Guide for Non-profit Organization Financial Administrative Form

This general guidance is provided by the State Education Department (SED) to assist non-profit organizations in completing the Non-profit Organization Financial Administrative Form as part of the sponsor application /renewal for participation in the Summer Food Service Program (SFSP) and to provide best practices for operation of a SFSP. The sections in this guidance correspond with the sections of the Non-profit Organization Financial Administrative Form.

A. Contact Information:

All non-profit organizations completing this form are required to complete this section. If there are no changes to how the sponsor has operated in the previous year or from the last completed form, sign the certification and submit as part of the annual renewal.

B. Organization Background and Eligibility:

The name of the organization and federal ID number must match the organization's name and federal ID number on the tax exempt letter (501C3). If a group ruling was submitted, the name on the group ruling must match the organization's name.

To be eligible for the SFSP, the organization must be currently tax exempt.

Any assumed names must have a certificate of assumed name. SED will not recognize any names without a certificate of assumed name.

The name on the Certificate of Incorporation must match the organization's name. The articles of incorporation for religious organizations that maintain a place of worship are filed with the county clerk in the county where the religious organization is located. All other organizations file with the Secretary of State.

A nonprofit should have a formal, well-defined mission approved by the board of directors. The organization's programs and activities should effectively and efficiently work toward achieving that mission. Nonprofits have an obligation to ensure program effectiveness and to devote the resources of the organization to achieving its stated purpose.

Service/Activities should contain those that are year-round. The organization should have brochures/pamphlets/articles that document the existence of such services/activities. There should not be any gaps of time when the organization was inactive within the last seven years (or since the organization's inception stated on the certificate of incorporation for organizations that are newer than seven years.)

C. Financial Viability

The same legal name and same FEIN number in which the sponsoring organization is doing business with SED for SFSP operations is required to incur the costs of the program. Supporting documentation should be under this same FEIN number (workers compensation, disability insurance, A-133 audits, bank accounts and bills). Sponsors operating with a DBA should be able to provide supporting documentation that links the DBA to this same FEIN number.
As part of its financial oversight responsibility, a nonprofit board should review an organization's audited financial statements on a periodic basis. Creation of the statements is the

responsibility of management and they are typically produced monthly. The monthly statements are presented for the month just ended as well as for the year-to-date and provide valuable reference points to allow the board to see how well actual results follow projected assumptions.

A Certified Public Accountant (CPA) can be obtained by the organization to review financial statements and can issue a report which expresses that the financial statements are free from material misstatement. Procedures for conducting a review of financial statements are generally limited to analytical procedures and inquiry of management, as well as obtaining management representations of the completeness of the information provided.

There is no state or federal law requiring reviewed financial statements. As with an audit, there may be grantors or lenders that require that the organization provide an annual reviewed financial statement as part of the grant or loan agreement. A review will provide that grantor or lender some comfort in knowing that an accountant independent of the organization has reviewed the financial information that the organization is providing.

An audit may be cost prohibitive for an organization, so a reviewed financial statement is an alternative that still provides a level of accountability and transparency. Although a review is less in scope than an audit, a CPA outside of the organization is still providing some level of assurance that the financial statement are free of material misstatements. A review will help the board exercise its fiduciary responsibility for the organization. When the organization engages a certified public accountant to review its financial statements, it can also receive the benefit of an external expert providing recommendations for improvement of any internal control deficiencies it may identify. Many times an organization does not have financial experts on the board. Having an independent set of eyes review the financial statements of an organization provides some level of comfort to those charged with governance that their financial position is being fairly represented.

An organization that receives over $750,000 in federal grants is required to have an annual audit in accordance with 2 CFR 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. An audit of an organization's financial statements provides an opinion by a qualified independent expert that the financial statements present fairly the financial position and results of operations of the organization. An audit requires the CPA to gather sufficient and reliable evidence regarding the information provided in the financial statement. This evidence usually includes understanding the organization's system of internal controls, confirmation of balances and agreement arrangements with third parties, testing of detailed transactions to supporting documentation, interviews of organization personnel and board members on processes, ethics and fraud and obtaining management representations of the completeness of the information provided.

