



Board Governance: Fiduciary Responsibilities of Boards of Directors

**City and County of San Francisco
San Francisco City Hall**

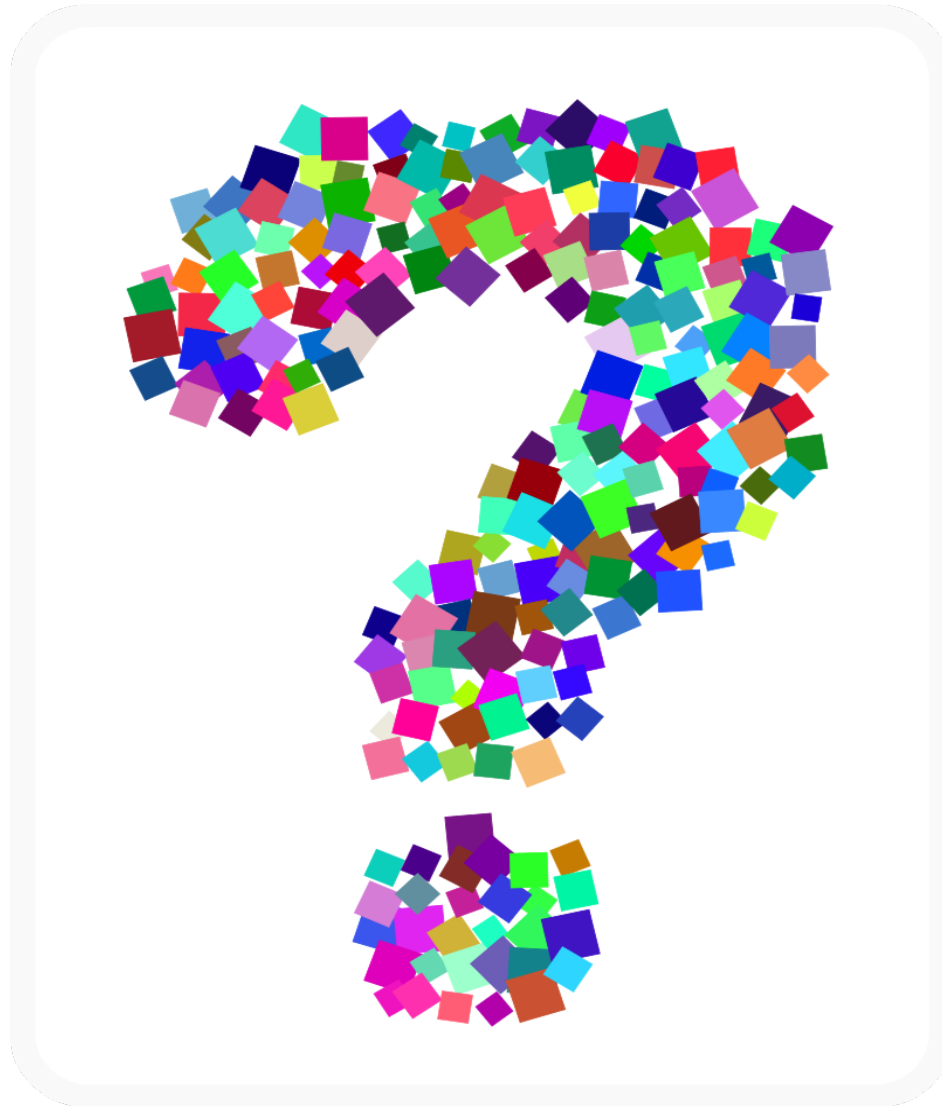
May 11, 2018

9:00-1:00pm

AGENDA

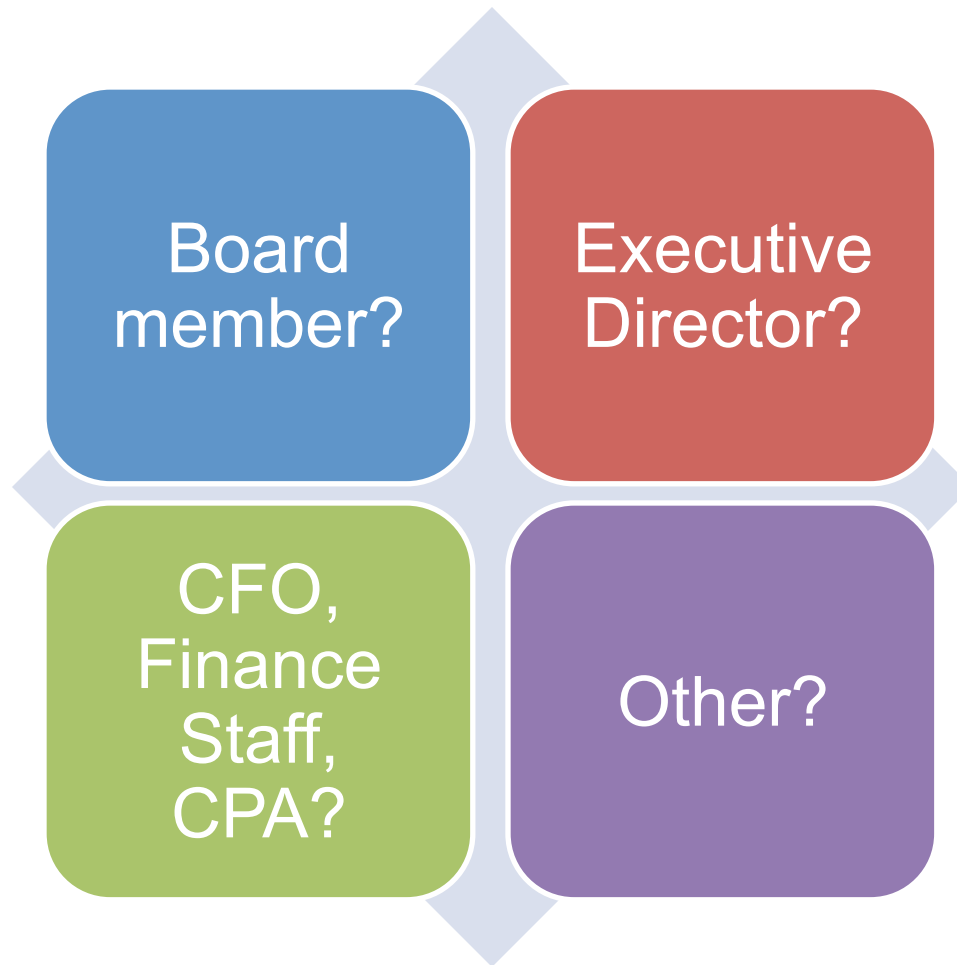
- ❑ Introductions
- ❑ Governance & Compliance
- ❑ Financial Concepts & Terminology
- ❑ Reporting & Key Indicators
- ❑ 990 & Audit
- ❑ Business Model
- ❑ Wrap-up

Questions Welcome Anytime



Introductions

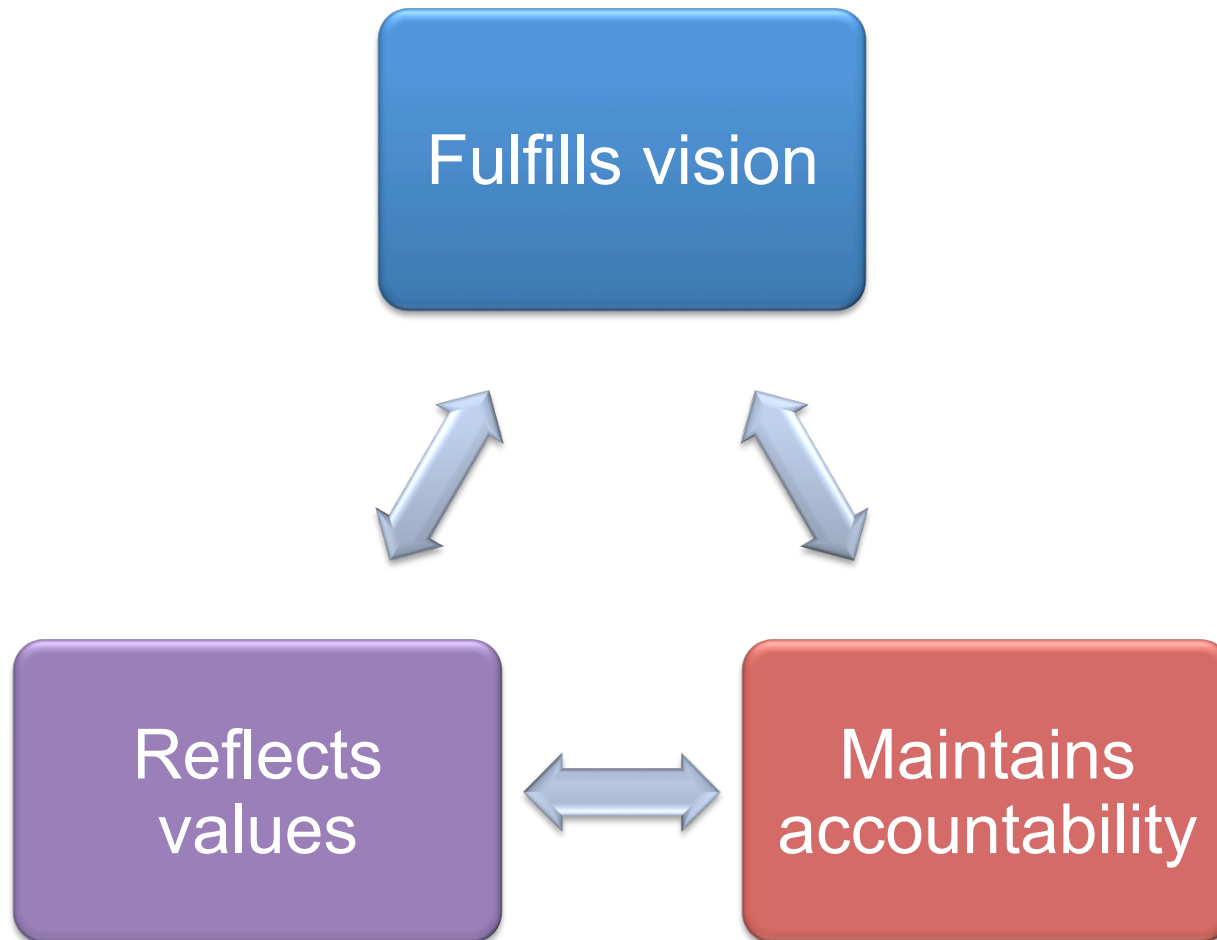
Who's in the audience?



Governance

Definition of Governance

Provision of guidance & direction to a nonprofit



Role of the Board - *Technical*



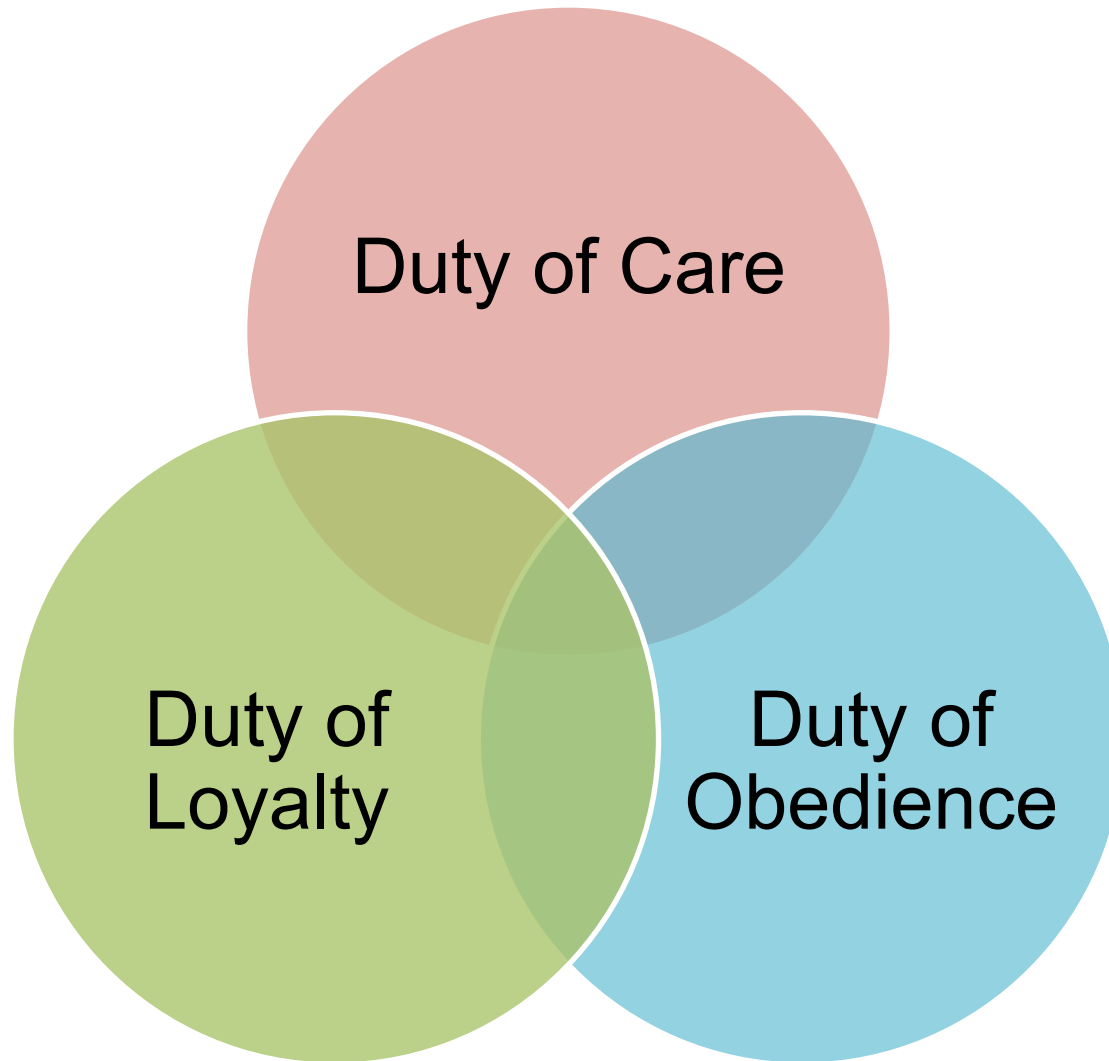
- ☐ Secure tax exemption
- ☐ Approve cert of incorporation, bylaws
- ☐ Ensure compliance & accountability
- ☐ Establish organizational policies
- ☐ Oversee financial management
- ☐ Hire, support, assess Chief Executive
- ☐ Recruit, educate, assess board

Role of the Board - *Strategic*

- ❑ Establish mission & vision
- ❑ Safeguard & strategically deploy resources
- ❑ Develop & monitor strategic plan
- ❑ Ensure adequate funding to fulfill mission
- ❑ Act as ambassador



Three Legal Duties



Duty of Care

- ☐ Uses “Reasonably prudent person” test
- ☐ Applies reasonable care, independent judgment
- ☐ Stays informed of organizational activities
- ☐ Relies on trustworthy sources of information
- ☐ Delegates to responsible individuals
- ☐ Uses “Business judgment rule”

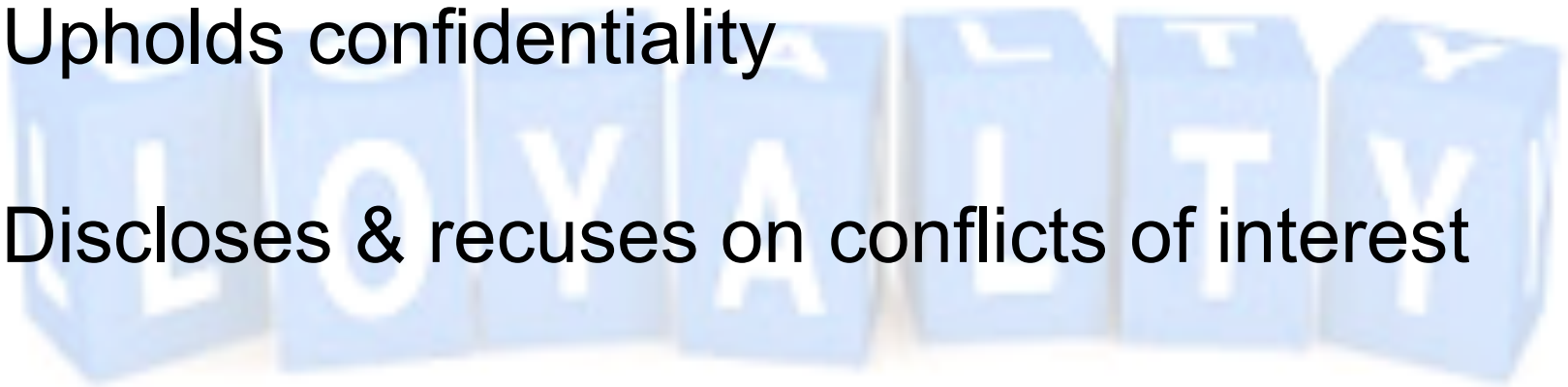
Duty of Obedience

- ☐ Ensures compliance with federal, state, local laws
- ☐ Ensures tax documents reviewed & properly filed
- ☐ Adheres to organization's bylaws
- ☐ Advances mission
- ☐ Sets ethical tone

