NONPROFIT NAVIGATOR

Spring 2015

ABOUT US

Our not-for-profit niche at Henry & Horne, LLP was officially formed 30 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

The Glitches of Grants

By Colette Kamps, CPA

The term "grant" is avoided in the contributions subsections of the accounting standards for Not-for-Profit Entities (ASC 958-605) and there is good reason for this. The term "grant" is broadly used to describe certain revenue received by nonprofits. Sometimes there is a grant agreement to go along with the funding received; sometimes the grant was awarded as a result of a budget being submitted; sometimes a grant is governmental funding; sometimes a grant comes from a foundation; sometimes it's a cost reimbursement grant, etc.

When a grant is received or applied for, it is imperative for the recipient nonprofit organization to determine whether the grant is an exchange transaction or whether it is a contribution. This distinction is so important because it can determine in which period the revenue is recognized. But making this distinction can be very difficult and can require a certain amount of judgment. If there is a written grant agreement, it's important to read through the agreement carefully in order to analyze the wording and the intentions of the grant. One thing to consider is the use of certain terms that indicate exchange transaction (vendor, subcontractor, fees) or contribution (donation, restricted). If the agreement includes a set price per unit of service (fee-for-service arrangement), it is likely the revenue is an exchange transaction. The revenue may be a contribution if the primary beneficiaries of the services/activities to be provided are the same individuals or groups who are generally served by the nonprofit organization. It becomes difficult to make this revenue determination when there are elements in the agreement that indicate a purpose-restricted contribution, and other elements that indicate an exchange transaction. In other words, there can be a lot of "gray" areas in deciphering the wording included in the agreement. Judgment should be used in order to determine the proper weight to put on each of these indicators. In this situation, it's a good idea to document your considerations and reasoning behind the determination of why you feel the revenue should be classified as either contribution or exchange transaction.

Once the determination is made, further considerations should be made relating to properly tracking restricted contributions and the releases of those restrictions, as well as recording deferred revenue when exchange transaction revenue is received in advance of being earned. In addition, the grant funding may be federal funding and should be considered for inclusion on the organization's Schedule of Federal Expenditures.

Overall, the distinction with this revenue classification comes down to the substance of the arrangement, and not just how it may be labeled. Having a detailed process for making these determinations is essential for nonprofit organizations receiving many different types of grants, or grants that vary in type from year to year. Copy this link for a "step by step" guide to assist your organization in these determinations. www.hhcpa.com/files/Insert_2015.pdf.

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



Coordinates

Remember the 2014 ALS Ice Bucket Challenge? It looks like the crowdfunding trend is expected to be just as strong throughout 2015. According to Social Velocity, it's one of the top five nonprofit trends to watch in 2015 along with decreasing the power of the overhead myth and expanding on the sharing economy.

~

Want to give away someone else's money to charity? That's the idea behind Viewers to Volunteers, which is a website launched this month that lets users help direct how corporations spend their charitable dollars. There is, of course, a commitment required by the participators – users earn points by engaging with the content (i.e. watching a video and sharing it with friends), and then "spend" their points by directing a participating corporation to make a charitable donation to a specific nonprofit.

~

Nonprofit organizations have a new way to identify themselves online besides dot-org. Nonprofits are now eligible to register for web addresses with the dot-ngo domain at www.globalngo.org. It will only be granted to active, independent, nonpolitical nonprofits that meet certain eligibility requirements, including a focus on public interest.

HENRY & HORNE, LLP
Certified Public Accountants

Key Internal Controls

By Paul Biggs

Effective internal controls are invaluable when it comes to creating an environment that both deters and detects fraud. Here are some key areas where internal controls are especially important.

Cash Functions

For obvious reasons, cash is especially susceptible to fraud. Ideally, the duties of preparing checks and preparing the bank reconciliation should be separated. An individual should be responsible for reviewing the bank reconciliation and reviewing copies of cancelled checks to ensure that the check copies match the vendors listed in the bank reconciliation. Physical controls are also important. The blank check stock should be kept locked and check signers should not have access to the blank check stock. In the event that the signer may need to write a check on short notice, the signer may have a small supply of checks with a separate numbering sequence in order to identify these checks.

Expenses

In 2013, the Federal Reserve conducted a study noting the increase in use of credit cards instead of checks. There were over 26 billion unique credit card transactions in 2012 in the U.S., equating to 71 million transactions per day. Credit cards are popular within nonprofits due to the ease and convenience of making a necessary purchase without completing a check request form or a reimbursement form. This means, however, that typical controls that may be in place over expenses in areas such as invoice approval and check signing are temporarily bypassed. Organizations should review their existing controls over cash disbursements to determine whether they may need to be modified to cover credit card use. Organizations should have a written credit card policy that addresses the use of credit cards. Receipts should always be required and should be reviewed by the individual reconciling the credit card statement. The credit card statement with related items of support should be reviewed in detail by the individual signing the check to pay the statement.

Payroll Processes

Final payroll reports should be reviewed by someone other than the individual responsible for processing payroll. Many payroll systems have reporting capabilities that allow them to produce reports showing changes to pay rates or new employees. These reports can be used by a reviewer to ensure that no "ghost" employees have been added and that the individual responsible for payroll has not made improper changes to pay rates. Other control processes, such as a detailed review of payroll by department during the overall review of budget to actual reports, may be helpful in this area as well.

Overall, segregation of duties and independent reviews are essential. This becomes more difficult in small organizations where the number of accounting personnel may be very limited; however, a board member such as the board treasurer can be utilized in performing both reviews of recurring procedures such as bank reconciliations as well as unexpected reviews of a selection of random transactions.

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