

INSIDE THIS ISSUE:

<i>Frauds You Can Do Today</i>	1
<i>Does Overhead Measure Effectiveness</i>	1
<i>What Happens to Charitable Contributions When Tax Rate Drops</i>	2
<i>Functional Expenses New Approach</i>	2
<i>Things Board Members Don't Ask - And Why</i>	3
<i>Meet Lindley & Associates LLC</i>	3



LINDLEY & ASSOCIATES LLC
CERTIFIED PUBLIC ACCOUNTANTS

111 WEST HARRISON ST STE 200
SEATTLE WA 98119-4286
PHONE 206-332-0386
WWW.LINDLEYCPAS.COM

Lindley & Associates LLC newsletter is written by Martha Lindley CPA, providing timely articles for nonprofits. As a national speaker on nonprofit issues and Uniform Guidance compliance, she personally writes and provides this quarterly newsletter to over 400 nonprofits as a contribution to our nonprofit community. If you would like to receive future editions, please contact us. There is no charge.

We specialize in not for profit organizations and government funded entities providing audit, reviews and tax preparation services. We are committed to those agencies that provide services to our community.

BASIS FOR CHANGE OF AUDITORS – A PSYCHOLOGIST'S PROSPECTIVE

BY NATIONAL INSTRUCTOR MARTHA LINDLEY CPA

Now Accepting New Clients!
Contact Us Today...

SPECIAL INSERT -
BASIS FOR CHANGE OF
AUDITORS



LINDLEY & ASSOCIATES LLC
CERTIFIED PUBLIC ACCOUNTANTS

111 WEST HARRISON ST STE 200
SEATTLE WA 98119-4286
PHONE 206-332-0386
WWW.LINDLEYCPAS.COM



America Counts on CPAsSM



LINDLEY & ASSOCIATES LLC
CERTIFIED PUBLIC ACCOUNTANTS

111 WEST HARRISON ST STE 200
SEATTLE WA 98119-4286
PHONE 206-332-0386
WWW.LINDLEYCPAS.COM

**January 2017
Issue 1**

INSIDE THIS ISSUE:

<i>Frauds You Can Do Today</i>	1
<i>Does Overhead Measure Effectiveness</i>	1
<i>What Happens to Charitable Contributions When Tax Rate Drops</i>	2
<i>Functional Expenses - New Approach</i>	2
<i>Things Board Members Don't Ask - And Why</i>	2
<i>Meet Lindley & Associates LLC</i>	3

Copyright© 2017 Martha A. Lindley, permission to reproduce must be obtained in writing)



The information in this newsletter is necessarily brief. No final conclusions on these topics should be drawn without further review and consultation. For additional information, PLEASE CONTACT US.

FRAUDS YOU CAN DO TODAY

By Martha A Lindley CPA
Clients are surprised when auditors say they think about fraud almost daily (well, experienced auditors do). We would not be very useful to an organization if we didn't. We have tests of determining, by observation alone, when the checks come in by mail, when checks go out by mail, if the bank statements are sitting unopened on desks, where deposits are kept, or if someone says how stressful their work is.

► Blank checks or even checks that have been printed – With QuickBooks it is easy to print blank checks and even if the company does review the statements every month, there will be a

week's lag before noticed. Deposit checks are sitting in envelopes at the front desk – dissolve the ink with acetone and print in your own name.

► Fundraisers – Volunteer to run the auction sales desk – when you run the card through the machine (called the kerchunked slip), ask the donor for the three digit number on the back of the card and write on the slip. Pocket the slip and use on-line for your purchases. Or easier, find where the paper slips are kept after an event. (Kerchunked slips should be locked up or shredded. Under state law, if the NFP does not take reasonable care of personal and credit card information, they are

liable for unauthorized use if the information is stolen.)

► Trash can - Look thru the trash can in the accounting office or watch the in-coming mail – companies send instant credit forms and credit card applications. Some folks forget the shred these.

► Unattended and unlocked desks - Everything needed is at the desk – and someone is at lunch – the number one theft in downtown Seattle is theft of purses at empty desks during lunch.

► Gift cards: Plastic is cash in so many ways – from picking up unattended cards, cashing out balances for purchases, not returning cards issued and not used. Add bus passes, Orca cards, etc. to this list.

DOES OVERHEAD MEASURE EFFECTIVENESS?

By Ryan Kauzlarich, Audit Manager

It has long been the view of donors and grantors that overhead is considered a negative. Should that be the case? There is certainly a case that massive overhead could impact an organization's mission, alternatively, if overhead is too low it is definitely a concern as it directly relates to effectiveness.

