



ELEVATE YOUR NONPROFIT ACCOUNTING

With These YPTC Best Practices – Part 2

For: Sierra Health Foundation, Elevate Youth California funded partners



The **NONPROFIT** accounting specialists™



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Professional services firm specializing in nonprofit financial management



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1900+ current clients



Over 3 decades of nonprofit expertise

**Who is joining us
today?**

- a) Finance team member
- b) Program team member
- c) Development team member
- d) Management team member
- e) I wear multiple hats in my organization!
- f) Auditor or consultant
- g) Other



Purpose

- As an **Elevate Youth California (EYC) partner** working with youth advocates, you are committed to building the leadership skills today's youth need to elevate their futures.
- With this comes the additional responsibility for financial management of your grant award. Let us assist by sharing best practices that can help you elevate your nonprofit accounting!



Learning Objectives

1. Summarize basic nonprofit accounting **rules and key concepts.**
2. List - and answer - frequently asked questions YPTC has received on nonprofit accounting **best practices.**
3. Recommend **grants management procedures** that can be applied by EYC partner organizations.



Basic Nonprofit Concepts and Terms

And key accounting differences between nonprofits and for-profits



Common Areas of Confusion

Revenue recognition and taxation



Internal Controls

Separation of duties and cash management



Best Practices

Setting up your accounting system for effective grants management



1

BASIC NONPROFIT CONCEPTS AND TERMS



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Who makes the accounting rules for nonprofits?

The **FASB** (Financial Accounting Standards Board) establishes accounting and reporting standards for nongovernmental entities. These standards are compiled into what is called the **ASC** (Accounting Standards Codification).



NONPROFIT ACCOUNTING RULES

The ASC is the official version of GAAP (Generally Accepted Accounting Principles) published by the FASB

- Access is free:
<https://asc.fasb.org>
[/Login](#)

The screenshot shows the FASB Accounting Standards Codification website interface. It features a search bar at the top with the example text 'Ex. 740-10-25-1' and a 'Go To' button. Below the search bar is a list of categories: General Principles, Presentation, Assets, Liabilities, Equity, Revenue, Expenses, Broad Transactions, and Industry. The main content area is divided into three columns. The first column lists various topics, with '958 Not-for-Profit Entities' highlighted by an orange box. An orange arrow labeled 'Topic' points to this entry. The second column shows subtopics, with '205 Presentation of Financial Statements' highlighted by an orange box. An orange arrow labeled 'Sub-topic' points to this entry. The third column shows sections, with '00 Status' highlighted by an orange box. An orange arrow labeled 'Section' points to this entry.

Topic 958 of the ASC is devoted to guidance for not-for-profit entities

Sample Citation:
ASC 958-205-45

Topic

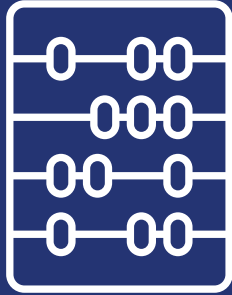
- Topic 958 Not-for-Profits Entities
- Other key Topics:
 - 300s Assets, 400s Liabilities, 600s Revenue, and 700s Expenses

Subtopic

- 205 Presentation of Financial Statements
- 210 Balance Sheet (Statement of Financial Position)
- 220 Income Statement (Statement of Activities)
- 230 Statement of Cash Flows
- 605 Revenue Recognition (Contributions)
- 720 Other Expenses

Section

- Sections are standard across all subtopics. Key sections include:
 - 25 Recognition
 - 30 Initial Measurement
 - 35 Subsequent Measurement
 - **45 Other Presentation Matters**
 - 50 Disclosure
 - 55 Implementation Guidance and Illustrations



What are key accounting differences between for-profits and nonprofits?

It comes down to financial statement presentation and revenue recognition of contributions.



KEY ACCOUNTING DIFFERENCES

Key accounting differences between for-profits and nonprofits



Item	For-profit	Not-for-profit
Assets less Liabilities	Equity	Net assets
Revenue less Expenses	Net Income	Change in Net Assets
Financial Statements	Balance Sheet Income Statement	Statement of Financial Position Statement of Activities
Contributions	Tracking and reporting contributions made	Tracking and reporting contributions received and made
Expenses	Functional reporting not required	Functional reporting required (Statement of Functional Expenses)

