

**Theatre Alliance/SPARK Training**  
**May 14, 2007**

**TOPIC: Selected Topics in Nonprofit Financial Management**

**Presenter: Eric Frait, President and Founder**  
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**Discussion Outline**

- I. Why become a nonprofit?
  - a. Incorporation
  - b. 501c3 status
  - c. Taxes: income, sales, payroll, deductibility for donors, UBIT, 990's
  - d. BCO-10
  - e. Fiscal sponsors
  
- II. Cash versus accrual basis
  
- III. Software: Quicken vs. QuickBooks vs. Peachtree
  
- IV. Financial Reporting Baseline (FRB)
  - a. The financial reporting package
  - b. Timeliness
  - c. Bank and investment account reconciliations
  
- V. Financial Reporting Baseline PLUS (FRB+)
  - a. Different formats for different readers (vertical presentations)
  - b. Reporting of restricted funds
  - c. Departmental and program income statements (horizontal presentations)
  - d. Forecasting on a cash and accrual basis
  
- VI. Review a set of financial reports
  
- VII. Audits

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# **The Balancing Act: Accounting, Taxes, State and the Feds**

*Theatre Alliance of Greater Philadelphia's May Spark Event of 2007*

*May 14<sup>th</sup> @ 2030 Sansom Street, The Playground*

\*\*\*Remember the second Monday of every month is a new Spark event hosted by the Theatre Alliance of Greater Philadelphia. Individual & Organizational members attend free; all others are charged \$10 per person. (This money may be applied towards membership dues!)\* \*\*

## **Future Spark Event and Theatre Alliance Announcements:**

### ▪ **Designer Showcase & Spark Showcase Party (Monday, June 11, 2007 @ 7PM)**

*Vesuvio Restaurant, 8th & Fitzwater Sts., Philadelphia*

Designers should bring their portfolios, slideshows, etc for display at Vesuvio! The small and emerging theatre companies are always looking for a new designer for their shows, this may be your chance to talk to all of them at once!

- This event will take place on **Monday, June 11, 2007 @ 7:00 PM at Vesuvio Restaurant, 8<sup>th</sup> & Fitzwater Streets, Philadelphia.**
- Drink Specials will be available & some reception food generously donated by Whole Foods Market, our Spark sponsor!

### ▪ **PACPD - the Pennsylvania Cultural Data Project! Yes, small theatres can participate as well and we are going to show you how.**

Neville Vakharia of the Pew Charitable Trusts will quickly explain how Spark theatres can participate and benefit from the Cultural Data Project.

### ▪ **Spark Showcase Festival 2007**

This year's 10-minute play festival will take place July 13-22, 2007 at the Painted Bride Arts Center. Performances will be Wednesday - Sunday.

## **Special Guest Speakers**

**Eric Fraint** – Founder and President of Your Part-Time Controller, [ericf@yptc.com](mailto:ericf@yptc.com)

**Josette Todaro** – Managing Director, Amaryllis Theatre Company, [jtodaro@amaryllistheatre.org](mailto:jtodaro@amaryllistheatre.org)

- Your Part-Time Controller may be found online at [www.yptc.com](http://www.yptc.com)
- They almost exclusively work with non-profit companies
  - i.e. Philadelphia Theatre Company, Art Alliance, Greater Philadelphia Cultural Alliance, Enchantment Theatre Company, and of course the Theatre Alliance along with many others in cultural or social services etc.

## **Why become a non-profit?**

- To receive foundation support, tax deductible donations, and to not pay income tax.
  - As a non-profit, you will still be required to pay sales tax, payroll taxes, UBITs (Unrelated Business Income Tax), and property and real estate taxes if applicable.
  - As a non-profit you must register with the IRS as well as the Federal and State governments.
- There are a number of filing requirements as a non-profit.
  - A 990 must be filed with the government once a year.
  - A non-profit's 990 must be made available to the public.
  - Guidestar.org makes 990s available for all organizations across the country.
    - You do not have to submit your 990 separately to Guidestar, this is done automatically.
  - On your 990, there is an opportunity to explain your programming and it can be used as an opportunity to market if there is someone checking out your business on Guidestar.
  - PA requires that you register as a non-profit in their BCO (Bureau of Charitable Organizations)
    - The BCO exists to prevent abuse and also so protect actual charities from scam artists.
    - You must file a BCO 10 with the state of PA if your organization receives donations over \$25,000.

- Fiscal Sponsorship
  - If you do not already have your 501 (c) 3, or are still waiting for the paperwork to file through, you may ask a current 501 (c) 3 organization to become your fiscal sponsor. Your organization would in effect become a program of an official non-profit organization.
    - Your donors may give to the fiscal sponsor and still receive their tax deduction for the donation
    - This process also keeps your organization above board in soliciting for any money.
- Disadvantages to becoming a 501 (c) 3
  - Smaller salaries, full disclosure and transparency. All records are open to public scrutiny.
  - You must report to a Board of Directors.

