YEAR-END SURVIVAL GUIDE FOR THE NONPROFIT ACCOUNTANT

2016 Edition

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INTRODUCTION

While parts of your organization focus on all-important end-of-year fundraising efforts, as the nonprofit finance team, you're working hard to stay afloat through your own year-end tasks and procedures. But, at times it can feel like you've been launched overboard!

Consider this second annual edition of **Abila's Year-End Survival Guide** your personal flotation device, providing you with the tools you need to navigate the turbulent waters of your 2016 fiscal year-end.

This guide will keep you from drowning in the details of:

- Budget review and revision schedules
- Closing the books on 2016
- Form 990 submission
- Changes in ACA administration

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BUDGET REVIEW & REVISIONS

FINISHING 2016 ON A HIGH NOTE, STARTING 2017 STRONG

Your budget is more than just numbers on a spreadsheet: It's a reflection of your organization's priorities and performance. In the first edition of our Year-End Survival Guide for the Nonprofit Accountant, we walked you through the process of creating an annual budget. As we near the end of 2016, it's now time to review what's happened throughout the year – expected and unexpected, good and bad – to determine fiscal health for the year and uncover lessons to apply in the future. Executing a disciplined budget review process will expose those lessons, prepare your board to make good strategic decisions, and help set up your organization for success in 2017.

COMPARING THIS YEAR'S PLANS WITH ACTUALITY

Your year-end budget review process will help you assess not only the health of your organization and its programs, but also your ability to anticipate and respond to internal and external events.

Some budget areas are typically stable, for example the expenses associated with your offices. Other areas may be inherently less predictable, yet still have fallen in line with the budget because of your organization's accurate and focused budget plan from the year before.

Whenever you encounter larger variances between your budget and actuals, look harder. Was it because you missed something, for example, by underestimating program expenses? Or, was it because something external happened, such as an unexpected shift in the economy or a new opportunity that you capitalized on?

It's important to think about whether the variances arose from one-time anomalies or something recurrent. Either way, start to analyze how you responded at the time, and think about how you can plan and execute better in the future. Surfacing those insights to the board will allow board members to apply their own skills and experience to the organization's challenges and opportunities.

FINISHING 2016 ON A HIGH NOTE, STARTING 2017 STRONG

BEST PRACTICES FOR AN EFFECTIVE YEAR-END BUDGET REVIEW PROCESS

The process of budget review should start at the staff level toward the end of the third quarter of your fiscal year. By that point you will have enough information to draw meaningful conclusions from your financial data, but also enough runway left to formulate and submit an accurate, meaningful budget for the coming year to board members in time for them to make final decisions.

- Perform detailed look-back analysis, comparing budget to actual for the entire year
- Gather findings, and provide an overall picture of current fiscal health and program success for executive leadership and the board
- Present the year-end budget review final report to the board, along with recommendations for improvements during the year ahead
- Set strategic and tactical priorities for the upcoming fiscal year, based on lessons and successes from your year-end budget review
- Lastly, you should evaluate whether your measurement tools are adequate. Consider these questions:
  - Do you have the metrics and analysis you need to make good decisions?
  - Are staff and board members getting the information they need, when they need it?
  - Is it time to reconfigure your approach, add tools, or change processes?

BUDGET MONITORING AND REVISION SCHEDULE FOR 2017

In Building a Better Budget: The Nonprofit Budget Roadmap, we provided key insights and best practices into developing an efficient and effective budget. Now, once you've done all the work that goes into creating your upcoming fiscal year annual budget, how do you make sure you stay on track in the year to come?

It starts during the initial budgeting process. As you're formulating and approving the budget, get everyone on the same page about how the budget will be monitored and revised across the calendar year. As detailed in the previous section, the budget you start with is the tool for measuring performance and variance across the year, but always be prepared to make changes as needed. Holding timely reviews is a great way to ensure your current budget is matching expected outcomes.

Monthly Reviews: A month is a fairly small period for reviewing a budget, so don't expect most months to reveal much when considered in isolation. The goal of the monthly check-in should be a conversation in each board meeting, in which a staff member or association officer makes a statement on actual versus budgeted performance, and then encourages discussion from board members.

Quarterly Reviews: These reviews can be more detailed, given you have a larger pool of data to consider across the three-month period. Quarterly budget discussions by the board are a great opportunity to review expectations against reality and make decisions about where budget changes may be beneficial.