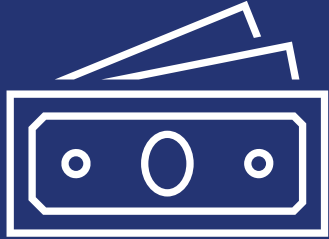


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COMMON AREAS OF CONFUSION



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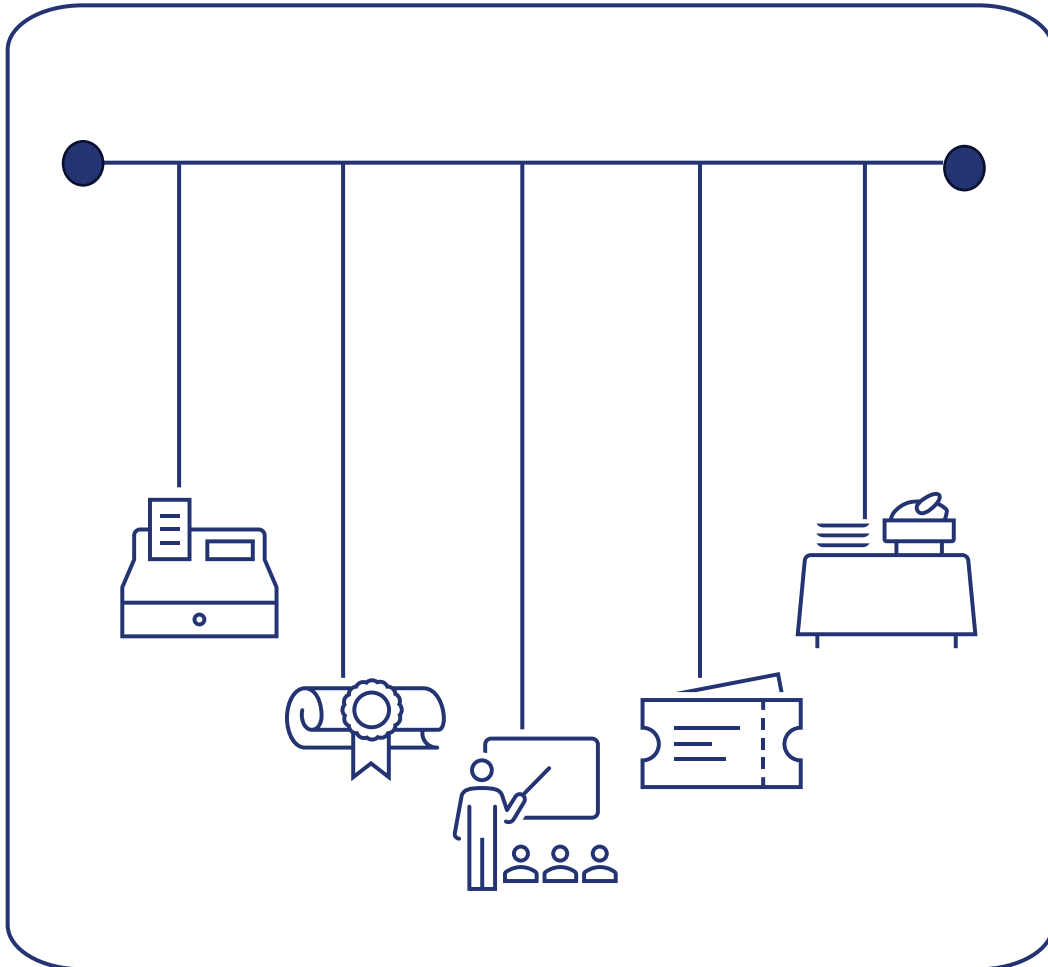


What are the rules on revenue recognition for nonprofits?

It depends on whether the revenue is earned (comes from a customer) or contributed (comes from a donor).



Exchange Transaction



- **Examples:** sales of goods or services, ticket revenue, program service fees, tuition, subscriptions

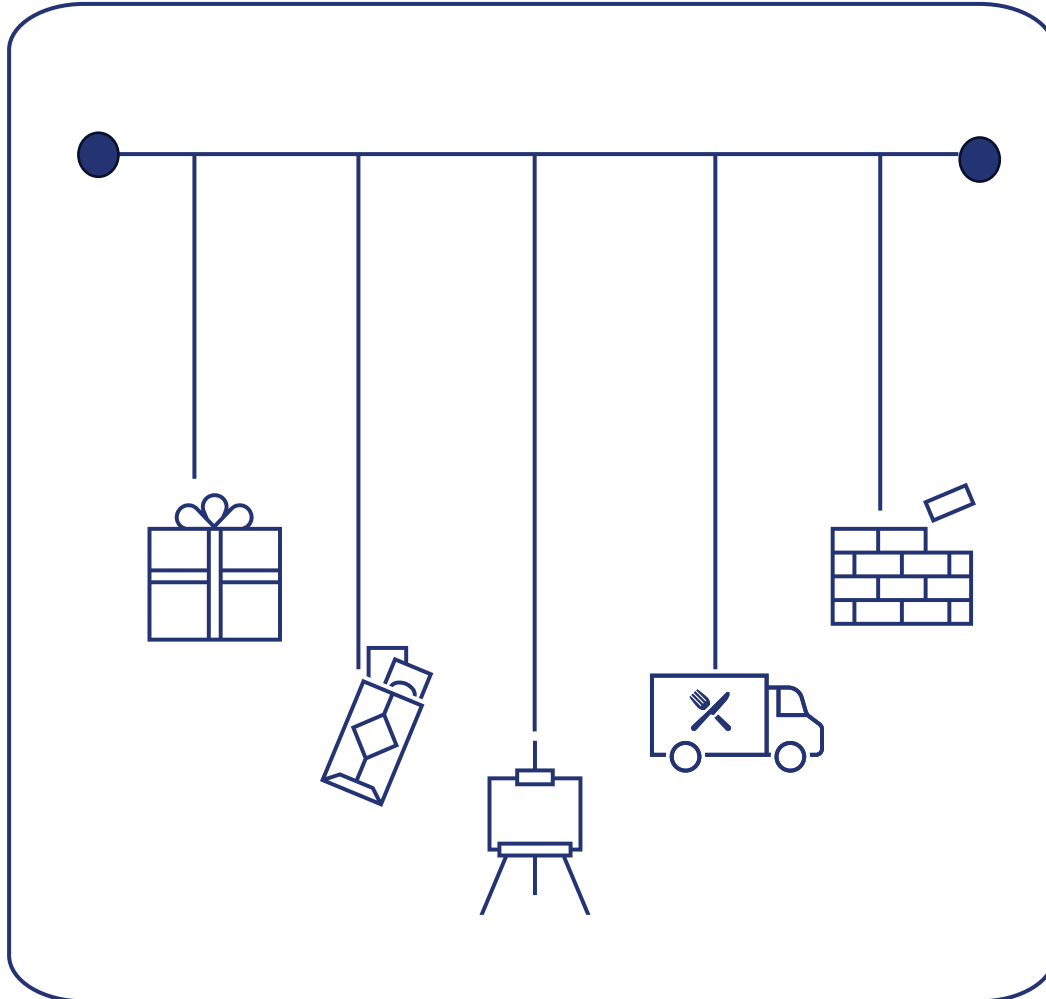
The Basics

- Represents earned income
- Reciprocal transaction
- Primary benefit to the customer
- **Follows contract guidance (ASC Topic 606)**

Recognition

- In general, revenue is recognized as performance obligations are satisfied
- Recognition could occur over time or at a point in time

