

# NON PROFITGPS

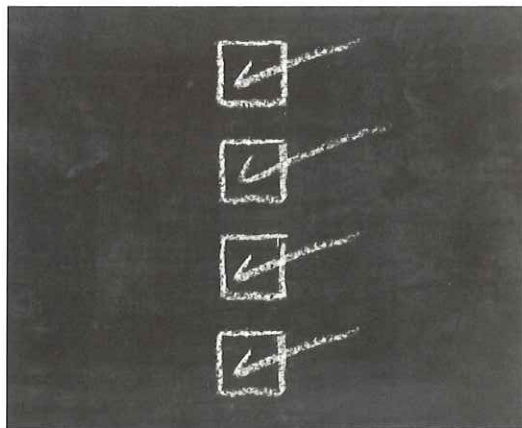


HELPING TO KEEP YOU ON THE RIGHT ROAD

## Continuing Compliance Requirements for Endowment Funds

*Be Sure Your Staff and Board Understand  
the Implications*

We have previously talked about New York's version of the Prudent Management of Institutional Funds Act or NYPMIFA. There was a lot to absorb in a short period of time, and most charities seem to have complied with those regulations.



There are several ongoing requirements you need to keep up with as well. First, any solicitations for endowments or permanently restricted funds must include a statement that principal can be spent. In addition, you should have an investment policy and the policy should stipulate at what point you would stop spending any principal. This is normally stated as a percentage.

Also, keep in mind even though there may be no donor restrictions of amounts earned on permanently restricted

funds, those earnings are to be treated as temporarily restricted until the board passes a resolution (or budget) to use those earnings. In passing such a resolution, the board needs to consider preservation of the endowment fund, the organization's purposes and the purposes of the endowment fund itself, general economic conditions, the possible effects of inflation, expected total return on investments (interest, dividends, net gains), and your other resources.

Be sure your solicitation materials are compliant and also that budget approval, including appropriation of endowment earnings, is part of one of your regularly scheduled board or finance committee meetings each year.

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## Kay's QuickBooks Korner

Kay Napoleon, our QuickBooks certified consultant, works with scores of nonprofits on their QuickBooks issues and she has compiled a few tips for users.

One of the most popular questions people ask is *"What is the purpose of Undeposited Funds?"* or *"Why are my deposits not matching my bank statement so I can reconcile properly?"*

QuickBooks uses the Undeposited Funds account to hold payments and receipts until you are ready to deposit them into your bank account. It is one of the most misunderstood accounts in QuickBooks, yet it makes your life much simpler when used correctly.

QuickBooks provides two ways to deposit Sales Receipts and Payments received. One way is to post Sales Receipts and Payments to the bank account on the actual transaction. The second choice is to collect the receipts and payments in Undeposited Funds; then ultimately make the Deposit to Bank account. The first method works fine as long as you make a deposit to the bank every time that you process a payment or receipt. However, most

businesses collect a number of payments prior to creating one deposit slip for the bank. Often, these payments and receipts are kept in a blue bank bag or the cash drawer. Consider your Undeposited Funds account to be what is in the blue bank bag or drawer.

When we use the Undeposited Funds account properly in QuickBooks, a deposit is entered with multiple items included. Upon reconciling the bank statement, the deposit in QuickBooks is exactly the same as the Deposit taken to the bank. Undeposited Funds shows on your Balance Sheet as a current asset. When you make a deposit these funds are transferred to the bank balance.

**It's almost a New Year again—and QuickBooks 2013 is out and on the shelves!**

A great new addition to the QuickBooks Accountant 2013 is the Send Journal Entries feature. It allows your accountant to click right in the journal entry they have created and attach it in a readymade email to the client.

Once the client receives the email they click on the attachment and the journal entry is imported automatically into their QuickBooks. This feature is easier and more time efficient—with less cause for errors. If you have QuickBooks questions, just give me a call at the office and I'll help you find the answers.

## Michael Desmond elected 2012-2013 Rochester CPA Chapter President

After several years of service as chair of the Rochester CPA Chapter tax committee, Mike Desmond has been named President-elect of the chapter for the 2012-2013 year.

