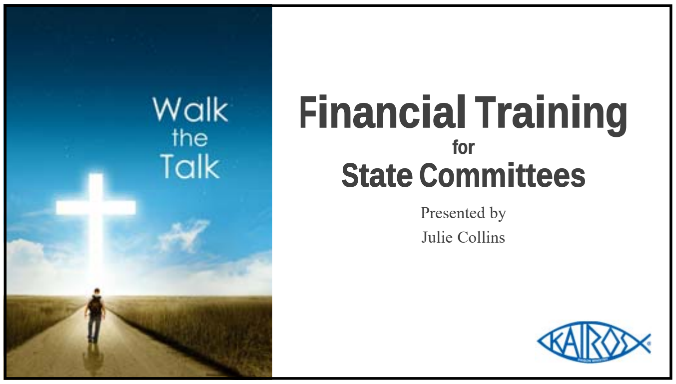
Walk
the
Talk
Financial Training
for
State Committees
Presented by
Julie Collins


FACTS
CONTROL
METHODS
AUDIT
RISKS
MANAGEMENT
PLANNING


Walk
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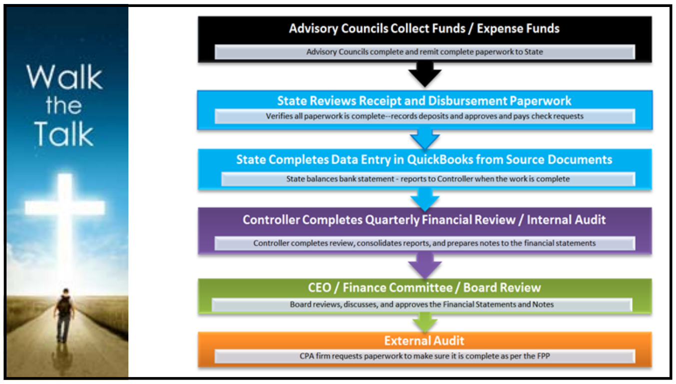
www.mykairos.org/downloads
Kairos Prison Ministry International
Home
About Us
Directory
Where We Serve
Kairos Kalendar
Downloads
Kairos Downloads
Kairos 2013 Annual Report
2014 Kairos Overview
Procedure and Guidelines for Scheduling an Advisory Council Training
Universal AKT Registration Form
Principle Statements Regarding AKT Expenses
Training Procedures for Non-4th Day Volunteers
AKT Coordinator's Guide
Financial
Financial Policies and Practices Adobe Acrobat
FPP Job Descriptions Adobe Acrobat
Request to Open a Bank Account Microsoft Word
Request for Cash Advance Microsoft Word
Check Request Form Microsoft Excel
Cash Advance Worksheet Microsoft Excel
Chart of Accounts Microsoft Excel
Cash Disbursement Voucher Microsoft Word
Receipt Log Adobe Acrobat
Budget Template for Advisory Councils Microsoft Excel
Budget Template for States Microsoft Excel


Walk
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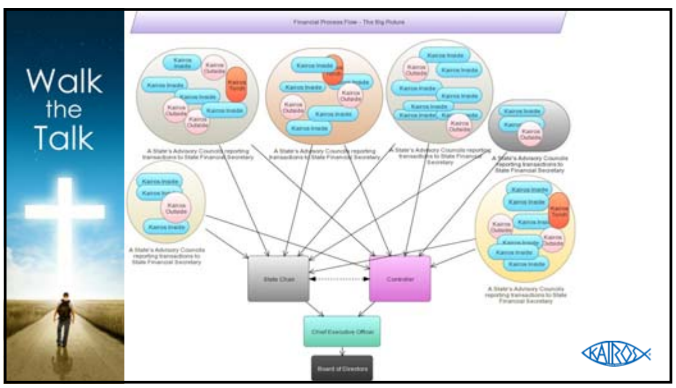
Advisory Councils Collect Funds / Expense Funds
Advisory Councils complete and remit complete paperwork to State
State Reviews Receipt and Disbursement Paperwork
Verifies all paperwork is complete--records deposits and approves and pays check requests
State Completes Data Entry in QuickBooks from Source Documents
State balances bank statement - reports to Controller when the work is complete
Controller Completes Quarterly Financial Review / Internal Audit
Controller completes review, consolidates reports, and prepares notes to the financial statements
CEO / Finance Committee / Board Review
Board reviews, discusses, and approves the Financial Statements and Notes
External Audit
CPA firm requests paperwork to make sure it is complete as per the FPP