Contribution



- **Examples:** *financial assets* such as cash or marketable securities, and *non-financial assets* such as fixed assets, use of facilities or services, supplies, and works of art; as well as promises to give any of the above

The Basics

- Represents contributed income
- Non-reciprocal & voluntary
- Primary benefit to the public
- **Follows contributions guidance (ASC Subtopic 958-605)**

Recognition

- **If unconditional**, revenue is recognized in full in the period when the contribution is made
- This is regardless of when payment is to occur or whether donor-restricted
- **If conditional**, revenue is recognized only when the barrier is overcome

A donor-imposed condition will delay revenue recognition, but a donor-imposed restriction will not

Conditions

- **Contain one or more barriers** *that are tied to* a right of return if the barriers are not overcome
- Common indicators of barriers:
 - **Performance requirement(s)** or milestones (matching grants)
 - Requirement to incur **qualifying expenses** or hire specific folks
- Cash transferred before barriers are met are recorded as **Refundable Advances** (a liability)
- **Delay revenue recognition**



Restrictions

- Specify use for a contributed asset that is **more specific** than just the entity's mission
- Place **responsibility on management** to use contributed assets as stipulated
- Restrict the **purpose and/or time** under which a contribution can be used
- Can be **temporary** (pledges payable in future periods) **or permanent** (endowment funds)
- Can be **explicitly stated or implied**
- **Do NOT delay revenue recognition**



How should we record our EYC grant(s)?

As a conditional contribution.



Factors that indicate the agreement is a *contribution*

- The **intent** of the agreement is for The Center to support partners working with youth advocates
- The **primary benefit** of the agreement is to the general public (e.g., youth aged 12 to 26)
- **Payment** is based on proof of qualifying expenses in support of recipient's project budget
- **Penalties** are limited to return of unspent funds and if the agreement is terminated, the recipient may be paid for any services satisfactorily performed before the termination date

Factors that indicate the agreement is *conditional*

- Payment based on qualifying expenses
- There is no guarantee the total award amount will be received
- Payment is contingent upon The Center receiving funds from the State of California DHCS
- Entitlement to funds contingent upon the achievement of specific outcomes and tasks (performance measures)



Sample entries that might be made to recognize activity associated with an Elevate Youth California grant.

1

To report initial payment on conditional EYC grant

Dr. Cash	300,000	
Cr. Refundable Advance		300,000

2

To record expenditure of EYC grant funds

Dr. Salaries	100,000	
Dr. Consultant Fees	50,000	
Dr. Travel	4,000	
Cr. Cash		154,000

3

To recognize revenue on EYC grant, report #1

Dr. Refundable Advance	50,000	
Cr. Contributions - Foundations		50,000

CONDITIONAL GRANT — REPORTING

Example - Statement of Financial Position

ASSETS	
	2024
Current assets:	
Cash and cash equivalents	\$ 745,559
Accounts receivable	246,180
Contributions receivable	23,578
Prepaid expenses	<u>20,973</u>
Total current assets	<u>1,036,290</u>
Property and equipment:	
Furniture, fixtures and office equipment	189,852
Less: accumulated depreciation	<u>(160,652)</u>
Net property and equipment	<u>29,200</u>
Operating leases, right of use assets	187,582
Security deposits	<u>15,420</u>
Total assets	<u>\$ 1,268,492</u>

LIABILITIES AND NET ASSETS	
	2024
Current Liabilities:	
Accounts payable and accrued expenses	\$ 29,490
Refundable advances	<u>20,159</u>
Operating lease liability, current portion	<u>74,229</u>
Total current liabilities	<u>123,878</u>
Operating lease liability, excluding current portion	<u>111,705</u>
Total liabilities	235,583
Net assets	
Without donor restrictions	946,747
With donor restrictions	<u>86,162</u>
Total net assets	<u>1,032,909</u>
Total liabilities and net assets	<u>\$ 1,268,492</u>

CONDITIONAL GRANT — REPORTING

Example - Statement of Activities

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Support and Revenue			
Federal grants	\$ 85,278	\$ -	\$ 85,278
State grants	1,039,169	-	1,039,169
Foundation grants	286,132	83,250	369,382
Contracted services	754,254	-	754,254
Program income	208,483	-	208,483
Contributions	106,878	27,500	134,378
Special events, net of direct benefit to donors	93,811	-	93,811
Interest and other income	3,977	-	3,977
Net assets released from donor restrictions	137,367	(137,367)	-
Total Support and Revenue	2,715,349	(26,617)	2,688,732
Expenses			
Program services	2,135,814	-	2,135,814
Management and general	422,688	-	422,688
Fundraising	6,656	-	6,656
Total Expenses	2,565,158	-	2,565,158
Changes in net assets	150,191	(26,617)	123,574
Net assets, beginning of year	796,556	112,779	909,335
Net Assets, end of year	\$ 946,747	\$ 86,162	\$ 1,032,909





Do nonprofits have to pay taxes on their income?

Tax-exempt entities, such as nonprofits, generally do not have to pay federal income taxes on income related to their exempt purposes. However, there are certain types of income that may be subject to taxation.





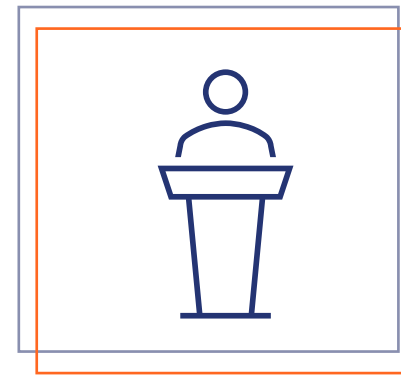
Unrelated business income

- Income earned from a trade or business regularly carried on and not substantially related to an entity's exempt purpose is subject to tax
- 21% tax rate



Investment income

- Income earned on debt-financed property might be subject to tax
- Example: A tax-exempt entity purchases a parking garage *using borrowed funds* and receives income from members who park there



Political activities

- Engaging in certain political activities may cause an entity to lose tax-exempt status and be subject to tax
- Examples: campaigning for or against political candidates



Private benefit

- When any part of a nonprofit's net earnings benefit a private individual, the entity could lose its tax-exempt status
- Those benefitting might have to pay taxes on the income received

True or False?
For tax-exempt entities, the IRS might consider the failure to turn in receipts on purchases made with the company credit card as a form of private inurement.