BUDGET REVIEW & REVISIONS (CONTINUED)

FINISHING 2016 ON A HIGH NOTE, STARTING 2017 STRONG

Six-Month Review: This mid-year discussion should be more extensive, as this is where boards often consider making major adjustments in spending. There are all sorts of happenings that might prompt an adjustment. For example, you may have more funds available because you landed a big grant, or spending on programs might increase to respond to a critical need within the community, or regulatory updates may require budget changes.

Each of these reviews – and, especially the one in the middle of the year – offers executive leadership and the board a key opportunity to respond to and influence operational issues for the rest of the year. By showing effective stewardship of the budget in this way, the board can demonstrate to stakeholders that it's governing the organization effectively, and ready to respond vigorously to internal and external events.

BUDGET PROCESS PITFALLS TO AVOID

To ensure you don't go overboard in the coming year, here are a couple of budget process pitfalls to avoid as you plan for the upcoming fiscal year:

Over-Reporting: With today's computerized recordkeeping and analysis tools, it's always easy to throw in one more pivot table, even when you don't need it. You can end up presenting more data than could ever be digested. Rather than trying to provide a mass of data to address every possible question, think about which questions are the most important to answer. For example, you could report detailed balances on every single member pledge, but it's likely more relevant to see the overall collection rate, average time to collect, and total pledge growth.

Adding Without Subtracting: When you're looking to make improvements in budgeting, it's easy to fall into the trap of only adding to existing processes. Keep in mind that in some cases it will be better to streamline processes by cutting activities that are no longer useful.

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CLOSING THE BOOKS ON 2016

RECONCILIATION AND REVIEW CHECKLIST

In preparation for your key year-end reporting tasks, closing the books effectively is critical for determining financial performance and providing accurate results to stakeholders. Getting it right will help you compose your annual report, create year-end reports for auditors and grantors, and provide mission delivery success metrics to donors, the community, and the general public.

Here are five key processes and tasks to help close the books on 2016:

- **Reconcile Cash and Balance Sheet Accounts:** Make sure you have adequate documentation for accounts, proper schedules for depreciation and accruals, and any other i information you need to uncover accounting errors that may be hidden on the balance sheet. It's also important to review key funding agreements and contracts to reconcile expenses reported and outstanding contract or agreement balances.

- **Perform Break-Even Analysis:** This analysis should look at each funding source, program, and even department to uncover how it's performing financially, so stakeholders can understand clearly where resources are being applied. Some areas, such as development, should deliver income far above costs; for program areas, it will usually be the other way around. Keep in mind that a particular area may be tying up more resources than in past years as a reflection of a specific board decision to increase focus in that area. In any case, break-even reporting should provide a transparent view that shows how the organization is using its resources as intended.

- **Reconcile Actuals to Budget for Grants and Federal Awards:** To stay on good terms with grantors and regulatory parties alike, it's important that you can show how you're spending grant money – and that you're spending all the money you should each year. Accurate schedules will demonstrate you're spending money at the proper cadence (including for the years to come), while good look-back analysis will show, in clear detail, how grant dollars connect directly to their designated or undesignated program activities.

- **Prepare a Schedule for Auditors:** This fundamental activity is your chance to make sure all of your numbers tie up to what you reported to stakeholders and grantors. As with the other types of reporting, you need to be able to show what the balances are and how they're being spent – using figures that can be easily verified.

- **Prepare Year-End Reports for Stakeholders:** This task includes collating all the figures necessary for year-end reporting for the board and for your published annual report. It helps to have a checklist of reports delivered in previous years, so you don't miss anything. If you discover that any data is missing or incomplete as you create these reports, it's vital to resolve those issues before they go on to the board.

PRO TIP: Circulate drafts of your year-end financial reports among the longest-serving executives in the organization. Your CEO or Director of Programs, for example, may spot something based on his or her experience that everyone else has missed.

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AREA OF FOCUS

FORM 990

Most charitable organizations are required to file the appropriate version of Form 990 within four and a half months of the end of their fiscal year (for example, May 15 if your year ends on December 31). The form is meant to promote transparency by allowing both the IRS and members of the public – including your employees and donors, volunteers, and watchdog organizations – to learn more about your overall mission, specific programs, and finances.

Who Must File Form 990

Most nonprofits, including private foundations and 501(c), 527, and 4947(a)(1) organizations, must file. There are exemptions for churches and many related religious organizations, certain state institutions such as universities, government corporations, and others.

Keep in mind you should, and more than likely must, file every year. Organizations that go three years without filing Form 990 can lose their tax-exempt status – with no appeal process.