Walk
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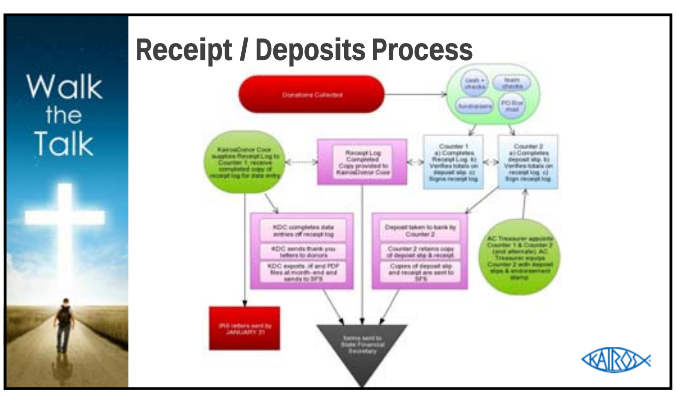
Walk
the
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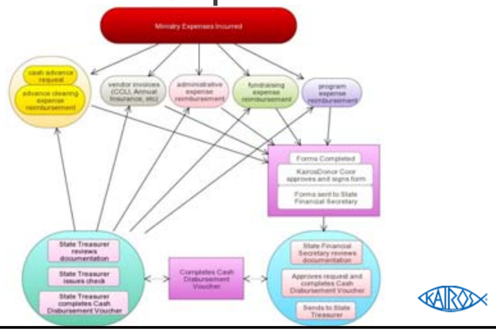
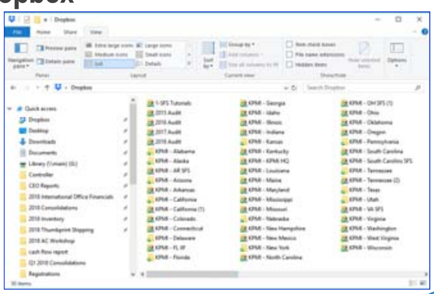
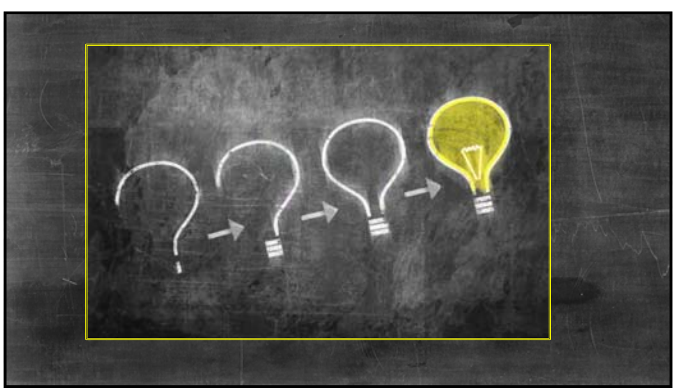
Receipt / Deposits Process
Donations Collected
KDC completes data entries off receipt log
KDC sends thank you letters to donors
Deposit taken to bank by Counter 2
Counter 2 retains copy of deposit slip & receipt
Copies of deposit slip and receipt are sent to SFS

Disbursements / Expense Process



Dropbox





Kairos Prison Ministry International, Inc.

State Level Financial Training

Annual Conference 2018

1. The Big Picture

Mission and Ownership

While businesses are organized to generate profits, nonprofits are organized to address needs in society. As a result, nonprofits will issue a *statement of activities* instead of the income statement issued by for-profit businesses. Since nonprofits do not have owners, there is no owner's equity or stockholders' equity and there cannot be distributions to owners. Some people mistakenly assume that if an organization is designated as a nonprofit, it cannot legally earn profits. In fact, earning profits (having revenues that exceed expenses) is almost a necessity for a nonprofit if it hopes to withstand such things as: unexpected expenses, uneven flows of revenues (donations), a decrease in revenues, rising costs due to inflation, an increase in staffing needs, an increase in the need for its services, or purchase or replacement of needed equipment.

Employer Identification Number:

The Employer Identification Number, known as EIN, is like an individual's social security number. All organizations must apply for an EIN using Form SS-4 with the IRS. Kairos only has one EIN that has been assigned to Kairos Prison Ministry International, Inc. The EIN is used on all state registrations as charitable organizations, all bank accounts, and State Sales Tax Exemption Certificates. Each state does not—and should not—have its own EIN as only one EIN is issued per corporation. (Note: The Kairos Foundation also has an EIN as financially and governmentally, it functions independently of the Kairos Prison Ministry International, Inc. organization.)