- a) True
- b) False
- c) It depends



Sales and Use Tax

- Nonprofits can apply for exemption from *payment* of tax on purchases, but not from *collection* of tax on sales



Payroll Tax Exemption

- An organization exempt from income tax under section 501(c)(3) is exempt from paying *federal* unemployment tax (FUTA)



Property Tax

- If available, nonprofits will need to apply for exemption with the local taxing authority



Franchise Tax / Privilege Tax

- Usually, no exemptions for these

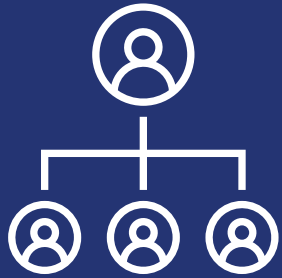


3

INTERNAL CONTROLS



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How can we separate duties to maximize our internal controls?

It's not always easy, but there are ways to make it work! Let's look at some solutions.



Limit individual control over finance functions

- No one person should have control of a transaction from inception to completion

Accounting

- Input vendor bills
- Record donations and/or apply pledge payments
- Process payroll
- Record journal entries
- Reconcile bank statements
- Prepare basic financial reports

Other Staff

- Prepare checks / ACHs for bill payments
- Mail checks
- Open mail / log cash receipts
- Approve payroll
- Receive bank statements
- Monitor grant expenditures

Management

- Sign checks / approve electronic payments
- Complete deposit slips
- Review payroll / approve salary adjustments
- Review bank reconciliations / monitor bank activity
- Perform variance analysis
- Sign legal documents

*Like the
Executive
Director or
Board
Treasurer*



What are some cash management policies and procedures that you recommend?



1

Dual authorization for disbursements

Ensure that *all* disbursements, particularly online bill payments, are subject to rigorous oversight

2

Regular bank reconciliations

Implement regular bank reconciliations and independent reviews to detect discrepancies early

3

Employee expense reporting

Establish guidelines for the reimbursement of business-related expenses incurred by employees

4

Liquidity policy

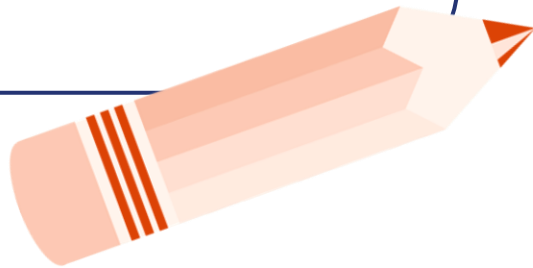
Maintain adequate liquidity to meet financial obligations, manage risks, and support your mission

1

Dual authorization for disbursements

Policy

- All disbursements, including online bill payments, must be authorized by two individuals before funds are released.
- This dual authorization process applies to both routine and non-routine payments, regardless of the amount, and is intended to safeguard the organization's assets.



Sample Procedures

- **Step 1:** Assigned staff prepares the online bill payment, including verifying the invoice, ensuring it aligns with the budget, and entering payment details into the bill payment platform.
- **Step 2:** A notification of the pending payment is sent to the designated authorizers, along with supporting documentation.
- **Step 3:** The first authorizer reviews the documentation, verifies the legitimacy of the payment, and approves it through the bill payment platform.
- **Step 4:** The second authorizer independently reviews the same documentation and approves the payment.
- **Step 5:** Upon dual authorization, the payment is processed by the system. Confirmation is automatically generated and forwarded to both authorizers and the Finance Department.

2

Regular bank reconciliations

Policy

- All bank accounts must be reconciled **monthly**, and an independent review of financial records conducted **quarterly**.
- This process ensures that the organization's financial statements accurately reflect its financial position and that any discrepancies are identified and resolved in a timely manner.



Sample Procedures

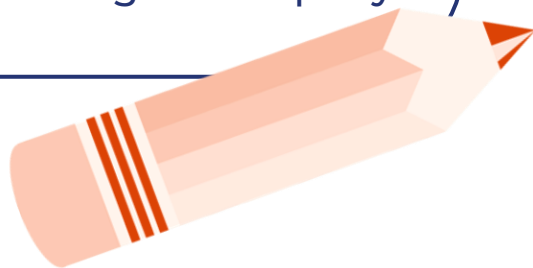
- **Step 1:** The designated staff member is responsible for reconciling all bank accounts monthly. Bank reconciliations must be completed using the accounting system within 10 business days of month-end.
- **Step 2:** Any discrepancies must be investigated and resolved promptly. Adjustments or corrections must be documented, including the reason(s) and any corrective action taken.
- **Step 3:** The reconciliation report must be downloaded and saved in the month-end close files.
- **Step 4:** The reconciliation report must be reviewed and approved by the Executive Director or a designated member of the Finance Committee.
- **Step 5:** An independent review and verification of bank reconciliations must be conducted quarterly by a member of the Finance Committee.

3

Employee expense reporting

Policy

- Employees will be reimbursed for legitimate, **work-related expenses** incurred in the course of their duties, using the organization's designated online expense management software.
- Expenses must be properly documented, submitted within the required timeframe, and approved according to company procedures.