Which Form to File

There are five types of relevant forms:

- **Form 990-N:** A "postcard" form for the smallest nonprofits – those with annual gross receipts of $50,000 or less
- **Form 990-EZ:** For nonprofits with gross receipts under $200,000 and total assets under $500,000
- **Form 990:** For nonprofits with gross receipts greater than $200,000 and total assets above $500,000
- **Form 990-PF:** For private foundations
- **Form 990-T:** For reporting taxable activities of nonprofits

What to Report and How to Report It

Form 990-N doesn't contain much information. You file it online simply to let the IRS know your organization is still functioning. As your nonprofit gets larger, though, the forms ask for much more information. The long Form 990 goes into extensive detail on a range of topics that delve into your finances, operations, program activities, potential conflicts of interest, and the compensation of officers, board members, and key employees.

Take the opportunity presented by Form 990 to tell your organization's story, framing your mission in terms that will resonate with other publications, such as your annual report and website. In fact, working through the long Form 990, which ran to 12 closely-printed pages for the 2015 tax year, provides you with many chances to crosscheck the accuracy and emphasis of your organization's story elsewhere.

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FORM 990

3 WAYS TO USE THE FORM 990 TO YOUR ADVANTAGE

1. Consider the Form 990 as your opportunity to create a thoughtful first impression to potential new donors, volunteers, stakeholders, and the general public. Ensure the content within the form is consistent with your brand image and website content.

2. Describe your mission and most significant activities in descriptive detail, while also being simple and brief. This allows the community and future donors clear access to your organization's complete story.

3. Provide clear financial metrics to increase transparency within your nonprofit's operations. This leads to increased donor trust, and encourages stewardship.

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THE AFFORDABLE CARE ACT (ACA)

LESSONS LEARNED FROM LAST YEAR

ACA PART 1 – THE WHO, WHAT, WHEN, AND HOW

The federal government's implementation of the Affordable Care Act (ACA) last year was ... a learning experience, for the IRS and employers alike. With a year of ACA compliance now in the books, what have we learned? And, what should your organization do to avoid the pitfalls in the process?

Background on the ACA

As a refresher from last year's Survival Guide, here are some basics about the ACA, which was enacted as the Patient Protection and Affordable Care Act (PPACA) in 2010.

The law, which has affected many parts of the U.S. healthcare system, aims to increase the quality and affordability of health insurance, while expanding public and private insurance coverage to a larger percentage of the population. Under the ACA's Employer Mandate, large employers must offer full-time employees and their dependents "affordable" coverage that provides at least "minimum value." Those terms have specific definitions enforced by the IRS; employers that don't meet those standards will be penalized, with employees receiving a premium tax credit or cost-sharing reduction.

Who Must Comply With ACA Regulations

The law still applies to "applicable large employers" (ALEs), defined as organizations – including nonprofits – that employed an average of at least 50 full-time employees during the preceding calendar year. Full-time employees are defined as those working an average of 30+ hours per week for the month. Employees who work 130 hours per month are considered full-time equivalent (FTE).

ALEs are required to furnish relevant forms to each eligible employee, and to file forms with the IRS. These filing requirements enable the IRS to confirm that individuals have Minimum Essential Coverage (MEC). The IRS will use the information you supply to administer premium tax credits and assess penalties.

What You Need to Report

Section 6056 of the tax code (the Employer Mandate) spells out ACA reporting requirements for coverage offered, its cost, and who had such coverage in the relevant tax year. Two forms are used to meet the reporting requirements:

- **Form 1095-C:** Employers furnish this form to employees to certify the coverage offered and specify who enrolled in the coverage.
- **Form 1094-C:** Employers submit this form to the IRS along with the employee copies of the 1095-C.

The IRS uses the information reported on these two forms to determine whether an employer owes a payment under the employer shared responsibility provisions in Section 4980H. Form 1095-C is also used by the IRS and the individual employee to determine the employee's eligibility for the premium tax credit.

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THE AFFORDABLE CARE ACT (ACA) (CONTINUED)

LESSONS LEARNED FROM LAST YEAR

When and How to Report

Employers must supply the required information to employees by **January 31** of the following year. Self-insured employers must also furnish a Form 1095-C to each full-time employee by that date. If your organization is filing on paper, your Form 1094-C, along with a copy of each employee's 1095-C, is due to the IRS by February 28; if you file electronically, you have until March 31.

Note that electronic filing is **required** for all ALEs filing at least 250 returns in a given year. Smaller ALEs may choose to file paper returns, but are still **encouraged** to file electronically. Many robust fund accounting systems can make electronic filing easier with integrated solutions and management solutions such as MIP Fund Accounting's HR Management Suite and e-filing via Aatrix.