Ethics

Duty of Loyalty

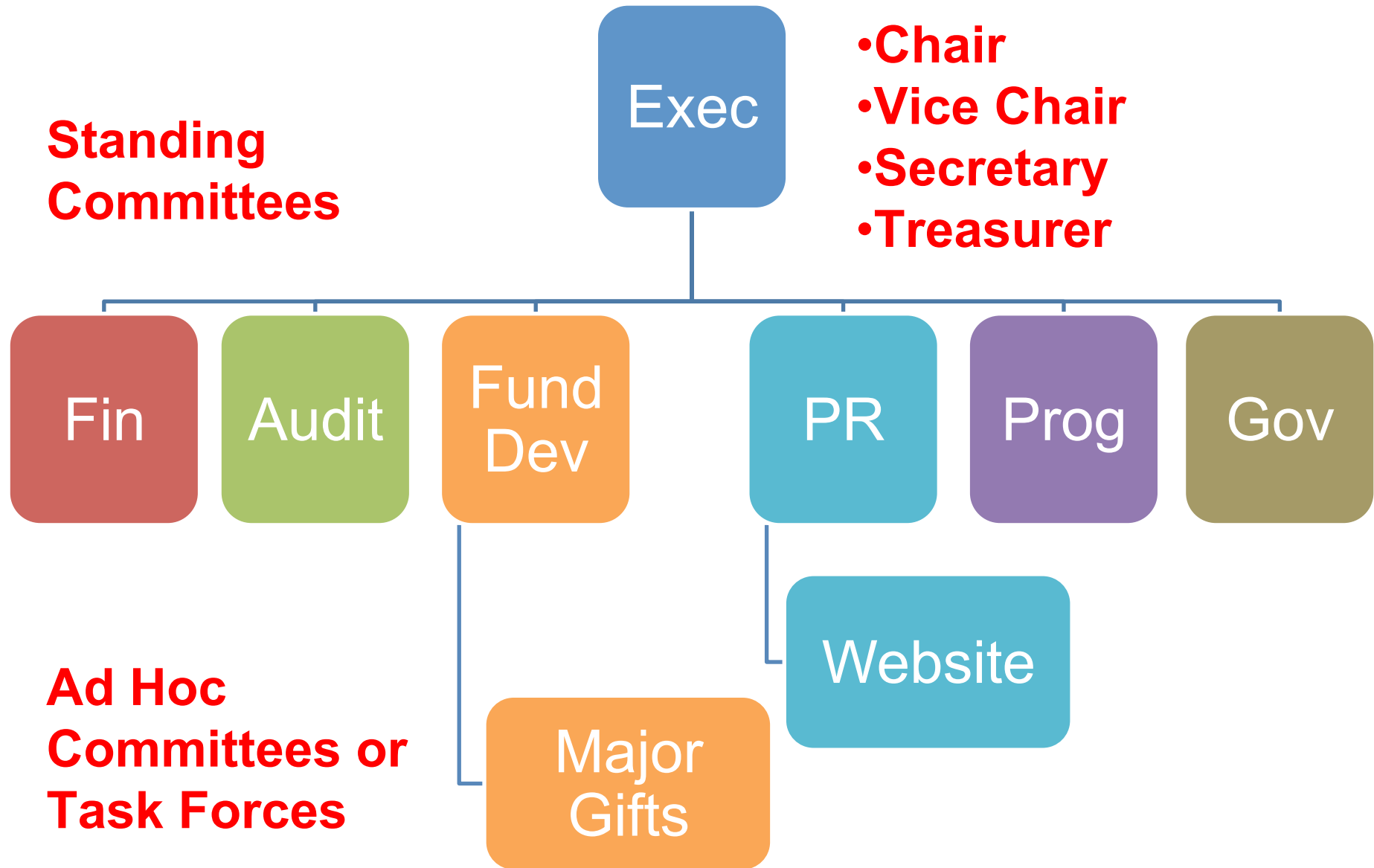
- ❑ Applies undivided loyalty in decision-making
- ❑ Upholds confidentiality
- ❑ Discloses & recuses on conflicts of interest
- ❑ Does not seek corporate opportunity
- ❑ Does not take advantage of organization



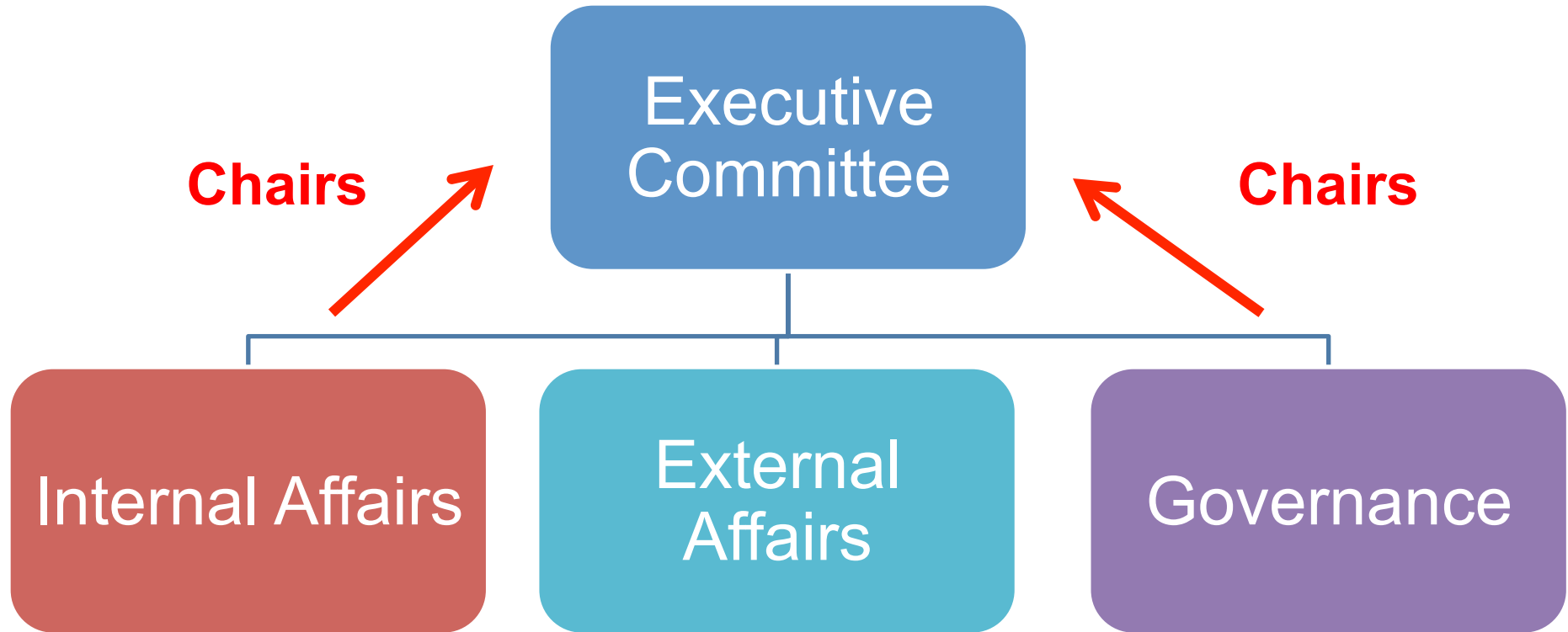
Conflicts of Interest

- ❑ Often exist to some degree
- ❑ Okay as long as disclosed (and recused)
- ❑ Many EDs/CEOs non-voting board members
- ❑ Written policy recommended
- ❑ Should include staff, vendors, etc.

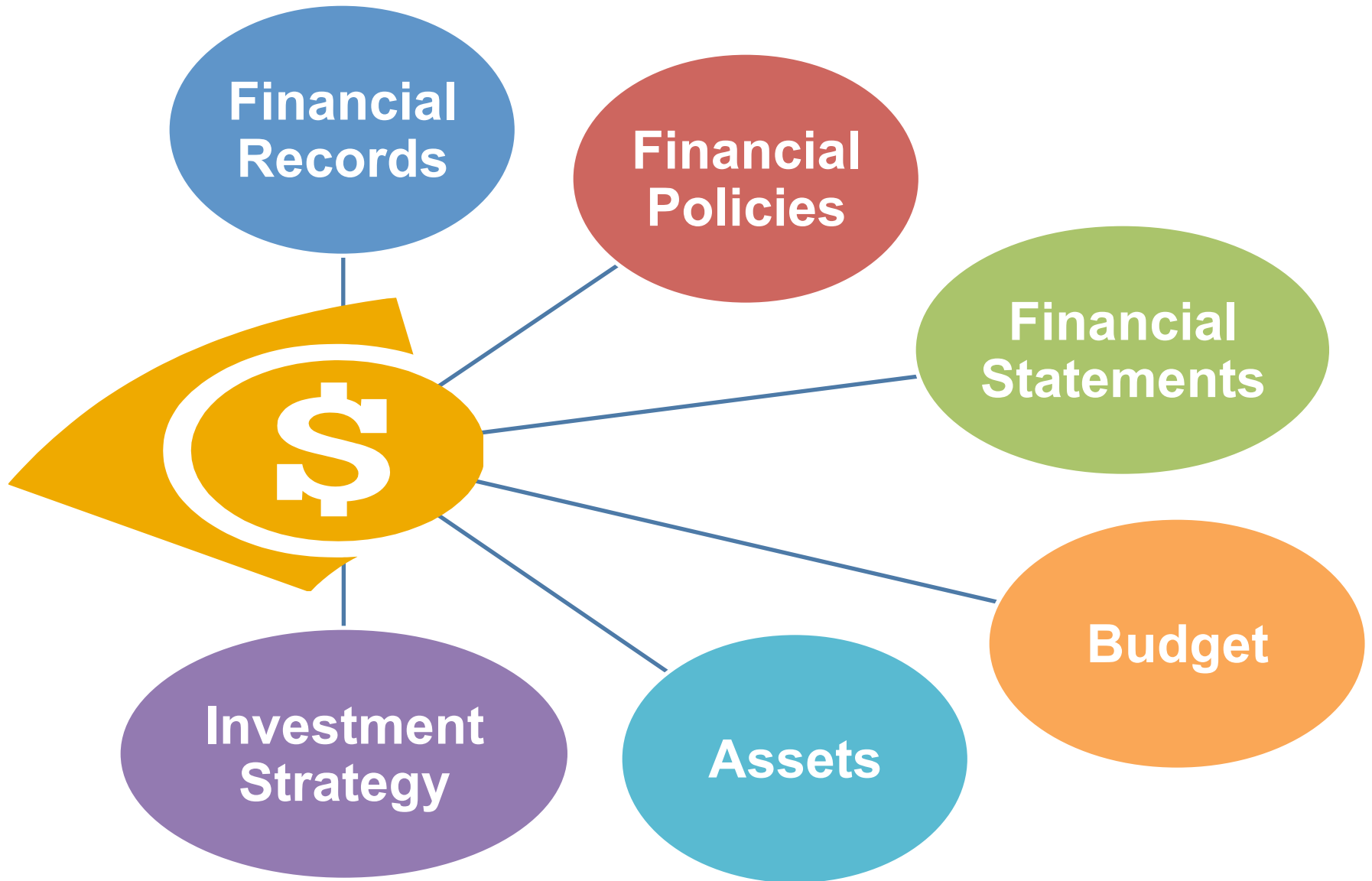
Traditional Committee Structure



Simplified Committee Structure



Finance/Internal Committee Role



Role of the Treasurer

- ❑ Chairs Finance Committee
- ❑ Oversees annual budget process
- ❑ Gives regular top-level financial reports to board
- ❑ Ensures compliant policies & procedures
- ❑ Ensures sound management
- ❑ Maximizes use of cash & investments

Compliance

Warning...

...More lists approaching...



Federal Compliance

- ☐ IRS tax-exempt status
- ☐ Form 990: Tax-exempt tax return
- ☐ Unrelated business income tax, if applicable
- ☐ Federal income tax: Employees
- ☐ Social Security, Medicare taxes: Employees
- ☐ **Charitable solicitation registration**
- ☐ Form W2 (W3 transmittal form): Employees
- ☐ Form 1099: Independent contractors
- ☐ Form 941: Employer quarterly payroll tax return
- ☐ Form 5500: ERISA

Charitable Solicitation Registration

- ❑ Active fundraising: events, phone, email
- ❑ Passive fundraising: website button
- ❑ 41 states require registration
- ❑ Penalty varies widely by state
- ❑ [Unified Registration Statement](#): 37 states
- ❑ Can hire support or handle in-house
- ❑ [CouncilOfNonprofits.org](#)

State Compliance

- ☐ Articles of incorporation
- ☐ Review Certificate of Good Standing
- ☐ Forms CT-1 & RRF-1: Initial, annual registration
- ☐ Form SI-100: Statement of Information
- ☐ Form 199: Tax-exempt tax return (includes 990)
- ☐ Sales & Use tax
- ☐ State income tax: Employees
- ☐ State disability insurance: Employees
- ☐ Form 1099s: Independent contractors
- ☐ California raffle registration & final report
- ☐ Paid sick time
- ☐ **California Nonprofit Integrity Act**

Hanging in there?



California Nonprofit Integrity Act

- ❑ Effective January 1, 2005
- ❑ Organizations with revenues of \$2 million or more:
 - ✓ Financial audits
 - ✓ Audit Committee
 - ✓ Public disclosure of audited financials
 - ✓ Compensation review of officers
 - ✓ Commercial fundraisers

San Francisco City Compliance

- ☐ SF gross receipts & payroll expense tax (\$0)
- ☐ Sunshine ordinance
- ☐ Health care security ordinance
- ☐ Minimum wage
- ☐ Paid family leave

San Francisco City Compliance Controller's Office Standards

- ☐ Minutes show Board approved budget
- ☐ Minutes show financial reports shared w/Board quarterly
- ☐ Minutes show board reviewed most recent audit
- ☐ Minutes show no conflict of interest for City employees
- ☐ Minutes show ED does not vote on ED compensation
- ☐ Minutes show annual ED performance review

San Francisco City Compliance Controller's Office Best Practices

- ☐ Assist with fundraising and give annually
- ☐ Achieve quorum at every meeting
- ☐ Review IRS Form 990
- ☐ Bylaws define term limits, quorum, committees & voting
- ☐ Leadership positions filled
- ☐ Active recruitment to fill vacancies
- ☐ Conflict of interest policy exists
- ☐ Board manual documenting best practices

Other Optional & Recommended

☐ Insurance

- ✓ Business liability, Directors & officers
- ✓ ERISA bond required

☐ Financials posted publicly

- ✓ Website, Guidestar, Other

☐ Whistle blower protection policy

☐ Document shredding policy

Financial Concepts & Terminology

Cash vs. Accrual

Cash Basis *Simplicity*

- ☐ Cash deposited
- ☐ Bills paid

Accrual Basis *Accuracy*

- ☐ Cash earned
- ☐ Bills incurred

Asset Composition

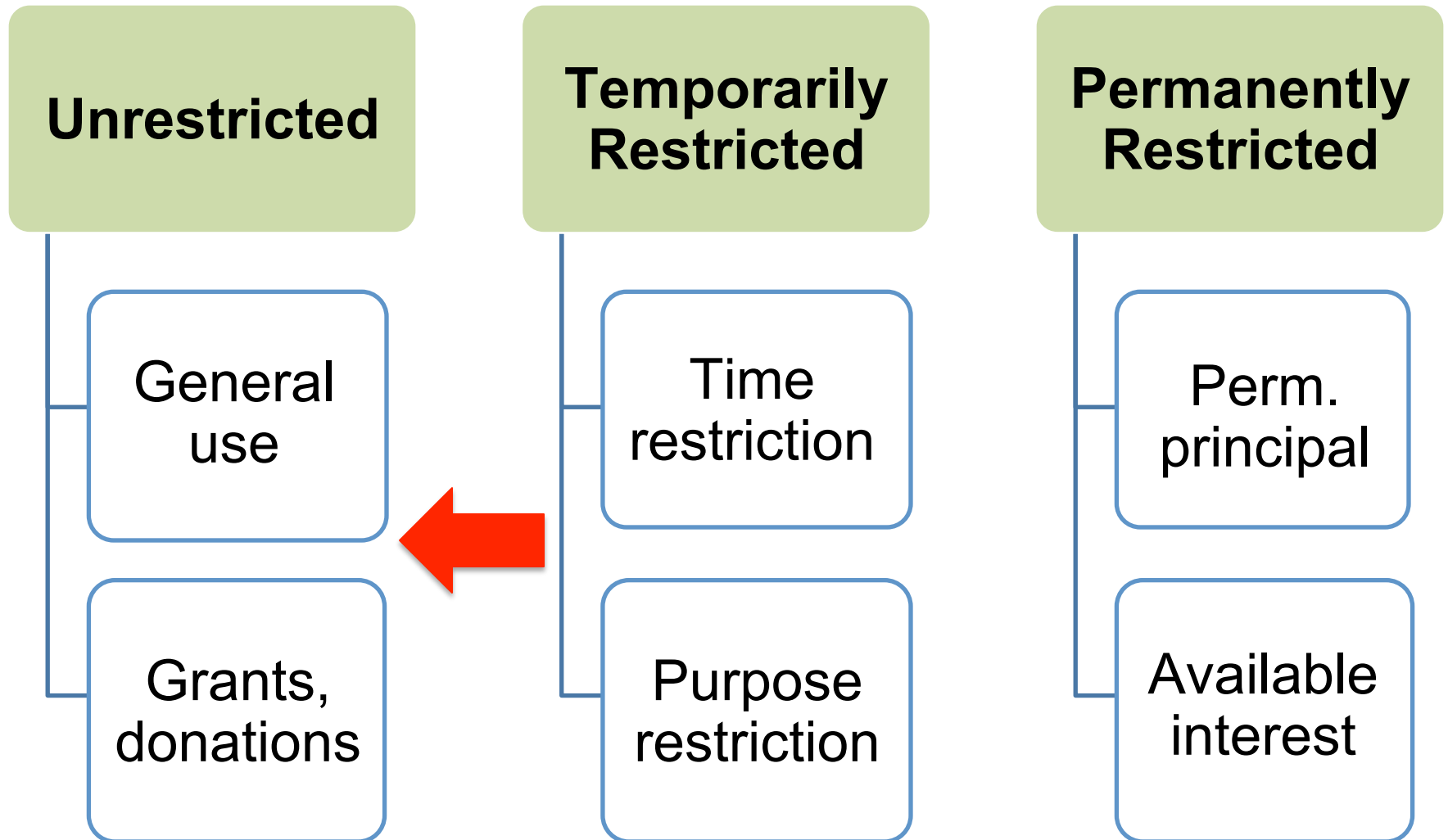


Chart of Accounts

Programs
(functional expenses)

	Youth Summit	Teen Meet
Ticket Sales		
Grants		
Supplies		
Printing		

Line Items
(natural expenses)



Pro Tips

Keep your COA simple and aligned
with your budget

Always budget by program!



Discuss & Decide

Small Groups



Think about how your organization structures accounting & reporting.

- ☐ Do you have any line items that should be programs?
- ☐ Do you have any programs that should be line items?
- ☐ Do you know what your org's asset composition is?

Introduction to Financial Reports

Financial Reports

- ❑ Balance Sheet (Statement of Financial Position)
- ❑ Profit & Loss (Statement of Activities)
- ❑ Variance Report
- ❑ Budget
- ❑ Cash Flow Monitoring

Financial Reports

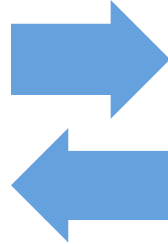
Before FY

During FY

After FY

Project

Budget
Cash Flow



Monitor

Balance Sheet
P&L
Variances
Cash Flow



Review

Balance Sheet
P&L
Budget v Act
990
Audit

Dynamic

Static

Balance Sheet (SOP) - Cumulative



BALANCE SHEET

As of 03/31

ASSETS	Unrestricted	Temporarily Restricted	Total
Current Assets			
Cash: Checking	86,220		86,220
Cash: Savings	50,042	37,000	87,042
Accounts Receivable	9,239		9,239
Total Current Assets	145,501	37,000	182,501
Long-term Assets			
Property	29,000		29,000
Total Long-term Assets	29,000	-	29,000
TOTAL ASSETS	174,501	37,000	211,501
LIABILITIES AND NET ASSETS			
Liabilities			
Notes Payable	20,284		20,284
TOTAL LIABILITIES	20,284	-	20,284
Net Assets			
Unrestricted	107,125		107,125
Temporarily Restricted		37,000	37,000
Permanently Restricted			-
Change in Net Assets	37,092	10,000	47,092
TOTAL NET ASSETS	144,217	47,000	191,217
TOTAL LIABILITIES & NET ASSETS	164,501	47,000	211,501

Asset
Comp

Balance

Balance



Discuss & Decide



Which situation would most concern you as a board member?