Sample Procedures

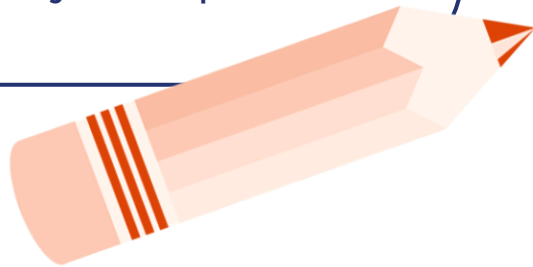
- **Step 1:** Employees must enter each expense into the software, including the date, amount, purpose of the expense, and any relevant project or department codes.
- **Step 2:** Employees are required to **upload a digital copy** of the itemized receipt for each expense.
- **Step 3:** All reimbursement requests must be submitted within 30 days of the expense being incurred.
- **Step 4:** Once an expense report is submitted, it will be automatically routed to the employee's immediate supervisor or designated approver for review and approval.
- **Step 5:** After managerial approval, the expense report is routed to the Finance Department for a final review to ensure compliance with budgetary constraints and financial policies.
- **Step 6:** Once fully approved, the reimbursement will be processed and paid via direct deposit within 10 business days.

4

Liquidity policy

Policy

- The organization will maintain sufficient liquid assets to cover at least **3-6 months of operating expenses**, ensuring the ability to meet short-term obligations and unexpected financial challenges.
- The Finance Committee will regularly **monitor liquidity levels** and report to the Board to ensure financial stability and operational continuity.



Sample Procedures

- **Step 1:** The organization will maintain liquid assets equivalent to at least **3-6 months of average operating expenses**.
- **Step 2:** The Finance Department will prepare a monthly liquidity report that will be reviewed by the Finance Committee at each monthly meeting and presented to the Board on a quarterly basis.
- **Step 3:** The Finance Department will maintain a rolling 12-month cash flow forecast to identify any potential shortfalls.
- **Step 4:** To provide for unexpected cash flow needs, an open line of credit with a financial institution will be maintained.
- **Step 5:** Liquid reserves may be accessed only with the approval of the Executive Director and Finance Committee.
- **Step 6:** In the event that liquidity reserves fall below the target level, the Finance Committee will develop and implement a **replenishment plan within 90 days**.



4

BEST PRACTICES



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What types of employee compensation are taxable?

Unless specifically excluded under the law, most forms of employee compensation are taxable.



Employer-provided fringe benefits excluded from taxable income

- Health insurance premiums
- Group-term life insurance
 - First \$50K of coverage generally excluded
- Retirement plan contributions
 - Excluded when contributed but taxable when withdrawn
- Dependent care assistance (\$5K per year max)
- Educational assistance (\$5,250 per year max)
- Adoption assistance
- Health savings account (HSA) contributions



Good to Know: To be excludible from tax, payments must be part of a qualified employer arrangement or assistance program

Non-cash benefits excluded from taxable income

- De minimis benefits*
- No-additional cost services
- Qualified employee discounts
- Working condition benefits*
- Transportation benefits
- Employee achievement awards
- Lodging on business premises
- Meals provided for employers' convenience*

Good to Know: Cash stipends to independent contractors, are generally treated as taxable income unless the contractor can substantiate that the funds were used for deductible business expenses.



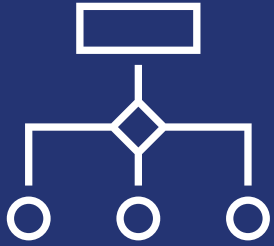
*In general, the IRS will allow de minimis benefits to also be excluded from the taxable income of independent contractors. Refer to IRS Pub 15-B, [Employer's Tax Guide to Fringe Benefits](#) to learn more.

Can a tax-exempt nonprofit provide financial support to **program beneficiaries** without jeopardizing its tax-exempt status?



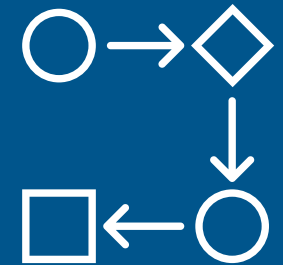
Yes! By designing and implementing a financial assistance program

- Must be within the organization's **charitable mission**
- **Eligibility criteria** must be clearly defined
- **Appropriate documentation** must be maintained:
 - Names and addresses of recipients
 - How recipients were selected
 - Amounts distributed and the purpose
 - Any relationships between recipient and the organization (including insiders)
- **1099s would NOT need to be issued**
 - Only if payments are made on the basis of need and in furtherance of an entity's charitable mission



What's the best way to develop a cost allocation methodology?

By developing a system that is rational and consistently applied.
Let's illustrate a step-by-step approach.



1

Identify the costs to be allocated

Start with your chart of accounts

2

Categorize expenses (Cost Policy)

Break down costs as direct or indirect; see the Resources for an example

3

Determine the basis for allocation

Common bases include % of time and effort, square footage, or direct labor hours

4

Develop the allocation formula

Create formulas that will apply the allocation bases to the indirect costs

5

Implement the methodology

Apply the allocation formulas to financial data regularly

6

Review and adjust periodically

Regularly review methodology to ensure it remains appropriate and equitable



- **Document, document, document!**
 - Provide an audit trail and a roadmap for future accounting staff to follow!
- **Automate wherever possible**
 - Create Excel templates to speed calculations
 - Utilize allocation tools within your accounting software
 - Subscribe to time-saving allocation apps



- **Do not incorrectly classify management and general (M&G) costs**
 - For example, costs related to Human Resources should not be allocated to any specific program; they are M&G
- **Do not use groupings or categories that only make sense to your organization!**
 - Consider your audience
- **Do not modify your allocation methodology to “fit” a funder’s budget**

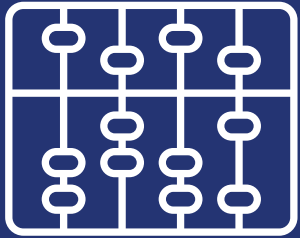
COST ALLOCATION - EXAMPLE

ABC Nonprofit uses salary percentages to allocate costs:

Account #	G/L Account	General &					TOTAL
		Art	Education	Empowerment	Administrative	Fundraising	
6100	Salaries & Wages	7,590.58	14,109.89	4,849.48	5,531.97	2,574.13	34,656.05
	% of Total	21.90%	40.71%	13.99%	15.96%	7.43%	100.00%