Changes to the ACA From 2015 to 2016

As with many other parts of the tax code, certain numbers in the ACA have changed slightly for this year. For example, the threshold for defining affordability has gone up for employees who have coverage for themselves only, from 9.5 percent of income to 9.66 percent. The federal poverty line also went up slightly, which affects calculations for the safe harbor provisions within ACA. The financial penalties for employers that don't file – or that don't meet the standards for affordability and minimum value – have also been raised.

Here are two changes that will have a direct impact on how you administer ACA for your organization:

1. Last year, the IRS rejected Forms 1095-C on which the employee's name did not **exactly** match the name on his or her Social Security card – but this requirement was not explained ahead of time. This year, it's clear from the get-go.
2. Because last year was the first time ACA compliance was required, the IRS ended up giving organizations extra time to file. That won't happen this time around.

Keep in mind, the IRS could still issue more revisions leading up to the deadline for final filing.

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ACA PART 2 – SETTING YOURSELF UP FOR SUCCESS: ACA BEST PRACTICES

Still having post-traumatic stress from last year's ACA filing? Below are a few critical areas to focus on for this year to help avoid any grief you may have previously encountered.

Start Early

It's natural to handle tax matters in a big push at the end of the year, but ACA compliance is tricky enough that you don't want to put it off. You're going to have to gather information from different sources to make your reporting complete, and that information is going to have to be consistent and accurate. Simply put – this will take some time, so get moving now.

Gather ALL the Information You Need

This starts with simple contact information for each eligible employee: name, address, date of birth, Social Security number, and any dependents covered under your plan. But, you need to be sure you have that information for every person for whom you're required to file; this includes recent retirees and former employees on COBRA benefits. Similarly, people you hire in November 2016 might not start being covered until January or February of 2017 – but still require a form for the IRS.

Ultimately, this is the information required to complete Form 1095-C and Form 1094-C:

- Social Security numbers and addresses of employees, spouses, and dependents
- Number of full-time employees for each calendar month
- Total number of employees for each calendar month
- Employee share of the lowest-cost monthly premium for self-only minimum value coverage for each calendar month
- Applicable Section 4980H safe harbor information for each calendar month

Don't hesitate to consult with your auditor, accountant, or external professional consultant (such as an Abila Business Partner) for more complex issues, for example in the distinction between seasonal workers (non-contract hires who work 120 days or less – and who aren't included in the counts above) versus seasonal employees (such as lifeguards, who work full-time, but for only part of the year – and who are included).

Educate Yourself on Codes and Costs

One aspect of ACA that cost many organizations the most time and caused the most confusion last year was policy costs. Dig into this early, and keep your accountant on speed-dial. You may also need to contact the insurance provider as you get into the details, for example, about all of the dependents covered under a certain policy.

Study the relevant IRS offer codes and safe harbor codes to make sure you understand them before you plug them into your filing software. New codes for this year, for instance,

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LESSONS LEARNED FROM LAST YEAR

change the way you handle cases where an employee's spouse has outside insurance coverage. And, you need to be ready to back up the codes with accurate details to avoid IRS penalties for incorrect entry.

Communicate Early and Often With Employees

This starts with the ACA open enrollment period beginning November 1 and extends through tax season. You need to provide clear, correct information and instruction to eligible employees, and make sure they help you verify everything is accurate. Housing a system that provides you with the tools and resources you need for both management and employee action will benefit you in this process — such as an integrated HR Management Suite with an employee Web services portal, easy-to-follow benefit enrollment process, and HR management solution.

Alert your employees about two items that are particularly important:

- The names in your filing system must match the names on the relevant Social Security cards, exactly. Besides getting the legal spelling correct (for example, "James" versus "Jimmy"), this is particularly important for names that have a suffix such as "Jr." and names that have been changed in the past year.
- Any employee who ends up going to the ACA Marketplace to shop for other insurance has to supply your organization's address on a form so you can receive the correct notice from the government. If the address is wrong – say, if it's for a branch office instead of your headquarters – it fouls up that process. Be sure to provide the correct address to employees, and emphasize that using the incorrect address will cost your organization money.

Check and Double Check Information

As you collect the information above, plug it into your software and start looking for gaps. Scrutinize every name, cost, and code, and don't be shy about asking questions to employees, insurance companies, and your accountants or auditors to iron out any wrinkles.

Think Twice Before You Fight

The Department of Labor has already sent out "exchange notices" for employees who got insurance via the Marketplace. Be prepared to pay a penalty in these cases, because it means your organization didn't meet ACA standards for affordability or minimum value.

