Year-End Survival Guide
For the Nonprofit Accountant

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Do you feel like man (or woman) overboard right now, drowning in the details of budget preparation and approval, ACA planning, year-end reporting, and pre-audit groundwork?

It's nearly impossible to keep your head above water this time of year! Abila wants to be your life preserver, keeping you afloat through Q4 and into the new year.

Consider this survival guide as your personal flotation device, providing you with the buoyancy you need to stay safe in these potentially treacherous waters, called year-end.

Q4
AND
BEYOND!

Budget Preparation and Approval

The foundation of all things financial is the budget. A well-built budget allows you to establish benchmarks, determine priorities, gauge financial health, and monitor and measure mission delivery.

Follow these best practices as you develop your budget:

Use your prior year's budget as a launch pad – Review and analyze the previous year's actuals versus projections; review transactions, expenses, revenue, and fixed costs; and eliminate any anomalies from the year before, for example a one-time gift or expense. A word of caution: A look back is a logical starting point, but you won't want to base your entire budget on last year's numbers alone.

Meet with other departments within the organization – Bring together key contributors, establish expense expectations, identify relevant funding sources, and lay out your budget timeline.

Begin building your budget – Unlike in the for-profit world, where budgets are driven by profitability, nonprofits need to start their budget development by projecting expenses. Look at your coming year's strategic goals. Are you launching any new programs, expanding your geographic or demographic reach? Estimate the associated costs by creating an itemized list of expenses you'll incur to achieve each goal.

Identify and justify any anticipated large capital expenditures – Have you outgrown your off-the-shelf accounting software, for example, and need a more powerful true fund accounting™ system? Do you need new software to help you comply with impending ACA regulations? (See Chapter 2 for more on ACA compliance and reporting.) Has your donor base grown to the point where you need a more sophisticated donor management system? If your systems aren't keeping pace with your mission, it's time to budget for technology.

CHAPTER 1

Budget Preparation and Approval

Always consider external factors – What is the overall economic forecast? Are your major donors having a good year or a bad year, financially? Are economic conditions improving or deteriorating for the population(s) you serve?

Identify areas of risk – For example, identify any potential liquidity risk, asset exposure risk, legal/ liability risk, and professional liability risk based on your organization, how you operate, and what "vertical" you're in. Establish reserves to cover these potential risks, if necessary.

Align budget line items with accounting line items – The structure of your operating budget should match your chart of accounts to ensure effective comparisons between projections and actuals. Misalignment of budget and accounting items creates extra work for staff members who have to translate between the two and can compromise the integrity of your financial reports.

Allow time for refinements – You started by identifying expenses associated with your mission-driven goals. Then you projected revenue. It's likely you have a gap between the funding you need for maximum programmatic impact and what you have coming in the door.

- If you have a surplus of dollars coming in, consider growing your programs or expanding your reach.

- If you're in a deficit, first identify opportunities for streamlining expenses, then meet with your development team to determine if the deficit can be made up with fundraising initiatives. What are the fundraising possibilities, and what are the costs associated with these efforts?

Seek budget approval – First review your draft budget with internal stakeholders/contributors for feedback and buy-in. When you achieve internal approval, it's time to present it to the board.

Take next steps – Distribute your final, approved budget internally, and update your accounting software so you can start monitoring, tracking, and reporting to your various constituents.

PRO TIP!

Tick Tock, Timeline Tips
1) Schedule budget review/approval on your board of directors' Q4 meeting agenda
2) Back up your timeline from there
3) And, don't forget to accommodate for holiday vacation calendars, end-of-year giving season, year-end reporting, and upcoming filings as you build your timeline.

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Affordable Care Act (ACA) Planning

The Patient Protection and Affordable Care Act (PPACA), commonly called the Affordable Care Act (ACA), is a United States federal statute signed into law in March 2010. It represents one of the most significant regulatory overhauls of the U.S. healthcare system since the passage of Medicare and Medicaid in 1965.

The ACA was enacted with the goals of increasing the quality and affordability of health insurance, lowering the uninsured rate by expanding public and private insurance coverage, and reducing the costs of healthcare for individuals and the government.

Under the Employer Mandate of the ACA, large employers must offer their full-time employees (and their dependents) the opportunity to enroll in "affordable" coverage. Employers that offer their employees the opportunity to enroll in coverage will be penalized if the coverage is "unaffordable" or does not provide "minimum value," and an employee receives a premium tax credit or cost-sharing reduction.

Nonprofit organizations are not exempt from upcoming ACA compliance and must comply with ACA reporting requirements for coverage offered in 2015.

Here's a deeper dive into the who, what, when, and how of ACA compliance for nonprofits:

Who is Required to Report
Applicable large employers (ALEs) that are subject to the employer shared responsibility provisions are required to:

1.) furnish forms to each employee and
2.) file forms with the IRS.