Even if an audit is not required, some organizations choose to have their financial statements audited. An audit can provide assurance to the governing body that there are no material misstatements. Nonprofits fall under intense public scrutiny and therefore it may be important that the Board show its constituents that they have exercised financial oversight by having an audit of their financial statements. Another reason for an audit would be if the Board feels that misstatements or fraud may exist. New buzz words in the nonprofit world are accountability and transparency. An audit helps meet these objectives.

It is important to note that even if an organization obtains audited or reviewed financial statements, the CPA can never guarantee that there is no fraud or error within the organization. Both audit and review procedures only sample the information in the financial statements, so they can provide reasonable assurance that the numbers are accurately stated, but unfortunately, they never provide absolute assurance.

The basic financial reports of a nonprofit organization include:

Statement of Financial Position: sometimes referred to as a balance sheet, summarizes the assets, liabilities and net assets of the organization at a specified date providing a picture of the organization's financial position on that date.

Statement of Activities: reports the organization's financial activity over a period of time. It shows the types and amounts of revenue and expense and the net revenue or difference between revenue and expenses.

Statement of Cash Flows: summarizes the resources that become available to the organization during the reporting period and the uses made of such resources.

Statement of Functional Expenses: reports all expenses as related either to program services or to supporting services. Expenses under program services are shown divided among the various programs. Expenses under supporting services are generally divided between (1) management and general expenses and (2) fundraising expenses.

Other reports, depending on the organization's needs, are:

Government Information Returns: Nonprofit organizations are required by federal and state governments to file various reports to maintain their tax-exempt status and document tax compliance. The primary federal reports are the annual Form 990 and Schedule A to the 990. State governments may require additional reports, such as the 199.

Tax Returns: If you have employees, payroll tax returns are required by federal and state agencies, and by some cities as well. Organizations also must report taxable income from business activities unrelated to their tax-exempt purposes (unrelated business income). If an organization engages in sales, state sales tax regulations may be applicable. If independent contractors, are hired, 1099 Forms may also have to be filed.

Reports to Funders are based on the terms of the grants. In some cases, periodic statements report to the funder the ways grant funds were spent. Another report to a funder is a "reimbursement request" in which the funder is billed for the amount spent by the organization on a program established through a contract arrangement. Some reports to funders focus almost exclusively on program output, such as numbers of clients served, and may report only the organization's consolidated financial activity.

Management Reports are for internal use by the organization. They are selected and formatted to answer specific concerns of management. Sponsors must maintain records of their costs and make them available for review or audit purposes. They must also be able to document that they have maintained a nonprofit food service by retaining copies of all revenues including SFSP reimbursement(s) received and expenses paid from the nonprofit food service account.

D. Administrative Capability

The executive director in a nonprofit maintains complete oversight of all operational components and is responsible for all other paid or volunteer staff. The board of directors hires the executive director and the director remains responsible to them. The executive director's main task, with the cooperation and assistance of staff, is turning the board's policy directives into actual programs. The executive director is one of the main people to speak for the organization in the community, so he/she must have a full and complete understanding of every possible element.

The job description for an executive director, while obviously addressing details specific to the organization, has a number of common points. These points will give any applicant a clear sense of the responsibilities of the position and will also remind the board of the job functions. The job description should include all essential duties, such as:

- Responsible for overall operations, asset protection, and marketing/public relations

- Oversees all accounting functions, including those necessary for auditing, budgeting, financial analysis, capital asset and property management, and payroll in accordance with generally accepted accounting principles

- Handles or delegates all aspects of human resource management, including but not limited to hiring and termination, developing position descriptions, setting compensation, and applying board-approved employee policies and benefits in accordance with federal and state requirements

- Interacts with other personnel and organizations, such as local, county, or state governments, business associations, trade and professional associations, and others

- Assists in the development of current and long-term organizational goals and objectives as well as policies and procedures for operations