- ☐ Low cash, high property value, high current liabilities?
- ☐ High cash, 90% temp.-restricted assets, small deficit?
- ☐ Low cash, high receivables, high long-term debt?

Profit & Loss (SOA) – 12 Months

INCOME	Unrestricted	Temporarily Restricted	Total
Government Contracts	119,438		119,438
Foundation Contributions	93,000	50,000	143,000
Individual Contributions	10,000		10,000
Earned Income	3,000		3,000
Miscellaneous	629		629
Released from Restrictions	40,000	(40,000)	-
TOTAL INCOME	266,067	10,000	276,067
EXPENSES			
Personnel Expenses			
Wages and Salaries	99,540		99,540
Benefits	31,853		31,853
Payroll Taxes	13,936		13,936
Personnel Subtotal	145,328		145,328
Non-Personnel Expenses			
Consultants	32,497		32,497
Supplies	15,000		15,000
Training	557		557
Insurance	-		-
Rent	18,900		18,900
Dues and Subscriptions	570		570
Telephone	1,500		1,500
Utilities	900		900
Repairs & Maintenance	3,500		3,500
Accounting and Legal	2,575		2,575
Depreciation	1,875		1,875
Advertising	5,000		5,000
Miscellaneous	773		773
Subtotal Non-Personnel	83,647	-	83,647
TOTAL EXPENSES	228,975	-	228,975
NET INCOME	37,092	10,000	47,092

Asset
Composition

Net Income



Discuss & Decide



Which situation would most concern you as a board member?

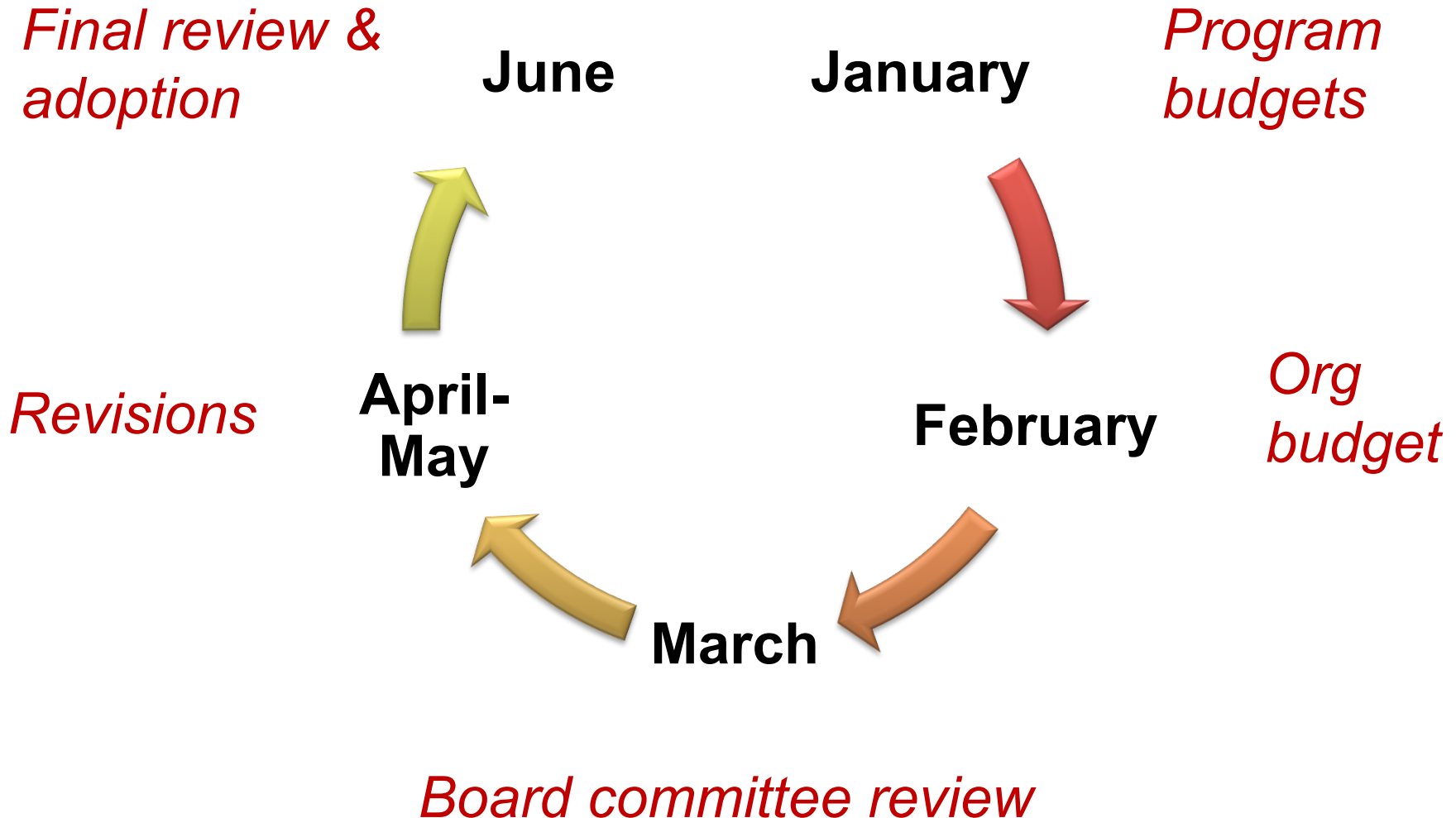
- ☐ High contributed income, high program expenses?
- ☐ High fundraising expenses, low contributed income?
- ☐ High administrative costs, negative net income?

Budget Development: Process



Budget Development: Timeline

July-June fiscal year



Budget Development: Set Goals

Financial expression of mission and goals
How you plan to use your resources in a period

☐ Programmatic

Clients Served

Number of Events

Earned Revenue

New Donors

☐ Organizational

Net Income

Net Assets

Measuring Impact

Program Development

Budget Development: Revisions

- ☐ Compare surpluses & deficits
- ☐ Evaluate program return
- ☐ Consider revenue risk
- ☐ Reduce operating costs
- ☐ Plan surplus strategy
- ☐ Develop realistic fundraising goals
- ☐ Ensure revenue goals are met



Pro Tip

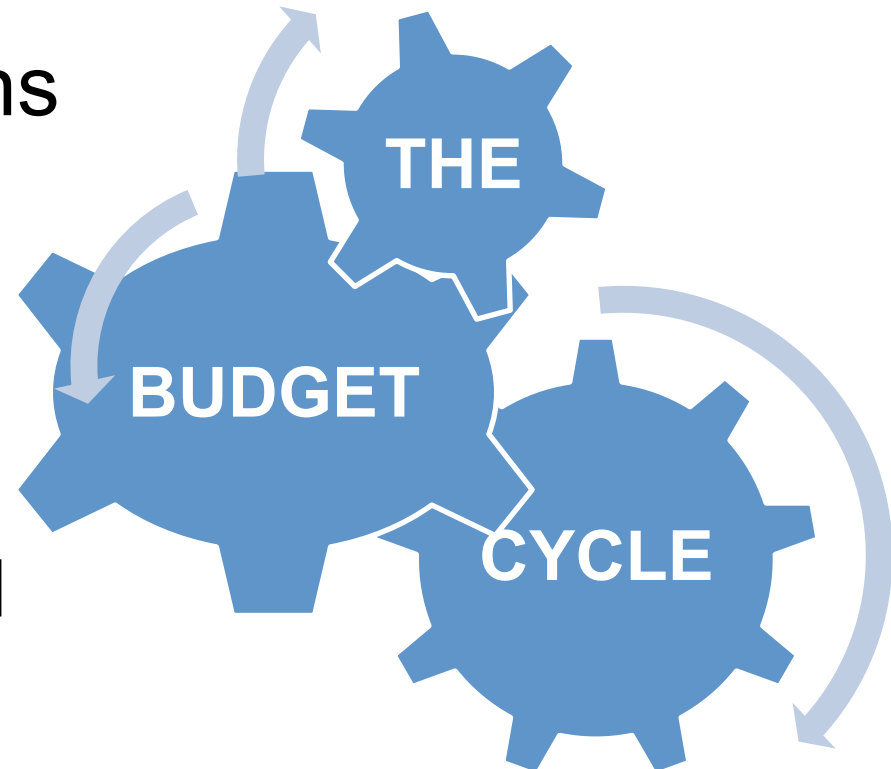
Budget for cash-to-reserve to help
establish a surplus

Always Budgeting

A healthy organization is always budgeting:

- ☐ Developing the budget
- ☐ Implementing decisions
- ☐ Gathering information
- ☐ Making adjustments

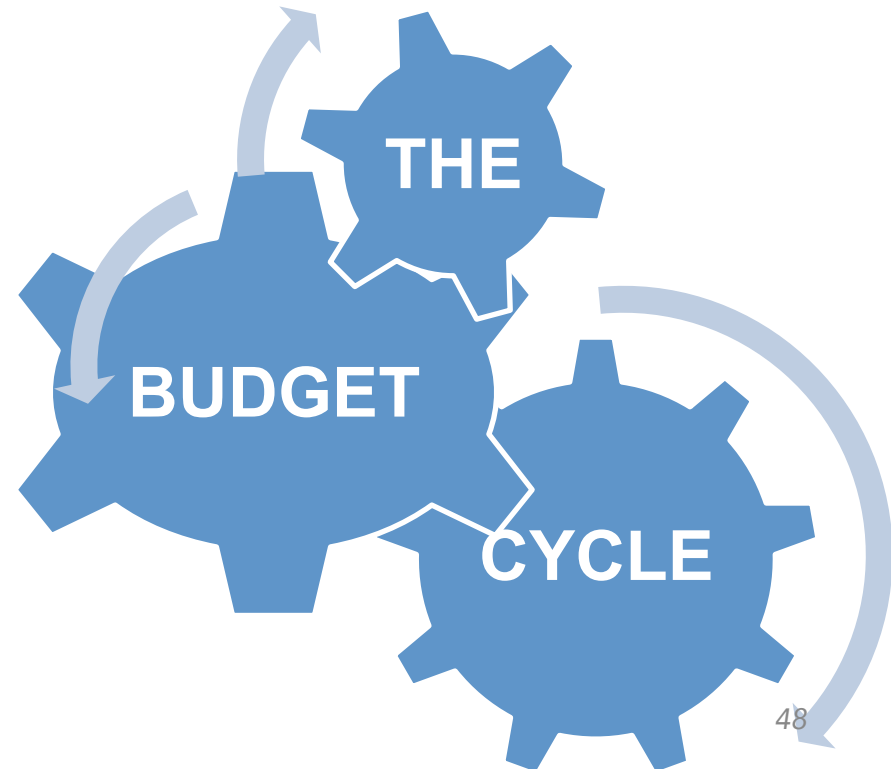
That's why it's called



Always Be Budgeting

Why?

- ❑ Continuity for clients
- ❑ Reliability for staff
- ❑ Growth & expansion
- ❑ Impact





Discuss & Decide

Small Groups



Think about where you are in your current budget cycle.

- ☐ Describe your organization's budgeting strengths.
- ☐ Describe how your organization can improve budgeting.
- ☐ Take notes on your answers to share with your board.

Variance Report – Strive for <10% under/over

VARIANCE REPORT

Year-to-Date: 01/01 - 03/31



	Annual FY12 Budget	YTD Budget	Actuals Jan - March	Variance Budget - Actual	Variance % Actual/Budget
INCOME					
Government	477,900	119,475	119,438	37	0%
Foundation Grants	415,000	207,500	143,000	64,500	-31%
Individual Contributions	62,000	13,000	10,000	3,000	-23%
Earned Income	25,500	5,500	3,000	2,500	-45%
Miscellaneous	300	-	629	(629)	N/A
Total Income	980,700	345,475	276,067	69,408	-20%
EXPENSE					
Salaries	570,000	142,500	145,328	(2,828)	2%
Consultants	140,833	22,500	32,497	(9,997)	44%
Supplies	86,700	20,000	15,000	5,000	-25%
Training	1,800	-	557	(557)	N/A
Insurance	11,252	-	-	-	N/A
Rent	75,600	18,900	18,900	-	0%
Dues and Subscriptions	1,500	750	570	180	-24%
Telephone	6,000	1,500	1,500	-	0%
Utilities	3,600	900	900	-	0%
Repairs & Maintenance	5,000	-	3,500	(3,500)	N/A
Accounting and Legal	12,000	3,000	2,575	425	-14%
Depreciation	7,500	1,875	1,875	-	0%
Advertising	5,600	2,500	5,000	(2,500)	100%
Special Events	40,000	-	-	-	N/A
Miscellaneous	4,000	1,000	773	227	-23%
Total Expenses	971,385	215,425	228,975	(13,550)	6%
Net Income	9,315	130,050	47,092	82,958	-64%

← Under

← Under

← Over

← Over

← Under



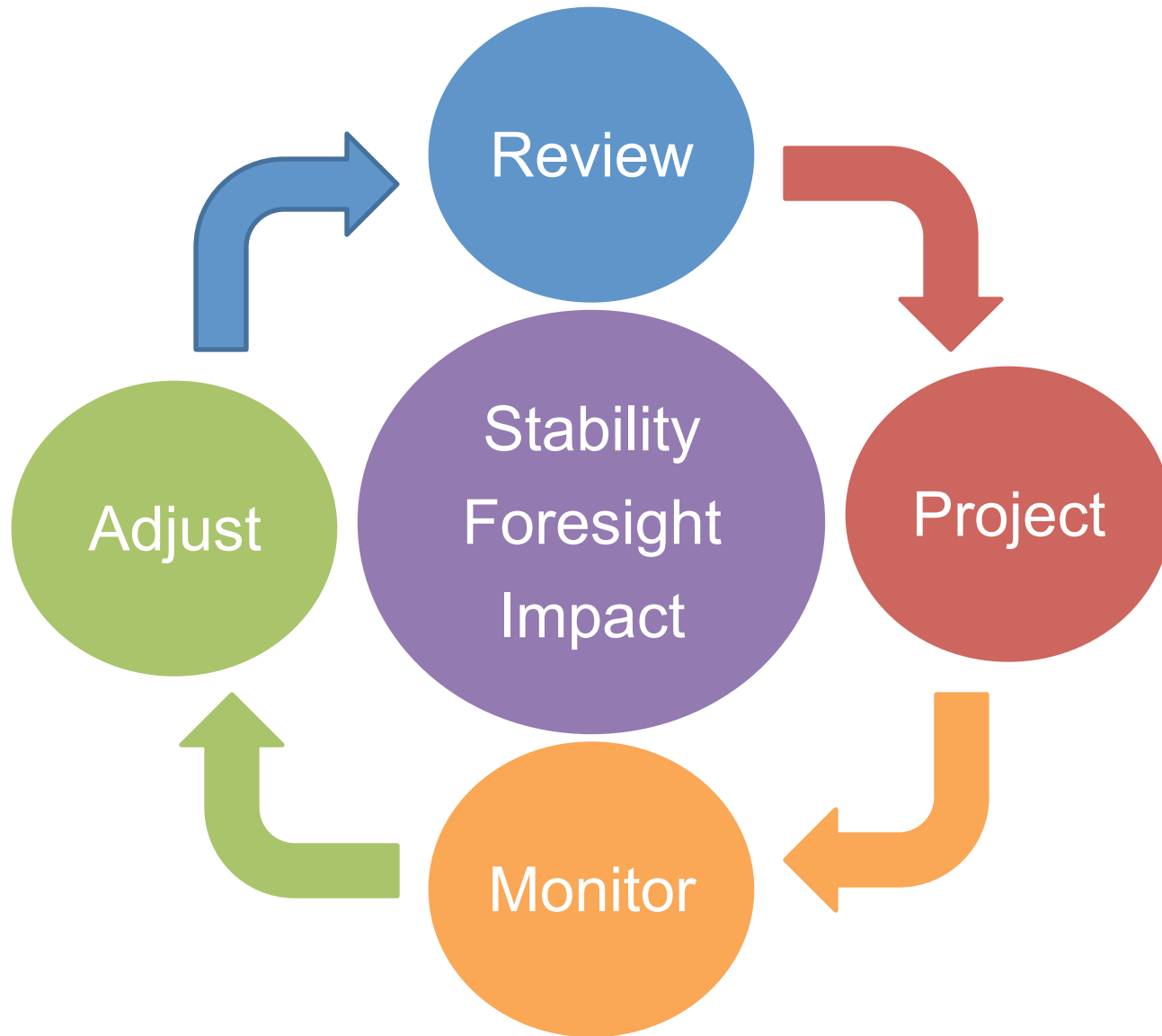
Discuss & Decide



Which situation would most concern you as a board member?

- ☐ 5% short of projections on all revenue streams?
- ☐ 35% short of projections on one main revenue stream?
- ☐ 20% over on staff salaries & 20% under on advertising?

