how they are using resources currently and how they are preserving resources for the future.

The FASB is also working toward a decision on changing the presentation of the statement of cash flows. A tentative decision was made to require the *direct method* and remove the requirement to reconcile the change in net assets to operating cash flows. If your current statement of cash flows starts at the top with the "change in net assets", then you are currently using the indirect method, so this would be a change for you.

Presentation of liquidity information has also been a topic on the agenda of this FASB nonprofit project. They have tentatively decided that a nonprofit organization should disclose *quantitative* information about financial assets, amounts that are not available to meet cash needs within a specific time horizon, and the amount of financial liabilities due within that same time horizon. Disclosure of *qualitative* information may also be required, including a discussion of the nonprofit's strategy for addressing risks that affect liquidity, the policy for liquidity reserves, and the basis for the time horizon utilized in their analysis.

An Exposure Draft is expected in the latter half of this year, so stay tuned for these potential future changes!

If you have any questions Colette can be reached at (480) 839-4900 or ColetteK@hhcpa.com.

Coordinates

According to the 2014 Metro Market Study conducted by Charity Navigator, Phoenix charities ranked last out of 30 cities overall when measured on a variety of factors including financial, accountability and transparency practices. The highest ranking city of the group was St. Louis, Missouri.

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Thinking of starting a new not-for-profit organization? If so, it's possible that your process for applying for tax-exempt status with the IRS just got shorter. The Form 1023-EZ is expected to be released this summer for qualifying organizations with gross receipts of less than $200,000 and total assets of less than $500,000.

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Bringing new meaning to the term "power lunch" for the 15th year in a row, one lucky bidder recently paid $2.16 million for the opportunity to dine with legendary investor and philanthropist Warren Buffett. The winning bid from the annual auction, which benefits one San-Francisco not-for-profit organization, was more than double the amount raised in 2013.

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2014 Report to the Nations on Occupational Fraud and Abuse Released by the Association of Certified Fraud Examiners

By Jessica Puckett, CPA, CFE

Every two years, the Association of Certified Fraud Examiners (ACFE) conducts an extensive analysis of occupational fraud and releases the results to the public. While there are many different types of fraud and fraud risks, this report focuses on occupational fraud, which is the most common fraud risk to our clients, as they involve a fraudster's scheme to defraud an employer.

Fraud is inevitable in any organization; however, there are certain characteristics common to not-for-profits that make them particularly vulnerable. These may include a lack of resources available to devote to the internal control structure and, at times, a lack of financially-sophisticated accounting personnel or board members. It's common for not-for-profit organizations to be understaffed in such a way that allows for proper segregation of duties as well. Most of all, the not-for-profits I generally work with have a strong sense of trust tied to their charitable mission. Simply put, because they are so passionate about their respective causes, they sometimes lose sight of the fact that someone less invested in their missions might defraud them, thus taking resources away from the good work they are trying to do in the community.

The recently-released report tends to support this theory as not-for-profit organizations accounted for one in ten cases reported to the ACFE (and there is always an assumption that many more cases are never reported to avoid bad publicity on behalf of the organization.) The average loss reported for not-for-profit organizations was between $80,000 and $108,000, which is a significant portion of any annual budget! And if you think your organization is too small to suffer such a hefty fraud, keep in mind that organizations with less than 100 employees actually have a higher chance of being victimized than larger organizations.

The report touches on the common fraud schemes discovered, and it's no surprise that for charitable or social services organizations the most common schemes include check tampering (35%), billing schemes (32.5%) and fraudulent expense reimbursements (32.5%). Because of this, we regularly encourage our clients to focus on these common schemes as part of their annual fraud risk assessment activities. After all, if you cannot identify the areas in which you are most susceptible to fraud, it is extremely difficult to implement policies and procedures to address those risks appropriately.

The report states that more than 40% of all frauds are detected via a tip, which could be received from an employee, a volunteer, a vendor, or even a program participant. The rate of frauds detected by tips far surpasses those detected by internal controls or external audit procedures; therefore, it's extremely important that not-for-profits implement a fraud whistleblower policy. This could be done in multiple ways, including using an anonymous fraud reporting hotline or an internal chain of command, but the bottom line is that you need to tell people what constitutes fraud as well as how and when issues should be reported. After all, there is no such thing as a small fraud, only a big fraud caught early!

The 2014 Report to the Nations on Occupational Fraud and Abuse can be downloaded for free from the ACFE website at www.acfe.com.

If you have any questions Jessica can be reached at (480) 839-4900 or JessicaP@hhcpa.com.