Slowly the non-profit world has been shifting towards *impact* and *effectiveness* in their mission as opposed to mathematical metrics of overhead. Lately, GuideStar and the BBB spoke out that overhead

spending is *not* a meaningful way to evaluate nonprofit performance. Operating a nonprofit is not free! There are costs associated to delivering a nonprofit's mission. Overhead ratios are poor indicators of an organization's impact or financial efficiency and outcome-based measurements are slowly becoming the norm.

High levels of outcome-based measurements have become more relevant for grantors as understanding that overhead is an essential cost to delivering quality programs. A key step to achieving these outcome based grants is understanding your true operating costs and asking for your full

costs! Your application should reflect the true costs to deliver the program and ask for those costs based on the outcomes that money will enable.

The "TED" talk by Dan Pallotta (over 4 million views on YouTube and I highly recommend taking 18 minutes to watch) happened in 2013 and was perhaps the canary in the coal mine. That is not to say that charity walks and rides are the way of the future for your specific organizations fundraising, but that you must spend money to be able to grow and you must spend money to produce results and achieve mission based outcomes.

WHAT HAPPENS TO CHARITABLE CONTRIBUTIONS WHEN TAX RATE DROPS

The easy answer is, if the tax rate is lower, the deduction is lower, so folks will not donate as much. If the standard deduction increases, fewer people will donate as that will not be a deduction. That is so simplistic, and really, "false news".

How a charitable contribution is handled for tax purposes has a long history. The current treatment, deductible as an itemized deduction, is one of the worst. The majority of taxpayers do not qualify to itemize their deductions (you need to be very sick or own a home with interest payments to come close to the limit). Itemized deductions are not \$1 for \$1; they are at the same percentage (basically) as the percentage of tax paid, for example, 15% of \$1. So the majority of taxpayers receive no benefit at all from charitable contributions.

If it were me, I would welcome a lower tax rate – more dollars in more pockets. I would welcome a higher standard deduction, which would benefit folks who cannot itemize. And I could encourage the charitable contribution be changed to a \$1 for \$1 credit on page 2 of the Form 1040 (where it was in about 1980).

NOL

(Full disclosure, this has nothing to do with nonprofits. It is for the benefit of general knowledge)

Businesses file annual tax returns and pay taxes on net income (revenue less expenses). If the business has a net operating loss (NOL), they can carry the loss back five years and forward 20 years.

Net operating loss deductions are important because many businesses operate in industries that fluctuate greatly with the business cycle. They might have really fantastic profits one year, but then be in the hole the next year. NOL carry forwards and carry backs help those businesses to "smooth" their income, so that the tax code is more neutral with respect to time. It also can be useful for beginning businesses that struggle as they are formed.

Logic and tax law do not always go hand in hand. Why would a reasonable person not use a portion of tax law that is available to them? Don't let the "fake news" sites provide tax analysis for you!

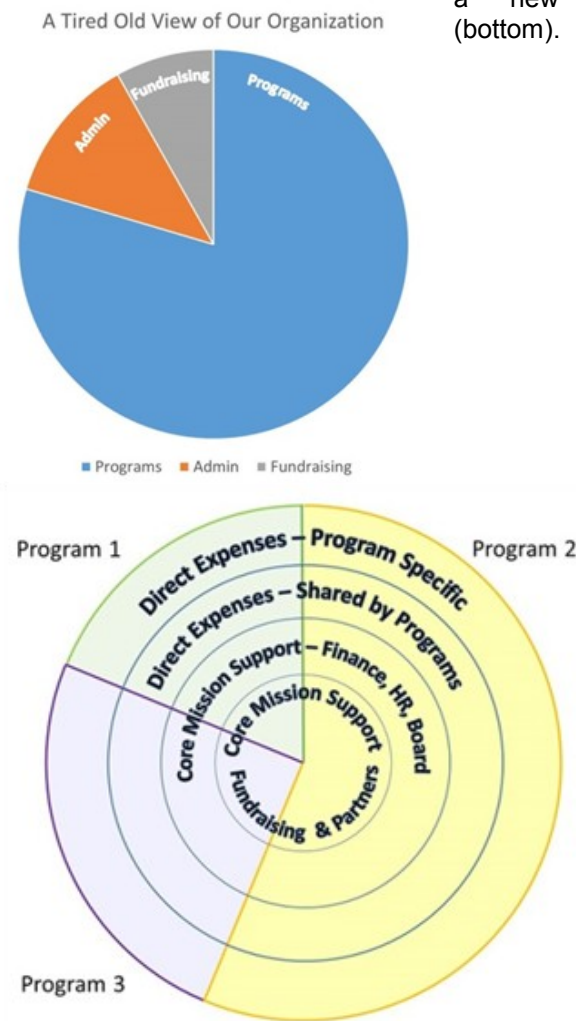
FUNCTIONAL EXPENSES NEW APPROACH

By Martha A Lindley CPA

Next year FASB implementation will require all NFPs to provide the Statement of Functional Expenses in audit and review reports. The statement itself is derivative of Form 990, page 9.