Cash Flow Monitoring



Cash Flow Monitoring

- ❑ Budget on an accrual basis
- ❑ Project cash on a cash basis

**Looking at them together will show you
the full financial picture**

Cash Flow Monitoring



CASH FLOW

Year-to-Date: 01/01 - 03/31

	Jan	Feb	Mar	Apr	May	June	Jul	Aug	Sept	Oct	Nov	Dec	TOTAL
Cash In													
Government Contracts	25,375	25,375	65,375	25,375	25,375	65,375		52,273	67,336	26,136	26,136	67,336	471,468
Foundation Contributions		100,000			75,000		35,000	100,000	-	-	50,000	40,000	400,000
Individual Contributions	13,125	-	3,500	-	5,000		2,500	5,000	20,000		2,500	4,375	56,000
Earned Income		1,500	2,000	2,000	2,000			6,000	6,000	2,000	2,000	-	23,500
Miscellaneous Income	-	-	75	-	-	75	-	-	75	-	-	75	300
TOTAL CASH IN	38,500	126,875	70,950	27,375	107,375	65,450	37,500	163,273	93,411	28,136	80,636	111,786	951,268
Cash Out													
Salaries	44,888	44,888	44,888	44,888	44,888	44,888	48,878	48,878	50,344	50,344	50,344	50,344	568,455
Consultants	30,000	7,500	7,500	7,500	7,500	7,500	7,500	24,000	7,500	7,500	7,500	19,500	141,000
Supplies	700	700	18,750	2,100	1,400	18,750	2,100	1,400	18,750	1,400	1,400	18,750	86,200
Training			350		200	1,000			250				1,800
Insurance										11,252			11,252
Rent	6,150	6,150	6,150	6,150	6,150	6,150	6,150	6,150	6,304	6,430	6,558	6,690	75,182
Dues and Subscriptions				750								750	1,500
Telephone	500	500	500	500	500	500	500	500	500	500	500	500	6,000
Utilities	300	300	300	300	300	300	300	300	300	300	300	300	3,600
Repairs & Maintenance	417	417	417	417	417	417	417	417	417	417	417	417	5,000
Accounting and Legal	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Depreciation													-
Advertising	521		1,042			1,000		337	800		1,000		5,300
Special Events						2,500	17,000	15,000			1,500	2,000	38,000
Miscellaneous	333	333	333	333	333	333	333	333	333	333	333	333	4,000
TOTAL CASH OUT	84,809	61,788	81,229	63,938	62,688	84,338	84,178	98,915	86,498	79,476	70,853	100,583	959,289
NET CASH IN (OUT)	(46,309)	65,088	(10,279)	(36,563)	44,688	(18,888)	(46,678)	64,358	6,914	(51,339)	9,784	11,203	(8,021)
Beginning Cash Balance	56,253	42,945	108,032	64,753	28,190	72,878	53,990	52,313	116,671	78,585	27,245	37,029	56,253
LOC Disbursement (Payment)	33,000		(33,000)				45,000		(45,000)				-
ENDING CASH BALANCE W/LOC	42,945	108,032	64,753	28,190	72,878	53,990	52,313	116,671	78,585	27,245	37,029	48,232	48,232

Cash Flow: Shortfall

- ☐ Reserves
- ☐ Receivables
- ☐ Fundraising timing
- ☐ Vendor negotiation
- ☐ Creative earned income (i.e. specials)
- ☐ Line of credit
- ☐ Short-term loan

Cash Flow: Surplus

- ☐ Reserves
- ☐ Line of credit
- ☐ Short-term loan
- ☐ Programs
- ☐ Investments
- ☐ Personnel



Pro Tip

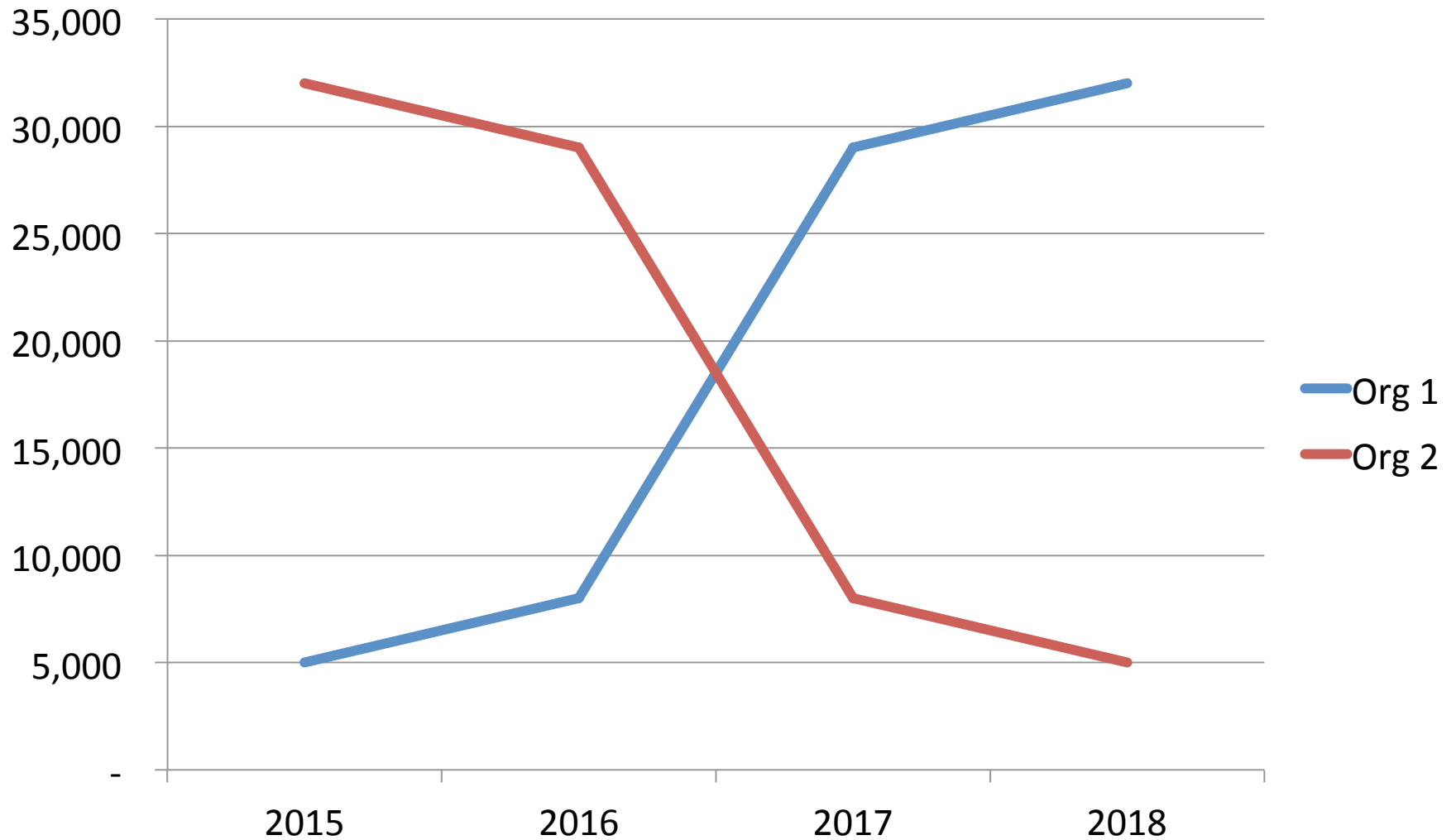
Consider future liquidity and fixed costs needs before investing in property or personnel

Key Indicators of Financial Health

Key Indicators of Financial Health

- ❑ Net Assets
- ❑ Net Income
- ❑ Days' Cash
- ❑ Revenue Diversity
- ❑ Reserves

Net Assets (from SOP)





Discuss & Decide

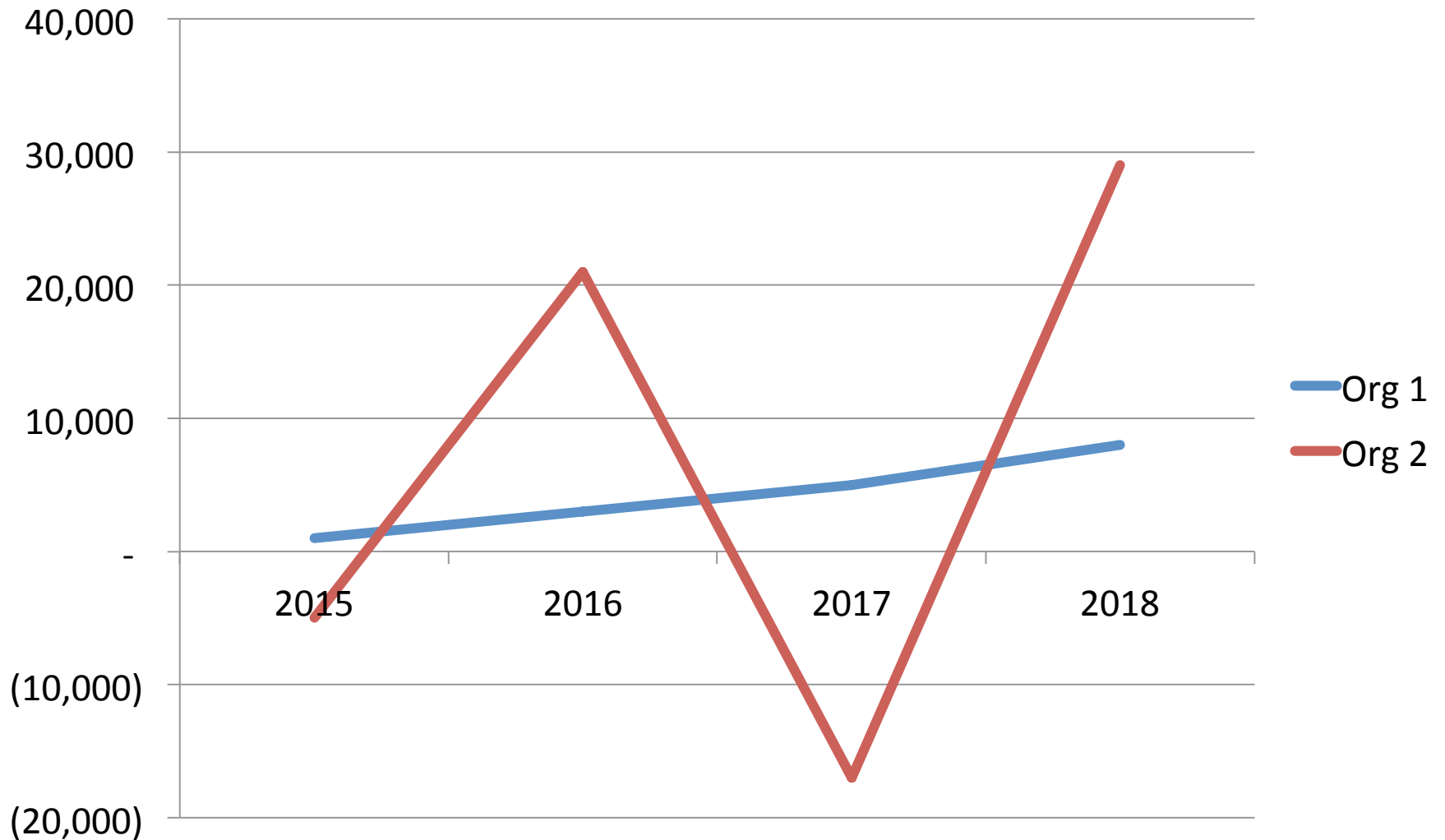
Large Group



**Both organizations have net assets
of \$20,000 in December 2016.
Who is in a better position?**

- ☐ Organization 1 (blue)
- ☐ Organization 2 (red)

Net Income (from SOA)





Discuss & Decide

Large Group



**In 2018, org 1 expects a \$29k surplus
and org 2 expects a \$8k surplus.
Who would you lend money to?**

- ☐ Organization 1 (blue)
- ☐ Organization 2 (red)

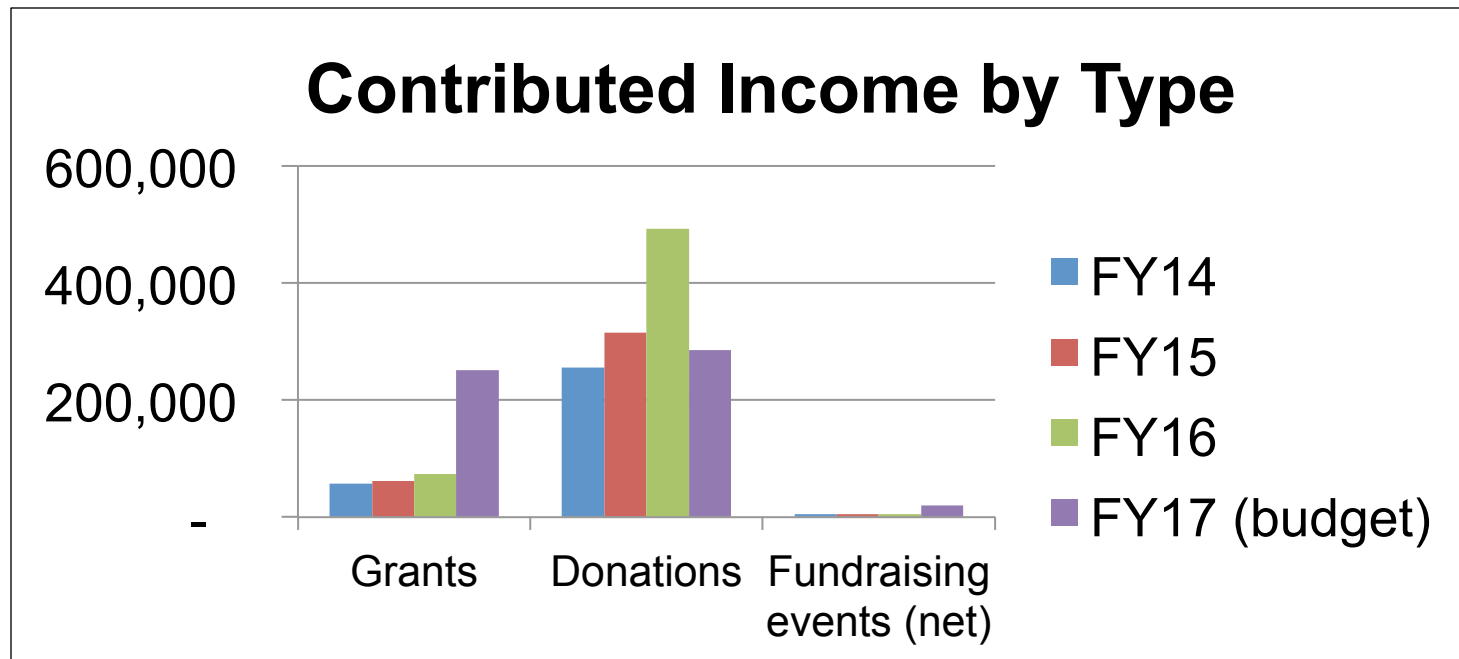
Days' Cash

- ❑ Number of days surviving with no new cash
- ❑ 90 days' cash recommended
- ❑ Budget for cash-to-reserve to build reserve

$$\frac{\text{Cash Balance (from Balance Sheet)} \times 365}{\text{Annual Operating Expenses (from P\&L)}}$$

Revenue Diversity (from P&L)

- ❑ Concentration of revenue sources
- ❑ Reliance on key funding sources
- ❑ Understand your revenue diversity needs



Reserves

Operating Reserves

- ☐ Established policy to build and use
- ☐ 3-6 months recommended
- ☐ Unrestricted

Capital Reserves – Fixed Assets

- ☐ Repair and maintenance
- ☐ New purchases

Form 990 & Your Audit

Form 990: Tax-exempt tax return

- ☐ Organization at-a-glance: Mission & Money
- ☐ Revenue above \$50,000
- ☐ Public access required
- ☐ Revised in 2008
 - ✓ Government, Management & Disclosure section
 - ✓ Reports highest compensation: officers, key staff

Form 990: What to Look For

Part 1: Financial Summary

K Form of organization: <input type="checkbox"/> Corporation <input type="checkbox"/> Trust <input type="checkbox"/> Association <input type="checkbox"/> Other <input type="checkbox"/>		L Year of formation:	M State or legal domicile:	
Part I Summary				
Activities & Governance	1	Briefly describe the organization's mission or most significant activities: _____		
	2	Check this box <input type="checkbox"/> if the organization discontinued its operations or disposed of more than 25% of its net assets.		
	3	Number of voting members of the governing body (Part VI, line 1a)	3	
	4	Number of independent voting members of the governing body (Part VI, line 1b)	4	
	5	Total number of individuals employed in calendar year 2016 (Part V, line 2a)	5	
	6	Total number of volunteers (estimate if necessary)	6	
	7a	Total unrelated business revenue from Part VIII, column (C), line 12	7a	
	b	Net unrelated business taxable income from Form 990-T, line 34	7b	
Revenue	8	Contributions and grants (Part VIII, line 1h)	Prior Year	Current Year
	9	Program service revenue (Part VIII, line 2g)		
	10	Investment income (Part VIII, column (A), lines 3, 4, and 7d)		
	11	Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)		
	12	Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)		
Expenses	13	Grants and similar amounts paid (Part IX, column (A), lines 1–3)		
	14	Benefits paid to or for members (Part IX, column (A), line 4)		
	15	Salaries, other compensation, employee benefits (Part IX, column (A), lines 5–10)		
	16a	Professional fundraising fees (Part IX, column (A), line 11e)		
	b	Total fundraising expenses (Part IX, column (D), line 25) ▶		
	17	Other expenses (Part IX, column (A), lines 11a–11d, 11f–24e)		
	18	Total expenses. Add lines 13–17 (must equal Part IX, column (A), line 25)		
Net Assets or Fund Balances	19	Revenue less expenses. Subtract line 18 from line 12		
	20	Total assets (Part X, line 16)	Beginning of Current Year	End of Year
	21	Total liabilities (Part X, line 26)		
	22	Net assets or fund balances. Subtract line 21 from line 20		

Net Assets



Form 990: What to Look For

Part 10: Balance Sheet Detail

Part X Balance Sheet				(A) Beginning of year	(B) End of year
Assets	1	Cash—non-interest-bearing		1	
	2	Savings and temporary cash investments		2	
	3	Pledges and grants receivable, net		3	
	4	Accounts receivable, net		4	
	5	Receivables from current and former officers, directors, trustees, key employees, and highest compensated employees. Complete Part II of Schedule L		5	
	6	Receivables from other disqualified persons (as defined under section 4958(f)(1)), persons described in section 4958(c)(3)(B), and contributing employers and sponsoring organizations of section 501(c)(9) voluntary employees' beneficiary organizations (see instructions)		6	
	7	Notes and loans receivable, net		7	
	8	Inventories for sale or use		8	
	9	Prepaid expenses and deferred charges		9	
	10a	Land, buildings, and equipment: cost or other basis. Complete Part VI of Schedule D	10a		
	b	Less: accumulated depreciation	10b		10c
	11	Investments—publicly traded securities		11	
	12	Investments—other securities. See Part IV, line 11		12	
	13	Investments—program-related. See Part IV, line 11		13	
	14	Intangible assets		14	
	15	Other assets. See Part IV, line 11		15	
16	Total assets. Add lines 1 through 15 (must equal line 34)		16		
Liabilities	17	Accounts payable and accrued expenses		17	
	18	Grants payable		18	
	19	Deferred revenue		19	
	20	Tax-exempt bond liabilities		20	
	21	Escrow or custodial account liability. Complete Part IV of Schedule D		21	
	22	Payables to current and former officers, directors, trustees, key employees, highest compensated employees, and disqualified persons. Complete Part II of Schedule L		22	
	23	Secured mortgages and notes payable to unrelated third parties		23	
	24	Unsecured notes and loans payable to unrelated third parties		24	
	25	Other liabilities. Complete Part X of Schedule D		25	
	26	Total liabilities. Add lines 17 through 25		26	
Net Assets or Fund Balances	Organizations that follow SFAS 117, check here <input type="checkbox"/> and complete lines 27 through 29, and lines 33 and 34.				
	27	Unrestricted net assets		27	
	28	Temporarily restricted net assets		28	
	29	Permanently restricted net assets		29	
	Organizations that do not follow SFAS 117, check here <input type="checkbox"/> and complete lines 30 through 34.				
	30	Capital stock or trust principal, or current funds		30	
	31	Paid-in or capital surplus, or land, building, or equipment fund		31	
	32	Retained earnings, endowment, accumulated income, or other funds		32	
	33	Total net assets or fund balances.		33	
	34	Total liabilities and net assets/fund balances.		34	



Current Assets



Long-term Assets



Current Liabilities



Long-term Liabilities



Asset Composition



Net Assets


Form 990: What to Look For

Part 3: Mission

Form 990 (2016)

Page **2**

Part III Statement of Program Service Accomplishments

Check if Schedule O contains a response or note to any line in this Part III  ☐

1 Briefly describe the organization's mission:

.....