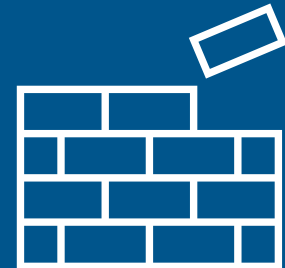
Those salary percentages are then applied to the costs that need to be allocated:

Journal Entry #	Account #	G/L Account	To Be Allocated	General &					TOTAL	Check
				Art	Education	Empowerment	Administrative	Fundraising		
FY24-0831	6210	Health Insurance Benefits	2,656.92	581.93	1,081.74	371.79	424.11	197.35	2,656.92	-
FY24-0831	7120	Payroll Expenses	306.71	67.18	124.88	42.92	48.96	22.78	306.71	-
FY24-0831	7130	Communications & IT	581.74	127.42	236.85	81.40	92.86	43.21	581.74	-
FY24-0831	7200	Contract & Professional Fees	4,579.57	1,003.05	1,864.53	640.83	731.01	340.15	4,579.57	-
FY24-0831	7400	Insurance - Liability	464.72	101.78	189.20	65.03	74.18	34.52	464.72	-
FY24-0831	7510	Rent	10,104.84	2,213.22	4,114.09	1,413.99	1,612.98	750.55	10,104.84	-
FY24-0831	7520	Utilities	1,698.08	371.92	691.36	237.61	271.06	126.13	1,698.08	-
FY24-0831	7650	Printing & Publications	231.21	50.64	94.13	32.35	36.91	17.17	231.21	-
FY24-0831	7720	Supplies	306.19	67.06	124.66	42.85	48.88	22.74	306.19	-



How can we set up our accounting system for better grants management?

Start with a good foundation and utilize time-saving features within your accounting software.



When setting up your Chart of Accounts, start with a good foundation

Do this!

Revenue

- 4000 Contributed income
 - 4100 Donations
- 4200 Corporate & Foundation Grants
- 4300 Government Grants & Contracts
- 4400 In-Kind Donations
- Total 4000 Contributed income



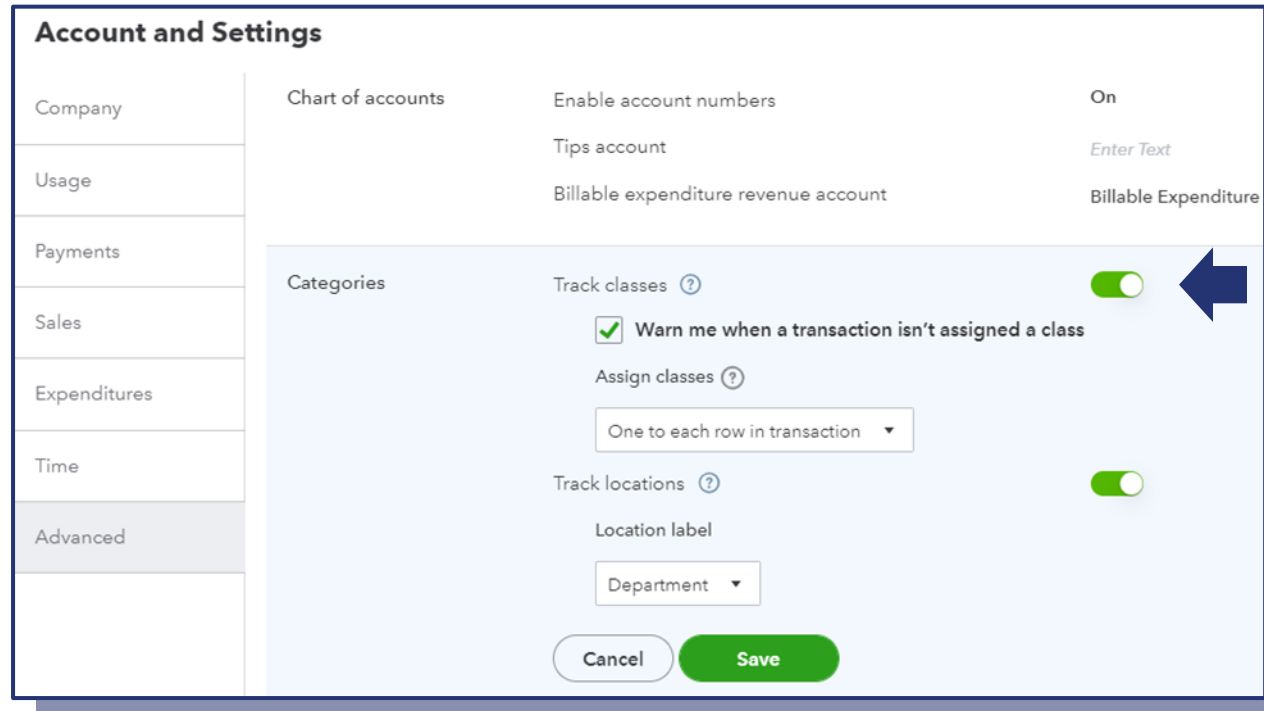
Don't do this!

Revenue

- 4000 Contributed income
 - 4100 Donations
 - 4101 Donations for Art Program
 - 4102 Donations for Education Program
 - 4103 Donations for Empowerment Program
 - 4200 Corporate & Foundation Grants
 - 4201 Corporate & Foundation Grants - Sunnyvale Foundation
 - 4202 Corporate & Foundation Grants - War on Drugs Foundation
 - 4203 Corporate & Foundation Grants - EYC Grant
 - 4300 Government Grants & Contracts
 - 4301 Government Grants & Contracts - CA Health & Human Services
 - 4302 Government Grants & Contracts - Community Revitalization Grant
 - 4303 Government Grants & Contracts - Department of Health Care Services
 - 4400 In-Kind Donations
- Total 4000 Contributed income