An ALE is an employer that employed an average of at least 50 full-time employees during the preceding calendar year. Regulations in the ACA impose non-deductible excise taxes on applicable large employers who do not offer minimum essential coverage to at least 95 percent of its full-time employees in any given month.

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) employees. An hour of service is each hour for which an employee is paid or entitled to be paid for the performance of duties. Paid hours for vacation, holiday, illness, incapacity, layoff, jury duty, military duty, or leave of absence are included in the calculation. Volunteer hours are not.

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CHAPTER 2

Affordable Care Act (ACA) Planning

The purpose of filing requirements is for 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) focuses on the reporting requirements of the mandate. Coverage offered, its cost, and who had such coverage are reportable for the IRS to assess the Section 4980H penalties and determine if an employee was offered coverage with minimum value that was affordable.

The following forms are used to meet the reporting requirements.

Form 1095-C – Employers furnish this form to employees. Its purpose is to:

- Certify the coverage offered
- 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 following information is required to complete Form 1095-C and Form 1094-C:

- Social Security numbers of employees, spouses, and dependents, plus addresses
- 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 for each calendar month

The information reported on Form 1094-C and Form 1095-C is used to determine whether an employer owes a payment under the employer shared responsibility provisions under section 4980H. Form 1095-C is also used by the IRS and the employee to determine the eligibility of the employee for the premium tax credit.

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Affordable Care Act (ACA) Planning

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Types of Reporting	Affected Employers	Required Information	Forms
Code 6056 Employer mandate Applicable large employer (ALE) health coverage reporting	Applicable large employers with at least 50 full-time employees, including full-time equivalents	Terms and conditions of health plan coverage offered to full-time employees Benefit: Helps the IRS administer the ACA's employer shared responsibility penalty	1095-C/1094-C[1]
Code 6055 Individual mandate Reporting of health coverage by health insurance issuers and sponsors of self-insured plans	Employers with self-insured health plans	Information on each individual provided with coverage Benefit: Helps the IRS administer the ACA's individual mandate	1095-B/1094-B
Code 4980H	Applicable large employers	Assesses penalties	N/A

1 Organizations may use forms 1095-C and 1094-C for combined reporting under both sections 6056 and 6055.

When and How You Report

Beginning with calendar year 2015, employers must supply the required information by January 31 of the following year to employees. Self-insured employers must furnish a Form 1095-C to each full-time employee by January 31 of the following year. The transmittal Form 1094-C, along with a copy of each employee's 1095-C, is due to the IRS by February 28 if filing on paper, or March 31 if filing electronically of the following calendar year to which the report relates. Employee copies may be provided along with the W-2s.

Under the final IRS regulations, electronic filing is required for all ALEs filing at least 250 returns during the calendar year. ALEs with fewer than 250 returns may choose to file paper returns, but are encouraged to file electronically.

CHAPTER
2

Affordable Care Act (ACA) Planning

Using Abila MIP Fund Accounting™

Abila MIP Fund Accounting™ offers a three-tiered payroll solution using the Payroll, HR Management, and Employee Web Services modules. Each module is purchased separately and adds functionality to the payroll and reporting process.

Use the Payroll module to enter employee information, wage, deduction, and benefit codes, and produce the payroll. Payroll contains reports to produce employee wage reports, deduction, and tax history reports. ACA compliance forms are available using *Tax Forms and eFiling by Aatrix®* for those who organizations are required to submit. Form 1095-B and 1094-B are available for those organizations required to submit them.

The HR Management module provides additional human resource management and reporting functionality. Fully integrated with Payroll, HR Management allows a single point of entry for human resources data. Payroll checks and vouchers are still produced using the Payroll module.
HR Management captures the healthcare benefits coverage for employees and their dependents. HR Management reports include the Health Care Compliance report used for determining full-time status of employees. Use HR Management to complete the entry form for the 1095-C. The query feature in HR Management is used to produce customized employee reports and to review Form 1095-C.

With Employee Web Services (EWS), employees enter their time, leave, and expense information, and access personal information using a Web interface. Employees use the Personal menu in EWS to update personal and dependent information. EWS fully integrates with Abila MIP Payroll tables and the Abila MIP HR Management module. EWS tracks hours worked for both salaried and hourly employees and those hours are used by reports in HR Management for determining full-time employee status. Reports in HR Management rely on hours worked entered through EWS.

PRODUCT SPOTLIGHT

Complying with the complicated requirements of the ACA is much easier with the help of true fund accounting™ software that fully integrates payroll and HR functionality.

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A D V A N C E

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Preparing Your Annual Report

Whether you're a small community-based organization or a large national nonprofit, your annual report is an opportune medium to communicate key information and insight to board members, donors, volunteers, the community, and even potential future advocates.

To get the most out of your annual report, include these sections:

Executive Director's Message
The report's introduction, typically in the form of a letter from your executive director, should cover two main ideas.