.....

.....

Schedule O:
Use it to your advantage

Form 990: What to Look For

Parts 6 & 7: Compliance

Form 990 (2016)

Page **6**

Part VI **Governance, Management, and Disclosure** *For each "Yes" response to lines 2 through 7b below, and for a "No" response to line 8a, 8b, or 10b below, describe the circumstances, processes, or changes in Schedule O. See instructions.*
Check if Schedule O contains a response or note to any line in this Part VI ☐

Form 990 (2016)

Page **7**

Part VII **Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors**
Check if Schedule O contains a response or note to any line in this Part VII ☐

Nonprofit Audit: Overview

- ❑ Required for budgets \$2m+ & \$500k federal funding
- ❑ Required for most SF city funding over \$250k
- ❑ Cost ranges from \$2,000 to \$60k+
- ❑ Examines finances, policies and records
- ❑ States an “opinion”: do the financial statements present fairly?
 - ✓ Unqualified
 - ✓ Qualified
 - ✓ Adverse
 - ✓ Disclaimer

Nonprofit Audit: Preparation

- ❑ Establish audit committee
- ❑ Select auditor & change frequently (every 3-5 years)
- ❑ Complete fiscal year close
- ❑ Review manuals, policies, procedures
 - ✓ Accounting policies
 - ✓ Operations manual
 - ✓ Records retention
 - ✓ Internal controls
- ❑ Inform staff in case additional support is needed
- ❑ Document exceptions, changes, interested parties

Nonprofit Audit: What to Look For

☐ Financial Statements

- ✓ Balance Sheet: Asset Composition
- ✓ Profit & Loss: Change in Net Assets
- ✓ Cash Flow: Ties to Balance Sheet and Profit & Loss
- ✓ Functional Expenses: Easy if budgeting by program!

☐ Notes

- ✓ Accounting Policies: Conforms with GAAP?
- ✓ Property & Debt: Long-term assets and liabilities
- ✓ Leases: Commitments
- ✓ Related Parties: Conflicts of interest (i.e. barter)
- ✓ Subsequent Events: After audit preparation

Business Model Basics

Business Model Basics: Income



Sell your product



Sell your service



Sell your impact



Take a moment to consider how you bring in your money.

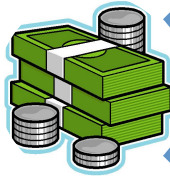
Business Model Basics: Margin



Resell at higher price



Resell at higher price



Deliver impact for less



Take a moment to consider how you create your margin.

Business Model Basics: Who Pays?



Customers



Funders



Staff, Vendors



**Take a moment to consider who pays
you.**



Pro Tip

Your business model is only sustainable if it creates a surplus

#surplusambassadors!



Discuss & Decide

Personal Reflection



**Think about your organization's
business model.**

- ☐ How do you or could you generate surpluses?
- ☐ What key indicators are red flags for your organization?
- ☐ Jot down 2-3 ideas to bring back to your board.

Financial Health Goals

- ❑ Generate positive net income annually
- ❑ Increase net assets annually
- ❑ Achieve 90 days' cash in operating reserve
- ❑ Establish separate capital reserve
- ❑ Invest reserves with liquidity in mind
- ❑ Develop and monitor operating & cash budgets
- ❑ Analyze revenue diversity & trends
- ❑ Create a sustainable business model

Financial Management Goals

- ❑ Statements produced 3 wks after month-close
- ❑ Audit completed 4 mos after year-close
- ❑ Statements sent to board with time for review
- ❑ Reasonable variance explanations
- ❑ Budget and cash flow monitoring tools
- ❑ Contingency plan

Mission

NCCLF promotes economic justice and alleviates poverty by increasing the financial resilience and sustainability of nonprofits and enterprises. Through flexible financial products and sound advice, we create opportunities to make socially responsible investments that revitalize Northern California communities.

FRESNO

BEST LITTLE CITY IN THE U.S.A.



Vision

NCCLF envisions financially strong and culturally vibrant communities where each person has access to decent jobs, homes, health care, education, and economic opportunities. We work in partnership with individuals and organizations who share our vision of sustainable communities and social and economic justice.



Our Programs



Lending
&
NMTC

Consulting

Socially
Responsible
Investing

Policy

NCCLF Consulting & Training

*Helping nonprofits use
their resources strategically*

Real Estate Consulting

- Workshops and individual consulting engagements that help nonprofits manage their real estate resources.
 - Lease vs. Buy Analysis
 - NMTC Feasibility Analysis
 - Facility Strategic Planning
 - Real Estate Coaching



NCCLF Consulting & Training

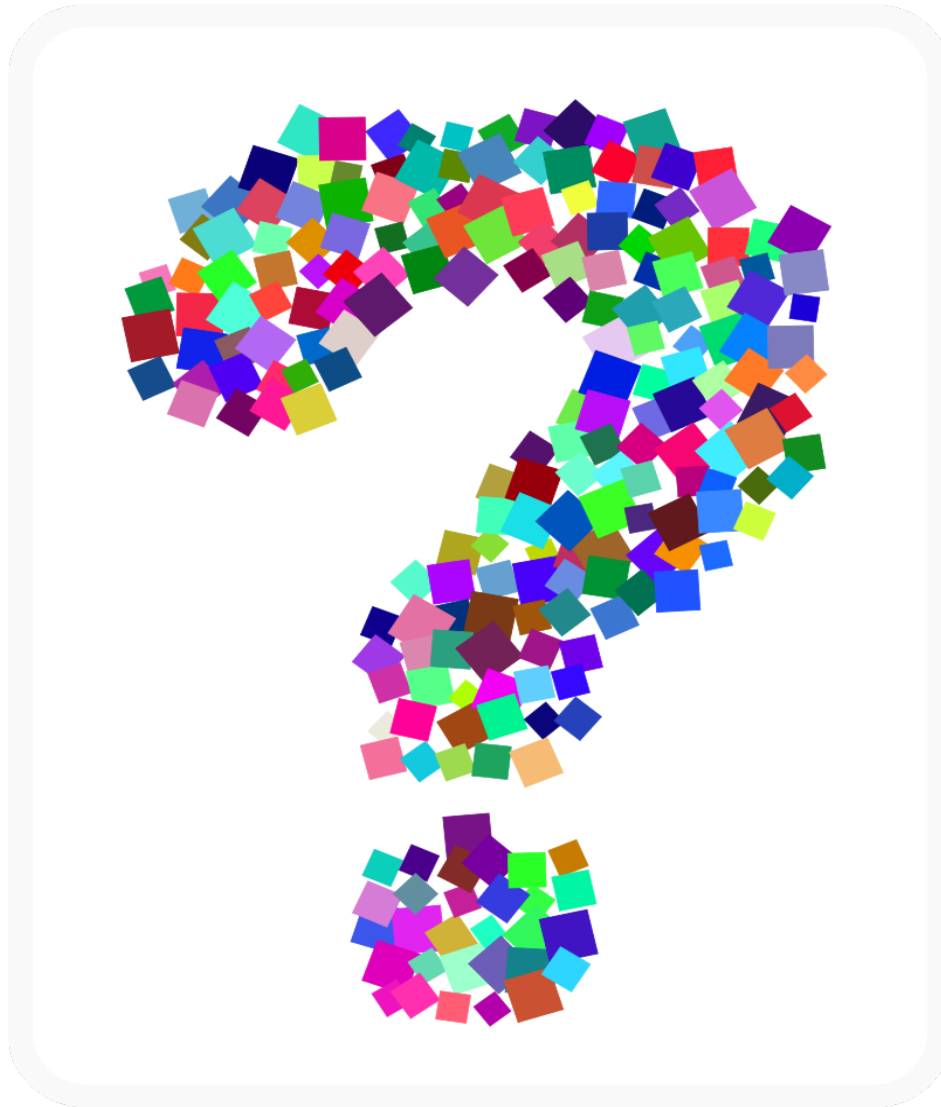
*Helping nonprofits use
their resources strategically*

Financial Management Consulting

- Workshops and individual consulting engagements that strengthen the financial management capacity of nonprofit leadership.
 - Financial Assessments
 - Business Model Optimization
 - Budget Development
 - Cash Flow Management
 - Financial Education



Questions & Evaluations

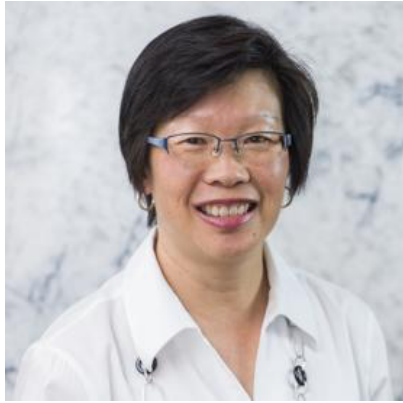


Resources

- ❑ [Blue Avocado](#)
- ❑ [California Association of Nonprofits](#)
- ❑ [The Alliance for Nonprofit Management](#)
- ❑ [The Nonprofit Assistance Fund](#)
- ❑ [La Piana Consulting](#)

Contact Us @

Northern California Community Loan Fund



Joanne Lee

Director, Consulting & Program Development



Risa Blumlein

Financial Management Consultant

www.ncclf.org



BALANCE SHEET

As of 03/31

ASSETS	Unrestricted	Temporarily Restricted	Total
Current Assets			
Cash: Checking	86,220		86,220
Cash: Savings	50,042	37,000	87,042
Accounts Receivable	9,239		9,239
<i>Total Current Assets</i>	145,501	37,000	182,501
Long-term Assets			-
Property	29,000		29,000
<i>Total Long-term Assets</i>	29,000	-	29,000
TOTAL ASSETS	174,501	37,000	211,501
LIABILITIES AND NET ASSETS			
Liabilities			
Notes Payable	20,284		20,284
TOTAL LIABILITIES	20,284	-	20,284
Net Assets			
Unrestricted	107,125		107,125
Temporarily Restricted		37,000	37,000
Permanently Restricted			-
Change in Net Assets	37,092	10,000	47,092
TOTAL NET ASSETS	144,217	47,000	191,217
TOTAL LIABILITIES & NET ASSETS	164,501	47,000	211,501

INCOME STATEMENT

Year-to-Date: 01/01 - 03/31



INCOME	Unrestricted	Temporarily Restricted	Total
Government Contracts	119,438		119,438
Foundation Contributions	93,000	50,000	143,000
Individual Contributions	10,000		10,000
Earned Income	3,000		3,000
Miscellaneous	629		629
Released from Restrictions	40,000	(40,000)	-
TOTAL INCOME	266,067	10,000	276,067
EXPENSES			
Personnel Expenses			
Wages and Salaries	99,540		99,540
Benefits	31,853		31,853
Payroll Taxes	13,936		13,936
<i>Personnel Subtotal</i>	<i>145,328</i>		<i>145,328</i>
Non-Personnel Expenses			
Consultants	32,497		32,497
Supplies	15,000		15,000
Training	557		557
Insurance	-		-
Rent	18,900		18,900
Dues and Subscriptions	570		570
Telephone	1,500		1,500
Utilities	900		900
Repairs & Maintenance	3,500		3,500
Accounting and Legal	2,575		2,575
Depreciation	1,875		1,875
Advertising	5,000		5,000
Miscellaneous	773		773
<i>Subtotal Non-Personnel</i>	<i>83,647</i>	<i>-</i>	<i>83,647</i>
TOTAL EXPENSES	228,975	-	228,975
NET INCOME	37,092	10,000	47,092
NET ASSETS - BEGINNING	107,125	37,000	144,125
NET ASSETS - ENDING	144,217	47,000	191,217

VARIANCE REPORT

Year-to-Date: 01/01 - 03/31



	Annual FY12 Budget	YTD Budget	Actuals Jan - March	Variance Budget - Actual	Variance % Actual/Budget
INCOME					
Government	477,900	119,475	119,438	37	0%
Foundation Grants	415,000	207,500	143,000	64,500	-31%
Individual Contributions	62,000	13,000	10,000	3,000	-23%
Earned Income	25,500	5,500	3,000	2,500	-45%
Miscellaneous	300	-	629	(629)	N/A
Total Income	980,700	345,475	276,067	69,408	-20%
EXPENSE					
Salaries	570,000	142,500	145,328	(2,828)	2%
Consultants	140,833	22,500	32,497	(9,997)	44%
Supplies	86,700	20,000	15,000	5,000	-25%
Training	1,800	-	557	(557)	N/A
Insurance	11,252	-	-	-	N/A
Rent	75,600	18,900	18,900	-	0%
Dues and Subscriptions	1,500	750	570	180	-24%
Telephone	6,000	1,500	1,500	-	0%
Utilities	3,600	900	900	-	0%
Repairs & Maintenance	5,000		3,500	(3,500)	N/A
Accounting and Legal	12,000	3,000	2,575	425	-14%
Depreciation	7,500	1,875	1,875	-	0%
Advertising	5,600	2,500	5,000	(2,500)	100%
Special Events	40,000	-	-	-	N/A
Miscellaneous	4,000	1,000	773	227	-23%
Total Expenses	971,385	215,425	228,975	(13,550)	6%
Net Income	9,315	130,050	47,092	82,958	-64%



CASH FLOW MONITOR

	Jan	Feb	Mar	Apr	May	June	Jul	Aug	Sept	Oct	Nov	Dec	TOTAL
Cash In													
Government Contracts	25,375	25,375	65,375	25,375	25,375	65,375		52,273	67,336	26,136	26,136	67,336	471,468
Foundation Contributions		100,000			75,000		35,000	100,000	-	-	50,000	40,000	400,000
Individual Contributions	13,125	-	3,500	-	5,000		2,500	5,000	20,000		2,500	4,375	56,000
Earned Income		1,500	2,000	2,000	2,000			6,000	6,000	2,000	2,000	-	23,500
Miscellaneous Income	-	-	75	-	-	75	-	-	75	-	-	75	300
TOTAL CASH IN	38,500	126,875	70,950	27,375	107,375	65,450	37,500	163,273	93,411	28,136	80,636	111,786	951,268
Cash Out													
Salaries	44,888	44,888	44,888	44,888	44,888	44,888	48,878	48,878	50,344	50,344	50,344	50,344	568,455
Consultants	30,000	7,500	7,500	7,500	7,500	7,500	7,500	24,000	7,500	7,500	7,500	19,500	141,000
Supplies	700	700	18,750	2,100	1,400	18,750	2,100	1,400	18,750	1,400	1,400	18,750	86,200
Training			350		200	1,000			250				1,800
Insurance										11,252			11,252
Rent	6,150	6,150	6,150	6,150	6,150	6,150	6,150	6,150	6,304	6,430	6,558	6,690	75,182
Dues and Subscriptions				750								750	1,500
Telephone	500	500	500	500	500	500	500	500	500	500	500	500	6,000
Utilities	300	300	300	300	300	300	300	300	300	300	300	300	3,600
Repairs & Maintenance	417	417	417	417	417	417	417	417	417	417	417	417	5,000
Accounting and Legal	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Depreciation													-
Advertising	521		1,042			1,000		937	800		1,000		5,300
Special Events						2,500	17,000	15,000			1,500	2,000	38,000
Miscellaneous	333	333	333	333	333	333	333	333	333	333	333	333	4,000
TOTAL CASH OUT	84,809	61,788	81,229	63,938	62,688	84,338	84,178	98,915	86,498	79,476	70,853	100,583	959,289
NET CASH IN (OUT)	(46,309)	65,088	(10,279)	(36,563)	44,688	(18,888)	(46,678)	64,358	6,914	(51,339)	9,784	11,203	(8,021)
Beginning Cash Balance	56,253	42,945	108,032	64,753	28,190	72,878	53,990	52,313	116,671	78,585	27,245	37,029	56,253
LOC Disbursement (Payment)	33,000		(33,000)				45,000		(45,000)				-
ENDING CASH BALANCE W/LOC	42,945	108,032	64,753	28,190	72,878	53,990	52,313	116,671	78,585	27,245	37,029	48,232	48,232

Return of Organization Exempt From Income Tax

OMB No. 1545-0047

2016**Open to Public
Inspection**

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except private foundations)

▶ Do not enter social security numbers on this form as it may be made public.

▶ Information about Form 990 and its instructions is at www.irs.gov/form990.