Mike's skill and reputation for seeing projects through to completion makes him the logical choice for the Rochester CPA Chapter. Mike looks forward to continuing his service to Rochester CPAs during his term as President as well as into the future.



## Sarah Briggs Is One Tough "Mudder"

The race course is just under 11 miles, contains 20 different obstacles, and features designs by the British Special Forces. It begins with an ice bath and ends by running through 10,000 volts of electricity. In between there are obstacles to test all-around strength, stamina, mental grit and teamwork. It is just as important to help your fellow "Mudders" complete the course as it is for you to finish yourself. The worldwide event has raised over \$3 million for the Wounded Warrior Project. Next summer a course will be brought to the Upstate New York area and Sarah will be participating again!



# Surviving Enforcement of Documentation Requirements

Several states as well as the federal government have become more fastidious in requiring compliance for rules that have been around for years. These rules cover documentation for the use of federal funds including amounts passed through state or other governmental agencies. Documentation for payroll, usually your largest cost, must include a signed timesheet and a Personnel Activity Report.

Personnel Activity Reports are required to confirm work has actually been done. They cannot be based on budgets or expectations and must account for all compensated employee activity. They need to be prepared at least monthly, must coincide with one or more pay periods, and be signed by the employee.

Even employees who are hired to work in a single program area need periodic (not more than every six months) certifications demonstrating they continue to work solely in that area.

OMB A-122 contains rules applying to nonprofit organizations regarding allowed costs, charging costs to programs, and documentation required. This is not a new publication. The most recent version came out in 2004.

OMB A-122 confirms some costs are not allowable (can't be paid for with federal monies) such as alcoholic beverages or fundraising activities. Other costs, such as advertising, are allowable in certain circumstances.

## All costs are subject to general requirements.

### They must:

- be reasonable for performing services under the award,
- be allocated using consistent and proper allocation methods applying to federal and nonfederal programs,
- follow generally accepted accounting principles,
- not be charged to other programs, and
- be adequately documented.

There is a resource to help you with your questions and your compliance. See our WebStar winner, the Governmental Audit Quality Assurance Center. This website, initially designed for auditors, now contains resources for nonprofits receiving federal funds.

# Contribution Documentation Is Critical

The IRS is disallowing contribution deductions when charities don't provide proper documentation. Contribution documentation requirements aren't difficult. IRS publication 1771 provides a good overview including sample language charities can use to document contributions.

The consequences of not following the guidelines have never been more evident. There have been several disallowed contribution deductions because guidance wasn't timely or complete.

Donors are required to obtain written confirmation of their contribution from charities. The charity's acknowledgment should include the amount received or a description of any contributed property other than cash, whether the donee organization provided any goods or services in return, and a description and good-faith estimate of the value of those goods and services. It is not good enough to be silent about whether anything was given in return.

Generally, contributions of in-kind items valued at more than \$5,000 (other than publicly traded stock), must be supported by an independent appraisal. Contemporaneous acknowledgment means by

the due date of the donor's tax return, including extensions for filing the taxpayer's tax return, and recent cases show no leniency with that rule.

In one case the Tax Court disallowed a \$4.5 million charitable contribution because the acknowledgment letter did not include a good-faith estimate of the consideration received by the donor. In another case the deduction was disallowed because an independent person did not conduct the appraisal.

There have also been recent cases of disallowed contributions where taxpayers could show they made a contribution but didn't get timely documentation from the charity, or where the acknowledgment failed to state the donor did not receive any benefits in return.

There are special rules for contributions of cars, boats, and airplanes requiring charities to file form 1098C; these rules include requirements about how these items should be valued. Be sure you understand and comply with the documentation rules. Your donors expect this.



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## WEBSTAR Winner

Heveron & Heveron CPAs is a long time member of the Governmental Audit Quality Center and we find it invaluable for staying up to date. The Auditee Resource Center is free and loaded with resources.

Because of their contributions to CPAs—and now their clients—the Governmental Audit Quality Assurance Center receives our winter 2012-13 WebStar Recognition.

**Governmental Audit Quality Assurance Center's web address:** <http://www.aicpa.org>

The Governmental Audit Quality Assurance Center is provided by the AICPA, the world's largest association representing the accounting profession, with nearly 386,000 members in 128 countries and a 125 year heritage of serving the public interest.