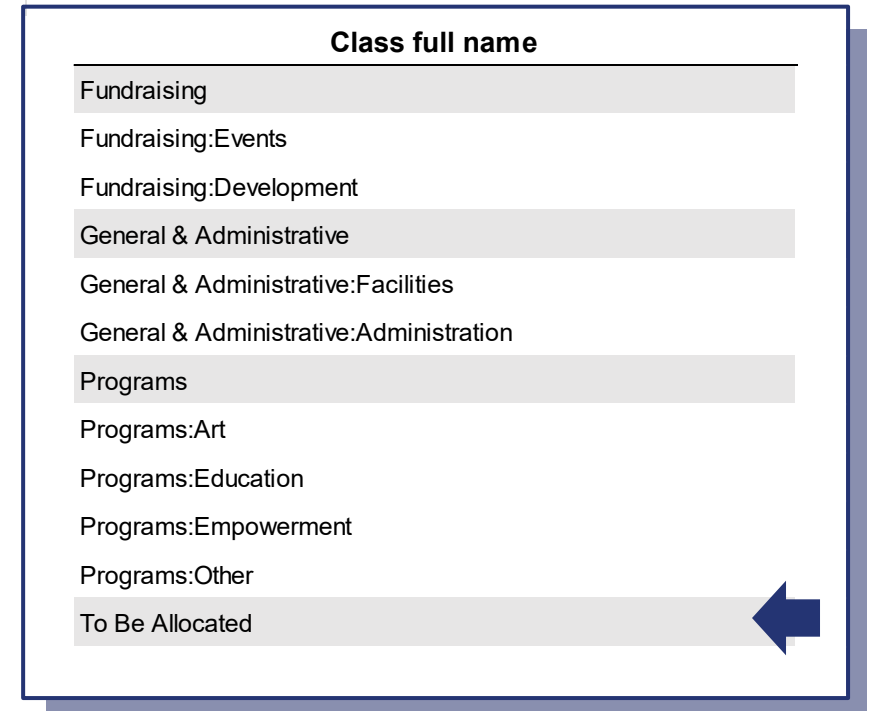
In QuickBooks Online, use Classes to track programs and activities

Toggle on the “Track classes” feature



The screenshot shows the 'Account and Settings' page in QuickBooks Online. The 'Categories' section is highlighted, and the 'Track classes' toggle is turned on (indicated by a green switch and a blue arrow pointing to it). Below the toggle, there is a checked box for 'Warn me when a transaction isn't assigned a class' and a dropdown menu for 'Assign classes' set to 'One to each row in transaction'. The 'Track locations' toggle is also turned on. At the bottom, there are 'Cancel' and 'Save' buttons.

Create classes for functional activities



The screenshot shows the 'Class full name' list in QuickBooks Online. The list contains the following classes: Fundraising, Fundraising:Events, Fundraising:Development, General & Administrative, General & Administrative:Facilities, General & Administrative:Administration, Programs, Programs:Art, Programs:Education, Programs:Empowerment, Programs:Other, and To Be Allocated. A blue arrow points to the 'To Be Allocated' class.

In QuickBooks Online, use Customers to track activity by funder

The screenshot shows the 'Account and Settings' page in QuickBooks Online, specifically the 'Expenditures' section under 'Bills and expenditures'. The left sidebar contains navigation options: Company, Usage, Payments, Sales, Expenditures (highlighted), Time, and Advanced. The main content area has several settings:

- Show Items table on expenditure and purchase forms:
- Show Tags field on expense and purchase forms:
- Track expenditures and items by customer: (highlighted with a blue arrow)
- Make expenditures and items billable:
 - Markup with a default rate of 0.00 %
 - Track billable expenditures and items as revenue
 - In a single account
 - In multiple accounts
 - Charge sales tax
- Default bill payment terms: Enter Text

At the bottom are 'Cancel' and 'Save' buttons.

Toggle on the “Track expenditures and items by customer” feature

- This enables you to run reports showing the revenue and related expenses by funding source

When entering bills in QuickBooks Online, be sure to utilize the Customer and Class fields

Bill #24-0831T Give feedback Settings Help

Vendor: BALANCE DUE
\$1,000.00

Mailing address: Terms: Bill date: Due date: Bill no.:
Department: Permit no.:

Tags: Manage tags

Category details

#	CATEGORY	DESCRIPTION	AMOUNT	BILLABLE	TAX	CUSTOMER / PROJECT	CLASS
1	7220 Contract & Professional Fees/C	Education Services - 07/01-6/31	\$1,000.00	<input type="checkbox"/>	<input type="checkbox"/>	#1 Foundation	Programs:Education
2				<input type="checkbox"/>	<input type="checkbox"/>		

Item details Total \$1,000.00

Main image:

Attachments (0) Maximum Size 20MB Show existing
Drop files here or click to select from file device

GRANTS MANAGEMENT

Nonprofit ABC
Sample P&L by Funder
For the 8 months ended 8/31/2024

	Local Funding	#1 Foundation	#2 Foundation	State Contract	HHS Fed Grant	USDA Fed Grant	TOTAL
INCOME							
Foundation Support		45,000	100,000				145,000
Local Funding	30,000						30,000
State Funding				108,000			108,000
Federal Funding					350,000	475,000	825,000
Total Income	30,000	45,000	100,000	108,000	350,000	475,000	1,108,000
EXPENSES							
Salaries							
Program Director(s)	3,000	5,000	250	55,000	75,000	132,000	270,250
Associate Manager		6,000	1,000		40,000	35,000	82,000
Executive Director				20,000	49,000	25,000	74,000
Subtotal - Salaries	3,000	11,000	1,250	75,000	25,000	18,000	63,000
					189,000	210,000	489,250
Payroll Taxes	300	1,100	125	7,500	18,900	21,000	48,925
Employee benefits	570	2,090	237	14,250	35,910	39,900	92,957
Computer Expense			650		6,200		6,850
Consultant Fees		750		1,750			2,500
Contract--Production Design			400			155,000	155,400
Dues and Subscriptions					750		750
Office Supplies							-
Postage Expense					200		200
Printing Expense	500					10,000	10,500
Program Supply Expense		1,810			1,500	5,250	8,560
Telephone Expense			540	500	650		1,690
Travel	130	3,500			87,890	32,850	124,370
Overhead / Indirect	500	2,250	1,500	9,000	9,000	1,000	23,250
Total Expenses	5,000	22,500	4,702	108,000	350,000	475,000	965,202
Net Activity	25,000	22,500	95,298	-	-	-	142,798

Sample report by Funder





Basic Nonprofit Concepts and Terms

1. Who makes the accounting rules for nonprofits?
2. What are key accounting differences between for-profits and nonprofits?