A For the 2016 calendar year, or tax year beginning , 2016, and ending , 20																							
B Check if applicable: <input type="checkbox"/> Address change <input type="checkbox"/> Name change <input type="checkbox"/> Initial return <input type="checkbox"/> Final return/terminated <input type="checkbox"/> Amended return <input type="checkbox"/> Application pending	<table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td colspan="2">C Name of organization</td> <td rowspan="3">D Employer identification number</td> </tr> <tr> <td colspan="2">Doing business as</td> </tr> <tr> <td>Number and street (or P.O. box if mail is not delivered to street address)</td> <td>Room/suite</td> </tr> <tr> <td colspan="2">City or town, state or province, country, and ZIP or foreign postal code</td> <td>E Telephone number</td> </tr> <tr> <td colspan="2">F Name and address of principal officer:</td> <td>G Gross receipts \$</td> </tr> <tr> <td colspan="2">I Tax-exempt status: <input type="checkbox"/> 501(c)(3) <input type="checkbox"/> 501(c) () ◀ (insert no.) <input type="checkbox"/> 4947(a)(1) or <input type="checkbox"/> 527</td> <td> H(a) Is this a group return for subordinates? <input type="checkbox"/> Yes <input type="checkbox"/> No H(b) Are all subordinates included? <input type="checkbox"/> Yes <input type="checkbox"/> No If "No," attach a list. (see instructions) </td> </tr> <tr> <td colspan="2">J Website: ▶</td> <td>H(c) Group exemption number ▶</td> </tr> <tr> <td colspan="2">K Form of organization: <input type="checkbox"/> Corporation <input type="checkbox"/> Trust <input type="checkbox"/> Association <input type="checkbox"/> Other ▶</td> <td>L Year of formation: M State of legal domicile:</td> </tr> </table>	C Name of organization		D Employer identification number	Doing business as		Number and street (or P.O. box if mail is not delivered to street address)	Room/suite	City or town, state or province, country, and ZIP or foreign postal code		E Telephone number	F Name and address of principal officer:		G Gross receipts \$	I Tax-exempt status: <input type="checkbox"/> 501(c)(3) <input type="checkbox"/> 501(c) () ◀ (insert no.) <input type="checkbox"/> 4947(a)(1) or <input type="checkbox"/> 527		H(a) Is this a group return for subordinates? <input type="checkbox"/> Yes <input type="checkbox"/> No H(b) Are all subordinates included? <input type="checkbox"/> Yes <input type="checkbox"/> No If "No," attach a list. (see instructions)	J Website: ▶		H(c) Group exemption number ▶	K Form of organization: <input type="checkbox"/> Corporation <input type="checkbox"/> Trust <input type="checkbox"/> Association <input type="checkbox"/> Other ▶		L Year of formation: M State of legal domicile:
C Name of organization		D Employer identification number																					
Doing business as																							
Number and street (or P.O. box if mail is not delivered to street address)	Room/suite																						
City or town, state or province, country, and ZIP or foreign postal code		E Telephone number																					
F Name and address of principal officer:		G Gross receipts \$																					
I Tax-exempt status: <input type="checkbox"/> 501(c)(3) <input type="checkbox"/> 501(c) () ◀ (insert no.) <input type="checkbox"/> 4947(a)(1) or <input type="checkbox"/> 527		H(a) Is this a group return for subordinates? <input type="checkbox"/> Yes <input type="checkbox"/> No H(b) Are all subordinates included? <input type="checkbox"/> Yes <input type="checkbox"/> No If "No," attach a list. (see instructions)																					
J Website: ▶		H(c) Group exemption number ▶																					
K Form of organization: <input type="checkbox"/> Corporation <input type="checkbox"/> Trust <input type="checkbox"/> Association <input type="checkbox"/> Other ▶		L Year of formation: M State of legal domicile:																					

Part I Summary

Activities & Governance	1	Briefly describe the organization's mission or most significant activities: _____		
	2	Check this box <input type="checkbox"/> if the organization discontinued its operations or disposed of more than 25% of its net assets.		
	3	Number of voting members of the governing body (Part VI, line 1a)	3	
	4	Number of independent voting members of the governing body (Part VI, line 1b)	4	
	5	Total number of individuals employed in calendar year 2016 (Part V, line 2a)	5	
	6	Total number of volunteers (estimate if necessary)	6	
	7a	Total unrelated business revenue from Part VIII, column (C), line 12	7a	
	b	Net unrelated business taxable income from Form 990-T, line 34	7b	
Revenue	8	Contributions and grants (Part VIII, line 1h)	Prior Year	Current Year
	9	Program service revenue (Part VIII, line 2g)		
	10	Investment income (Part VIII, column (A), lines 3, 4, and 7d)		
	11	Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)		
	12	Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)		
Expenses	13	Grants and similar amounts paid (Part IX, column (A), lines 1–3)		
	14	Benefits paid to or for members (Part IX, column (A), line 4)		
	15	Salaries, other compensation, employee benefits (Part IX, column (A), lines 5–10)		
	16a	Professional fundraising fees (Part IX, column (A), line 11e)		
	b	Total fundraising expenses (Part IX, column (D), line 25) ▶		
	17	Other expenses (Part IX, column (A), lines 11a–11d, 11f–24e)		
	18	Total expenses. Add lines 13–17 (must equal Part IX, column (A), line 25)		
19	Revenue less expenses. Subtract line 18 from line 12			
Net Assets or Fund Balances	20	Total assets (Part X, line 16)	Beginning of Current Year	End of Year
	21	Total liabilities (Part X, line 26)		
	22	Net assets or fund balances. Subtract line 21 from line 20		

Part II Signature Block

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Sign Here	Signature of officer _____	Date _____			
	Type or print name and title _____				
Paid Preparer Use Only	Print/Type preparer's name _____	Preparer's signature _____	Date _____	Check <input type="checkbox"/> if self-employed	PTIN _____
	Firm's name ▶ _____			Firm's EIN ▶ _____	
	Firm's address ▶ _____			Phone no. _____	

May the IRS discuss this return with the preparer shown above? (see instructions) ☐ Yes ☐ No

Part III Statement of Program Service AccomplishmentsCheck if Schedule O contains a response or note to any line in this Part III ☐**1** Briefly describe the organization's mission:

2 Did the organization undertake any significant program services during the year which were not listed on the prior Form 990 or 990-EZ? ☐ Yes ☐ No

If "Yes," describe these new services on Schedule O.

3 Did the organization cease conducting, or make significant changes in how it conducts, any program services? ☐ Yes ☐ No

If "Yes," describe these changes on Schedule O.

4 Describe the organization's program service accomplishments for each of its three largest program services, as measured by expenses. Section 501(c)(3) and 501(c)(4) organizations are required to report the amount of grants and allocations to others, the total expenses, and revenue, if any, for each program service reported.**4a** (Code: _____) (Expenses \$ _____ including grants of \$ _____) (Revenue \$ _____)

4b (Code: _____) (Expenses \$ _____ including grants of \$ _____) (Revenue \$ _____)

4c (Code: _____) (Expenses \$ _____ including grants of \$ _____) (Revenue \$ _____)

4d Other program services (Describe in Schedule O.)
(Expenses \$ _____ including grants of \$ _____) (Revenue \$ _____)**4e** Total program service expenses ►

Part IV Checklist of Required Schedules

	Yes	No
1 Is the organization described in section 501(c)(3) or 4947(a)(1) (other than a private foundation)? <i>If "Yes," complete Schedule A</i>	1	
2 Is the organization required to complete <i>Schedule B, Schedule of Contributors</i> (see instructions)?	2	
3 Did the organization engage in direct or indirect political campaign activities on behalf of or in opposition to candidates for public office? <i>If "Yes," complete Schedule C, Part I</i>	3	
4 Section 501(c)(3) organizations. Did the organization engage in lobbying activities, or have a section 501(h) election in effect during the tax year? <i>If "Yes," complete Schedule C, Part II</i>	4	
5 Is the organization a section 501(c)(4), 501(c)(5), or 501(c)(6) organization that receives membership dues, assessments, or similar amounts as defined in Revenue Procedure 98-19? <i>If "Yes," complete Schedule C, Part III</i>	5	
6 Did the organization maintain any donor advised funds or any similar funds or accounts for which donors have the right to provide advice on the distribution or investment of amounts in such funds or accounts? <i>If "Yes," complete Schedule D, Part I</i>	6	
7 Did the organization receive or hold a conservation easement, including easements to preserve open space, the environment, historic land areas, or historic structures? <i>If "Yes," complete Schedule D, Part II</i>	7	
8 Did the organization maintain collections of works of art, historical treasures, or other similar assets? <i>If "Yes," complete Schedule D, Part III</i>	8	
9 Did the organization report an amount in Part X, line 21, for escrow or custodial account liability, serve as a custodian for amounts not listed in Part X; or provide credit counseling, debt management, credit repair, or debt negotiation services? <i>If "Yes," complete Schedule D, Part IV</i>	9	
10 Did the organization, directly or through a related organization, hold assets in temporarily restricted endowments, permanent endowments, or quasi-endowments? <i>If "Yes," complete Schedule D, Part V</i>	10	
11 If the organization's answer to any of the following questions is "Yes," then complete Schedule D, Parts VI, VII, VIII, IX, or X as applicable.		
a Did the organization report an amount for land, buildings, and equipment in Part X, line 10? <i>If "Yes," complete Schedule D, Part VI</i>	11a	
b Did the organization report an amount for investments—other securities in Part X, line 12 that is 5% or more of its total assets reported in Part X, line 16? <i>If "Yes," complete Schedule D, Part VII</i>	11b	
c Did the organization report an amount for investments—program related in Part X, line 13 that is 5% or more of its total assets reported in Part X, line 16? <i>If "Yes," complete Schedule D, Part VIII</i>	11c	
d Did the organization report an amount for other assets in Part X, line 15 that is 5% or more of its total assets reported in Part X, line 16? <i>If "Yes," complete Schedule D, Part IX</i>	11d	
e Did the organization report an amount for other liabilities in Part X, line 25? <i>If "Yes," complete Schedule D, Part X</i>	11e	
f Did the organization's separate or consolidated financial statements for the tax year include a footnote that addresses the organization's liability for uncertain tax positions under FIN 48 (ASC 740)? <i>If "Yes," complete Schedule D, Part X</i>	11f	
12 a Did the organization obtain separate, independent audited financial statements for the tax year? <i>If "Yes," complete Schedule D, Parts XI and XII</i>	12a	
b Was the organization included in consolidated, independent audited financial statements for the tax year? <i>If "Yes," and if the organization answered "No" to line 12a, then completing Schedule D, Parts XI and XII is optional</i>	12b	
13 Is the organization a school described in section 170(b)(1)(A)(ii)? <i>If "Yes," complete Schedule E</i>	13	
14 a Did the organization maintain an office, employees, or agents outside of the United States?	14a	
b Did the organization have aggregate revenues or expenses of more than \$10,000 from grantmaking, fundraising, business, investment, and program service activities outside the United States, or aggregate foreign investments valued at \$100,000 or more? <i>If "Yes," complete Schedule F, Parts I and IV.</i>	14b	
15 Did the organization report on Part IX, column (A), line 3, more than \$5,000 of grants or other assistance to or for any foreign organization? <i>If "Yes," complete Schedule F, Parts II and IV</i>	15	
16 Did the organization report on Part IX, column (A), line 3, more than \$5,000 of aggregate grants or other assistance to or for foreign individuals? <i>If "Yes," complete Schedule F, Parts III and IV.</i>	16	
17 Did the organization report a total of more than \$15,000 of expenses for professional fundraising services on Part IX, column (A), lines 6 and 11e? <i>If "Yes," complete Schedule G, Part I (see instructions)</i>	17	
18 Did the organization report more than \$15,000 total of fundraising event gross income and contributions on Part VIII, lines 1c and 8a? <i>If "Yes," complete Schedule G, Part II</i>	18	
19 Did the organization report more than \$15,000 of gross income from gaming activities on Part VIII, line 9a? <i>If "Yes," complete Schedule G, Part III</i>	19	

Part IV Checklist of Required Schedules *(continued)*

	Yes	No
20a Did the organization operate one or more hospital facilities? <i>If "Yes," complete Schedule H</i>	20a	
b If "Yes" to line 20a, did the organization attach a copy of its audited financial statements to this return?	20b	
21 Did the organization report more than \$5,000 of grants or other assistance to any domestic organization or domestic government on Part IX, column (A), line 1? <i>If "Yes," complete Schedule I, Parts I and II</i>	21	
22 Did the organization report more than \$5,000 of grants or other assistance to or for domestic individuals on Part IX, column (A), line 2? <i>If "Yes," complete Schedule I, Parts I and III</i>	22	
23 Did the organization answer "Yes" to Part VII, Section A, line 3, 4, or 5 about compensation of the organization's current and former officers, directors, trustees, key employees, and highest compensated employees? <i>If "Yes," complete Schedule J</i>	23	
24a Did the organization have a tax-exempt bond issue with an outstanding principal amount of more than \$100,000 as of the last day of the year, that was issued after December 31, 2002? <i>If "Yes," answer lines 24b through 24d and complete Schedule K. If "No," go to line 25a</i>	24a	
b Did the organization invest any proceeds of tax-exempt bonds beyond a temporary period exception?	24b	
c Did the organization maintain an escrow account other than a refunding escrow at any time during the year to defease any tax-exempt bonds?	24c	
d Did the organization act as an "on behalf of" issuer for bonds outstanding at any time during the year?	24d	
25a Section 501(c)(3), 501(c)(4), and 501(c)(29) organizations. Did the organization engage in an excess benefit transaction with a disqualified person during the year? <i>If "Yes," complete Schedule L, Part I</i>	25a	
b Is the organization aware that it engaged in an excess benefit transaction with a disqualified person in a prior year, and that the transaction has not been reported on any of the organization's prior Forms 990 or 990-EZ? <i>If "Yes," complete Schedule L, Part I</i>	25b	
26 Did the organization report any amount on Part X, line 5, 6, or 22 for receivables from or payables to any current or former officers, directors, trustees, key employees, highest compensated employees, or disqualified persons? <i>If "Yes," complete Schedule L, Part II</i>	26	
27 Did the organization provide a grant or other assistance to an officer, director, trustee, key employee, substantial contributor or employee thereof, a grant selection committee member, or to a 35% controlled entity or family member of any of these persons? <i>If "Yes," complete Schedule L, Part III</i>	27	
28 Was the organization a party to a business transaction with one of the following parties (see Schedule L, Part IV instructions for applicable filing thresholds, conditions, and exceptions):		
a A current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i>	28a	
b A family member of a current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i>	28b	
c An entity of which a current or former officer, director, trustee, or key employee (or a family member thereof) was an officer, director, trustee, or direct or indirect owner? <i>If "Yes," complete Schedule L, Part IV</i>	28c	
29 Did the organization receive more than \$25,000 in non-cash contributions? <i>If "Yes," complete Schedule M</i>	29	
30 Did the organization receive contributions of art, historical treasures, or other similar assets, or qualified conservation contributions? <i>If "Yes," complete Schedule M</i>	30	
31 Did the organization liquidate, terminate, or dissolve and cease operations? <i>If "Yes," complete Schedule N, Part I</i>	31	
32 Did the organization sell, exchange, dispose of, or transfer more than 25% of its net assets? <i>If "Yes," complete Schedule N, Part II</i>	32	
33 Did the organization own 100% of an entity disregarded as separate from the organization under Regulations sections 301.7701-2 and 301.7701-3? <i>If "Yes," complete Schedule R, Part I</i>	33	
34 Was the organization related to any tax-exempt or taxable entity? <i>If "Yes," complete Schedule R, Part II, III, or IV, and Part V, line 1</i>	34	
35a Did the organization have a controlled entity within the meaning of section 512(b)(13)?	35a	
b If "Yes" to line 35a, did the organization receive any payment from or engage in any transaction with a controlled entity within the meaning of section 512(b)(13)? <i>If "Yes," complete Schedule R, Part V, line 2</i>	35b	
36 Section 501(c)(3) organizations. Did the organization make any transfers to an exempt non-charitable related organization? <i>If "Yes," complete Schedule R, Part V, line 2</i>	36	
37 Did the organization conduct more than 5% of its activities through an entity that is not a related organization and that is treated as a partnership for federal income tax purposes? <i>If "Yes," complete Schedule R, Part VI</i>	37	
38 Did the organization complete Schedule O and provide explanations in Schedule O for Part VI, lines 11b and 19? Note. All Form 990 filers are required to complete Schedule O.	38	

Part V Statements Regarding Other IRS Filings and Tax ComplianceCheck if Schedule O contains a response or note to any line in this Part V ☐

		Yes	No
1a	Enter the number reported in Box 3 of Form 1096. Enter -0- if not applicable	1a	
b	Enter the number of Forms W-2G included in line 1a. Enter -0- if not applicable	1b	
c	Did the organization comply with backup withholding rules for reportable payments to vendors and reportable gaming (gambling) winnings to prize winners?	1c	
2a	Enter the number of employees reported on Form W-3, Transmittal of Wage and Tax Statements, filed for the calendar year ending with or within the year covered by this return	2a	
b	If at least one is reported on line 2a, did the organization file all required federal employment tax returns? Note. If the sum of lines 1a and 2a is greater than 250, you may be required to e-file (see instructions)	2b	
3a	Did the organization have unrelated business gross income of \$1,000 or more during the year?	3a	
b	If "Yes," has it filed a Form 990-T for this year? If "No" to line 3b, provide an explanation in Schedule O	3b	
4a	At any time during the calendar year, did the organization have an interest in, or a signature or other authority over, a financial account in a foreign country (such as a bank account, securities account, or other financial account)?	4a	
b	If "Yes," enter the name of the foreign country: ► _____ See instructions for filing requirements for FinCEN Form 114, Report of Foreign Bank and Financial Accounts (FBAR).		
5a	Was the organization a party to a prohibited tax shelter transaction at any time during the tax year?	5a	
b	Did any taxable party notify the organization that it was or is a party to a prohibited tax shelter transaction?	5b	
c	If "Yes" to line 5a or 5b, did the organization file Form 8886-T?	5c	
6a	Does the organization have annual gross receipts that are normally greater than \$100,000, and did the organization solicit any contributions that were not tax deductible as charitable contributions?	6a	
b	If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?	6b	
7	Organizations that may receive deductible contributions under section 170(c).		
a	Did the organization receive a payment in excess of \$75 made partly as a contribution and partly for goods and services provided to the payor?	7a	
b	If "Yes," did the organization notify the donor of the value of the goods or services provided?	7b	
c	Did the organization sell, exchange, or otherwise dispose of tangible personal property for which it was required to file Form 8282?	7c	
d	If "Yes," indicate the number of Forms 8282 filed during the year	7d	
e	Did the organization receive any funds, directly or indirectly, to pay premiums on a personal benefit contract?	7e	
f	Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract?	7f	
g	If the organization received a contribution of qualified intellectual property, did the organization file Form 8899 as required?	7g	
h	If the organization received a contribution of cars, boats, airplanes, or other vehicles, did the organization file a Form 1098-C?	7h	
8	Sponsoring organizations maintaining donor advised funds. Did a donor advised fund maintained by the sponsoring organization have excess business holdings at any time during the year?	8	
9	Sponsoring organizations maintaining donor advised funds.		
a	Did the sponsoring organization make any taxable distributions under section 4966?	9a	
b	Did the sponsoring organization make a distribution to a donor, donor advisor, or related person?	9b	
10	Section 501(c)(7) organizations. Enter:		
a	Initiation fees and capital contributions included on Part VIII, line 12	10a	
b	Gross receipts, included on Form 990, Part VIII, line 12, for public use of club facilities	10b	
11	Section 501(c)(12) organizations. Enter:		
a	Gross income from members or shareholders	11a	
b	Gross income from other sources (Do not net amounts due or paid to other sources against amounts due or received from them.)	11b	
12a	Section 4947(a)(1) non-exempt charitable trusts. Is the organization filing Form 990 in lieu of Form 1041?	12a	
b	If "Yes," enter the amount of tax-exempt interest received or accrued during the year	12b	
13	Section 501(c)(29) qualified nonprofit health insurance issuers.		
a	Is the organization licensed to issue qualified health plans in more than one state? Note. See the instructions for additional information the organization must report on Schedule O.	13a	
b	Enter the amount of reserves the organization is required to maintain by the states in which the organization is licensed to issue qualified health plans	13b	
c	Enter the amount of reserves on hand	13c	
14a	Did the organization receive any payments for indoor tanning services during the tax year?	14a	
b	If "Yes," has it filed a Form 720 to report these payments? If "No," provide an explanation in Schedule O	14b	

Part VI Governance, Management, and Disclosure For each "Yes" response to lines 2 through 7b below, and for a "No" response to line 8a, 8b, or 10b below, describe the circumstances, processes, or changes in Schedule O. See instructions. Check if Schedule O contains a response or note to any line in this Part VI ☐

Section A. Governing Body and Management

	Yes	No
1a Enter the number of voting members of the governing body at the end of the tax year If there are material differences in voting rights among members of the governing body, or if the governing body delegated broad authority to an executive committee or similar committee, explain in Schedule O.		
1b Enter the number of voting members included in line 1a, above, who are independent		
2 Did any officer, director, trustee, or key employee have a family relationship or a business relationship with any other officer, director, trustee, or key employee?		
3 Did the organization delegate control over management duties customarily performed by or under the direct supervision of officers, directors, or trustees, or key employees to a management company or other person?		
4 Did the organization make any significant changes to its governing documents since the prior Form 990 was filed?		
5 Did the organization become aware during the year of a significant diversion of the organization's assets?		
6 Did the organization have members or stockholders?		
7a Did the organization have members, stockholders, or other persons who had the power to elect or appoint one or more members of the governing body?		
7b Are any governance decisions of the organization reserved to (or subject to approval by) members, stockholders, or persons other than the governing body?		
8 Did the organization contemporaneously document the meetings held or written actions undertaken during the year by the following:		
a The governing body?		
b Each committee with authority to act on behalf of the governing body?		
9 Is there any officer, director, trustee, or key employee listed in Part VII, Section A, who cannot be reached at the organization's mailing address? If "Yes," provide the names and addresses in Schedule O		

Section B. Policies (This Section B requests information about policies not required by the Internal Revenue Code.)

