

Jones & Roth CPAs on Excellence in Nonprofit Financial Management

BY SOPHIA BENNETT

Are you distinguishing direct and indirect costs accurately? Are those sponsorships you're soliciting for your next event going to give you a tax liability? Are you preparing your Form 990 in a way that helps you put your best foot forward to foundations and other funders?

The way you track, present and evaluate your financial information affects much more than the bottom line, says Fritz Duncan, who leads the nonprofit niche at Jones & Roth CPAs and Business Advisors. It can affect the organization's ability to pass audits, fundraise – even, in some cases, continue to exist in its current form.

When it comes to picking a CPA firm to help with bookkeeping, payroll, audits or other services, it can be tempting to go with the low bidder. But Duncan believes they can deliver a lot more bang for their (usually only slightly higher) buck. Organizations that hire Jones & Roth get more than a CPA, he says. They get a team of nonprofit specialists who are there to help them avoid potential missteps along the path to financial well-being.

5 Financial Pitfalls to Avoid

One of the biggest financial landmines for nonprofits is not preparing their Form 990 in a way that casts them in the best light. "Charity Navigator, foundations—everybody reads the 990," Duncan says. "People like to monitor how you spend your money. They look to see how efficient you are, and how much money you spend on administration versus programs. That's a big issue for anyone who raises money.

"How you prepare your 990 is actually advertising for you," he adds. "If you don't fill it out correctly or show yourself beneficially you're doing yourself a disservice."

Duncan and his team spend a lot of time working with people to classify expenses properly instead of dumping costs in the "administration" category, Duncan says. They also have a few tricks to share.

"We encourage fiscal directors to go to the development director and ask them to write a nice paragraph about what you're doing in the area where you're asked to describe your programs," says Kari Young, CPA. "Don't just put the bare minimum in there. That helps the organization tell its story and get its information out there."

"It's easier to avoid problems when you work with a firm that understands nonprofits."

Federal requirements for nonprofit financial reporting are ever-changing. It can be tough to keep up with every new requirement, and that's another way nonprofits get into trouble. For example, the federal government just revamped their entire audit system, says Sara Hummel, CPA. The changes affect every organization expending more than \$750,000 in federal funds annually. It is vital to understand these changes and incorporate them into your everyday practices.

As nonprofits get more creative with their fundraising efforts, more are running into questions about unrelated business income tax (UBIT). When a nonprofit engages in a business activity that is not directly related to their mission, the IRS can hit them with a tax bill or even take away their exempt status.

That doesn't mean nonprofits should avoid business activities. It just means they need to be thoughtful and careful when they do. "Any time you get into a new area, you should be looking at whether it's going to cause an issue with your status or if it is taxable," Duncan says.

Many nonprofits don't realize that UBIT can apply to event sponsorships. If you are truly selling sponsorships, that's fine. But if what you end up selling is advertising, it is taxable. It doesn't matter that all the money will support your mission, Young says. The IRS looks at how you make the money, not how you spend it.

Another area where nonprofits can run into problems is with restricted donations. "If you have money coming in with restrictions, make sure you're capturing that and that you have a system to track when you spend it and whether you're spending it properly," Young says.

Duncan often sees nonprofits failing to record in-kind donations. Even when charitable groups remember to put them on the statement of financial position, "there are a lot of rules for how you need to record them," Duncan says. Ignoring those rules can get your organization into trouble with the IRS.

A Valuable Partner

It's easier to avoid these and other problems when you work with a firm that understands nonprofits.

A charitable organization's financial statements are very different than those for businesses, Duncan says. The rules are different too. A firm that doesn't understand that won't be able to provide the same level of guidance and support.

To Duncan's knowledge, no other Oregon CPA firm has a nonprofit practice as big as Jones & Roth's. "If an organization called me and said, 'I have a 990 question or a single audit question or a donation question,' we can answer all those questions so people don't have to make three or four phone calls," he says. "There are not a lot of firms that have that depth."

In keeping with their desire to be a long-term partner, Jones & Roth commits a lot of time to helping the nonprofit community grow. The firm partners with banks and trade associations like the Nonprofit Association of Oregon to provide regular roundtables and trainings.

"Those associations are really important to us," Hummel says. "They allow us to both contribute to the community and learn from the community."

Board development is another area where the firm gets heavily involved. "Whether your board needs help with how to read a nonprofit financial statement, how to deal with an endowment, how to monitor internal controls – those are all things we can help with," Duncan says. The firm has provided similar services to organizations in California, Alaska, Colorado and Missouri.

"We work with nonprofits throughout the whole year on whatever they're doing," Young says. "We're always checking in to see what they need. It's more beneficial than just calling when it's time to do the audit. We tell our clients, call anytime, and don't think you're going to get a bill every time. You don't have to figure these complicated issues out on your own. We can help."

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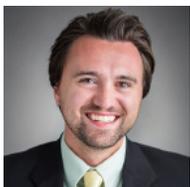
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