2. Tax Information

Income Tax-Exemption / 501(c)(3):

Tax exemption for nonprofits is based on the government's recognition that many of the vital contributions to our society's common good are made outside its own agencies in the voluntary or civil society sector. Exempting these organizations from income taxes is a governmental means of acknowledging—rather than burdening and directing—their unique identities and diverse contributions.

An organization that desires to income tax exemption must complete the IRS Form 1023 which is a lengthy application. Form 1023 asks many questions about the organization of the company, how it will be funded, and the expenses it plans to make. Once the IRS has received the application and they approve it, the IRS will issue a "Letter of Determination" which is official proof that the company is now exempt form income tax. This is not to be confused with sales tax exemption as that is a state level exemption—not an exemption from the national government to not have to remit annual income tax.

Advantages of Tax Exemption:

- Donors can be offered the benefit of a deduction for a charitable gift
- It can use nonprofit bulk mailing rates
- It is a favored position when seeking funding from foundations or philanthropic organizations
- It is eligible for government grants available only to 501(c)(3) organizations
- It offers property tax exemption and sales tax exemption

Limitations of Tax Exemption:

- Organizations must comply with annual IRS reporting requirements
- Organizations must be engaged "primarily" in qualified charitable or educational endeavors
- There are limitations of the involvement in political or legislative activities
- The organization must not engage in unrelated business activities or commercial activities

Exempt Donations:

An organization that raises funds for its exempted purpose must spend its resources on those exempted purposes. Otherwise, the exemption is a farce and the organization will lose its income tax exemption status. Additionally, raising income that is not for the stated, exempted purpose is undesirable.

Unrelated Business Income:

Most nonprofit organizations are supported primarily from either contributions or revenue from activities directly related to their exempt purposes. On the other hand, income from activities not directly related to fulfilling an *organization's exempt purposes* may be subject to the tax on unrelated business income.

All income of tax-exempt organizations is presumed to be exempt from deferral income tax unless the income is generated by an activity that is:

- not substantially related to the organization's exempt purpose or function,
- a trade of business, and
- regularly carried on.

Unrelated business income (UBI) is permitted for tax-exempt organizations. However, these organizations may have to pay tax on the income derived from activities unrelated to their exempt purpose. UBI must not comprise a substantial part of the organization's operation. Corporate income tax rates are between 15% and 33% for 2014. Tax exemption status could be revoked for organizations that regularly generate revenue that is unrelated to their exempt purpose.

"Suggested Donation" Wording:

At charity events, donors do not want to be rude and give too little but they also may not want to spend more on a donation than their peers. Giving a suggested donation amount helps takes the guesswork out of how much to give. The amount for suggested donations is dependent on the event and how much it is reasonable to charge. For example, a donation box at a charitable art show may suggest $5 or $10, whereas $100 or more would be appropriate for a dinner gala. This would only apply if the donation box is used in lieu of tickets purchased for the events.

3. Accounting Definitions

Statement of Financial Position – Balance Sheet:

A statement of financial position shows assets, liabilities, and net assets as of a specific date. This statement is also called a balance sheet because it shows how the two sides of the accounting equation "balance" in an organization.

Statement of Activities – Profit & Loss:

The statement of activities (also referred to as an Income Statement) reflects an organization's support and revenue, expenses, and changes in net assets for a certain period of time. It shows the sources of an organization's income and how the resources were used. The statement must present the change in the unrestricted, temporarily restricted, and net assets.

4. Financial Statement Interpretation

Statement of Financial Position (Balance Sheet) – Prior Year Comparison

The Statement of Financial Position reports the balances in the asset, liability, and equity accounts at a specific point in time. The report gives a general overview of the health of the Kairos ministry.

- Look for negative balances as they should not exist.
  - If there are negative numbers reported, there should be a comment in the Notes.
- Review for significant variances.
  - If there are any significant variances, there should be comments in the Notes.
  - Current Assets: this enables us to pay our obligations
  - Current Liabilities: these are the obligations we must pay
  - Equity Accounts: this is what we own, broken down by restricted or unrestricted
  - Net Income: is this positive or negative?

Statement of Activities (Profit & Loss) – Year to Year Comparison

The Statement of Activities – Year to Year Comparison reports the financial income and expense activities for a period of time. There is a start and end date to the reported figures. This report shows you the revenues and how they were used to support the ministry.

- Look for any significant variances between years.
  - Anything significant should have a note to explain.
  - Are trends reflected by major revenue / expense categories?

Statement of Activities (Profit & Loss) – Budget to Actual

- Are there any significant differences between the actual expenditures to the budget?
  - Why did they occur?
  - Do they need to be addressed? How?
- Do we have enough income to cover the monthly expenses?