	Yes	No
10a Did the organization have local chapters, branches, or affiliates?		
10b If "Yes," did the organization have written policies and procedures governing the activities of such chapters, affiliates, and branches to ensure their operations are consistent with the organization's exempt purposes?		
11a Has the organization provided a complete copy of this Form 990 to all members of its governing body before filing the form?		
11b Describe in Schedule O the process, if any, used by the organization to review this Form 990.		
12a Did the organization have a written conflict of interest policy? If "No," go to line 13		
12b Were officers, directors, or trustees, and key employees required to disclose annually interests that could give rise to conflicts?		
12c Did the organization regularly and consistently monitor and enforce compliance with the policy? If "Yes," describe in Schedule O how this was done		
13 Did the organization have a written whistleblower policy?		
14 Did the organization have a written document retention and destruction policy?		
15 Did the process for determining compensation of the following persons include a review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision?		
a The organization's CEO, Executive Director, or top management official		
b Other officers or key employees of the organization		
If "Yes" to line 15a or 15b, describe the process in Schedule O (see instructions).		
16a Did the organization invest in, contribute assets to, or participate in a joint venture or similar arrangement with a taxable entity during the year?		
16b If "Yes," did the organization follow a written policy or procedure requiring the organization to evaluate its participation in joint venture arrangements under applicable federal tax law, and take steps to safeguard the organization's exempt status with respect to such arrangements?		

Section C. Disclosure

17 List the states with which a copy of this Form 990 is required to be filed ►

18 Section 6104 requires an organization to make its Forms 1023 (or 1024 if applicable), 990, and 990-T (Section 501(c)(3)s only) available for public inspection. Indicate how you made these available. Check all that apply.
☐ Own website ☐ Another's website ☐ Upon request ☐ Other (explain in Schedule O)

19 Describe in Schedule O whether (and if so, how) the organization made its governing documents, conflict of interest policy, and financial statements available to the public during the tax year.

20 State the name, address, and telephone number of the person who possesses the organization's books and records: ►

Part VII Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent ContractorsCheck if Schedule O contains a response or note to any line in this Part VII ☐**Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees****1a** Complete this table for all persons required to be listed. Report compensation for the calendar year ending with or within the organization's tax year.

- List all of the organization's **current** officers, directors, trustees (whether individuals or organizations), regardless of amount of compensation. Enter -0- in columns (D), (E), and (F) if no compensation was paid.

- List all of the organization's **current** key employees, if any. See instructions for definition of "key employee."

- List the organization's five **current** highest compensated employees (other than an officer, director, trustee, or key employee) who received reportable compensation (Box 5 of Form W-2 and/or Box 7 of Form 1099-MISC) of more than \$100,000 from the organization and any related organizations.

- List all of the organization's **former** officers, key employees, and highest compensated employees who received more than \$100,000 of reportable compensation from the organization and any related organizations.

- List all of the organization's **former directors or trustees** that received, in the capacity as a former director or trustee of the organization, more than \$10,000 of reportable compensation from the organization and any related organizations.

List persons in the following order: individual trustees or directors; institutional trustees; officers; key employees; highest compensated employees; and former such persons.

☐ Check this box if neither the organization nor any related organization compensated any current officer, director, or trustee.

(A) Name and Title	(B) Average hours per week (list any hours for related organizations below dotted line)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional trustee	Officer	Key employee	Highest compensated employee	Former			
(1)										
(2)										
(3)										
(4)										
(5)										
(6)										
(7)										
(8)										
(9)										
(10)										
(11)										
(12)										
(13)										
(14)										

Part VII Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees *(continued)*

(A) Name and title	(B) Average hours per week (list any hours for related organizations below dotted line)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional trustee	Officer	Key employee	Highest compensated employee	Former			
(15)										
(16)										
(17)										
(18)										
(19)										
(20)										
(21)										
(22)										
(23)										
(24)										
(25)										
1b Sub-total										
c Total from continuation sheets to Part VII, Section A										
d Total (add lines 1b and 1c)										

2 Total number of individuals (including but not limited to those listed above) who received more than \$100,000 of reportable compensation from the organization ►

3 Did the organization list any **former** officer, director, or trustee, key employee, or highest compensated employee on line 1a? *If "Yes," complete Schedule J for such individual*

	Yes	No
3		
4		
5		

4 For any individual listed on line 1a, is the sum of reportable compensation and other compensation from the organization and related organizations greater than \$150,000? *If "Yes," complete Schedule J for such individual*

5 Did any person listed on line 1a receive or accrue compensation from any unrelated organization or individual for services rendered to the organization? *If "Yes," complete Schedule J for such person*

Section B. Independent Contractors

1 Complete this table for your five highest compensated independent contractors that received more than \$100,000 of compensation from the organization. Report compensation for the calendar year ending with or within the organization's tax year.

(A) Name and business address	(B) Description of services	(C) Compensation

2 Total number of independent contractors (including but not limited to those listed above) who received more than \$100,000 of compensation from the organization ►

Part VIII Statement of RevenueCheck if Schedule O contains a response or note to any line in this Part VIII ☐

				(A) Total revenue	(B) Related or exempt function revenue	(C) Unrelated business revenue	(D) Revenue excluded from tax under sections 512-514
Contributions, Gifts, Grants and Other Similar Amounts	1a	Federated campaigns	1a				
	b	Membership dues	1b				
	c	Fundraising events	1c				
	d	Related organizations	1d				
	e	Government grants (contributions)	1e				
	f	All other contributions, gifts, grants, and similar amounts not included above	1f				
	g	Noncash contributions included in lines 1a-1f: \$					
	h	Total. Add lines 1a-1f ▶					
Program Service Revenue				Business Code			
	2a						
	b						
	c						
	d						
	e						
	f	All other program service revenue .					
	g	Total. Add lines 2a-2f ▶					
Other Revenue	3	Investment income (including dividends, interest, and other similar amounts) ▶					
	4	Income from investment of tax-exempt bond proceeds ▶					
	5	Royalties ▶					
		(i) Real	(ii) Personal				
	6a	Gross rents					
	b	Less: rental expenses					
	c	Rental income or (loss)					
	d	Net rental income or (loss) ▶					
	7a	(i) Securities	(ii) Other				
		Gross amount from sales of assets other than inventory					
	b	Less: cost or other basis and sales expenses .					
	c	Gain or (loss)					
	d	Net gain or (loss) ▶					
	8a	Gross income from fundraising events (not including \$ of contributions reported on line 1c). See Part IV, line 18 a					
	b	Less: direct expenses b					
	c	Net income or (loss) from fundraising events . ▶					
	9a	Gross income from gaming activities. See Part IV, line 19 a					
	b	Less: direct expenses b					
	c	Net income or (loss) from gaming activities . . ▶					
	10a	Gross sales of inventory, less returns and allowances a					
b	Less: cost of goods sold b						
c	Net income or (loss) from sales of inventory . . ▶						
Miscellaneous Revenue			Business Code				
11a							
b							
c							
d	All other revenue						
e	Total. Add lines 11a-11d ▶						
12	Total revenue. See instructions. ▶						

Part IX Statement of Functional Expenses

Section 501(c)(3) and 501(c)(4) organizations must complete all columns. All other organizations must complete column (A).

Check if Schedule O contains a response or note to any line in this Part IX ☐**Do not include amounts reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII.**

	(A) Total expenses	(B) Program service expenses	(C) Management and general expenses	(D) Fundraising expenses
1 Grants and other assistance to domestic organizations and domestic governments. See Part IV, line 21				
2 Grants and other assistance to domestic individuals. See Part IV, line 22				
3 Grants and other assistance to foreign organizations, foreign governments, and foreign individuals. See Part IV, lines 15 and 16				
4 Benefits paid to or for members				
5 Compensation of current officers, directors, trustees, and key employees				
6 Compensation not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B)				
7 Other salaries and wages				
8 Pension plan accruals and contributions (include section 401(k) and 403(b) employer contributions)				
9 Other employee benefits				
10 Payroll taxes				
11 Fees for services (non-employees):				
a Management				
b Legal				
c Accounting				
d Lobbying				
e Professional fundraising services. See Part IV, line 17				
f Investment management fees				
g Other. (If line 11g amount exceeds 10% of line 25, column (A) amount, list line 11g expenses on Schedule O.)				
12 Advertising and promotion				
13 Office expenses				
14 Information technology				
15 Royalties				
16 Occupancy				
17 Travel				
18 Payments of travel or entertainment expenses for any federal, state, or local public officials				
19 Conferences, conventions, and meetings				
20 Interest				
21 Payments to affiliates				
22 Depreciation, depletion, and amortization				
23 Insurance				
24 Other expenses. Itemize expenses not covered above (List miscellaneous expenses in line 24e. If line 24e amount exceeds 10% of line 25, column (A) amount, list line 24e expenses on Schedule O.)				
a -----				
b -----				
c -----				
d -----				
e All other expenses -----				
25 Total functional expenses. Add lines 1 through 24e				
26 Joint costs. Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation. Check here <input type="checkbox"/> if following SOP 98-2 (ASC 958-720)				

Part X Balance SheetCheck if Schedule O contains a response or note to any line in this Part X ☐

		(A) Beginning of year	(B) End of year
Assets	1 Cash—non-interest-bearing	1	
	2 Savings and temporary cash investments	2	
	3 Pledges and grants receivable, net	3	
	4 Accounts receivable, net	4	
	5 Loans and other receivables from current and former officers, directors, trustees, key employees, and highest compensated employees. Complete Part II of Schedule L	5	
	6 Loans and other receivables from other disqualified persons (as defined under section 4958(f)(1)), persons described in section 4958(c)(3)(B), and contributing employers and sponsoring organizations of section 501(c)(9) voluntary employees' beneficiary organizations (see instructions). Complete Part II of Schedule L	6	
	7 Notes and loans receivable, net	7	
	8 Inventories for sale or use	8	
	9 Prepaid expenses and deferred charges	9	
	10a Land, buildings, and equipment: cost or other basis. Complete Part VI of Schedule D	10a	
	b Less: accumulated depreciation	10b	10c
	11 Investments—publicly traded securities	11	
	12 Investments—other securities. See Part IV, line 11	12	
	13 Investments—program-related. See Part IV, line 11	13	
	14 Intangible assets	14	
	15 Other assets. See Part IV, line 11	15	
16 Total assets. Add lines 1 through 15 (must equal line 34)	16		
Liabilities	17 Accounts payable and accrued expenses	17	
	18 Grants payable	18	
	19 Deferred revenue	19	
	20 Tax-exempt bond liabilities	20	
	21 Escrow or custodial account liability. Complete Part IV of Schedule D	21	
	22 Loans and other payables to current and former officers, directors, trustees, key employees, highest compensated employees, and disqualified persons. Complete Part II of Schedule L	22	
	23 Secured mortgages and notes payable to unrelated third parties	23	
	24 Unsecured notes and loans payable to unrelated third parties	24	
	25 Other liabilities (including federal income tax, payables to related third parties, and other liabilities not included on lines 17-24). Complete Part X of Schedule D	25	
	26 Total liabilities. Add lines 17 through 25	26	
Net Assets or Fund Balances	Organizations that follow SFAS 117 (ASC 958), check here <input type="checkbox"/> and complete lines 27 through 29, and lines 33 and 34.		
	27 Unrestricted net assets	27	
	28 Temporarily restricted net assets	28	
	29 Permanently restricted net assets	29	
	Organizations that do not follow SFAS 117 (ASC 958), check here <input type="checkbox"/> and complete lines 30 through 34.		
	30 Capital stock or trust principal, or current funds	30	
	31 Paid-in or capital surplus, or land, building, or equipment fund	31	
	32 Retained earnings, endowment, accumulated income, or other funds	32	
	33 Total net assets or fund balances	33	
34 Total liabilities and net assets/fund balances	34		

Part XI Reconciliation of Net AssetsCheck if Schedule O contains a response or note to any line in this Part XI ☐

1	Total revenue (must equal Part VIII, column (A), line 12)	1	
2	Total expenses (must equal Part IX, column (A), line 25)	2	
3	Revenue less expenses. Subtract line 2 from line 1	3	
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))	4	
5	Net unrealized gains (losses) on investments	5	
6	Donated services and use of facilities	6	
7	Investment expenses	7	
8	Prior period adjustments	8	
9	Other changes in net assets or fund balances (explain in Schedule O)	9	
10	Net assets or fund balances at end of year. Combine lines 3 through 9 (must equal Part X, line 33, column (B))	10	

Part XII Financial Statements and ReportingCheck if Schedule O contains a response or note to any line in this Part XII ☐

	Yes	No
1 Accounting method used to prepare the Form 990: <input type="checkbox"/> Cash <input type="checkbox"/> Accrual <input type="checkbox"/> Other _____ If the organization changed its method of accounting from a prior year or checked "Other," explain in Schedule O.		
2a Were the organization's financial statements compiled or reviewed by an independent accountant? . . . If "Yes," check a box below to indicate whether the financial statements for the year were compiled or reviewed on a separate basis, consolidated basis, or both: <input type="checkbox"/> Separate basis <input type="checkbox"/> Consolidated basis <input type="checkbox"/> Both consolidated and separate basis	2a	
b Were the organization's financial statements audited by an independent accountant? . . . If "Yes," check a box below to indicate whether the financial statements for the year were audited on a separate basis, consolidated basis, or both: <input type="checkbox"/> Separate basis <input type="checkbox"/> Consolidated basis <input type="checkbox"/> Both consolidated and separate basis	2b	
c If "Yes" to line 2a or 2b, does the organization have a committee that assumes responsibility for oversight of the audit, review, or compilation of its financial statements and selection of an independent accountant? If the organization changed either its oversight process or selection process during the tax year, explain in Schedule O.	2c	
3a As a result of a federal award, was the organization required to undergo an audit or audits as set forth in the Single Audit Act and OMB Circular A-133? . . .	3a	
b If "Yes," did the organization undergo the required audit or audits? If the organization did not undergo the required audit or audits, explain why in Schedule O and describe any steps taken to undergo such audits.	3b	

SAMPLE ASSOCIATION, INC.
AUDITED FINANCIAL REPORT
December 31, 2003

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To the Board of Directors
Sample Association, Inc.
Any Town, USA

We have audited the accompanying statement of financial position of Sample Association, Inc. as of December 31, 2003 and the related statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sample Association, Inc. as of December 31, 2003 and the results of its operations and cash flows for the years then ended, in conformity with generally accepted accounting principles.

Silver Spring, Maryland
March 15, 2004

SAMPLE ASSOCIATION

STATEMENT OF FINANCIAL POSITION
December 31, 2003

ASSETS

Cash and cash equivalents	\$ 823,056
Investment income receivable	18,736
Accounts receivable	24,563
Prepaid expense	32,741
Investments	2,634,748
Property and equipment, net	<u>136,419</u>

TOTAL ASSETS	<u>\$ 3,670,263</u>
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LIABILITIES AND NET ASSETS

Accounts payable	\$ 90,835
Capital leases, net of current portion	63,589
Deferred membership dues	733,345
Accrued payroll and employee benefits	<u>109,886</u>

TOTAL LIABILITIES	<u>997,655</u>
--------------------------	-----------------------

Unrestricted net assets	2,235,314
Temporarily restricted net assets	222,394
Permanently restricted net assets	42,087
Accumulated comprehensive income	<u>172,813</u>

TOTAL NET ASSETS	<u>2,672,608</u>
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TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,670,263</u>
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SEE INDEPENDENT AUDITORS' REPORT

The Notes to Financial Statements are an integral part of this statement

SAMPLE ASSOCIATION

STATEMENT OF ACTIVITIES For the Year Ended December 31, 2003

	Unrestricted	Temporarily Restricted	Permanently Restricted	Other Comprehensive Income	Totals
REVENUE AND OTHER SUPPORT:					
Dues	\$ 1,925,075	\$ -	\$ -	\$ -	1,925,075
Continuing education classes	165,074	201,094	-	-	366,168
National conference	287,921	-	-	-	287,921
Regional conferences	362,015	-	-	-	362,015
Expert lecture series	92,854	-	-	-	92,854
Training workshops	216,877	-	-	-	216,877
Investment income	201,345	-	-	-	201,345
Other	53,746	-	-	-	53,746
Total revenue and other support	3,304,907	201,094	-	-	3,506,001
EXPENSES:					
Program services:					
Continuing education classes	455,689				455,689
National conference	821,342				821,342
Regional conferences	621,547				621,547
Expert lecture series	40,321				40,321
Training workshops	804,926				804,926
Supporting Services:					
Management and general	463,750	-	-	-	463,750
Total expenses	3,207,575	-	-	-	3,207,575
Change in net assets	97,332	201,094	-	-	298,426
Unrealized loss on securities	-	-	-	(256,311)	(256,311)
Total comprehensive income	97,332	201,094	-	(256,311)	42,115
Net assets, beginning	2,137,982	21,300	42,087	429,124	2,946,664
Net assets, ending	\$ 2,235,314	\$ 222,394	\$ 42,087	\$ 172,813	\$ 2,988,779

SEE INDEPENDENT AUDITORS' REPORT

The Notes to Financial Statements are an integral part of this statement

SAMPLE ASSOCIATION

STATEMENT OF CASH FLOWS **For the Year Ended December 31, 2003**

Cash flows from operating activities:	
Total comprehensive income	\$ 42,115
Adjustments to reconcile excess revenue and expense to net cash provided by operating activities:	
Depreciation	140,524
(Gain) on sale of investments	(252,472)
Unrealized loss on investments	256,311
Non-cash contribution	(3,071)
(Increase) decrease in:	
Investment income receivable	(8,492)
Accounts receivable	(3,650)
Prepaid expense	(3,642)
(Decrease) increase in:	
Accounts payable	5,487
Net cash used in operating activities	<u>173,110</u>
Cash flows from investing activities:	
Proceeds from sales of investments	145,926
Purchase of investments	<u>(301,601)</u>
Net cash provided by investing activities:	<u>(155,675)</u>
Net increase in cash	17,435
Cash and cash equivalents, beginning	<u>805,621</u>
Cash and cash equivalents, ending	<u><u>\$ 823,056</u></u>

SEE INDEPENDENT AUDITORS' REPORT

The Notes to Financial Statements are an integral part of this statement

SAMPLE ASSOCIATION

STATEMENT OF FUNCTIONAL EXPENSES For the Year ended December 31, 2003

	Continuing Education	National Conference	Regional Conferences	Lecture Series	Training Workshops	Management and General	Total
Payroll	\$ 123,951	\$ 296,646	\$ 233,233	\$ 5,964	\$ 443,678	\$ 289,120	\$ 1,392,592
Payroll taxes	9,296	22,248	17,492	1,950	34,902	22,858	108,746
Medical insurance	8,197	16,455	14,328	1,102	30,921	17,815	88,818
Retirement plan	-	-	-	-	21,682	15,237	36,919
Depreciation	19,964	35,983	27,230	1,766	35,264	20,317	140,524
Conferences	-	200,357	126,479	-	-	-	326,836
Contracted service	137,754	60,875	43,536	22,188	31,766	18,980	315,099
Supplies	65,356	27,678	20,945	1,359	87,125	15,628	218,091
Insurance	9,721	17,522	13,259	860	17,171	9,893	68,426
Printing	32,238	54,875	57,921	776	15,488	421	161,719
Utilities and telephone	8,638	15,570	11,783	764	15,259	8,791	60,805
Transportation costs	8,037	14,486	10,962	711	14,196	8,179	56,571
Miscellaneous	9,292	16,748	12,674	822	16,413	9,456	65,405
Postage and delivery	3,620	6,524	4,937	320	6,394	3,684	25,479
Repairs and maintenance	11,918	21,482	16,256	1,055	21,052	12,129	83,892
Gifts and awards	3,540	6,380	4,828	313	6,252	-	21,313
Rent	3,200	5,768	4,365	283	5,652	3,257	22,525
Memberships dues	-	-	-	-	-	7,000	7,000
Subscriptions and publications	499	902	681	47	885	509	3,523
Equipment lease	468	843	638	41	826	476	3,292
Total Operating Expenses	\$ 455,689	\$ 821,342	\$ 621,547	\$ 40,321	\$ 804,926	\$ 463,750	\$ 3,207,575

SEE INDEPENDENT AUDITORS' REPORT

The Notes to Financial Statements are an integral part of this statement

SAMPLE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

Note 1 Summary of significant accounting policies

History

Sample Association (the "Association") is a trade association of industry professionals. The Association is exempt from income taxes under section 501(c)(6) of the Internal Revenue Code.