LESSONS LEARNED FROM LAST YEAR

You have 90 days to appeal any cases that do arise. While you should definitely review each case, keep in mind the appeal process costs a lot of time and effort – and might not change the outcome. So, it might be cheaper to simply pay the penalty and make a note of whatever oversight led to the infraction, so you can avoid it in the future.

Save Your Work

As you go through the ACA process during tax season, save your work and document your notes about the process or individual employee records. Doing that gives you a strong foundation for ongoing records maintenance throughout the year. It also means you won't be starting from scratch with next year's ACA filings.

While you're likely to have some turnover in your employee base during that time – and, it's very likely some of the IRS details will change for the next tax year, too – making ACA maintenance a regular task for your team will greatly simplify your work over time.

Using the Right Technology

It's clear you'll have an easier time with ACA reporting when you get an early start, communicate clearly and often with affected employees, and take a methodical approach to recordkeeping. You should also take advantage of appropriate technology to increase your effectiveness.

Being able to easily track changes, create reports, and complete e-filings will save your staff time and trouble. Beyond that, though, it will also ensure you minimize errors in the ACA compliance process, reducing the chances your organization will have to re-file or face penalties later on.

The Abila Human Resource Management suite within MIP Fund Accounting™ and MIP Advance™ is comprised of four modules – Employee Web Services (EWS), HR Management, Payroll, and Benefit Enrollment – empowering employees with a self-service portal and providing your finance and HR team with complete, robust online tracking and reporting capabilities designed for modern nonprofits and government entities.

PRO TIP: Social Security numbers, mailing addresses, dependents, and the exact spelling of names for eligible employees need to be identical in your ACA filing system and your payroll system. Get in the habit of updating both systems every time a change arises. Housing and keeping track of this kind of sensitive information can be daunting. Ensure you have a true fund accounting™ system in place that provides you with security measures and alerts when sensitive information is accessed or altered without permission.

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COMPLIANCE TRENDS

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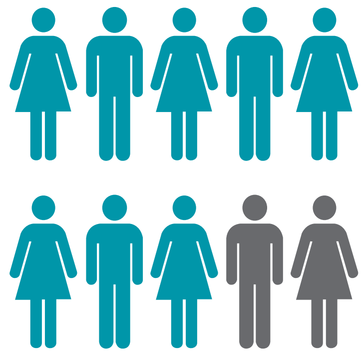
COMPLIANCE UPDATE

Compliance is a big source of concern for nonprofit finance departments, as shown in the [2016 Nonprofit Finance Study] conducted by Finn Partners on behalf of Abila. The study, which surveyed more than 400 nonprofit finance professionals, finds hat nearly two-thirds of those professionals believe compliance has become more burdensome and costlier in the past two or three years.

Nearly a quarter of respondents say they spend more than 10 hours a month on compliance – or three full working weeks over the course of a year. Many of them fear the burden will be even worse if their organizations grow: Nearly half of those surveyed say growing their organizations would make it harder or much harder to comply with rules and regulations, versus only 11 percent who say growth would make compliance easier.

The findings for compliance fit into larger worries about following rules and regulations. Nearly 80 percent of respondents express concern that new rules and regulations might increase costs for the organization, while 65 percent express concern that changes in rules and regulations might be unrealistic to implement.

Beyond that, many nonprofit finance professionals say they don't have full mastery of new regulations that are coming into effect. Only one-third report they understand very well either FASB 117 (which reduces the number of revenue classifications in accounting from three to two), or the new overtime rules from the Department of Labor.



80%

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65%

65 percent express concern that changes in rules and regulations might be unrealistic to implement

For more of our findings on compliance and other topics important to nonprofit finance professionals, see the complete [2016 Nonprofit Finance Study].

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Dan Murphy is currently the Product Manager for Abila MIP Fund Accounting™. He has a background in nonprofit financial management, with degrees in finance and accounting and more than 10 years of nonprofit accounting.

Zobrio

Zobrio is an authorized Abila Business Partner that provides technology expertise and business strategy for local government, nonprofits, and traditional businesses. The team has more than 30 years' experience implementing and supporting financial software, such as MIP Fund Accounting™. Zobrio contributed expertise and a wealth of knowledge to this year's ACA chapter.

About Abila

Abila is the leading provider of software and services to associations, nonprofit organizations, and government agencies that help them improve decision making, execute with greater precision, increase engagement, and generate more revenue. Abila combines decades of industry insight with technology know-how to serve nearly 8,000 customers across North America. For more information, please visit www.abila.com.

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