- Establishes plans to achieve the goals set by the board of directors and implements policies, subject to approval by the board

E. Internal Controls

The organization's financial duties should be distributed among multiple people to help ensure protection from fraud and error. The distribution of duties aims for maximum protection of the organization's assets while also considering efficiency of operations. How are cash receipt and disbursement functions separated among various roles? Some key considerations include:

- ✓ Check signers should not be involved in expense approval or basic accounting procedures
- ✓ Someone outside of the accounting function should open and log all checks received

Bylaws are the rules that govern the internal management of an organization. They are written by the organization's founders or directors and cover, at minimum, topics such as how directors are elected, their terms of service, how meetings of directors are conducted, what officers the organization will have and what will be the officers' duties. A board should have a rigorous board development process that outlines clear performance expectations for board members and ensures accountability for performance. To ensure adequate rotation of officers and board membership, an organization should limit the number of consecutive terms a board member can serve or establish other mechanisms for succession planning.

As part of the board orientation process, board members should receive a copy of the Bylaws. If the Executive Director or the Authorized Representative is a member of the board of directors the bylaws, articles of incorporation or board policies and procedures should include a resolution that the Executive Director or Authorized Representative is not eligible to vote on items related to the board's decision regarding their salary or other human resource issues that affect them, such as hiring and firing. Where an employee of the organization is a voting member of the board, the circumstances must ensure that the employee will not be in a position to exercise undue influence.

The board, in partnership with staff, should:

- engage in ongoing planning activities as necessary to determine the mission of the organization
- define specific goals and objectives related to the mission
- evaluate the success of the organization in achieving the mission
- establish policies for the effective management of the organization, including financial and, where applicable, personnel policies.

The board should annually approve the organization's budget and periodically assess the organization's financial performance in relation to the budget, diversity and stability of revenue sources, and level of unrestricted net assets. As part of the annual budget process, the board should review the percentages of the organization's resources spent on program, administration, and fundraising.

Written meeting minutes reflecting the actions of the board should be maintained and distributed to board members. Board committees should act on behalf of the board only in unusual or extenuating circumstances and if such actions are consistent with the organization's bylaws. All board members should receive written minutes and reports of committee actions taken on behalf of the board.

The board should meet as frequently as is needed to fully and adequately conduct the business of the organization. The organization should have written policies that address attendance and participation of board members at board meetings and include a process to address noncompliance.

The board should be composed of individuals who are personally committed to the mission of the organization and who possess specific skills needed to increase the effectiveness of the board of directors in accomplishing the mission. The board should have no fewer than five (5) unrelated directors. Seven (7) or more directors are preferable.

Very few nonprofits compensate board members and it is unusual outside of large, complex entities such as health care systems or large foundations. The majority of board members should not have a financial interest in the organization. Financial interest is defined as anything of monetary value, including but not limited to salary, consulting fees, honoraria, and interests in real property, dividends, royalties, rent, capital gains, and forgiveness of debt.

Less-Than-Arm's Length Transactions (LTAL) & Conflicts of Interest

A **LTAL transaction** occurs when one party to the transaction can exercise control or significantly influence the other. Such transactions include, but are not limited to, those between divisions of an organization; organizations under common control through common officers, directors, or members; and an organization and a director, trustee, officer, key employee of the institution or immediate family members, either directly or through corporations, trusts, or similar arrangements in which a controlling interest is held.

All LTAL transactions must be disclosed to SED. Costs incurred from LTAL transactions are limited to the organization's actual documented costs and will be reviewed for reasonableness and necessity to the program.

A **conflict of interest** exists when a person or organization in a position of trust has a competing professional or personal interest thereby creating a circumstance where the person's or organization's judgment is improperly influenced.

The Office of Management and Budget (OMB) published new requirements for conflicts of interest in the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Rewards (also known as the Super Circular). In the Super Circular, subsection 200.12 mandates that non-federal entities must now disclose in writing any potential conflict of interest to SED.