Method of accounting

Assets, liabilities, income and expenses are reported using the accrual basis of accounting, whereby income is recorded when earned and expenses as incurred.

Volunteer activities

A large number of people have contributed significant amounts of time to the activities of the Association. The financial statements do not reflect the value of these contributed services because they do not meet the recognition criteria of Statement of Financial Accounting Standards No. 116, *Accounting for Contributions Received and Contributions Made* (SFAS No. 116).

Basis of presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Associations*. Under SFAS No. 117, the Association is required to report its financial position and activities according to three classes of assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Functional activities

The costs of providing various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Fixed assets and depreciation

Fixed assets are stated at cost, or in the case of donated assets, at estimated market value at the date of gift. Depreciation is calculated using the straight-line method of accounting based on the estimated useful lives of the assets.

Computer equipment	5 years
Vehicles	5 years
Furniture and fixtures	7 years
Buildings	20 years

SEE INDEPENDENT AUDITORS' REPORT

SAMPLE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

Note 1 Summary of significant accounting policies (continued)

Income taxes

The Association is exempt from federal income taxes under Section 501(c)(6) of the Internal Revenue Code and is also exempt from state income taxes, except for income taxes on unrelated business income, if any. For the year ended December 31, 2003, the Association had no unrelated business income subject to income tax. Accordingly, no provision for income taxes has been included in these financial statements. In addition, the Association qualifies for the charitable contribution deduction under Section 170(b)(1) (A) and has been classified as an Association that is not a private foundation under Section 509(a)(2).

Cash and cash equivalents

The Association considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Member dues

Dues are recorded in the applicable membership period.

Publications

Revenue from publications and software, professional development and member service conferences is recognized when goods are shipped to customers or services are rendered.

Revenue from subscriptions is deferred and recognized on the straight-line method over the term of the subscriptions, which is primarily for one year.

Advertising revenue is recorded as publications are issued.

Affinity contracts

Revenue related to affinity contracts is recognized when earned.

Statements of cash flows

There was no cash paid for interest or income taxes during the year.

SEE INDEPENDENT AUDITORS' REPORT

SAMPLE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

Note 1 Summary of significant accounting policies (continued)

Restricted and unrestricted revenue and support

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which support is recognized. All other payor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restriction.

Investments

The Association carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the balance sheet. Unrealized gains and losses are included in the change in net assets in the accompanying *Statement of Activities*.

Web site costs

The Association accounts for its Web site development costs in accordance with Emerging Issues Task Force Issue No. 00-2, *Accounting for Web Site Development Costs* and Statement of Position 98-1, *Accounting for Costs of Computer Software Developed or Obtained for Internal Use* (SOP 98-1). All costs incurred in the planning stage of developing a Web site are expensed as incurred as are internal and external training costs and maintenance costs. Fees incurred to Internet service providers in return for hosting a Web site on their servers are expensed over the period of benefit.

Comprehensive income

The Association's comprehensive income is comprised of unrealized losses on available-for-sale investments. Comprehensive income is reflected in the statement of activities.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

SEE INDEPENDENT AUDITORS' REPORT

SAMPLE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

Note 2 Investments

Investments are stated at fair value and consists of the following:

	Fair Value
U.S. Treasury notes	\$ 80,165
U.S. Treasury bonds	199,752
Federal National Mortgage Association notes	120,529
FHLMC obligations	11,244
FNMA investment pools	145,499
GNMA investment pools	475,445
Corporate bonds	317,447
Cash management fund	188,354
Stocks	1,096,313
	<hr/>
Total	\$ 2,634,748

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended December 31, 2003.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 110,089	\$ --	\$ --	\$ 110,089
Realized gains	252,472	--	--	252,472
Investment fees	(17,549)	--	--	(17,549)
	<hr/>			<hr/>
Total investment return	\$ 345,012	\$ --	\$ --	\$ 345,012

Note 3 Property and equipment

Property and equipment at December 31, 2003 stated at cost less depreciation, consists of the following:

Land and building	\$ 248,385
Furniture, fixtures and equipment	85,641
Vehicles	20,608
	<hr/>
	354,634
Accumulated depreciation	218,215
	<hr/>
Net property and equipment	\$ 136,419

SEE INDEPENDENT AUDITORS' REPORT

SAMPLE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

Note 4 Capital leases

The Company has various leases for machinery and equipment, which meet the criteria for capital leases. These leases expire between 2004 and 2008.

The following is an analysis of leased property under capital leases at December 31, 2003:

Machinery, equipment, and office	
Furniture	\$ 111,052
Less accumulated depreciation	<u>28,521</u>
	<u>\$ 82,531</u>

The following is a schedule by year of future minimum lease payments under capital leases together with the present value of net minimum lease payments as of December 31, 2003:

Year ending December 31,	
2004	\$ 27,957
2005	25,435
2006	19,576
2007	17,461
2008 and beyond	<u>17,201</u>
Net minimum lease payments	107,630
Less amount representing interest	<u>22,847</u>
Present value of net minimum lease	
Payments	84,783
Less current portion	<u>21,194</u>
	<u>\$ 63,589</u>

Note 5 Retirement plan

The Company has adopted a qualified deferred compensation retirement plan pursuant to Internal Revenue Code Section 401(K). The plan allows eligible employees the option to defer a portion of their compensation, subject to annual limits. Contributions to the plan totaled \$21,682 for the year ended December 31, 2003.

SEE INDEPENDENT AUDITORS' REPORT

SAMPLE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

Note 6 Restrictions on net assets

Unrestricted net assets consists of net assets which are available for the general operation of the Association and a board designated restriction of \$1,500,000 to provide long term source of income for the general operations of the Association.

Temporarily restricted net assets consist of expenditure restricted net assets available for subsequent year's activities.

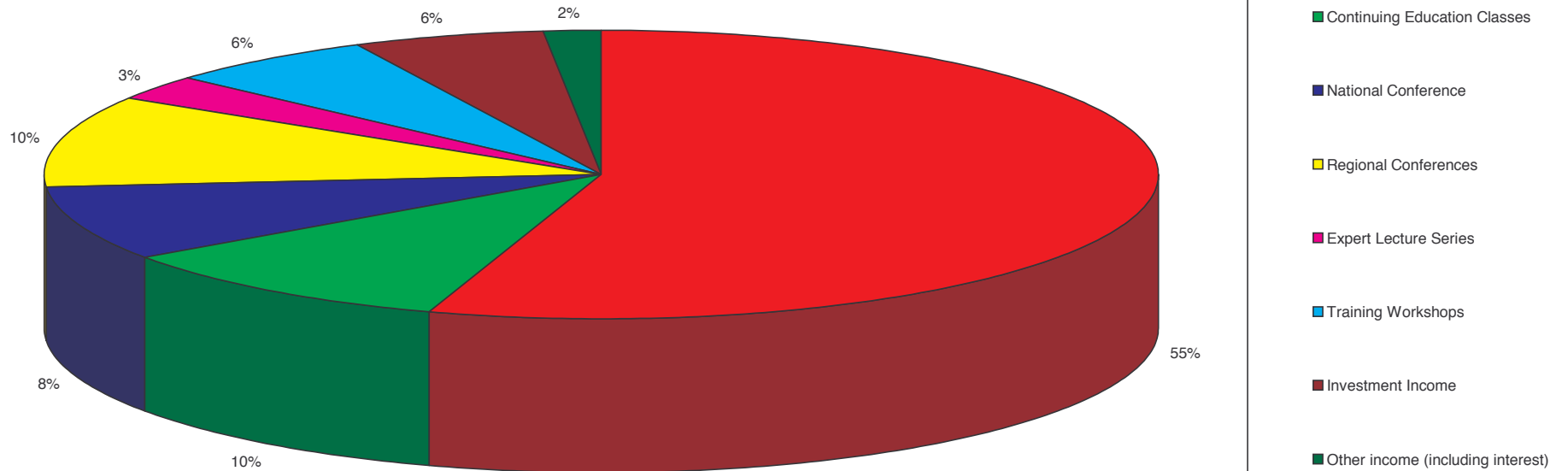
Permanently restricted net assets consist of endowment fund assets to be held indefinitely. The income from the assets can be used to support the Association's general activities.

SEE INDEPENDENT AUDITORS' REPORT

APPENDIX
GRAPHICAL ANALYSIS

Sample Association

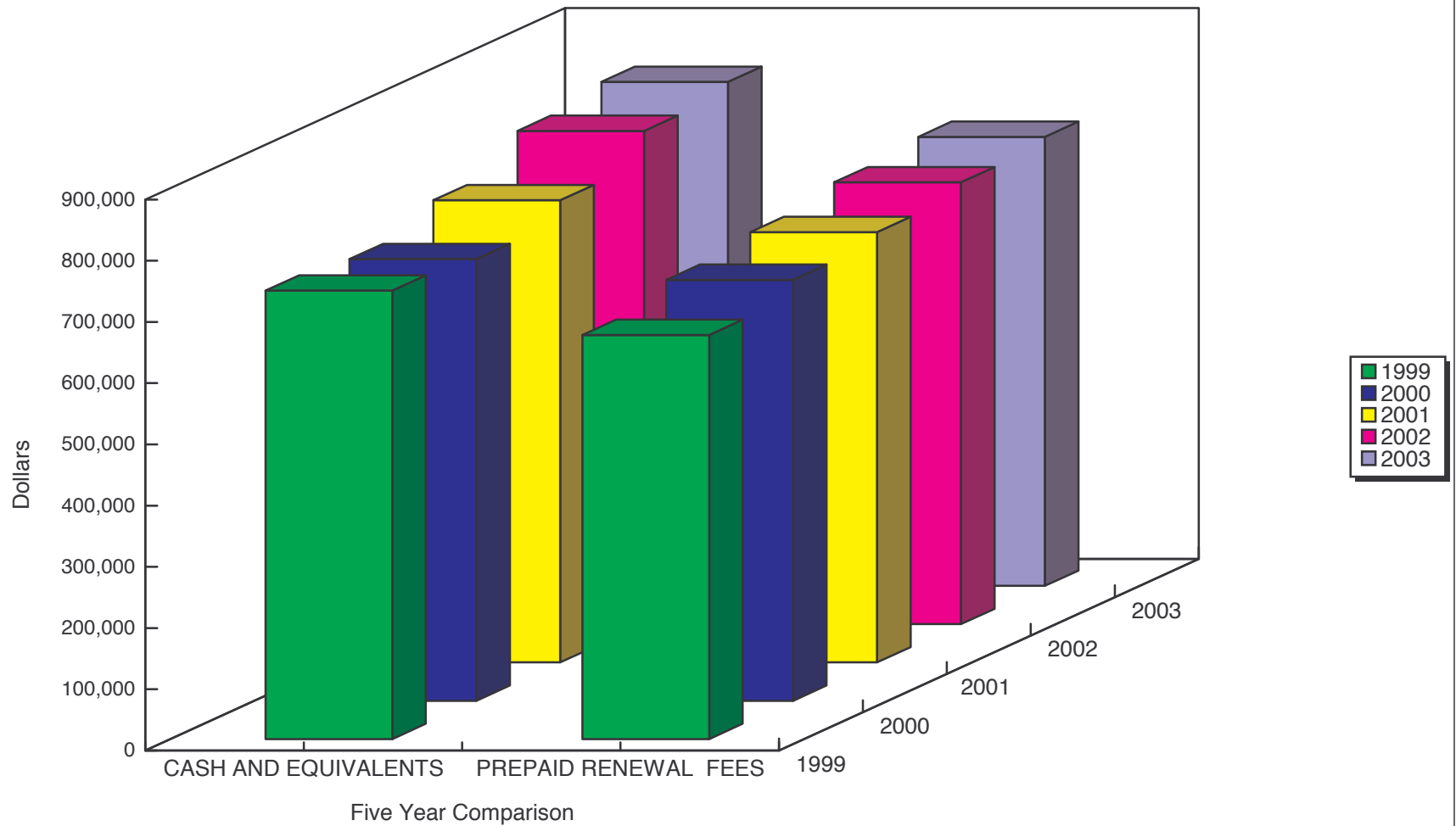
1/1/2003 -12/31/2003 Revenue By Program



SEE INDEPENDENT AUDITORS' REPORT

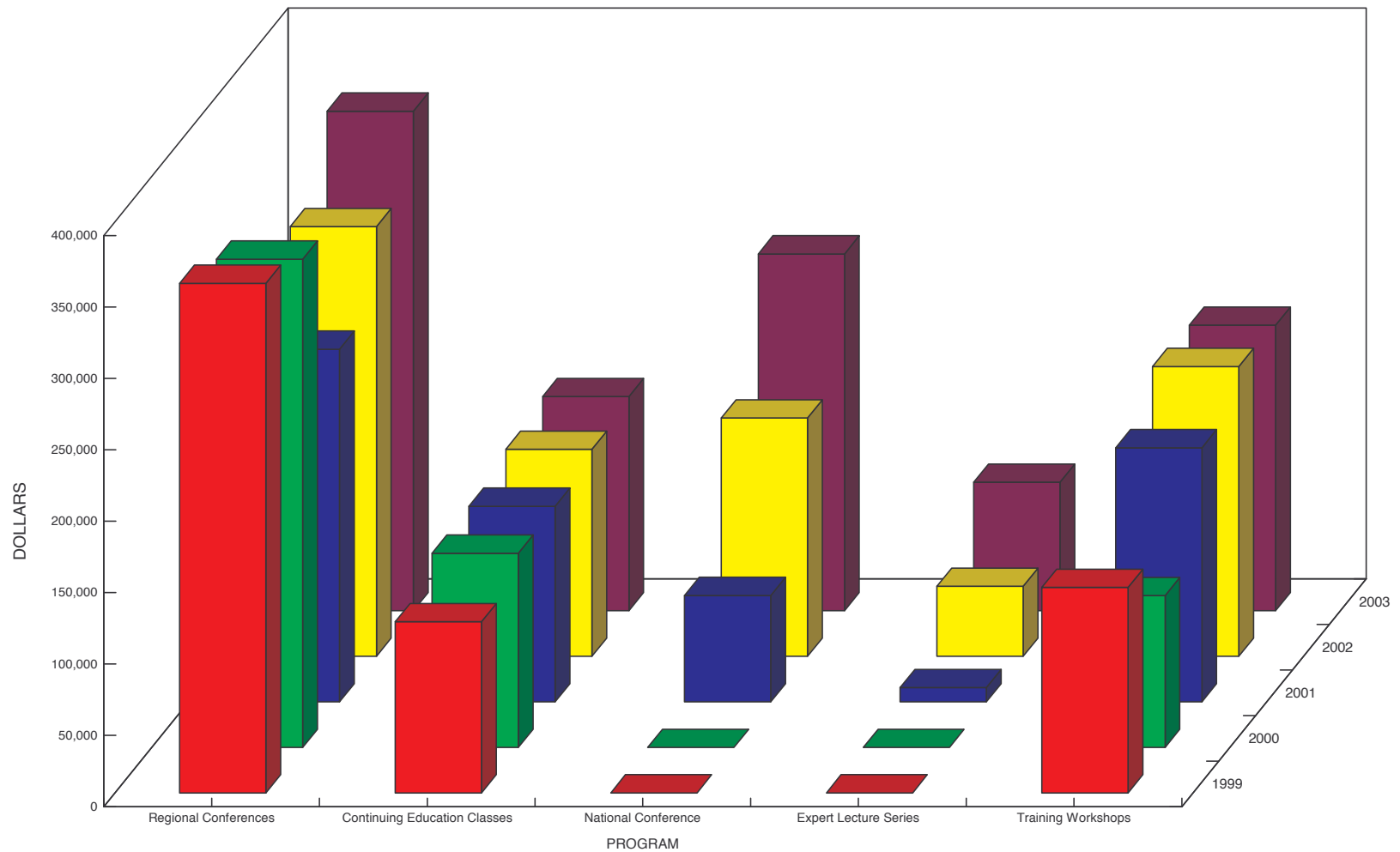
Sample Association

Cash Reserves and Prepaid Renewal Fees



SEE INDEPENDENT AUDITORS' REPORT

Sample Association
Education and Registration Fee Comparison for 1999 - 2003



SEE INDEPENDENT AUDITORS' REPORT