Common Areas of Confusion

3. What are the rules on revenue recognition for nonprofits?
4. How should we record our EYC grant?
5. Do nonprofits have to pay taxes on their income?



Internal Controls

6. How can we separate duties to maximize our internal controls?
7. What are some cash management policies and procedures that you recommend?



Best Practices

8. What counts as employee compensation?
9. What's the best way to develop a cost allocation methodology?
10. How can we set up our accounting system for better grants management?

Are there any topics covered in this series for which you'd like to take a deeper dive?

- a) Revenue recognition
- b) Nonprofit financial reports
- c) Unrelated business income (UBI)
- d) Employee expense reporting
- e) Cost allocations
- f) QuickBooks Online tips and tricks

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5

RESOURCES



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CONTRIBUTION VS. EXCHANGE TRANSACTION

These factors can help you distinguish between awards that are contributions and those that are exchange transactions

Factor	Contribution Indicators	Exchange Transaction Indicators
Intent	The recipient solicits assets from the resource provider without the intent of exchanging goods or services of commensurate value	Resource provider is providing consideration in exchange for goods or services of commensurate value
Primary benefit	General public receives the direct benefit	Resource provider receives the direct benefit
Activity	Nonprofit plans, carries out, and retains rights to the benefits of the activity	Resource provider retains patents or other results of the activity
Payment	Payment based on proof of qualifying expenses or distributed in a lump sum to support recipient's program activities, project costs, or budget	Payment commensurate to the quantity of goods or services provided, or relates to an existing exchange transaction
Penalties	Limited to return of unspent funds or assets already produced	Economic penalties for noncompliance



Electronic Bill Pay – sample permissions

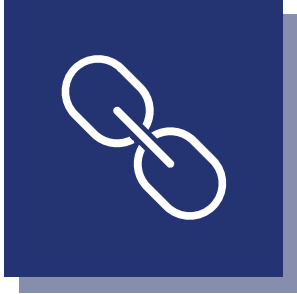
Permission	Admin	Accountant	Payer	Approver	Clerk	Auditor (View only)
Approve bills & credits	Yes	Yes	No	Yes	No	No
View vendor	Yes	Yes	Yes	No	Yes	Yes
Manage vendor	Yes	Yes	No	No	Yes	No
View bill	Yes	Yes	Yes	No	Yes	Yes
Manage bill	Yes	Yes	No	No	Yes	No
Pay approved bills	Yes	No	Yes	No	No	No
Pay unapproved bills	Yes	No	No	No	No	No
View payments	Yes	Yes	Yes	No	Yes	Yes
Record manual payments	Yes	Yes	Yes	No	Yes	No
Manage company info	Yes	No	No	No	No	No



Cost Policy Example

ABC Agency's expenses that are allocated include the following:

Expense	Element of Cost	Type	Method of Allocation	Review Frequency
Salary Expense	Salaries and Wages	Both Direct and Indirect	Time and effort	Each pay period
Hourly Wages	Salaries and Wages	Both Direct and Indirect	Time and effort	Each pay period
Professional Services	Program Costs	Direct	Clients served	Quarterly
Production Costs	Program Costs	Direct	Clients served	Quarterly
Training	Program Costs	Direct	Clients served	Quarterly
Brochures & Flyers	Program Costs	Direct	Clients served	Quarterly
Orientation materials	Program Costs	Direct	Clients served	Quarterly
Postage	Program Costs	Direct	Clients served	Quarterly
Utilities Assistance	Client Assistance	Direct	Direct cost by program	Quarterly
Job Training Assistance	Client Assistance	Direct	Direct cost by program	Quarterly
Rent	Facility Costs	Both Direct and Indirect	Actual usage by program, or square footage	Annually
Utilities	Facility Costs	Both Direct and Indirect	Actual usage by program, or square footage	Annually
Repairs & Maintenance	Facility Costs	Both Direct and Indirect	Actual usage by program, or square footage	Annually
Trash Removal	Facility Costs	Both Direct and Indirect	Actual usage by program, or square footage	Annually
Supplies	Office Supplies	Indirect	Administrative cost	Annually
Office Equipment	Office Supplies	Indirect	Administrative cost	Annually
Liability Insurance	Insurance	Both Direct and Indirect	Direct cost by program, or full time equivalent	Annually
Volunteer Insurance	Insurance	Both Direct and Indirect	Direct cost by program, or full time equivalent	Annually



Webinars on topics mentioned in this training

- Logic Over Luck: Revenue Recognition for Nonprofits
 - <https://www.yptc.com/logic-over-luck-revenue-recognition-for-nonprofits/>
- Bridging Perspectives: Building Collaboration Between HR and Finance Functions
 - <https://www.yptc.com/bridging-perspectives-building-collaboration-between-hr-and-finance-functions/>
- Understanding Overhead: So It's Not Over Your Head
 - <https://www.yptc.com/understanding-overhead-so-its-not-over-your-head/>

Articles about nonprofit accounting

- Nonprofit Accounting: What Charitable Orgs Need to Know
 - <https://www.yptc.com/nonprofit-accounting/>
- Demystifying Nonprofit Financial Statements: Complete Guide
 - <https://www.yptc.com/nonprofit-financial-statements/>
- Nonprofit Revenue Recognition: Logic Over Luck
 - <https://www.yptc.com/nonprofit-revenue-recognition/>
- What is an In-Kind Donation?
 - <https://www.yptc.com/in-kind-donation/>