A new approach has been hypothesized by Curtis Klotz, Aug 2016, A Graphic Re-visioning of Nonprofit Overhead.

He states the current thinking (top) should be replaced with a new concept (bottom).



His hypothesis is the management portion in the old view looks as if it is taking away from the programs, when in fact, the administration and fundraising portion of expenses support each program. This visualization stresses that the programs do not exist without infrastructure.

<https://nonprofitquarterly.org/2016/08/16/graphic-re-visioning-nonprofit-overhead/#>

THINGS BOARD MEMBERS DON'T ASK - AND WHY

By Martha Lindley CPA

Clients want value added services - reviewing these and other questions will provide the opportunity for the auditor to provide additional services and develop a relationship.

1) How are we really doing financially, in your professional opinion? Why don't they ask – because it is speculation on the part of an accountant that lives in last year? It is not that difficult to say, the boat was afloat last year but it is taking on water.

2) How were you treated during the audit? As a psychologist, it is an important question as behavior is a bell shaped curve. Most folks fall in within three standard deviations. What about the outliers of behavior – overly friendly and clingy or overly hostile and rude – a red flag for fraud, or covering something financial that affects the person? The auditor may provide useful information regarding the NFP of which the Board was not aware.

3) What would you recommend we change in the accounting department? By WA state law, the board is responsible for internal control, but based on the minutes, board do not discuss internal controls, even annually – auditors are only required to report "significant deficiencies" (SD) – so there is a lot of space between a problem and SD. Answers to this question require an evaluation of management and procedures-a large task.

4) How did the audit go? Board members volunteer out to the goodness of their heart, not to run the day to day of the operations, accounting folks are hard to find and keep – understood why the question is not often asked.

5) If you were going to commit fraud at our NFP, what would you do? The audit team is required to discuss this prior to the audit, and perform tests of our theories. Delving into this questions the "trust" theory to the core.

Having an open mind and a willingness to change and explore issues encourages the auditor to develop a relationship.

MEET LINDLEY & ASSOCIATES LLC

The Firm has specialized in the audit of nonprofit organization audits since 2000, serving hundreds NFP organizations, with an emphasis on social service agencies receiving federal funds.

Mission: To work with nonprofit clients whose mission and services are essential to the well-being of the community. A large number of our clients receive Federal, State or local funding which may require a compliance audit. We are uniquely qualified to perform these audits.

Taxes: We have prepared hundreds of Forms 990 and Form 990 EZ.

Education: We have a on-going commitment to educating clients on the complexity of nonprofit accounting and tax issues including newsletters, seminars, and timely updates.

Open Communication: We emphasize quality, timely and efficient services, communicating well with management to provide excellent service. This leads to a good working relationship that is constructive for all parties.

No "New Accountant/Auditor" Start-up Disruptions: We are very experienced with the objectives and issues of audits for not-for-profit organizations. This produces quality work in an efficient manner.

Fees: The fee for services is very competitive for the quality of services provided.

Newsletter: We have issued a quarterly newsletter for fifteen years, written by Martha Lindley CPA, the Audit Partner exclusively for nonprofits. She gathers information relevant to nonprofits, researches the topic, and informs nonprofits know what has happened in the last three months that is relevant to nonprofit organizations. Our mailing list is over 400 Washington nonprofits, clients and non-clients, and there is no fee for this newsletter. Our purpose is to serve the community through education.

Martha A. Lindley, Audit Partner— National instructor for Surgent McCoy Professional Education and former national instructor of the American Institute of Certified Public Accountants

in not-for-profit and government auditing and accounting standards teaching over one hundred eight-hour classes included *Not-for-Profit Accounting and Reporting Standard and Not-for-Profit Auditing and Accounting Standards*. Former adjunct professor at University of Washington teaching *Nonprofit and Governmental Accounting and Reporting*.

After working for the WA State Auditors Office for four years and one of the top 100 USA CPA firms for five years, she began the firm in 2000.

Ryan Kauzlarich, Audit Manager has over fourteen years of compliance audit experience, including five years as contract internal auditor at Microsoft Legal and Corporate Affairs Division and nine years at Lindley & Associates LLC.

Other staff may join this (overly) experienced team, but your audit will have no auditor will less than five years audit experience.

§