### **Cash versus Accrual Basis - What's the difference and what is best for my company?**

- Cash reflects information based on the flow of cash.
  - When recording a transaction, the easiest way is as cash for tickets, donations, foundations, etc.
  - Record expenses when money goes out for bills, salaries, etc.
- Accrual tries to match expenses and revenue with the period it belongs to.
  - Will show expenses even if you haven't paid yet. Will show revenue even if you have gotten the money yet.
  - If you receive a grant, an accrual system will recognize the revenue even when you haven't received the check yet whereas on a Cash system that money would not be accounted for until you received the check.
- Which is "better"? Cash may be better when your organization is just starting off because it is easier to record and to read. However, the move to accrual is imminent.
  - Accrual is considered better because there is more information at your fingertips.
    - Can see money going in and coming out.
    - They are more difficult to read.
    - They may be difficult to record from an accounting standpoint.
    - Foundations and Boards will need to see more information which an accrual provides.
  - The same problems will exist no matter what size of the theatre.
  - Will help you create a Balance Sheet, Cash Flow Statement, and Income Statement
    - For examples of these, please email Eric Frait directly at [ericf@yptc.com](mailto:ericf@yptc.com)

### **Accounting Software**

- Current list of available software: QuickBooks, Quicken, and Peachtree.
  - If you are currently using MS Excel for your accounting, please consider purchasing a true Accounting Software program
  - Also note, Quicken, although very thorough, is better utilized for home finances and may be a bit too complicated for business work.
  - QuickBooks is the most popular and is the Quicken equivalent for business. QuickBooks has the tendency to be unforgiving in formatting reports but if you are a \$1,000,000 or under business, it should be fine.
  - Peachtree may be more work to initially set up but there is more control on your reports and can create more clear reports than QuickBooks.
  - There is no automatic or easy transition from one software to the other. (No matter what the box says.) Be sure you are satisfied with your choice.

### **Financial Reporting Baseline - all these steps apply to your organization no matter what the size (the following are the 7 essentials)**

- Produce Financial Report Packages which consists of balance sheet, income sheet, and cash flow.
- Timeliness - the information needs to be prompt and on time, preferably monthly. Primarily between 2 to 3 weeks after the end of the month.

- Reconciliations - your bank accounts
  - Just like you check your checkbook to your bank statement, you must also check your General Ledger to your bank statement for your organization.
  - Whomever does this should not be the same person as who does your accounting. There should be a system in place as checks and balances in who handles the money to be sure it is not be mishandled or misappropriated.
- Restricted funds - these are to be used for specific programming or specific times ONLY. These are not general operating funds. If a grant is received with restrictions, your organization MUST FOLLOW THOSE RESTRICTIONS.
  - This is where most non-profits typically come into trouble.
- Create vertical formats - at the top of the pyramid, the Board doesn't need to see everything, only what is necessary for them to stay informed. In the middle you have the Finance Committee of your Board, they will need to see more information, but still not all the information. At the bottom you have your Executive Director, who must see every specificity and detail laid out.
- Create horizontal formats - this is for all the detailed information about any specific program. Particularly useful for staff members who need their marketing, programming, or office supply budgets to work with.
- Forecasting - Accounting only looks at the past, but you also need to look into the future.
  - It's a good idea to create, in excel, a Rolling Forecast which goes all the way to the end of the fiscal year.
  - Update and modify this forecast monthly.

#### **Other odds and ends as well as Audits**

- A Balance Sheet is what you have -vs- what you owe. What you have minus what you own equals your net worth.
  - The official term for a Balance Sheet in non-profits is Statement of Financial Position
- An Income Sheet is the same thing as a Profit and Loss statement.
  - The official term for an Income Sheet in non-profits is Statement of Activities
- Luckily a Cash Flow Statement is still called a Cash Flow Statement in either world.
- Audits - any organization in PA with budgets of \$300,000 or more must be audited.
  - There are three circumstances in which an auditor should be hired: for an Audit, a Review, or a Compilation.
    - A Review is just under an Audit but for more regulations concerning a Review please visit the PA State Department at: <http://www.dos.state.pa.us/char/> and search on their site for "BCO-10"
- There are also many more rules in place now which make certain practices no longer above board. For more information or for Eric's article on the topic, mention "the SAS-112 article" in your email to him.

\*\*Once again, if anyone would like samples of any of the reports or Eric's article mentioned in these notes, please email Eric Frint at [ericf@yptc.com](mailto:ericf@yptc.com). Be sure to specify what report/article you are seeking.\*\*

Notes prepared by Karen DiLossi, Director of Programs & Services for the Theatre Alliance of Greater Philadelphia.