First, it should provide readers with a look at key performance indicators (KPIs). A review of KPIs – which are essentially program and people measurements – might include a:

- Look back at the previous year's accomplishments

- "State of the mission" that addresses the financial health and sustainability of your organization

- An exciting "sneak peek" at future plans

Second, it should say thank you, thank you, and thank you, again, to staff members, your board of directors, volunteers, major grantors, donors, and anyone else who helped you achieve your mission that year.

Financials
You certainly don't need to regurgitate your entire audited financial statement in your annual report, but a look at various "drill down" views of your expenses and revenue is valuable. You might include:

- Cashflow analysis
- Revenue analysis (grant vs. contribution)
- Fundraising event revenue (year-over-year comparison)
- Revenue by campaign

CHAPTER 3

Preparing Your Annual Report

Numbers on a page are not the most exciting content. Plus, many of your readers won't know how to read a financial statement, or understand what all the numbers mean. Because your financial story is perhaps the most important part of your annual report, you'll need to think of creative, visual ways to tell it through pictures, graphs, charts, infographics, and more.

Preparing Your Annual Report

Accomplishments

Many nonprofits tend to talk about what they "did" that year. Instead of describing mission activities, show how those activities impacted your community. What did you accomplish through these activities? Who did you serve? How many people in your community did you reach? What difference did you make?

This is the perfect opportunity to share real stories about how your programs impacted real people. Use testimonials, personal profiles, anecdotes, and lots of photos.

Call to Action

Done right, you've just wowed readers with all the meaningful ways you've impacted the community. Don't leave them hanging! Tell them how they can help you do even more good in the coming year. Detail all the ways they can give – both monetarily and through their time and talents.

PRO TIP !

Your annual report is also an excellent public relations tool to share with the media and an onboarding tool with which to indoctrinate new board members and incoming executives.

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Pre-Audit Procedures

If all the year-end activities aren't enough, it's also almost audit season. Though "audit" is actually a five-letter word, many misconceive this exercise as the time when independent auditors come into the organization intending to "clean up" your financial books, uncover fraudulent activity, or expose questionable transactions.

Not so! This is not an antagonistic exercise, but a time to verify that your financial records, accounts, business transactions, accounting practices, and internal controls are in tip-top shape.

Assuming you've been maintaining adequate documentation for all accounting transactions throughout the year, your audit prep shouldn't be daunting. Instead, it will just be a matter of gathering all the required documents – either by creating a single electronic folder or duplicating original hardcopies – that your auditors will need to efficiently and effectively audit your financials.

According to the National Council of Nonprofits, here are the most common items reviewed by auditors:

- Year-end reconciliation and bank statements
- Year-end investment summary showing year-to-date transactions and balance of investments at fair market value (FMV) and original cost (FMV at date of donation)
- Documentation of marketable securities that were donated during the year and of their sale, if applicable
- Written pledges made by donors for a charitable contribution and documentation of any verbal pledges
- List of grant funds received already and those that are not yet received but expected, with documentation
- List of any physical items that the nonprofit has in inventory that it is intending to sell
- Fixed asset and depreciation schedule (include copies of any documentation relating to donated fixed assets)
- Reconciliations to support any other asset accounts
- Listing of year-end accounts payable and accrued expenses such as payroll taxes and documentation of the liability created by unused but accrued paid leave, including paid leave that carries over to the next fiscal year

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Pre-Audit Procedures

- If applicable, a schedule of notes payable to the nonprofit, changes to the schedule year-to-year, and copies of the notes themselves
- Reconciliation of deferred grant revenue and refundable advances from funders
- Reconciliation of net assets classifications

Auditors also may request to review:

- General ledger for the fiscal year
- Year-end trial balance and financial statements broken down by net asset class
- All grant awards and related correspondence (including proposals, commitment letters, acknowledgement letters, and reports) and contracts that resulted in revenue; ensure that this correspondence indicates any time or purpose restrictions on the funds, or if they are unrestricted
- Minutes of meetings of the board of directors and committees
- Accounting manual or financial management policies
- Whistleblower protection policy
- All contracts, including lease agreements
- Payroll tax reports, W-2s, and 1099s issued during the fiscal year and timekeeping records, if kept
- Documentation of charitable contributions: grants, gifts, and corporate sponsorships
- Documentation of income earned from taxable activities (unrelated business income tax)

Lastly, don't forget the logistics of an audit. Appoint a staff member to manage the actual onsite visit. You'll want to determine, ahead of time, the potential needs of the audit team. Will your guests need a parking pass or security badge to access your building? Do you need to reserve a quiet conference room for them? Do they need Wi-Fi access?

PRO TIP!

Having auditors onsite can be hectic and distracting. Try to find out, in advance, when the auditors' fieldwork will begin and how long they'll be onsite. Make sure you don't schedule other important meetings/events in your office during those days.

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About Abila

Abila is the leading provider of software and services to nonprofit organizations and associations 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 more than 8,000 customers across North America. For more information, please visit www.abila.com.

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